THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of Haitong Securities Co., Ltd.

海通証券股份有限公司

HAITONG SECURITIES CO., LTD.*

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

(Stock Code: 6837)

PROPOSED ADJUSTMENTS TO THE NON-PUBLIC ISSUANCE OF A SHARES UNDER THE GENERAL MANDATE AND NOTICE OF EXTRAORDINARY GENERAL MEETING

A notice convening the Extraordinary General Meeting of the Company to be held at Conference Room, 3/F, Haitong Securities Building, No. 689 Guangdong Road, Huangpu District, Shanghai, the PRC on Wednesday, 15 April 2020 at 2:00 p.m. is set out on pages 28 to 31 of this circular.

The reply slip and the form of proxy for the EGM have been distributed on Friday, 28 February 2020 and have also been published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk). If you are not able to attend the EGM, please complete and return the form of proxy in accordance with the instructions printed thereon as soon as practicable and in any event not less than 24 hours before the time appointed for the holding of the EGM (i.e. 2:00 p.m. on Tuesday, 14 April 2020) or not less than 24 hours before the time appointed for voting by poll, and deposit it together with the notarised power of attorney or other document of authorization with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited (for holders of H Shares). Completion and return of the form of proxy will not preclude you from attending and voting at the EGM should you so desire.

For holders of H Shares who intend to attend the EGM in person or by their proxies should complete and return the reply slip for attending the EGM to the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited on or before Thursday, 26 March 2020.

* *For identification purpose only*

25 March 2020

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

"A Share(s)"	domestic shares of the Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in Renminbi and are listed for trading on the Shanghai Stock Exchange
"Adjusted Non-public Issuance of A Shares"	the proposed issuance of no more than 1,618,426,236 (inclusive) A Shares by the Company under the General Mandate to no more than 10 specific target subscribers, including Shanghai Guosheng Group, Shanghai Haiyan Investment, Bright Food Group, and Shanghai Electric Group, to raise gross proceeds of no more than RMB20.0 billion, which was approved by the 2018 annual general meeting held by the Company on 18 June 2019, please refer to the circular of the Company dated 28 May 2019 for details
"Amended Non-public Issuance of A Shares"	the proposed issuance of no more than 1,618,426,236 (inclusive) A Shares by the Company under the General Mandate to no more than 35 specific target subscribers, including Shanghai Guosheng Group, Shanghai Haiyan Investment, Bright Food Group, and Shanghai Electric Group to raise gross proceeds of no more than RMB20.0 billion
"Articles of Association"	the articles of association of the Company, as amended from time to time
"Average Trading Price"	the average trading price of the A Shares during the 20 trading days immediately preceding the Pricing Benchmark Date, which is calculated by dividing the total trading amount of the A Shares during the 20 trading days immediately preceding the Pricing Benchmark Date by the total trading volume of the A Shares during the 20 trading days immediately preceding the Pricing Benchmark Date
"Board" or "Board of Directors"	the board of directors of the Company
"Bright Food Group"	Bright Food (Group) Co., Ltd., an existing shareholder of the Company, holding approximately 3.4964% equity interest in the total issued share capital of the Company as of the Latest Practicable Date

"Bright Food Group Subscription"	the proposed subscription of A Shares of the Company by Bright Food Group pursuant to the Bright Food Group Subscription Agreement and the Supplemental Agreement to Bright Food Group Subscription Agreement
"Bright Food Group Subscription Agreement"	the share subscription agreement dated 25 April 2019 subject to conditions precedent, entered into between the Company and Bright Food Group, pursuant to which Bright Food Group has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue A Shares under the Adjusted Non-public Issuance of A Shares, for an amount of not less than RMB800 million (inclusive) and not more than RMB1 billion (inclusive)
"Company" or "Haitong Securities"	Haitong Securities Co., Ltd., a joint stock company incorporated in the PRC with limited liability, the H Shares of which are listed on the Hong Kong Stock Exchange under the stock code of 6837 and the A Shares of which are listed on the Shanghai Stock Exchange under the stock code of 600837
"connected person(s)"	has the meaning ascribed thereto under the Hong Kong Listing Rules
"CSRC"	the China Securities Regulatory Commission
"Director(s)"	the director(s) of the Company
"EGM" or "Extraordinary General Meeting"	the extraordinary general meeting of the Company to be held at Conference Room, 3/F, Haitong Securities Building, No. 689 Guangdong Road, Huangpu District, Shanghai, the PRC on Wednesday, 15 April 2020 at 2:00 p.m.
"General Mandate"	a general mandate granted to the Board at the 2018 annual general meeting of the Company on 18 June 2019 to authorise, allot or issue A Shares and/or H Shares, please refer to the circular of the Company dated 28 May 2019 for details
"Group"	the Company and its subsidiaries

"H Share(s)"	ordinary shares in the share capital of the Company with nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars
"H Share Registrar"	Computershare Hong Kong Investor Services Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Independent Non-executive Director(s)"	the independent non-executive director(s) of the Company
"Latest Practicable Date"	10 March 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"PRC" or "China"	the People's Republic of China, but for the purposes of this circular only, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
"Pricing Benchmark Date"	the first day of the offering period of the A Shares under the Amended Non-public Issuance of A Shares
"Proposed Non-public Issuance of A Shares"	the proposed non-public issuance of no more than 1,618,426,236 (inclusive) A Shares by the Company to no more than 10 specific target subscribers under the general mandate to raise gross proceeds of no more than RMB20.0 billion, which was approved by the 2017 annual general meeting held by the Company on 21 June 2018, please refer to the circular of the Company dated 31 May 2018 for details
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"Shanghai Electric Group"	Shanghai Electric (Group) Corporation, an existing shareholder of the Company, holding approximately 2.2873% equity interest in the total issued share capital of the Company as of the Latest Practicable Date

"Shanghai Electric Group Subscription"	the proposed subscription of A Shares of the Company by Shanghai Electric Group pursuant to the Shanghai Electric Group Subscription Agreement and the Supplemental Agreement to Shanghai Electric Group Subscription Agreement
"Shanghai Electric Group Subscription Agreement"	the share subscription agreement dated 25 April 2019 subject to conditions precedent, entered into between the Company and Shanghai Electric Group, pursuant to which Shanghai Electric Group has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue A Shares under the Adjusted Non-public Issuance of A Shares, for an amount of not less than RMB1 billion (inclusive)
"Shanghai Guosheng Group"	Shanghai Guosheng (Group) Co., Ltd., an existing shareholder of the Company, holding approximately 4.9999% equity interest in the total issued share capital of the Company as of the Latest Practicable Date
"Shanghai Guosheng Group Subscription"	the proposed subscription of A Shares of the Company by Shanghai Guosheng Group pursuant to the Shanghai Guosheng Group Subscription Agreement and the Supplemental Agreement to Shanghai Guosheng Group Subscription Agreement
"Shanghai Guosheng Group Subscription Agreement"	the share subscription agreement dated 25 April 2019 subject to conditions precedent, entered into between the Company and Shanghai Guosheng Group, pursuant to which Shanghai Guosheng Group has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue A Shares under the Adjusted Non-public Issuance of A Shares for an amount of RMB10 billion
"Shanghai Haiyan Investment"	Shanghai Haiyan Investment Management Company Limited, an existing shareholder of the Company, holding approximately 3.4839% equity interest in the total issued share capital of the Company as of the Latest Practicable Date

"Shanghai Haiyan Investment Subscription"	the proposed subscription of A Shares of the Company by Shanghai Haiyan Investment pursuant to the Shanghai Haiyan Investment Subscription Agreement and the Supplemental Agreement to Shanghai Haiyan Investment Subscription Agreement
"Shanghai Haiyan Investment Subscription Agreement"	the share subscription agreement dated 25 April 2019 subject to conditions precedent, entered into between the Company and Shanghai Haiyan Investment, pursuant to which Shanghai Haiyan Investment has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue A Shares under the Adjusted Non-public Issuance of A Shares, for an amount of not more than RMB3 billion (inclusive)
"Share(s)"	the ordinary share(s) of RMB1.00 each in the share capital of the Company, including A Shares and H Shares
"Shareholder(s)"	the shareholder(s) of the Company, including holder(s) of H Shares and holder(s) of A Shares
"Supplemental Agreement to Bright Food Group Subscription Agreement"	the supplemental agreement to Bright Food Group Subscription Agreement dated 25 February 2020 entered into between the Company and Bright Food Group
"Supplemental Agreement to Shanghai Electric Group Subscription Agreement"	the supplemental agreement to Shanghai Electric Group Subscription Agreement dated 25 February 2020 entered into between the Company and Shanghai Electric Group
"Supplemental Agreement to Shanghai Guosheng Group Subscription Agreement"	the supplemental agreement to Shanghai Guosheng Group Subscription Agreement dated 25 February 2020 entered into between the Company and Shanghai Guosheng Group
"Supplemental Agreement to Shanghai Haiyan Investment Subscription Agreement"	the supplemental agreement to Shanghai Haiyan Investment Subscription Agreement dated 25 February 2020 entered into between the Company and Shanghai Haiyan Investment

Unless otherwise indicated, all the financial data in this circular are presented in Renminbi.

海通證券股份有限公司
HAITONG SECURITIES CO., LTD.*

(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 6837)

Executive Directors:
Mr. Zhou Jie *(Chairman)*
Mr. Qu Qiuping *(General Manager)*
Mr. Ren Peng

Non-executive Directors:
Mr. Tu Xuanxuan
Ms. Yu Liping
Mr. Chen Bin
Mr. Xu Jianguo

Independent Non-executive Directors:
Mr. Zhang Ming
Dr. Lam Lee G.
Mr. Zhu Hongchao
Mr. Zhou Yu

Registered office:
Haitong Securities Building
No. 689 Guangdong Road
Shanghai
PRC

Principal place of business in Hong Kong:
21st Floor, Li Po Chun Chambers
189 Des Voeux Road Central
Central
Hong Kong

25 March 2020

To the Shareholders

Dear Sir or Madam,

INTRODUCTION

The purpose of this circular is to provide you with the notice of the EGM (set out on pages 28 to 31 of this circular) and provide you with information reasonably necessary to enable you to make an informed decision on whether to vote for or against the proposed resolutions or abstain from voting at the EGM.

At the EGM, an ordinary resolution will be proposed to approve the dilution of current returns of the non-public issuance of A Shares of the Company and the remedial measures (second revision proof). Special resolutions will be proposed to approve (i) the resolution regarding the satisfaction of the conditions of the non-public issue of A Shares of the Company; (ii) the adjustments to the non-public issue of A Shares of the Company; (iii) the proposal on the non-public issue of A Shares of the Company (second revision proof); (iv) the supplemental agreements to the conditional subscription agreements entered into with the specific target

* *For identification purpose only*

subscribers; (v) the proposal regarding the related party transactions involved in the Company's non-public issue of A shares; and (vi) the authorisation granted to the Board and the delegation by the Board to the management personnel to deal with matters relating to the non-public issuance of A Shares of the Company.

ORDINARY RESOLUTION:

Proposal regarding Dilution of Current Returns as a result of the Amended Non-public Issuance of A Shares and Remedial Measures (second revision proof)

In accordance with the requirements of the Opinions of the General Office of the State Council on Further Strengthening the Protection of Legitimate Rights and Interests of Small and Medium Investors in Capital Market (Guo Ban Fa [2013] No. 110) (《國務院辦公廳關於進一步加強資本市場中小投資者合法權益保護工作的意見》(國辦發[2013]110號)), and the Guidance Opinions in relation to Matters Relevant to Dilution of Current Returns by Initial Public Offering, Refinancing and Material Assets Reorganisation (the CSRC Notice [2015] No. 31) (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》 (證監會公告[2015]31號)) issued by the CSRC, in order to protect interest of the minority investors, the Company analyzed the impact of the Amended Proposed Non-public Issuance of A Shares on dilution of current returns prudently and proposed the relevant remedial measures based on the abovementioned relevant requirements.

Full text of the Dilution of Current Returns as a result of the Amended Non-public Issuance of A Shares and Remedial Measures (second revision proof), which was prepared in Chinese language, is set out in Annex I to this circular. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

The aforesaid resolution was considered and approved by the Board on 25 February 2020 and is hereby proposed at the EGM for consideration and approval.

SPECIAL RESOLUTIONS:

I. Proposal regarding compliance of the Company with the conditions of non-public issuance of A shares

In accordance with the Company Law of the People's Republic of China (《中華人民共和國公司法》), the Securities Law of the People's Republic of China (《中華人民共和國證券法》), and the Administrative Measures for Issuance of Securities by Listed Companies (2020 Revision) (《上市公司證券發行管理辦法》(2020年修訂)), the Implementation Rules for Non-public Issuance of Shares by Listed Companies (2020 Revision) (《上市公司非公開發行股票實施細則》(2020年修訂)), the Issuance Regulatory Q&A – Regulations on Guiding and Regulating Financing Activities of Listed Companies (《發行監管問答 – 關於引導規範上市公司融資行為的監管要求》), Provisions on the Administration of Equities of Securities Companies (《證券公司股權管理規定》) as well as Guidelines on Administrative Approval for

Securities Companies No. 10 – Increase and Change in Equity Interest of Securities Companies (2015) (《證券公司行政許可審核工作指引第10號 – 證券公司增資擴股和股權變更(2015)》) issued by the CSRC, and other requirements of relevant laws and regulations, after conducting self-examination item by item, it is considered that the Company has complied with the conditions stipulated in prevailing laws and regulations on non-public issuance of domestic listed RMB dominated ordinary shares (A Shares) to specific target subscribers.

The aforesaid resolution was considered and approved by the Board on 25 February 2020 and is hereby proposed at the EGM for consideration and approval.

II. Proposal regarding the Amended Non-public Issuance of A Shares

References are made to the announcement of the Company dated 26 April 2018, the circular of the annual general meeting for the year 2017 dated 31 May 2018 and the announcement of poll results of annual general meeting for the year 2017 dated 21 June 2018 in relation to (among other things) the Proposed Non-public Issuance of A Shares under the general mandate; the announcement of the Company dated 25 April 2019, the circular of the annual general meeting dated 27 May 2019 and the announcement of poll results of annual general meeting for the year 2018 dated 18 June 2019 in relation to (among other things) the Adjusted Non-public Issuance of A Shares under the General Mandate; and announcements of the Company dated 18 July 2019 and 6 December 2019, in relation to acceptance notice of the application from CSRC, and approval of the application for the issuance plan by Public Offering Review Committee of the CSRC.

On 14 February 2020, the CSRC issued the Decision on Revising the Administrative Measures for the Issuance of Securities by Listed Companies (《關於修改<上市公司證券發行管理辦法>的決定》) and the Decision to Amend the Implementation Rules for Non-public Issuance of Shares by Listed Companies (《關於修改<上市公司非公開發行股票實施細則>的決定). Pursuant to the above decisions and the regulatory requirements, the issuance price, maximum target subscribers and lock-up period of the Adjusted Non-public Issuance of A Shares shall be amended in accordance with the newly amended Administrative Measures for the Issuance of Securities by Listed Companies (2020 Revision) (《上市公司證券發行管理辦法》(2020年修訂)) and the Implementation Rules for Non-public Issuance of Shares by Listed Companies (2020 Revision) (《上市公司非公開發行股票實施細則》(2020年修訂)). In order to ensure the smooth of the non-public issuance of A Shares of the Company, after taking into account capital market conditions, potential investors' subscription intention, financing environment, regulatory policies and future development plans of the Company, on 25 February 2020, the Board approved the Amended Non-public Issuance of A Shares under the General Mandate and approved the supplemental agreements to the subscription agreements entered into between the Company and four specific subscribers respectively. Pursuant to the Amended Non-Public Issuance of A Shares, the Company will issue no more than 1,618,426,236 (inclusive) A Shares to no more than 35 (inclusive) specific target subscribers (including Shanghai Guosheng Group, Shanghai Haiyan Investment, Bright Food Group and Shanghai Electric Group), which is expected to raise gross proceeds of up to RMB20.0 billion (inclusive).

The details of the Amended Non-public Issuance of A Shares under General Mandate are set out below. The final issuance plan shall be the one as approved by the CSRC.

1. Class and nominal value of shares to be issued

The class of shares under the Amended Non-public Issuance of A Shares is domestically listed ordinary shares denominated in Renminbi (A Shares), with a nominal value of RMB1.00 each.

2. Method and time of the issuance

The Amended Non-public Issuance of A Shares will be carried out by way of non-public issuance to specific target subscribers. The Company will choose appropriate opportunity to issue A Shares, which shall be within the validity period stipulated in the approval to be issued by the CSRC.

3. Target subscribers and subscription method

The target subscribers for the Amended Non-public Issuance of A Shares will be no more than 35 target subscribers, including the existing shareholders of the Company, Shanghai Guosheng Group, Shanghai Haiyan Investment, Bright Food Group and Shanghai Electric Group, as well as securities investment fund management companies, securities firms, trust investment companies, finance companies, insurance institutional investors, qualified foreign institutional investors (QFII) and other domestic institutional and individual investors in compliance with the relevant requirements of the CSRC. A securities investment fund management company, securities firm, QFII and RMB QFII subscribing for the A Shares together with its two or more products under its management, shall be deemed as one single target subscriber. Trust investment companies shall only subscribe for the A Shares with their own funds.

As of Latest Practicable Date, Shanghai Guosheng Group held approximately 4.9999% equity interest in the Company, Shanghai Haiyan Investment held approximately 3.4839% equity interest in the Company, Bright Food Group held approximately 3.4964% equity interest in the Company, and Shanghai Electric Group held approximately 2.2873% equity interest in the Company. Therefore, Shanghai Guosheng Group, Shanghai Haiyan Investment, Bright Food Group, and Shanghai Electric Group are not connected persons of the Company under Chapter 14A of the Hong Kong Listing Rules.

Save as Shanghai Guosheng Group, Shanghai Haiyan Investment, Bright Food Group and Shanghai Electric Group, other final target subscribers shall be determined by the Company based on the prices offered by the target subscribers in accordance with the requirements of the Administrative Measures for Issuance of Securities by Listed Companies (2020 Revision) (《上市公司證券發行管理辦法》(2020年修訂)), the Implementation Rules for Non-public Issuance of Shares by Listed Companies (2020 Revision) (《上市公司非公開發行股票實施細則》(2020年修訂)) and the principle of price priority, upon obtaining the written approval from the relevant regulatory authorities in connection with the Amended Non-public Issuance of A Shares.

As of the Last Practicable Date, it is expected that connected persons (as defined under the Hong Kong Listing Rules) of the Company will not participate in the subscription of A Shares under the Amended Non-public Issuance of A Shares. If the A Shares under the Amended Non-public Issuance of A Shares are issued to any connected persons of the Company under Chapter 14A of the Hong Kong Listing Rules, the Company will comply with relevant requirements under Chapter 14A of the Hong Kong Listing Rules including but not limited to announcement and independent shareholders' approval.

In the event that no effective price quotation application is received by the Company from investors during the inquiry process, the issuance price could not be able to determined through the market inquiry, Shanghai Guosheng Group, Shanghai Haiyan Investment, Bright Food Group and Shanghai Electric Group undertake to participate in the subscription and will adopt the floor price of the Amended Non-public Issuance of A Shares as their subscription price, being 80% of the average trading price of A Shares of the Company for the 20 trading days preceding the Pricing Benchmark Date (exclusive) and the latest audited net assets per share attributable to owners of the Company before the issuance, whichever is higher.

All the target subscribers shall subscribe in cash for the A Shares to be issued under the Amended Non-public Issuance of A Shares.

If the shareholder qualification of the target subscribers and the corresponding review procedures are otherwise prescribed by regulatory authorities, those requirements shall be complied with.

4. Number of shares to be issued

The number of A Shares to be issued under the Amended Non-public Issuance of A Shares shall be no more than 1,618,426,236 (inclusive) A Shares. The number of A Shares to be issued represents (assuming A Shares are issued in full):

(i) approximately 20.00% of the existing issued A Shares and approximately 14.07% of the existing total issued share capital of the Company as at the Latest Practicable Date; and

(ii) approximately 16.67% of the enlarged issued A Shares and approximately 12.34% of the enlarged total issued share capital of the Company upon completion of the Amended Non-Public Issuance of A Shares.

Shanghai Guosheng Group intends to subscribe for A Shares in cash for an amount of RMB10 billion. Shanghai Haiyan Investment intends to subscribe for A Shares in cash for an amount of not more than RMB3 billion (inclusive) and its shareholding shall be less than 5% upon its subscription. Bright Food Group intends to subscribe for A Shares in cash for an amount of not less than RMB0.8 billion (inclusive) and not more than RMB1 billion (inclusive) and its shareholding shall be less than 5% upon its subscription. Shanghai Electric Group intends to subscribe for A Shares in cash for an amount of not less than RMB1 billion (inclusive).

The number of shares to be issued under the Amended Non-public Issuance of A Shares shall be adjusted accordingly in cases of ex-rights matters such as bonus issuance and conversion of capital reserve into share capital during the period from the date of the resolution(s) approved by the Board in connection with the Amended Non-public Issuance of A Shares to the date of the issuance.

The final number of A Shares under the Amended Non-public Issuance of A Shares shall be determined by the Board and its authorised person(s), under the authorisation granted at the general meeting of the Company, together with the sponsor (the lead underwriter) based on the upper limit of the number of shares and issuance price finally approved by the CSRC. The final number of A Shares to be subscribed by Shanghai Guosheng Group, Shanghai Haiyan Investment, Bright Food Group and Shanghai Electric Group shall be determined based on the issuance price, investment demands and negotiation among target subscribers and the Company, after the approval from the CSRC in connection with the Amended Non-public Issuance of A Shares is obtained and the offering period is determined by the Company in accordance with the secondary market conditions.

5. Issuance price and pricing principle

According to the Administrative Measures for Issuance of Securities by Listed Companies (2020 Revision) (《上市公司證券發行管理辦法》(2020年修訂)) and the Implementation Rules for Non-public Issuance of Shares by Listed Companies (2020 Revision) (《上市公司非公開發行股票實施細則》(2020年修訂)), the Pricing Benchmark Date of the Amended Non-public Issuance of A Shares shall be the first day of the offering period of the A Shares under the Amended Non-public Issuance of A Shares, and the issuance price shall not be lower than 80% of the average trading price of A Shares for the 20 consecutive trading days preceding the Pricing Benchmark Date (exclusive), or the latest audited net assets per share attributable to owners of the Company before the issuance, whichever is higher. For reference only, the latest audited net assets per share attributable to owners of the Company as of 31 December 2018 was RMB10.25 per share as disclosed in its annual report published by the Company on 17 April 2019.

The average trading price of A Shares for the 20 consecutive trading days preceding the pricing benchmark date = total trading amount of A Shares for the 20 consecutive trading days preceding the pricing benchmark date ÷ total trading volume of A Shares for the 20 consecutive trading days preceding the pricing benchmark date. In the event that any ex-right or ex-dividend activity causes any adjustment in the share prices during the 20 trading days, the trading prices for the trading days before such adjustment shall be calculated on the basis of the adjusted price caused by the ex-right or ex-dividend activities.

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

The final issuance price of A Shares under the Amended Non-public Issuance of A Shares will, upon obtaining the approval issued by the CSRC, be determined by the Board and its authorised person(s) under the authorisation granted at the general meeting together with the sponsor (the lead underwriter) in accordance with the relevant requirements of the CSRC, and based on the prices offered by the target subscribers as well as the principle of price priority. Shanghai Guosheng Group, Shanghai Haiyan Investment, Bright Food Group, and Shanghai Electric Group will not participate in the price quotation for the Amended Non-public Issuance of A Shares, but will accept results of market inquiry and subscribe for A Shares at the same subscription price as other target subscribers. In addition, pursuant to the Hong Kong Listing Rules, the issuance price of the Proposed Non-public Issuance of A Shares would be subject to and in compliance with the requirements under Rule 13.36(5) of the Hong Kong Listing Rules.

In the event that no effective price quotation application is received by the Company from investors during the inquiry process, the issuance price could not be able to determined through the market inquiry, Shanghai Guosheng Group, Shanghai Haiyan Investment, Bright Food Group and Shanghai Electric Group undertake to participate in the subscription and will adopt the floor price of the Issuance as their subscription price, being 80% of the average trading price of A Shares of the Company for the 20 trading days preceding the pricing benchmark date (exclusive) and the latest audited net assets per share attributable to owners of the Company before the issuance, whichever is higher.

6. Amount of proceeds to be raised and use of proceeds

The amount of proceeds to be raised from the Amended Non-public Issuance of A Shares is expected to be no more than RMB20.0 billion (inclusive). After deducting the issuance expenses, it will be fully utilized to increase the Company's capital, replenish working capital, optimize the structure of assets and liabilities, improve the Company's financial services industry chain and serve the real economy. The use of proceeds of the Amended Non-public Issuance of A Shares are as follows:

No.	Projects to be invested with the proceeds	Proposed amounts of proceeds to be applied
1.	To develop capital-based intermediary business and further enhance financial services capabilities	No more than RMB6.0 billion
2.	To increase FICC investment and optimize the structure of assets and liabilities	No more than RMB10.0 billion

No.	Projects to be invested with the proceeds	Proposed amounts of proceeds to be applied
3.	To increase investment in information system construction and enhance the overall informatization level of the Company	No more than RMB1.5 billion
4.	To increase capital injection to investment banking business and further promote the development of investment banking business	No more than RMB2.0 billion
5.	To replenish working capital	No more than RMB0.5 billion
	Total	**No more than RMB20.0 billion**

7. Lock-up period

Pursuant to relevant requirements of the Administrative Measures for Issuance of Securities by Listed Companies (2020 Revision) (《上市公司證券發行管理辦法》(2020年修訂)), the Implementation Rules for Non-public Issuance of Shares by Listed Companies (2020 Revision) (《上市公司非公開發行股票實施細則》(2020年修訂)) and the Guidelines on Administrative Approval for Securities Companies No. 10 – Increase and Change in Equity Interest of Securities Companies (《證券公司行政許可審核工作指引第10號—證券公司增資擴股和股權變更》), upon completion of the Amended Non-public Issuance of A Shares, A Shares subscribed by the specific target subscriber(s) who hold(s) 5% or more of the enlarged total issued share capital of the Company shall not be transferred within 48 months from the date of completion of the issuance; A Shares subscribed by the specific target subscriber(s) who hold(s) less than 5% of the enlarged total issued share capital of the Company and who are strategic investor(s) introduced by the Board shall not be transferred within 18 months from the date of completion of the issuance; A Shares subscribed by other subscriber(s) shall not be transferred within 6 months from the date of completion of the issuance. If lock-up period is otherwise prescribed or required by applicable laws and regulations, such requirements shall also be complied with.

8. Place of listing

A Shares to be issued under the Amended Non-public Issuance of A Shares will be listed and traded on the Shanghai Stock Exchange upon expiration of the lock-up period.

9. Arrangement for the retained profits of the Company prior to the Amended Non-public Issuance of A Shares

The undistributed retained profits of the Company prior to the Amended Non-public Issuance of A Shares are subject to the entitlement of both the new Shareholders and the existing Shareholders upon completion to take care of both parties' interest.

10. Validity period of the resolution

Reference is made to the announcement of the Company dated 25 February 2020 in respect of the Amended Non-public Issuance of A Shares (the "**Announcement**"), the Company hereby clarifies that the validity period of the resolution stipulated on page 8 of the Announcement, i.e. "*the resolution(s) in relation to the Adjusted Non-public Issuance of A Shares shall remain valid for 12 months from the date on which relevant resolution(s) are considered and approved at relevant general meeting. If the Company has formally submitted relevant application materials of the Adjusted Non-public Issuance of A Shares to the CSRC and obtained the notice of acceptance within above validity period, the validity period will be automatically extended to the date when the Adjusted Non-public Issuance of A Shares is completed*", shall be changed to that the resolution(s) in relation to the Amended Non-public Issuance of A Shares shall remain valid for 12 months from the date on which relevant resolution(s) are considered and approved at the EGM.

The aforesaid resolution was considered and approved by the Board on 25 February 2020 and is hereby proposed at the EGM for consideration and approval.

III. Proposal in respect of the Amended Non-Public Issuance of A Shares (second revision proof)

Full text in relation to the Proposal in respect of the Amended Non-public Issuance of A Shares (second revision proof), which was prepared in Chinese language, is set out in Annex II to this circular. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

The aforesaid resolution was considered and approved by the Board on 25 February 2020 and is hereby proposed at the EGM for consideration and approval.

IV. Proposal in relation to the supplement agreements to the subscription agreements with conditions precedent with specific subscribers

References are made to the announcement of the Company dated 25 April 2019, the circular of the annual general meeting dated 27 May 2019 and the announcement of poll results of annual general meeting for the year 2018 dated 18 June 2019 in relation to (among other things) subscription agreements entered into by the Company with Shanghai Guosheng Group, Shanghai Haiyan Investment, Bright Food Group and Shanghai Electric Group, respectively.

On 14 February 2020, the CSRC issued the Decision on Revising the Administrative Measures for the Issuance of Securities by Listed Companies (《關於修改<上市公司證券發行管理辦法>的決定》) and the Decision to Amend the Implementation Rules for Non-public Issuance of Shares by Listed Companies (《關於修改<上市公司非公開發行股票實施細則>的決定). In compliance with requirements of the above rules, on 25 February 2020, the Company entered into supplemental agreements with Shanghai Guosheng Group, Shanghai Haiyan Investment, Bright Food Group and Shanghai Electric Group, respectively. Key terms of such supplemental agreements are set out as below.

(I) Key Terms of the Supplemental Agreement to Shanghai Guosheng Group Subscription Agreement

1. Parties

The Company (as the issuer) and Shanghai Guosheng Group (as the subscriber).

2. Subscription Price

The issuance price was amended from "not being lower than 90% of the average trading price of A Shares for the 20 consecutive trading days preceding the pricing benchmark date (exclusive), or the latest audited net assets per share attributable to owners of the Company before the issuance, whichever is higher" to "not being lower than 80% of the average trading price of A Shares for the 20 consecutive trading days preceding the pricing benchmark date (exclusive), or the latest audited net assets per share attributable to owners of the Company before the issuance, whichever is higher" according to the Administrative Measures for Issuance of Securities by Listed Companies (2020 Revision) (《上市公司證券發行管理辦法》(2020年修訂)) and the Implementation Rules for Non-public Issuance of Shares by Listed Companies (2020 Revision) (《上市公司非公開發行股票實施細則》(2020年修訂)).

In the event that the issuance price is not determined through market inquiry, Shanghai Guosheng Group undertakes to participate in the subscription and will adopt the floor issuance price as its subscription price, being 80% of the average trading price of A Shares of the Company for the 20 trading days preceding the pricing benchmark date (exclusive) and the latest audited net assets per share attributable to owners of the Company before the issuance, whichever is higher.

3. Conditions precedent

The Supplemental Agreement to Shanghai Guosheng Group Subscription Agreement is conditional upon:

(1) the respective approvals by the Board and general meetings of all matters relating to the Amended Non-public Issuance of A Shares;

(2) the approval by the CSRC of the Amended Non-public Issuance of A Shares.

The date on which the last of the above conditions is satisfied shall be the effective date of the Supplemental Agreement to Shanghai Guosheng Group Subscription Agreement. The Department of Fund and Intermediary Supervision (證券基金機構監管部) of the CSRC has no objection to the application for such issuance.

(II) Key Terms of the Supplemental Agreement to Shanghai Haiyan Investment Subscription Agreement

1. Parties

The Company (as the issuer) and Shanghai Haiyan Investment (as the subscriber).

2. Subscription Price

The issuance price was amended from "not being lower than 90% of the average trading price of A Shares for the 20 consecutive trading days preceding the pricing benchmark date (exclusive), or the latest audited net assets per share attributable to owners of the Company before the issuance, whichever is higher" to "not being lower than 80% of the average trading price of A Shares for the 20 consecutive trading days preceding the pricing benchmark date (exclusive), or the latest audited net assets per share attributable to owners of the Company before the issuance, whichever is higher" according to the Administrative Measures for Issuance of Securities by Listed Companies (2020 Revision) (《上市公司證券發行管理辦法》(2020年修訂)) and the Implementation Rules for Non-public Issuance of Shares by Listed Companies (2020 Revision) (《上市公司非公開發行股票實施細則》(2020年修訂)).

In the event that the issuance price is not determined through market inquiry, Shanghai Haiyan Investment undertakes to participate in the subscription and will adopt the floor issuance price as its subscription price, being 80% of the average trading price of A Shares of the Company for the 20 trading days preceding the pricing benchmark date (exclusive) and the latest audited net assets per share attributable to owners of the Company before the issuance, whichever is higher.

3. Lock-up period

The lock-up period of the A Shares to be subscribed by Shanghai Haiyan Investment under the Amended Non-public Issuance of A Shares was amended from 36 months to 18 months according to the Administrative Measures for Issuance of Securities by Listed Companies (2020 Revision) (《上市公司證券發行管理辦法》(2020年修訂)) and the Implementation Rules for Non-public Issuance of Shares by Listed Companies (2020 Revision) (《上市公司非公開發行股票實施細則》(2020年修訂)). Therefore, the A Shares to be subscribed by Shanghai Haiyan Investment under the Amended Non-public Issuance of A Shares shall not be transferred within 18 months upon the completion of the issuance of A Shares. If lock-up period is otherwise prescribed or required by applicable laws and regulations, such requirements shall prevail.

4. Conditions precedent

The Supplemental Agreement to Summary of the Shanghai Haiyan Investment Subscription Agreement is conditional upon:

(1) the respective approvals by the Board and general meetings of all matters relating to the Amended Non-public Issuance of A Shares;

(2) the approval by the CSRC of Amended Non-public Issuance of A Shares.

The date on which the last of the above conditions is satisfied shall be the effective date of the Supplemental Agreement to Shanghai Haiyan Investment Subscription Agreement. Shanghai Haiyan Investment Subscription has been approved by China National Tobacco Corporation (中國煙草總公司). The Department of Fund and Intermediary Supervision (證券基金機構監管部) of the CSRC has no objection to the application for such issuance.

(III) Key Terms of the Supplemental Agreement to Bright Food Group Subscription Agreement

1. Parties

The Company (as the issuer) and Bright Food Group (as the subscriber).

2. Subscription Price

The issuance price was amended from "not being lower than 90% of the average trading price of A Shares for the 20 consecutive trading days preceding the pricing benchmark date (exclusive), or the latest audited net assets per share attributable to owners of the Company before the issuance, whichever is higher" to "not being lower than 80% of the average trading price of A Shares for the 20 consecutive trading days preceding the pricing benchmark date (exclusive), or the latest audited net assets per share attributable to owners of the Company before the issuance, whichever is higher" according to the Administrative Measures for Issuance of Securities by Listed Companies (2020 Revision) (《上市公司證券發行管理辦法》(2020年修訂)) and the Implementation Rules for Non-public Issuance of Shares by Listed Companies (2020 Revision) (《上市公司非公開發行股票實施細則》(2020年修訂)).

In the event that the issuance price is not determined through market inquiry, Bright Food Group undertakes to participate in the subscription and will adopt the floor issuance price as its subscription price, being 80% of the average trading price of A Shares of the Company for the 20 trading days preceding the pricing benchmark date (exclusive) and the latest audited net assets per share attributable to owners of the Company before the issuance, whichever is higher.

3. Lock-up period

The lock-up period of the A Shares to be subscribed by Bright Food Group under the Amended Non-public Issuance of A Shares was amended from 36 months to 18 months according to the Administrative Measures for Issuance of Securities by Listed Companies (2020 Revision) (《上市公司證券發行管理辦法》(2020年修訂)) and the Implementation Rules for Non-public Issuance of Shares by Listed Companies (2020 Revision) (《上市公司非公開發行股票實施細則》(2020年修訂)). Therefore, the A Shares to be subscribed by Bright Food Group under the Amended Non-public Issuance of A Shares shall not be transferred within 18 months upon the completion of the issuance of A Shares. If lock-up period is otherwise prescribed or required by applicable laws and regulations, such requirements shall prevail.

4. Conditions precedent

The Supplemental Agreement to Bright Food Group Subscription Agreement is conditional upon:

(1) the respective approvals by the Board and general meetings of all matters relating to the Amended Non-public Issuance of A Shares;

(2) the approval by the CSRC of Amended Non-public Issuance of A Shares.

The date on which the last of the above conditions is satisfied shall be the effective date of the Supplemental Agreement to Bright Food Group Subscription Agreement. The Department of Fund and Intermediary Supervision (證券基金機構監管部) of the CSRC has no objection to the application for such issuance.

(IV) Key Terms of the Supplemental Agreement to Shanghai Electric Group Subscription Agreement

1. Parties

The Company (as the issuer) and Shanghai Electric Group (as the subscriber).

2. Subscription Price

The issuance price was amended from "not being lower than 90% of the average trading price of A Shares for the 20 consecutive trading days preceding the pricing benchmark date (exclusive), or the latest audited net assets per share attributable to owners of the Company before the issuance, whichever is higher" to "not being lower than 80% of the average trading price of A Shares for the 20 consecutive trading days preceding the pricing benchmark date (exclusive), or the latest audited net assets per share attributable to owners of the Company before the issuance, whichever is higher" according to the Administrative Measures for

Issuance of Securities by Listed Companies (2020 Revision) (《上市公司證券發行管理辦法》(2020年修訂)) and the Implementation Rules for Non-public Issuance of Shares by Listed Companies (2020 Revision) (《上市公司非公開發行股票實施細則》(2020年修訂)).

In the event that the issuance price is not determined through market inquiry, Shanghai Electric Group undertakes to participate in the subscription and will adopt the floor issuance price as its subscription price, being 80% of the average trading price of A Shares of the Company for the 20 trading days preceding the pricing benchmark date (exclusive) and the latest audited net assets per share attributable to owners of the Company before the issuance, whichever is higher.

3. Lock-up period

The lock-up period as prescribed under the Shanghai Electric Group Subscription Agreement is set out as below:

Upon completion of the subscription, if Shanghai Electric Group holds more than 5% (inclusive) of the enlarged total issued share capital of the Company, the A Shares subscribed by Shanghai Electric Group under the Adjusted Non-public Issuance of A Shares shall not be transferred within 48 months from the date of completion of the issuance. If Shanghai Electric Group holds less than 5% of the enlarged total issued share capital of the Company upon completion of the subscription, the A Shares subscribed by Shanghai Electric Group under the Adjusted Non-public Issuance of A Shares shall not be transferred within 36 months from the date of completion of the issuance. If lock-up period is otherwise prescribed or required by applicable laws and regulations, such requirements shall also be complied with.

The above lock-up period was amended by the Supplemental Agreement to Shanghai Electric Group Subscription Agreement as below:

Upon completion of the subscription, if Shanghai Electric Group holds more than 5% (inclusive) of the enlarged total issued share capital of the Company, the A Shares to be subscribed by Shanghai Electric Group under the Amended Non-public Issuance of A Shares shall not be transferred within 48 months from the date of completion of the issuance. If Shanghai Electric Group holds less than 5% of the enlarged total issued share capital of the Company upon completion of the subscription, the A Shares to be subscribed by Shanghai Electric Group under the Amended Non-public Issuance of A Shares shall not be transferred within 18 months from the date of completion of the issuance. If lock-up period is otherwise prescribed or required by applicable laws and regulations, such requirements shall prevail.

4. Conditions precedent

The Supplemental Agreement to Shanghai Electric Group Subscription Agreement is conditional upon:

(1) the respective approvals by the Board and general meetings of all matters relating to the Amended Non-public Issuance of A Shares;

(2) the approval by the CSRC of Amended Non-public Issuance of A Shares.

The date on which the last of the above conditions is satisfied shall be the effective date of the Supplemental Agreement to Shanghai Electric Group Subscription Agreement. The Department of Fund and Intermediary Supervision (證券基金機構監管部) of the CSRC has no objection to the application for such issuance.

As of Latest Practicable Date, Shanghai Guosheng Group held approximately 4.9999% equity interest in the Company, Shanghai Haiyan Investment held approximately 3.4839% equity interest in the Company, Bright Food Group held approximately 3.4964% equity interest in the Company, and Shanghai Electric Group held approximately 2.2873% equity interest in the Company. Pursuant to applicable PRC laws and regulations, Shanghai Guosheng Group, Shanghai Haiyan Investment and Bright Food Group are related parties of the Company. Therefore, the Shanghai Guosheng Group Subscription, the Shanghai Haiyan Investment Subscription and the Bright Food Group Subscription, constitute related party transactions of the Company and are subject to consideration and approval of non-related Shareholders. Shanghai Electric Group is not a related party of the Company. Therefore, the Shanghai Electric Group Subscription does not constitute a related party transaction of the Company. However, Shanghai Guosheng Group, Shanghai Haiyan Investment, Bright Food Group, and Shanghai Electric Group are not connected persons of the Company under Chapter 14A of the Hong Kong Listing Rules. The Shanghai Guosheng Group Subscription, the Shanghai Haiyan Investment Subscription, the Bright Food Group Subscription and the Shanghai Electric Group Subscription do not constitute connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. The Company will strictly comply with the PRC laws and regulations and internal rules of the Company to fulfill the approval procedures for related party transactions. In the process of voting on the Amended Non-public Issuance of A Shares by the Board, the related directors have abstained from voting on relevant resolutions pursuant to applicable PRC laws and regulations. Shanghai Electric Group does not constitute a related party of the Company, while considering that Mr. Xu Jianguo, the director of the Company, holds a position in Shanghai Electric Group, he has abstained from voting for prudence purpose. The related shareholders shall also abstain from voting on relevant resolutions at the general meeting pursuant to applicable PRC laws and regulations.

The aforesaid resolutions were considered and approved by the Board on 25 February 2020 and is hereby proposed at the EGM for consideration and approval.

V. Proposal regarding the Related Party Transactions involved in the Amended Non-Public Issuance of A Shares

Full text in relation to the Related Party Transactions involved in the Amended Non-Public Issuance of A Shares, which was prepared in Chinese language, is set out in Annex III to this circular. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

The aforesaid resolution was considered and approved by the Board on 25 February 2020 and is hereby proposed at the EGM for consideration and approval.

VI. Proposal regarding the authorisation granted to the Board and the delegation by the Board to the management personnel to deal with matters relating to the Amended Non-public Issuance of A Shares

In order to efficiently and smoothly complete the Amended Non-public Issuance of A Shares pursuant to the applicable laws and regulations, it is proposed that the Board be authorised at the general meeting and the management personnel of the Company be delegated by the Board, to handle in its absolute discretion the matters related to the Amended Non-public Issuance of A Shares in accordance with relevant laws, regulations, and regulatory documents.

Details are as follows:

1. To formulate and implement the specific plan for the Amended Non-public Issuance of A Shares, including but not limited to issuance time, the final number of shares to be issued, the final issuance price, the selection of target subscribers, the proportion of subscriptions and other matters related to the pricing of the issuance, in accordance with the relevant laws and regulations, the relevant provisions of securities regulatory authorities and the resolution(s) at the general meeting;

2. To determine and engage intermediaries such as sponsor, amend, supplement, sign, submit, report and execute all agreements and other important documents in the operation of investments with the proceeds raised from the issuance, and deal with other related matters;

3. To draft, revise and submit the application documents for the Amended Non-public Issuance of A Shares, and make responses in its absolute discretion to the comments from the CSRC and other relevant government departments in accordance with the requirements of securities regulatory authorities;

4. To make adjustments to the arrangements for projects to be invested with the proceeds raised from the issuance as approved at the general meeting; execute material contracts, agreements and reporting documents in the operation of projects to be invested with the proceeds raised from the issuance, and designate or establish a special deposit account for the proceeds raised from the issuance;

5. To increase the registered capital of the Company, make amendments to the relevant provisions of the Articles of Association, report the same to the relevant government departments and regulatory authorities for approval or filing, and handle the changes in registration of industry and commerce in accordance with the actual conditions of the issuance;

6. To handle the matters such as registration, lock-up and listing of the shares under the non-public issuance on the Shanghai Stock Exchange and with the Shanghai Branch of the China Securities Depository and Clearing Company Limited upon completion of the Amended Non-public Issuance of A Shares;

7. To make adjustments to the non-public issuance plan and the use of proceeds, and continue to handle the matters related to the non-public issuance of shares in accordance with the relevant national policies, the requirements of regulatory authorities (including the review feedback on the application for the Amended Non-public Issuance of A Shares), market conditions and actual operation of the Company, if there are any changes in the national policies on the Amended Non-public Issuance of A Shares or the relevant market conditions, except for the matters required to be re-voted at the general meeting in accordance with the relevant laws, regulations and the Articles of Association; and

8. To handle all other matters related to the Amended Non-public Issuance of A Shares.

Reference is made to the Announcement of the Company dated 25 February 2020, the Company hereby clarifies that the validity period of the authorisation granted to the Board and the delegation by the Board to the management personnel to deal with matters relating to the Amended Non-public Issuance of A shares stipulated on page 15 of the Announcement, i.e. "*this authorization is effective for a period of 12 months from the date on which it is considered and approved at the general meeting. However, if the Company obtains approval issued by the CSRC for such issuance plan within the validity period, the authorization period shall be automatically extended to the date on which such issuance is completed*", shall be changed to that the authorisation is effective for a period of 12 months from the date on which it is considered and approved at the EGM.

The aforesaid resolution was considered and approved by the Board on 25 February 2020 and is hereby proposed at the EGM for consideration and approval.

General Mandate of the Amended Non-public Issuance of A Shares

The proposed issuance of no more than 1,618,426,236 (inclusive) A Shares pursuant to the Amended Non-public Issuance of A Shares will be issued under the General Mandate as approved at the annual general meeting of the Company on 18 June 2019. For further details of the General Mandate, please refer to the circular of the Company dated 28 May 2019.

Conditions Precedent of the Amended Non-public Issuance of A Shares

The Amended Non-public Issuance of A Shares has been approved by the Board on 25 February 2020, and is subject to the approvals by the Shareholders at the EGM and the relevant approvals by the CSRC. Upon obtaining the approval from the CSRC, the Company will apply to the Shanghai Stock Exchange and the Shanghai Branch of China Securities Depository and Clearing Corporation Limited for the issuance and listing related matters of the Amended Non-public Issuance of A Shares, to complete the application and approval procedures for the Amended Non-public Issuance of A Shares.

Effect of the Amended Non-Public Issuance of A Shares on the Shareholding Structure of the Company

As of the Latest Practicable Date, the total issued share capital of the Company is 11,501,700,000 Shares, which comprises 8,092,131,180 A Shares and 3,409,568,820 H Shares.

The shareholding structure of the Company (i) as of the Latest Practicable Date; and (ii) immediately after completion of the Amended Non-public Issuance of A Shares (assuming that (a) the maximum amount of 1,618,426,236 A Shares are issued, and (b) there is no change in the total issued share capital of the Company during the period from the Latest Practicable Date to the date of completion of the issuance, save for the Amended Non-public Issuance of A Shares) is set out as follows:

	As at the Latest Practicable Date		Immediately after completion of the Amended Non-public Issuance of A Shares	
Class of shares	**Number of shares**	**Approximate percentage of the total issued share capital**	**Number of shares**	**Approximate percentage of the total issued share capital**
A Shares				
Shanghai Guosheng Group and its subsidiaries[(1)]	319,621,067	2.8%	1,128,834,185	8.6%
Shanghai Haiyan Investment[(2)]	400,709,623	3.5%	643,473,558	4.9%
Bright Food Group[(3)]	402,150,000	3.5%	483,071,312	3.7%
Shanghai Electric Group[(4)]	263,077,293	2.3%	343,998,605	2.6%
Other existing A Shareholders	6,706,545,197	58.3%	6,706,545,197	51.1%
New A Shareholders	–	–	404,606,559	3.1%
Sub-total of A Shares	8,092,131,180	70.4%	9,710,557,416	74.0%
H Shares	3,409,568,820	29.6%	3,409,568,820	26.0%
Total	**11,501,700,000**	**100.0%**	**13,120,126,236**	**100.0%**

Notes:

1. As at the Latest Practicable Date, Shanghai Guosheng Group directly and indirectly held in aggregate 319,621,067 A Shares of the Company, including 81,239,059 A Shares directly held by itself and 238,382,008 A Shares indirectly held through its wholly-owned subsidiary, Shanghai Guosheng Group Asset Company Limited. Shanghai Guosheng Group also held 255,456,441 H Shares of the Company. Assuming the maximum amount of 1,618,426,236 A Shares are issued under the Amended Non-public Issuance of A Shares and the total amount of proceeds to be raised is RMB20.0 billion, Shanghai Guosheng Group is expected to subscribe for 809,213,118 A Shares (calculated based on the subscription amount of RMB10.0 billion as set out in the Shanghai Guosheng Group Subscription Agreement). Therefore, immediately after completion of the Amended Non-public Issuance of A Shares, Shanghai Guosheng Group will directly and indirectly held in aggregate 1,128,834,185 A Shares of the Company, including 890,452,177 A Shares directly held by itself and 238,382,008 A Shares indirectly held through Shanghai Guosheng Group Asset Company Limited.

2. As at the Latest Practicable Date, Shanghai Haiyan Investment held 400,709,623 A Shares of the Company. Assuming the maximum amount of 1,618,426,236 A Shares are issued under the Amended Non-public Issuance of A Shares and the total amount of proceeds to be raised is RMB20.0 billion, Shanghai Haiyan Investment is expected to subscribe for 242,763,935 A Shares (calculated based on the maximum subscription amount of RMB3.0 billion as set out in the Shanghai Haiyan Investment Subscription Agreement).

3. As at the Latest Practicable Date, Bright Food Group held 402,150,000 A Shares of the Company. Assuming the maximum amount of 1,618,426,236 A Shares are issued under the Amended Non-public Issuance of A Shares and the total amount of proceeds to be raised is RMB20.0 billion, Bright Food Group is expected to subscribe for 80,921,312 A Shares (calculated based on the maximum subscription amount of RMB1.0 billion as set out in the Bright Food Group Subscription Agreement).

4. As at the Latest Practicable Date, Shanghai Electric Group held 263,077,293 A Shares of the Company. Assuming the maximum amount of 1,618,426,236 A Shares are issued under the Amended Non-public Issuance of A Shares and the total amount of proceeds to be raised is RMB20.0 billion, Shanghai Electric Group is expected to subscribe for 80,921,312 A Shares (calculated based on the maximum subscription amount of RMB1.0 billion as set out in the Shanghai Electric Group Subscription Agreement).

The shareholding structure of the Company is relatively decentralised. The Company has no controlling shareholder nor de facto controller before the Amended Non-public Issuance of A Shares, and will not have any controlling shareholder or de facto controller after the Amended Non-public Issuance of A Shares. Therefore, the Amended Non-public Issuance of A Shares will not result in any change in control of the Company. The Board expects that the Company will continue to meet the public float requirements of the Hong Kong Listing Rules after the completion of the Amended Non-public Issuance of A Shares.

Fund Raising Activities in the Past Twelve Months

The Company has not conducted any equity fund raising activity during the 12 months immediately before the Latest Practicable Date.

Reasons and Benefits for the Amended Non-public Issuance of A Shares

The Board is of the view that the Amended Non-public Issuance of A Shares is an inevitable choice to capture development trend of the securities industry and will provide solid support for the Company to achieve its strategic objectives. The Amended Non-public Issuance of A Shares will enable the Company to effectively cope with the increased capital competition in the securities industry, be actively well-positioned to face the competition in the international market, further reduce liquidity risks and improve its risk bearing ability. Taking into account the above reasons and benefits, the Board (including the Independent Non-executive Directors) considers that the Amended Non-public Issuance of A Shares under the General Mandate is in the interest of the Company and the Shareholders as a whole.

The Company has considered other fund-raising methods such as debt financing, placing of H Shares, rights issue or open offer. After due consideration, the Company is of the view that it is more desirable and appropriate for the Company to conduct non-public issuance of A Shares due to the following reasons, (i) the available quota for bond issuance under applicable PRC regulations is not sufficient to fulfil the Company's funding needs, (ii) placing of H Shares to raise same amount of proceeds with equivalent pricing basis may lead to greater dilution effect on the shareholding of the existing Shareholders as there is a significant premium of the market price of A Shares over the market price of H Shares, and (iii) rights issue or open offer may incur higher underwriting commission fees and expenses and may be affected by uncertain factors such as capital market conditions as compare to private placement.

EXTRAORDINARY GENERAL MEETING

The EGM of the Company will be held at Conference Room, 3/F, Haitong Securities Building, No. 689 Guangdong Road, Huangpu District, Shanghai, the PRC on Wednesday, 15 April 2020 at 2:00 p.m. The notice of the EGM is set out on pages 28 to 31 of this circular.

The register of members of H Shares of the Company will be closed from Saturday, 14 March 2020 to Wednesday, 15 April 2020 (both days inclusive), during which time no share transfers of H Shares will be effected. Purchasers of H Shares who have submitted their instruments of share transfer to the H Share Registrar of the Company and registered as Shareholders on the H Share register of members of the Company before 4:30 p.m. on Friday, 13 March 2020 are entitled to attend and vote in respect of all resolutions to be proposed at the EGM. In order to attend the EGM, holders of H Share should ensure that all transfer documents, accompanied by the relevant H Share certificates, are lodged with the Company's H Share Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, before 4:30 p.m. on Friday, 13 March 2020.

Reply slip and the proxy form for the EGM have been distributed on Friday, 28 February 2020 and have also been published on the website of Hong Kong Stock Exchange (www.hkexnews.hk). Shareholders intending to attend the EGM in person or by their proxies should complete and return the reply slip for attending the EGM to the Company's H Share Registrar (for holders of H Shares) on or before Thursday, 26 March 2020.

To be valid, for holders of H Shares, the form of proxy and notarised power of attorney or other document of authorisation must be delivered to the Company's H Share Registrar not less than 24 hours before the time appointed for the EGM (i.e. 2:00 p.m. on Tuesday, 14 April 2020) or not less than 24 hours before the time appointed for voting by poll. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM in person if you so wish.

According to the requirements of relevant PRC laws and regulations, the special resolutions No. 2, No. 3, No. 4 and No. 5 set out in the notice of the EGM on page 28 to 31 of this circular and proposed at the Extraordinary General Meeting shall be voted by the Shareholders who do not have substantial interest in such resolutions. Therefore, Shanghai Guosheng Group and its related companies shall abstain from voting on the special resolutions No. 2, No. 3, No. 4.01 and No. 5. Shanghai Haiyan Investment and its related companies shall abstain from voting on the special resolutions No. 2, No. 3, No. 4.02 and No. 5. Bright Food Group and its related companies shall abstain from voting on the special resolution No. 2, No. 3, No. 4.03 and No. 5. Shanghai Electric Group and its related companies shall abstain from voting on the special resolutions No. 2, No. 3, No. 4.04 and No. 5. Save as disclosed above, as far as the Directors are aware as of the Latest Practicable Date, no other Shareholder is required to abstain from voting in respect of the ordinary and special resolutions proposed at the Extraordinary General Meeting.

HONG KONG LISTING RULES REQUIREMENT

According to Rule 13.39(4) of the Hong Kong Listing Rules, any vote of shareholders at a shareholders' general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Therefore, all resolutions at the Extraordinary General Meeting will be taken by way of a poll.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular 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 circular misleading.

RECOMMENDATION

The Board believes that all the resolutions mentioned above are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends that all Shareholders to vote in favor of the relevant resolutions to be proposed at the EGM as set out in the notice of the EGM set out in this circular.

Yours faithfully,
By Order of the Board
Haitong Securities Co., Ltd.
ZHOU Jie
Chairman

海通證券股份有限公司
HAITONG SECURITIES CO., LTD.*

(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 6837)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Extraordinary General Meeting of Haitong Securities Co., Ltd. (the "**Company**") will be held at Conference Room, 3/F, Haitong Securities Building, No. 689 Guangdong Road, Huangpu District, Shanghai, the PRC on Wednesday, 15 April 2020 at 2:00 p.m., for the following purposes:

ORDINARY RESOLUTION

1. To consider and approve the resolution regarding the dilution of current returns of the non-public issuance of A Shares of the Company and the remedial measures (second revision proof)

SPECIAL RESOLUTIONS

1. To consider and approve the resolution regarding the satisfaction of the conditions of the non-public issue of A Shares of the Company

2. To consider and approve the resolution regarding the adjustments to the non-public issue of A Shares of the Company, including:

   2.01 Class and nominal value of shares to be issued

   2.02 Method and time of the issuance

   2.03 Target subscribers and subscription method

   2.04 Number of shares to be issued and amount of proceeds to be raised

   2.05 Issuance price and pricing principle

   2.06 Use of proceeds

   2.07 Lock-up period

   2.08 Place of listing

2.09 Arrangement for the retained profits of the Company prior to the issuance

2.10 Validity period of the resolution

3. To consider and approve the resolution regarding the proposal on the non-public issue of A Shares of the Company (second revision proof)

4. To consider and approve the resolution regarding the supplemental agreements to the conditional subscription agreements entered into with the specific target subscribers, including:

4.01 Supplemental Agreement to the Subscription Agreement entered into between Shanghai Guosheng Group Assets Co., Ltd. and Haitong Securities Co., Ltd.

4.02 Supplemental Agreement to the Subscription Agreement entered into between Shanghai Haiyan Investment Management Company Limited and Haitong Securities Co., Ltd.

4.03 Supplemental Agreement to the Subscription Agreement entered into between Bright Food (Group) Co., Ltd. and Haitong Securities Co., Ltd.

4.04 Supplemental Agreement to the Subscription Agreement entered into between Shanghai Electric (Group) Corporation and Haitong Securities Co., Ltd.

5. To consider and approve the proposal regarding the related party transactions involved in the Company's non-public issue of A shares

6. To consider and approve the resolution regarding the grant of authorisation by the general meeting to the Board and the delegation of powers by the Board to the management to deal with all matters relating to the non-public issue of A Shares of the Company

By order of the Board
Haitong Securities Co., Ltd.
ZHOU Jie
Chairman

Shanghai, the PRC
28 February 2020

Notes:

1. **Eligibility for attending the Extraordinary General Meeting and date of registration of members for H Shares**

   The register of members of H Shares of the Company will be closed from Saturday, 14 March 2020 to Wednesday, 15 April 2020 (both days inclusive), during which time no share transfers of H Shares will be effected. Purchasers of shares who have submitted their instruments of share transfer to the H Share Registrar of the Company and registered as shareholders on the H Share register of members of the Company before 4:30 p.m. on Friday, 13 March 2020 are entitled to attend and vote in respect of all resolutions to be proposed at this Extraordinary General Meeting.

   In order to attend this Extraordinary General Meeting, holders of H Shares should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, before 4:30 p.m. on Friday, 13 March 2020.

2. **Proxy**

   (1) Each shareholder entitled to attend and vote at the Extraordinary General Meeting may appoint one or more proxies in writing to attend and vote on his behalf. A proxy need not be a shareholder of the Company.

   (2) The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorised in writing, or if the appointor is a legal entity, either under seal or signed by a director or a duly authorised attorney. If that instrument is signed by an attorney of the appointor, the power of attorney authorising that attorney to sign or other document of authorisation must be notarised.

   To be valid, for holders of H Shares, the form of proxy and notarised power of attorney or other document of authorisation must be delivered to the Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 24 hours before the time appointed for the Extraordinary General Meeting (i.e. 2:00 p.m. on Tuesday, 14 April 2020) or not less than 24 hours before the time appointed for voting by poll.

   (3) Any voting at the Extraordinary General Meeting shall be taken by poll.

3. **Registration procedures for attending the Extraordinary General Meeting**

   (1) A shareholder or his proxy should present proof of identity when attending the Extraordinary General Meeting. If a shareholder is a legal person, its legal representative or other person authorised by the board of directors or other governing body of such shareholder may attend the Extraordinary General Meeting by providing a copy of the resolution of the board of directors or other governing body of such shareholder appointing such person to attend the meeting.

   (2) Holders of H Shares of the Company intending to attend the Extraordinary General Meeting in person or by their proxies should complete and return the reply slip for attending the Extraordinary General Meeting to the Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong on or before Thursday, 26 March 2020.

4. **Voting by poll**

   According to Rule 13.39(4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Accordingly, the Chairman of the Extraordinary General Meeting will demand a poll in relation to all the proposed resolutions at the Extraordinary General Meeting in accordance with Article 108 of the Articles of Association of the Company.

5. Miscellaneous

(1) The Extraordinary General Meeting is expected to be held for no more than half a day. Shareholders who attend the meeting in person or by proxy shall bear their own travelling and accommodation expenses.

(2) The address of Computershare Hong Kong Investors Services Limited is:

Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(3) The registered office of the Company:

Haitong Securities Building
No. 689 Guangdong Road
Shanghai
The People's Republic of China

Contact Office: Office of the Board
Telephone No.: 86 (21) 2321 9000
Facsimile No.: 86 (21) 6341 0627
Contact Person: Mr. JIANG Chengjun

(4) Please refer to the circular of the Company in relation to the Extraordinary General Meeting to be published on or before 24 March 2020 for details of the resolution to be proposed at the Extraordinary General Meeting for consideration and approval.

As at the date of this notice, the executive directors of the Company are Mr. ZHOU Jie, Mr. QU Qiuping and Mr. REN Peng; the non-executive directors of the Company are Mr. TU Xuanxuan, Ms. YU Liping, Mr. CHEN Bin and Mr. XU Jianguo; and the independent non-executive directors of the Company are Mr. ZHANG Ming, Dr. LAM Lee G., Mr. ZHU Hongchao and Mr. ZHOU Yu.

* *For identification purpose only*

In accordance with the requirements of the Opinions of the General Office of the State Council on Further Strengthening the Protection of the Legitimate Rights and Interests of Small and Medium Investors in Capital Market (Guo Ban Fa [2013] No. 110) (《國務院辦公廳關於進一步加強資本市場中小投資者合法權益保護工作的意見》) (國辦發[2013]110號), and the Guidance Opinions in relation to Matters Relevant to Dilution of Current Returns by Initial Public Offering, Refinancing, and Material Assets Reorganisation (the CSRC Notice [2015] No. 31) (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》) (證監會公告[2015]31號) issued by China Securities Regulatory Commission (hereinafter referred to as the "**CSRC**"), in order to protect the interests of small and medium investors, Haitong Securities Co., LTD (hereinafter referred to as "**Haitong Securities**" or the "**Company**") analyses the impacts of the Non-public Issuance of A Shares (hereinafter referred to as the "**Issuance**") on current returns and proposed the relevant remedial measures based on the abovementioned relevant requirements:

I. CHANGES OF THE COMPANY'S EARNINGS PER SHARE (THE "EPS") AFTER THE COMPLETION OF THE ISSUANCE

The Company recorded a total share capital of 11,501,700,000 shares before the Non-public Issuance and will issue not more than 1,618,426,236 shares (inclusive) for the Issuance. The share capital and net assets of the Company will increase significantly after the completion of the Issuance.

(I) Major assumptions and prerequisites

1. It is assumed that the Issuance will be completed before 30 June 2020, and the expected time is used for the purpose of the Issuance only. The final completion date and impacts of dilution of current returns should be subject to approval by the CSRC and the actual completion time of the Issuance.

2. It is assumed that 1,618,426,236 shares will be issued and the total proceeds raised will be RMB20 billion, without taking into account the issuance expenses.

3. According to the *Announcement on Positive Profit Highlight for the 2019 Annual Results of Haitong Securities*, Haitong Securities' net profit attributable to owners of the parent company for 2019 ranged from RMB9,379.9678 million to RMB9,692.6334 million, assuming that (1) Haitong Securities' net profit attributable to shareholders of the parent company for 2019 amounted to RMB9,536.3006 million; (2) equity attributable to the shareholders of the parent company for 2019 = equity attributable to the shareholders of the parent company at the beginning of 2019 + net profit attributable to owners of the parent company for 2019 – cash dividend for 2018 amounted to RMB125,669.6203 million); and (3)

net profit attributable to owners of the parent company for 2020 would increase by 20% to RMB11,443.5607 million, remain the same as RMB9,536.3006 million and decrease by 20% to RMB7,629.0405 million compared with that in 2019 respectively.

4. It is assumed that cash dividend for 2019 accounted for 30% of the net profit attributable to owners of the parent company for 2019 and the implementation will be completed by June 2020.

   The above assumptions and analysis on profit value do not constitute the Company's forecast for the profits for the year 2020, which are uncertain as the realisation depends on such factors as national macroeconomic policies and changes of operations of the securities market. Investors should not make investment decisions based on such analysis. The Company is not liable for any losses arising from the investment decisions made by investors based on such analysis.

5. Equity attributable to shareholders of the parent company as of 31 December 2020 = the opening balance of equity attributable to shareholders of the parent company in 2020 + net profit attributable to shareholders of the parent company in 2020 + changes of equity in the current period (if any) – cash dividend distributed in the current period.

   The above data of net assets do not represent the Company's forecast for the net assets at the end of 2020.

6. The impacts of receiving proceeds raised from the Issuance on the Company's operations and financial position (such as operating income, financial expenses and return on investments) will not be taken into account.

7. The Company does not take into account other factors which may have impacts on net assets (other than raised proceeds, net profit, and profit distribution) when calculating the net assets upon completion of the Issuance.

(II) Analysis on impacts on the Company's EPS and weighted average return on net assets

Based on the above assumptions and prerequisites, the Company calculates the impacts of the Issuance on the Company's basic EPS and weighted average return on net assets:

Item	For the year 2019/As at 31 December 2019	Comparison before and after the Issuance (For the year 2020/ As at 31 December 2020) Before the Issuance	After the Issuance (without taking into account any returns on investment with proceeds)
Total share capital at the end of the period (share)	11,501,700,000	11,501,700,000	13,120,126,236
Total proceeds raised from the Issuance (RMB'000)			20,000,000
Number of shares to be issued under the Issuance (share)			1,618,426,236
Scenario I: Profit attributable to the shareholders of the parent company for 2020 increases by 20% from 2019 to RMB11,443.5607 million			
Equity attributable to the shareholders of the parent company at the end of the period (RMB'000)	125,669,620.3	134,252,290.8	154,252,290.8
Basic EPS (RMB/share)	0.83	0.99	0.93
Diluted EPS (RMB/share)	0.83	0.99	0.93
Net assets per share (RMB/share)	10.93	11.67	11.76
Weighted average return on net assets (%)	7.83	8.81	8.18
Scenario II: Profit attributable to the shareholders of the parent company for 2020 remains the same (i.e. RMB9,536.3006 million) as 2019			
Equity attributable to the shareholders of the parent company at the end of the period (RMB'000)	125,669,620.3	132,345,030.7	152,345,030.7
Basic EPS (RMB/share)	0.83	0.83	0.77
Diluted EPS (RMB/share)	0.83	0.83	0.77
Net assets per share (RMB/share)	10.93	11.51	11.61
Weighted average return on net assets (%)	7.83	7.39	6.86

Item	For the year 2019/As at 31 December 2019	Comparison before and after the Issuance (For the year 2020/ As at 31 December 2020) Before the Issuance	After the Issuance (without taking into account any returns on investment with proceeds)
Scenario III: Profit attributable to the shareholders of the parent company for 2020 decreases by 20% from 2019 to RMB7,629.0405 million			
Equity attributable to the shareholders of the parent company at the end of the period (RMB'000)	125,669,620.3	130,437,770.6	150,437,770.6
Basic EPS (RMB/share)	0.83	0.66	0.62
Diluted EPS (RMB/share)	0.83	0.66	0.62
Net assets per share (RMB/share)	10.93	11.34	11.47
Weighted average return on net assets (%)	7.83	5.96	5.53

Note: EPS and weighted average return on net assets are calculated in accordance with the Guidance Opinions in relation to Matters Relevant to Dilution of Current Returns by Initial Public Offering, Refinancing and Material Assets Reorganisation (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》), and the Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No. 9 – Calculation and Disclosure of Return on Net Assets and Earnings per Share (《公開發行證券的公司信息披露編報規則第9號–淨資產收益率和每股收益的計算及披露》) issued by the CSRC.

Based on the aforesaid calculation, without taking into account the impacts of use of proceeds, the total share capital of ordinary shares of the Company will increase by approximately 14% upon completion of the Issuance. On such basis, basic EPS will be kept undiluted if the Company's net profit attributable to shareholders of the parent company in 2020 represents a year-on-year growth of approximately 7%. As calculated based on the aforesaid three scenarios, i.e. under scenario I that the Company's net profit attributable to the parent company in 2020 increases by 20% as compared with 2019, current returns of the Company will not be diluted; under scenario II that the net profit in 2020 remains unchanged on a year-on-year basis, and under scenario III that the net profit in 2020 represents a year-on-year decrease of 20%, current returns of the Company will be diluted.

II. NECESSITY AND RATIONALITY OF THE ISSUANCE AND RELATIONSHIP BETWEEN PROJECTS TO BE INVESTED WITH THE RAISED PROCEEDS FROM THE ISSUANCE AND EXISTING BUSINESSES OF THE COMPANY

(I) Analysis of necessity of the Issuance

Under the background of the new era in which China's economy has shifted from the high-speed growth to the high-quality development, the transformation and upgrading of China's economy, the accelerating pace of opening up, deepening structural reform of the financing supply side and strengthening economic strength of financial services entities will bring new opportunities for the development of the capital market and securities industry. Building world leading investment banks with Chinese institutional characteristics and utilising the function of securities companies as core carriers of the capital market, is an important milestone of the strong capital market.

Securities companies are faced with the trend of transformation from channel-based to capital-based intermediaries. The profit model of the industry is undergoing profound changes, and the capital strength will become a key element for securities companies to develop capital-based intermediary businesses, enhance integrated financial service capabilities for the real economy, and develop core competitiveness and differentiated competitive advantages.

The Company intends to increase the capital size and enhance capital strength through the non-public issuance of A Shares, and seize the development opportunities in the capital market and securities industry to build differentiated competitive advantages, improve the capabilities of risk resistance, and gain the strategic initiative in the increasingly fierce competition.

1. The Issuance is an inevitable choice to capture the development trend of the securities industry

With the indirect financing system shifting to a direct financing system, the increasing demand for cross-border investment and financing, the constant accelerating of state-owned enterprise reforms and supply-side reforms, the establishment of the Sci-Tech Innovation Board and the launch of pilot registration system, a series of internationalisation and marketisation reforms of capital markets will be further deepened, the ecology of the securities industry will be reshaped in the medium and long term, and the wealth management of the Company, investment banking, asset management, trading and institution, financial leasing will all face better development opportunities. Meanwhile, driven by the rapid development of Internet finance and the lowering of market entry barriers of the industry, the profitability foundation of the securities industry will undergo profound changes with the industry's development space to be suppressed in the short term, and competition in the industry further intensifying.

It is expected that the industry development in the future will show the following trends: the two-way market opening up and the free flow of cross-border capital will promote the internationalisation and globalisation of the industry; the consolidation of the industry will accelerate, with the market concentration further increasing, and the competition among industry leaders becoming more intense; differentiated operations will be formed in areas such as business and services, capital driving, integration, productisation and financial technology; the profit model based on licenses and supervision will gradually disappear, and the business model will surely transform from the previous channel commissions-based business model to the integrated business model focusing on fee-based intermediary business, capital-based intermediary business, and self-funded investment business, with capital, customer flow, and professional service capabilities becoming the important foundations for enhancing core competitiveness. The capital-based intermediary business, cross-border business, and self-funded business, rely both on the enhancement of capital strength and on the capital support for the necessary information systems, human resources, and promotion for obtaining customer flow.

2. The Issuance will provide solid support for the Company to achieve its strategic objectives

Under the background of China's economic transformation, the Company's overall development strategy is to: adhere to the customer-prioritisation approach, focus on intermediary businesses such as brokerage, investment banking, and asset management, supplemented by capital-based intermediary business and investment as "Two Wings", with conglomeration, internationalisation and informatisation as the driving force, strengthen the construction of the four pillars including compliance and risk control, human resources, IT, and research, enhance the five capabilities including capital and investment management, asset and wealth management, investment banking contracting and sales pricing, asset management, institutional brokerage and sales transactions and wealth management in order to build Haitong into a domestic leading and globally influential intelligent investment bank. However, in view of the competitive landscape of the securities industry in recent years, the profitability of securities companies has shown a high degree of correlation with their capital strength. Modest capital replenishment will help the Company obtain business development opportunities. The Non-public Issuance will help the Company actively respond to the increasingly fierce capital competition in the securities industry, and enhance the overall strength of the Company's overseas business and cross-border business and reinforce the material basis for the future development of the Company amidst the broader integration of international finance.

3. The Issuance will enable the Company to effectively participate in the increasing capital competition in the securities industry and be actively well-positioned to face the competition in the international market

With the further opening of the financial market, competition in the future securities market will be more intense. Encouraged by regulatory policies, the establishment of joint venture securities companies has significantly accelerated, which has intensified competition in the industry. Since the CSRC issued the Administrative Measures for Foreign Investment in Securities Companies (《外商投資證券公司管理辦法》) in April 2018, UBS Securities was approved as the first foreign-controlled securities company at the end of 2018. In March 2019, two foreign-controlled securities companies namly J.P. Morgan Securities (China) Company Limited (摩根大通證券(中國)有限公司) and Nomura Oriental International Securities Co., Ltd. (野村東方國際證券有限公司) were approved for establishment; according to information on the opening-up of the financial sector reported by the Boao Forum in 2019, business scope of the foreign-funded securities companies will no longer be set separately. To cope with the industry competition and the need to transform profit models, the financing scale of the securities industry has continued to expand in recent years with nearly 40 securities companies currently listed in China or overseas. Since 2017, Huatai Securities, Shenwan Hongyuan and DFZQ and other companies have completed non-public issuance of A Shares and the non-public issuance of A Shares plan of Guoxin Securities has been approved by the CSRC. Guotai Junan completes its IPO of H shares, and CITIC Securities has contemplated acquisition of assets by issuance of shares. At present, although the Company's net asset level ranks top among domestic securities companies, the original capital advantage is gradually disappearing. The Issuance will help the Company maintain its capital advantage in the new round of industry competition.

Meanwhile, compared with international investment banks, although the Company already has strong competitiveness in Hong Kong, it still needs strong capital strength to be well-positioned in other overseas market competition and cross-border business activities.

4. The Issuance will further reduce the liquidity risk and enhance the Company's capacity of risk resistance

Due to the continuous expansion of the operating scale in recent years, the degree of influence of such factors as macroeconomic policies, market changes, business conditions and customer credit on the Company's operations has become more apparent.

The Company has always adhered to the "robust and even conservative" risk control philosophy, and continued to control liquidity risk exposure within reasonable limits through a reasonable monitoring mechanism and regulatory means strictly according to the requirements of liquidity risk appetite and risk indicator limits determined by the Company.

Capital is still the most direct tool for risk resistance. Increasing long-term capital and optimizing capital structure not only relate to the long-term competitiveness but also the risk resistance capacity of the Company. Under the existing regulatory framework, only by maintaining long-term capital matching the scale of assets can the Company continue to meet regulatory requirements. For the unexpected actual losses caused by market risk, credit risk or operational risk, robust capital can also provide sufficient buffer to avoid liquidity risks.

Therefore, the Non-public Issuance will help strengthen the Company's capability to withstand various operating risks.

(II) Feasibility analysis on the Issuance

1. The Non-public Issuance conforms to the conditions stipulated in relevant laws, regulations and regulatory documents

Haitong Securities is one of the first batches of comprehensive securities companies approved by the CSRC, national innovative securities companies and Class A Grade AA securities companies. The Company has a sound and well-operated organizational structure, and an established and improved internal control system. The Company has strictly followed the regulatory requirements and established a scientific and reasonable risk management system with clear responsibilities, and has strong risk control capabilities; it has standardised basic accounting work, good asset quality and sustainable profitability. The Company satisfies the conditions for non-public issuance and domestic listing of Renminbi ordinary shares (A Shares) as specified in laws and regulations and regulatory documents including the Administrative Measures for Issuance of Securities by Listed Companies (2020 Revision) (《上市公司證券發行管理辦法》(2020年修訂)), the Implementation Rules for Non-public Issuance of Shares by Listed Companies (2020 Revision) (《上市公司非公開發行股票實施細則》(2020年修訂)), and the Q&A on Issuance Supervision – Regulations on Guiding and Regulating Financing Activities of Listed Companies (《發行監管問答–關於引導規範上市公司融資行為的監管要求》).

2. The Non-public Issuance is in line with the national industrial policy guidelines

At present, China's economy is undergoing a critical period of transformation from high-speed growth to high-quality development. Optimising the financing structure, increasing the proportion of direct financing, improving the efficiency of financial resources allocation, and better serving the development of the real economy are the future directions for the development of the capital market.

In May 2014, the State Council issued the Several Opinions on Further Promoting the Healthy Development of the Capital Market (《關於進一步促進資本市場健康發展的若干意見》), proposing to promote the differentiated, professional, and characteristic development of securities operation institutions, and the formation of several modern investment banks with international competitiveness, brand influence and systemic importance. On 13 May 2014, the CSRC issued the Opinions on Further Promoting the Innovation and Development of Securities Operation Institutions (《關於進一步推進證券經營機構創新發展的意見》) to clarify the main tasks and specific measures for the promotion of innovation and development of securities operation institutions from three aspects, which include building modern investment banks, supporting business and product innovation, and promoting regulatory transformation. It has explicitly proposed to support securities operation institutions in improving their comprehensive financial services capabilities, improving basic functions, and expanding financing channels. In June 2016, the CSRC revised the Administrative Measures for the Risk Control Indicators of Securities Companies (《證券公司風險控制指標管理辦法》) and supporting rules. In view of the new circumstances in the development of the industry, it has improved the calculation formula of net capital and risk capital reserve, and indicators such as leverage and liquidity supervision, clarified counter-cyclical adjustment mechanism, improved the completeness and effectiveness of the risk control indicators, to further promote the long-term healthy development of the securities industry.

With the rapid growth of the Company's business scale and the gradual adjustment of industry regulatory policies, the current size of net capital can no longer meet the Company's business development needs. This Non-public Issuance is the Company's active move to comply with the CSRC's efforts which encourages securities companies to further replenish their capital and in line with the national industrial policy guidelines.

(III) The relationship between projects to be invested with the proceeds raised from the Issuance and existing businesses of the Company and the Company's reserve of the projects to be invested in terms of personnel, technology, market, etc.

1. The relationship between projects to be invested with proceeds raised from the Issuance and the existing businesses of the Company

The total amount of proceeds to be raised from the Issuance will not exceed RMB20.0 billion (including the issuance expenses). The net proceeds (after deducting the issuance expenses) will be fully utilised to increase the capital base of the Company.

After the completion of the Issuance, the Company's major businesses will remain unchanged, and the capital strength of Haitong Securities will be further enhanced upon the implementation of the proceeds to be raised, which will help the Company to expand and consolidate, strengthen its core competitiveness in domestic and overseas markets, further expand its business scale, and enhance its competitiveness and risk resistance capacity in domestic and overseas markets.

2. Operation and development trend of the Company's existing business sectors

For the three years of 2016, 2017 and 2018 and nine months ended 30 September 2019, the Company achieved an operating income of RMB28,011.0146 million, RMB28,221.6672 million, RMB23,765.0146 million and RMB25,147.4215 million respectively, and the net profit attributable to parent company were RMB8,043.3345 million, RMB8,618.4233 million, RMB5,211.0932 million and RMB7,385.6484 million respectively.

The Company has formed a financial services group covering various businesses including securities and futures brokerage, investment banking, asset management, PE investment, alternative investment and financial leasing, etc. Haitong International Securities Group Limited, a major subsidiary of the Company's overseas businesses, has become an important investment bank in Hong Kong.

3. The Company's reserve of the projects to be invested in terms of personnel, technology, market, etc.

Since its establishment, the Company has attached great importance to attracting, motivating, cultivating and utilising of talents. The Company has established a high-quality talent team with high professional dedication and technological skills. As at the end of the third season of 2019, the total number of the Company' employees was 10,589, among which the proportion of employees with bachelor's degree or above accounts for approximately 90.5%. In addition, the Company attached great importance to employee training. The Company relies on the platform of Haitong Wealth Management Institute to fully integrate internal and external training resources and has established a training system that meets the Company's development needs, providing strong support for the improvement of the Company's talent development strategy and organizational performance.

In terms of technology, the Company adheres to the guiding philosophy of "unified management, self-initiation and controllability, integration of business and leading development" and has continuously improved the three technological capabilities including production operation, software research and development, and technology management, providing comprehensive support for the Company to realise its corporate strategy and to build a benchmark investment bank in China.

In terms of market, after 30-year development, Haitong Securities has become a leading large-scale comprehensive securities company in China. The Company has a strong customer base in brokerage business, ranking in leading position in the industry in investment banking business, continuously increasing scale of assets under active management, and ranked in leading position in the industry of private equity investment business, and profit contribution. The Company's performance indicators of Hong Kong based businesses, the financial leasing business and research services are in the leading position in the industry, with relatively strong market competitiveness as a whole. The Non-public Issuance will further enhance the Company's competitive advantages.

(IV) Risks facing by the Company

1. Risk of declining operating performance due to macroeconomic and capital market fluctuations

China's capital market is subject to certain periodicity and is affected by factors such as overall economic development, macroeconomic policies, international economic environment, industry supervision policies and investment psychology. At present, the business of securities companies in China mainly includes securities brokerage business, investment banking business, proprietary trading business, margin financing and securities lending and asset management business, which are highly dependent on and sensitive to the long-term development and short-term conditions of the capital market. Therefore, the business performance is also highly volatile. If the macroeconomic environment or the securities market remain in prolonged recession in the future, or the market suffers from severe adverse fluctuations in the short term, the Company's operating performance and profitability may be affected adversely .

2. Industry competition risk

In recent years, the competition in the securities industry has become increasingly fierce. In particular, intermediary services with traditional channels represented by brokerage business have become more homogenous, and the competition will further intensify. On the one hand, Shenwan Hongyuan, DFZQ, Huatai Securities, Guotai Junan and other companies have successively enhanced their capital strength and expanded their business scale to increase their competitiveness through non-public issuance and IPO of H shares in recent years. On the other hand, with the intensification of competition in the financial market, banks, insurance companies, fund companies and trust companies have gradually entered the asset management business area and other related fields through their advantages in customers and channels. In addition, the development of Internet finance will quickly break the channel coverage and regional advantages that securities companies enjoyed in the past, and will also promote the crossing services and product integration including brokerage, asset management, investment banking, and research businesses, contributing to increasingly intense competition in the securities industry.

Besides, China's entry to the WTO expedited the opening-up of the domestic securities industry. A number of foreign-funded securities companies entered China's securities market by establishing joint venture securities companies. Compared with domestic securities companies, foreign-funded securities companies have more extensive management experience, wider international marketing network, stronger capital strength and market influence. In view of the opening-up of the securities industry in China, domestic securities companies will be subject to more fierce competition and the risk of loss of customers and a drop in the market share.

3. Policy and legal risk

The securities industry in China is currently under the centralised and unified supervision and management of the CSRC, as well as self-discipline management on members by such self-regulatory organisations as the Securities Association and stock exchanges. A regulatory system has been formed in the securities industry, including such laws and regulations as the Securities Law, the Regulations on Supervision and Administration of Securities Companies (《證券公司監督管理條例》), the Regulations on the Risk Disposal of Securities Companies (《證券公司風險處置條例》) and the Administrative Measures for the Risk Control Indicators of Securities Companies (《證券公司風險控制指標管理辦法》). The Company's securities business is strictly supervised by regulatory authorities such as the CSRC and other authorities in terms of business licenses, operation supervision, daily management, risk prevention and personnel management. In the future, if the Company violates relevant regulations in the operation, the supervision and control measures or punishments imposed by the regulatory authorities will adversely affect the Company's' reputation, which in turn will affect the Company's further performance and development.

Meanwhile, with increasing acceleration in legal construction in China, the supervision over the capital market is strengthened and the regulatory system is improved. The issuance, abolishment, and revision of relevant laws and regulations is relatively frequent. If the Company fails to pay attention to these changes in a timely manner, it may be subject to operational risks.

In addition, the changes in national laws, regulations and policies in economic fields, such as fiscal and monetary policies, interest rate policies, taxation policies, business licenses and business charging standards may cause fluctuations in the securities market as well as changes in the environment for the development of the securities industry, which may have a significant impact on various businesses of the Company.

4. Business operation risk

(1) Risks of wealth management business

A. Risk of decrease in trading commission income

Income from trading commission largely relies on factors such as trading commission rate and transaction scale. With the gradual liberalisation of qualifications for the establishment of sales departments, the development of Internet finance, the cancellation of the "one person, one account" restriction and the promotion of off-site account opening of securities companies, the industry competition has further intensified. If the stock trading volume is greatly affected by the market and the competition intensifies, the commission rate of securities trading will decline, which may affect the Company's competitiveness in the wealth management business and thus the profitability and operating performance of the Company.

B. Risks related to financing business

The Company's financing business mainly includes margin financing and securities lending business, stock repurchase transaction and stock pledged repurchase business. In the course of carrying out the relevant business, the Company is exposed to the risk of losses arising from defaults by customers or counterparties. At present, the financing business in the industry is generally at the initial stage of development. If the Company's financing business expands too quickly, the risk control measures may not be readily available, leading to the risks of bad debts and liquidity. If the Company fails to maintain and expand its market share and to develop high-quality customers, or lacks capital reserves in the market competition, it may be exposed to the decrease in financing business and incomes.

(2) Risks of investment banking

The Company's investment banking business mainly includes equity financing business, bond financing business, merger, acquisition and restructuring business, and financial advisory business. In this regard, the Company is mainly exposed to sponsoring risks and underwriting risks. The Company is facing higher risks and responsibilities in investment banking businesses have increased alongside the transformation of regulatory policies.

In carrying out its investment banking business, the Company may be subject to the risk of being punished by securities regulatory authorities for failing to perform or properly perform due diligence or for defects in the truthfulness, accuracy and completeness of information disclosed in public offering-related documents. The Company may suffer reputation loss due to the issuance failure arising from an unreasonable plan for corporate restructuring and listing or a misjudgment of the Company's development prospects. The Company may be exposed to underwriting risks due to irrational issuance price of securities, bond terms not conforming to the needs of investors, or biases in market judgment and improper timing of issuance. The Company is also exposed to default risks due to improper commitments in contracting procedure.

(3) Risks of transaction business

The Company's transaction business mainly includes transactions relating to equity securities, fixed-income securities, derivative financial instruments and direct equity investment with its own funds. If the securities market weakens in the future, it will have a negative impact on the performance of the Company's proprietary trading business, and thus its overall profitability.

In addition, factors such as inadequate research on the selection of investment products and specific investment objects by the investment personnel of transaction business of the Company, incorrect decisions, inappropriate investment timing, improper operation may all adversely affect the Company's transaction business and its overall business performance and financial position.

(4) Risks of asset management business

The three major platforms for the asset management business of the Company include Shanghai Haitong Securities Asset Management Co., Ltd., Fullgoal Fund Management Co., Ltd. and HFT Investment Management Co., Ltd. The key performance drivers of the asset management business include management fees, performance fees and investment income. A continuing decline of the securities market conditions may affect investors' enthusiasm and willingness to subscribe for and hold wealth management products, which will lead to a decline in the assets of wealth management products of the Company and a decline in the management fee income of the Company's asset management business. A continuing decline in market conditions will also result in a drop in the product yields and the performance fee and commission income of the Company's asset management business, which will adversely affect the income of the Company's asset management business.

(5) Risks of financial leasing business

Financial leasing is an industry that combines fund financing, assets financing and trading. Therefore, industry development is closely related to the macroeconomic and financing environment. If the growth of the macro real economy slows down, the demand for financial leasing services will decrease, which may lead to a slowdown in the financing leasing business. If the financing environment is tight, the financing cost of operating funds will increase, which may lead to lower profitability of financial leasing.

(6) Risks of overseas business

The Company participates in overseas wealth management, investment banking, trading and institution and asset management business through Haitong International Securities Group Limited and Haitong Bank. The key performance drivers of overseas business include brokerage commissions, underwriting sponsorship fees, advisory fees, interest income and asset management fees. The performance of the Company's overseas business may decline in case of continued volatility or weakness of global economy and adjustment of relevant business policies.

5. Financial risks

Given the capital-intensive nature of the securities industry, securities companies must maintain good capital liquidity and have diversified financing channels to guard against potential liquidity risks. Due to the large scale of proprietary trading business, rapid development of credit business and other factors, the Company is vulnerable to factors such as macro policies, market changes, operation conditions, customer credit in its operation and may face liquidity risk resulting from mismatched asset-liability structure.

6. Information technology risks

The Company's main businesses are highly dependent on the electronic information system to accurately process massive transactions in a timely manner, to store and process massive business and operations data. IT system is an important carrier for the operation and management of securities companies, thus the security, stability and efficiency of IT system are crucial to the development of securities companies' businesses. Any system failure arising from such emergencies as hardware failures, software crashes, communication interruptions, virus and hacker attacks, data loss and leakage, or any malfunction due to the Company's failure to timely or effectively improve or upgrade IT system may affect the Company's reputation and service quality and may even bring economic losses and legal disputes.

III. RISK WARNING FOR DILUTION OF CURRENT RETURNS FROM THE NON-PUBLIC ISSUANCE

The proceeds raised from the Non-public Issuance will be used to supplement the Company's capital to enhance its comprehensive competitiveness. However, it takes certain procedures and time for the projects to be invested with the proceeds raised from the Issuance to be put into operation and generate profits. Prior to the effectiveness of the projects to be invested with the proceeds raised from the Issuance, the realisation of the Company's profits and shareholders' returns still relies on the existing businesses. With the Company's total share capital and net assets both increasing, the financial indicators for current returns such as earnings per share and weighted average return on net assets and other indictors may be exposed to the risk of being diluted in a short term.

IV. PROPOSED MEASURES TO BE TAKEN BY THE COMPANY TO ADDRESS THE DILUTION OF CURRENT RETURNS

(I) Enhancing the management of proceeds and improving utilisation efficiency of proceeds

The Company has formulated the Proceeds Management System in accordance with laws, regulations and other regulatory documents, including the Securities Law, the Administrative Measures for Issuance of Securities by Listed Companies (《上市公司證券發行管理辦法》), the Administrative Provisions of Shanghai Stock Exchange on Capital Raised by Listed Companies (《上海證券交易所上市公司募集資金管理規定》), and the Articles of Association, providing detailed requirements in respect of the deposit, usage, investment changes and supervision of the use of proceeds.

The proceeds raised from the Issuance will be deposited in the special account approved by the Board (hereinafter referred to as "**special proceeds account**"), which shall not be used to deposit capital other than the proceeds or be used for other purposes. The Company will sign a Three-Party Escrow Agreement with the sponsor(s) and the commercial bank(s) where the proceeds are deposited, so that the sponsor(s), the bank(s) of deposit and the Company can jointly supervise the raised proceeds. At the same time, the Company will conduct internal audit on the raised proceeds, and examine and supervise the usage of the raised proceeds. In the annual audit, the Company will engage an accounting firm to issue a certification report for the deposit and usage of the raised proceeds.

(II) Optimizing income structure and maintaining moderate leverage level to improve return rate on net assets

The projects to be invested with the proceeds raised are mainly for the Company's major business, which is in line with the Company's development strategies. The proceeds will help the Company seize the favorable opportunities of the transformation and upgrading of the securities industry, further optimize income structure, enhance the Company's ability in capital-based intermediary business, accelerate the development of innovative businesses and strengthen the competitiveness of cross-border business, so as to minimize operational risks, and enhance sustainable profitability and sustainable development capability.

After the proceeds raised from the Non-public Issuance is in place, the Company will promote the use of proceeds and leverage the proceeds to strengthen its debt capacity, expand the scale of assets, further increase the scale of its traditional businesses such as investment banking, asset management and investment business, increase the scale of capital-based intermediary business, international business and other innovative businesses, so as to further increase the Company's return rate on net assets and bring better returns to its shareholders.

(III) Continuously improving corporate governance and strengthening risk management measures

The Company will constantly improve its corporate governance structure according to requirements of the Company Law, the Securities Law, relevant regulations of the CSRC and the Hong Kong Listing Rules, so as to ensure its standardised operations, and its scientific, standardised and transparent corporate governance. Moreover, the Company will continue to strengthen the construction of a comprehensive risk management system in the future, constantly improve its ability in managing credit risks, market risks, operational risks and liquidity risks, strengthen risk prevention and control in key areas, and make continuous efforts in the identification, measurment, monitoring, handling and reporting of risks in key areas, so as to comprehensively improve its risk management capability.

(IV) Strictly implementing profit distribution policies to ensure stable returns to shareholders

The Company has formulated relevant provisions on profit distribution in the Articles of Association in accordance with the requirements of the Notice on Further Implementing Matters Relevant to the Cash Dividend Distribution by Listed Companies (《關於進一步落實上市公司現金分紅有關事項的通知》) and the Guideline No. 3 on the Supervision and Administration of Listed Companies – Distribution of Cash Dividends of Listed Companies (《上市公司監管指引第3號–上市公司現 金分紅》) issued by the CSRC. The Company deliberated and passed the Shareholders' Return Plan for the Three Years from 2018 to 2020 at the 2017 Annual General Meeting, with a plan to distribute cash dividends to shareholders annually in the amount of not less than 30% of the distributable profits realised in the current year.

In the past three years, the annual dividend amount accounted for over 30% of the total profits available for distribution among investors in the year. In the future, the Company will continue to attach great importance to protecting the shareholders' interest, maintain continuity and stability of the profit distribution policy and insist on creating long-term value for shareholders.

V. COMMITMENTS OF DIRECTORS, SENIOR MANAGEMENT AND CONTROLLING SHAREHOLDERS OF THE COMPANY

(I) Commitments of Directors and senior management of the Company

To ensure the Company's ability in continually making profits and ensure that the remedial measures relating to returns can be effectively implemented, the Directors and senior management of the Company undertake that:

1. they will not provide any benefits to other entities or individuals at no consideration or on an unfair basis, nor harm the interests of the Company in any other way;

2. they will restrain position-related consumption behaviors;

3. they will not use the Company's assets to engage in any investment and consumption activities not relating to the performance of their duties;

4. the remuneration system formulated by the Board or the Nomination and Remuneration and Assessment Committee will be linked to the implementation of the remedial measures relating to returns of the Company;

5. in the event of the implementation of any share option incentive scheme by the Company in the future, the vesting conditions of the equity incentive plan to be announced will be linked to the implementation of the remedial measures relating to returns of the Company.

(II) Commitment of controlling shareholders of the Company

The shareholding structure of the Company is relatively scattered, and the Company does not have a controlling shareholder either before or after the issuance. Therefore, there is no situation in which a controlling shareholder interferes in the business activities and infringes the interests of the Company.

VI. IMPORTANT NOTICES

The Company would like to draw investors' attention that remedial measures relating to returns do not constitute a guarantee of the Company for its profits in the future, do not form its judgment on the operations and development trends in 2020, and do not constitute a profit forecast. Therefore, investors should not rely on such information in making investment decisions, and the Company shall not be liable for any losses arising from the investment decisions made by investors based on such information.

STATEMENTS OF THE ISSUER

1. The Company and all members of the Board warrant that contents of this Proposal are true, accurate and complete and does not contain false representation, misleading statement or material omission.

2. The Company shall bear its own responsibility for any changes in its operations and income following the Non-public Issuance of A Shares; investors shall bear their own investment risks arising from the Non-public Issuance of A Shares.

3. The Proposal is the explanation of the Non-public Issuance of A Shares made by the Board of the Company. Any statements to the contrary shall be deemed as misrepresentation.

4. If investors are in any doubt as to any aspect of this Proposal, they should consult their stockbrokers, solicitor, accountant or other professional advisers.

5. The matters described in the Proposal do not represent the substantial judgment, confirmation, approval or validation of the approving authorities in respect of relevant matters of the Non-public Issuance of A Shares. The effectiveness and completion of the relevant matters of the Non-public Issuance of A Shares described in this Proposal are subject to the approval by shareholders of the Company at the general meeting and the approval or validation by the relevant approving authorities.

IMPORTANT NOTICES

1. The Non-public Issuance of A Shares (Second Revision Proof) was considered and passed at the 6th meeting (extraordinary meeting) of the seventh session of the Board of the Company. According to the provisions of relevant laws and regulations, the Issuance shall only be implemented after obtaining the approval by shareholders of the Company at the general meeting and the approval by the CSRC.

2. The target subscribers for the Non-public Issuance shall not exceed 35 target subscribers, including existing Shareholders of the Company: Shanghai Guosheng Group, Shanghai Haiyan Investment, Bright Food Group and Shanghai Electric Group, as well as securities investment fund management companies, securities firms, trust investment companies, finance companies, insurance institution investors, qualified foreign institutional investors (QFII), and other domestic institutional and individual investors in compliance with the relevant requirements of the CSRC. A securities investment fund management company, securities firm, QFII and RMB QFII engaging in the subscription of A Shares through its two or more products under its management shall be deemed as one single target subscriber. Trust investment companies shall only subscribe for A Shares with their own funds.

Except for Shanghai Guosheng Group, Shanghai Haiyan Investment, Bright Food Group and Shanghai Electric Group, other final target subscribers will be determined, upon obtaining the approval for the Non-public Issuance, and in accordance with the requirements of the Implementation Rules for Non-public Issuance of Shares by Listed Companies (《上市公司非公開發行股票實施細則》) (2020 Revision), based on the prices offered by the target subscribers in the price inquiry process and the principle of price priority.

In the event that the issuance price is not determined through market inquiry, Shanghai Guosheng Group, Shanghai Haiyan Investment, Bright Food Group and Shanghai Electric Group undertake to participate in the subscription and will adopt the floor price of the Issuance as their subscription price, being 80% of the average trading price of A Shares of the Company for the 20 trading days preceding the pricing benchmark date (exclusive) and the latest audited net assets per share attributable to owners of the Company before the issuance, whichever is higher.

All the target subscribers shall subscribe for A Share(s) to be issued under the Non-public Issuance in cash.

If additional shareholder qualification of the target subscribers and the corresponding review procedures are otherwise prescribed or required by regulatory authorities, such requirements shall be complied with.

3. The number of A Shares to be issued under the Non-public Issuance shall be no more than 1,618,426,236 A Shares (inclusive). The amount of proceeds to be raised from the Non-public Issuance is expected to be no more than RMB20.0 billion (inclusive). Among them, Shanghai Guosheng Group intends to subscribe for RMB10.0 billion; Shanghai Haiyan Investment intends to subscribe for no more than RMB3.0 billion (inclusive), and the proportion of Shares of the Company held after subscription is less than 5%; Bright Food Group intends to subscribe for no less than RMB0.8 billion (inclusive) and no more than RMB1.0 billion (inclusive), and the proportion of Shares of the Company held after subscription is less than 5%; Shanghai Electric Group intends to subscribe for no less than RMB1.0 billion.

   The number of A Shares to be issued under the Non-public Issuance shall be adjusted correspondingly in case of ex-rights matters, such as bonus issuance and conversion of capital reserve into share capital during the period commencing from the date of the resolution(s) approved by the Board in connection with the Non-public Issuance to the date of the issuance of such A Shares.

   The final number of A Shares under the Non-public Issuance shall be determined by the negotiations between the Board and its authorised person(s), under the authorisation granted at the general meeting of the Company, and the sponsor (the lead underwriter), based on the upper limit of the number of shares to be issued as approved by the CSRC and issuance price. After the approval from the CSRC in connection with the Non-public Issuance of A Shares is obtained and the offering period is determined by the Company in accordance with the secondary market conditions, Shanghai Guosheng Group, Shanghai Haiyan Investment, Bright Food Group and Shanghai Electric Group shall determine the final number of A Shares to be subscribed, respectively, in accordance with the issuance price, investment demand and negotiation with the Company, etc.

4. The pricing benchmark date of the Non-public Issuance shall be the first day of the offering period of A Shares under the Non-public Issuance, and the issuance price shall not be lower than 80% of the average trading price of A Shares for the 20 consecutive trading days preceding the pricing benchmark date (exclusive), or the latest audited net assets per share attributable to owners of the Company before the issuance, whichever is higher.

   The average trading price of A Shares for the 20 consecutive trading days preceding the pricing benchmark date = total trading amount of A Shares for the 20 consecutive trading days preceding the pricing benchmark date / total trading volume of A Shares for the 20 consecutive trading days preceding the pricing benchmark date. In the event that any ex-right or ex-dividend activity causes any adjustment in the share prices during the 20 trading days, the trading prices for the trading days before such adjustment shall be calculated on the basis of the adjusted price caused by the ex-right or ex-dividend activities.

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

   The final issuance price of the Non-public Issuance will be determined, upon obtaining the approval issued by the CSRC, by the Board and its authorised person(s) under the authorisation granted at the general meeting of the Company, with the sponsor (the lead underwriter), in accordance with the relevant requirements of the CSRC, and based on the prices offered by the target subscribers as well as the principle of price priority. Shanghai Guosheng Group, Bright Food Group, Shanghai Haiyan Investment and Shanghai Electric Group have not participated in the price inquiry process for pricing in the Non-public Issuance price, but have committed to accept the price inquiry results and subscribe at the same price as other target subscribers.

   In the event that the issuance price is not determined through market inquiry, Shanghai Guosheng Group, Shanghai Haiyan Investment, Bright Food Group and Shanghai Electric Group undertake to participate in the subscription and will adopt the floor price of the Issuance as their subscription price, being 80% of the average trading price of A Shares of the Company for the 20 trading days preceding the pricing benchmark date (exclusive) and the latest audited net assets per share attributable to owners of the Company before the issuance, whichever is higher.

5. The amount of proceeds to be raised from the Non-public Issuance is expected to be no more than RMB20.0 billion (inclusive). The net proceeds (after deducting the issuance expenses) will be fully utilised to increase the capital base of the Company, replenish working capital, optimise the structure of assets and liabilities, improve its financial service industry chain and serve the real economy. The use of proceeds of the Non-public Issuance are as follows:

No.	**Projects to be invested with the proceeds**	**Proposed amounts of proceeds to be applied**
1	To develop capital-based intermediary business and further enhance financial service capabilities	No more than RMB6 billion
2	To increase FICC investment and optimize the structure of assets and liabilities	No more than RMB10 billion
3	To increase the investment in information system construction to improve overall informatisation level of the Company	No more than RMB1.5 billion
4	To increase investment in investment banking business and further promote investment banking business development	No more than RMB2 billion
5	To replenish working capital	No more than RMB0.5 billion
	Total	**No more than RMB20 billion**

6. The shareholding structure of the Company is relatively decentralised. The Company has no controlling shareholder nor de facto controller before the Issuance, and will not have any controlling shareholder or de facto controller after the Issuance. Therefore, the Issuance will not result in any change in control of the Company.

7. The undistributed retained profits of the Company prior to the Non-public Issuance are subject to the entitlement of both the new Shareholders and the existing Shareholders upon completion of the Non-public Issuance of A Shares.

8. Pursuant to the requirement of the *Notice on Further Implementing Matters Relevant to the Cash Dividend Distribution by Listed Companies* (Zheng Jian Fa [2012] No. 37) (《關於進一步落實上市公司現金分紅有關事項的通知》(證監發[2012]37號)) and the *Guideline No. 3 on the Supervision and Administration of Listed Companies – Distribution of Cash Dividends of Listed Companies* (《上市公司監管指引第3號–上市公

司現金分紅》) issued by the CSRC, the Company has further improved its profit distribution policy. For details, please refer to "Section V Profit Distribution Policy and Implementation" of this Proposal.

9. According to relevant laws and regulations, matters related to the Non-public Issuance of A Shares shall be approved by the shareholders at the Company's general meeting and approved by the CSRC.

DEFINITIONS

In this Proposal, unless the context otherwise requires, the following expressions have the following meanings:

Issuer, Haitong Securities, the Company,	Haitong Securities Co., Ltd.
Shanghai Guosheng Group	Shanghai Guosheng (Group) Co., Ltd.
Shanghai Haiyan Investment	Shanghai Haiyan Investment Management Company Limited
Bright Food Group	Bright Food (Group) Co., Ltd.
Shanghai Electric Group	Shanghai Electric (Group) Corporation
The Issuance, the Non-public Issuance, the Non-public Issuance of A Shares	The non-public issuance of A Shares by Haitong Securities to specific target subscribers for the purpose of raising funds
The Board	The sixth meeting (extraordinary meeting) of the seventh session of the Board of Directors of Haitong Securities Co., Ltd.
The Proposal	The proposal for the non-public issuance of A Shares by Haitong Securities Co., Ltd. (Second Revision Proof)
Pricing Benchmark Date	The first day of the offering period of A Shares under the Non-public Issuance of A Shares
CSRC	The China Securities Regulatory Commission
Shanghai Securities Regulatory Bureau	Shanghai Securities Regulatory Bureau of the China Securities Regulatory Commission

Company Law	The Company Law of the People's Republic of China
Securities Law	The Securities Law of the People's Republic of China
Administrative Measures	The Administrative Measures for Issuance of Securities by Listed Companies
Implementation Rules	Implementation Rules for Non-public Issuance of A Shares by Listed Companies (2020 Revision)
Articles of Association	Articles of Association of Haitong Securities Co., Ltd.
RMB	Renminbi Yuan

SECTION I SUMMARY OF THE PLAN FOR THE NON-PUBLIC ISSUANCE OF A SHARES

I. Basic information of the issuer

Chinese name:	海通證券股份有限公司
English name:	HAITONG SECURITIES CO., LTD.
Registered capital:	RMB11,501.7 million
Legal representative:	Zhou Jie
Registered address:	No. 689 Guangdong Road, Shanghai
Place of listing:	Shanghai Stock Exchange, The Stock Exchange of Hong Kong Limited
Stock abbreviation:	Haitong Securities (A Share), HAITONG SEC (H Share)
Stock code:	600837.SH, 6837.HK
Website of the Company:	http://www.htsec.com
Email:	haitong@htsec.com
Unified social credit code:	9131000013220921X6

Scope of business:	Securities brokerage; securities proprietary trading; securities underwriting and sponsorship; securities investment consulting; financial advisory services relating to securities trading and investment activities; direct investment; securities investment fund consignment; provision of intermediary introduction business for the futures companies; margin financing and securities lending; agency sales of financial products; stock options market making; other businesses approved by the CSRC. In addition, Company is permitted to establish subsidiaries that are engaged in outbound investments including investments in financial products.

II. Background to and purpose of the Non-public Issuance

Under the background of the new era in which China's economy has shifted from fast growth to high-quality development, the transformation and upgrading of China's economy and the accelerating pace of opening-up will bring new opportunities for development of the securities industry. On the one hand, amid China's economic transformation from expansion of total volume to structural optimisation, the capital market as the "main battlefield" for direct financing may usher in a new round of robust development, which will further promote the development of the securities industry. On the other hand, along with the expansion of opening-up as well as further advancement of the "Belt and Road" Initiative, the overseas investment and financing needs of enterprises will continue to grow, which will also create opportunities for securities companies to develop cross-border businesses.

In addition, building a strong capital market is a key task for realising the Chinese Dream of the great rejuvenation of the Chinese nation. Securities companies are core carriers of the capital market, and building world leading securities companies with Chinese characteristic will be essential for China to become a powerful nation in the capital market.

Under the development trend in which securities companies transform from channel-based intermediaries into capital-based intermediaries, the industry's profit model is undergoing profound reform, which gradually transformed from previous channel commission-based mode to capital-based intermediary mode focusing on capital strength, customer base and professional service capability. Capital-based intermediary mode develops customers' diversified financial needs. Particularly, under the current net capital-based regulatory regime, capital strength will be a key element for securities companies to develop capital-based intermediary business, improve comprehensive financial services to support real economy, build core competitiveness and differentiated competitive advantages.

Under the background of the transformation, the Company will adhere to the customer-prioritisation approach, focus on intermediary businesses such as brokerage, investment banking and asset management, stick to the "Two Wings" strategy to develop both capital-based intermediary business and investment business, and continue to enhance global integrated financial services capabilities, to build a domestic top-tier benchmarking investment bank with international influence. The Company intends to increase capital base and enhance capital strength through the Non-public Issuance, and seize the development opportunities in the capital market and securities industry to build differentiated competitive advantages, improve the capabilities of risk resilience, and gain the strategic initiative in the increasingly fierce competition.

III. Relationship between the target subscribers and the Company

The target subscribers for the Non-public Issuance shall not exceed 35 target subscribers, including existing Shareholders of the Company: Shanghai Guosheng Group, Shanghai Haiyan Investment, Bright Food Group and Shanghai Electric Group, as well as securities investment fund management companies, securities firms, trust investment companies, finance companies, insurance institution investors, qualified foreign institutional investors (QFII), and other domestic institutional and individual investors in compliance with the relevant requirements of the CSRC. A securities investment fund management company, securities firm, QFII and RMB QFII engaging in the subscription of A Shares through its two or more products under its management shall be deemed as one single target subscriber. Trust investment companies shall only subscribe for A Shares with their own funds.

Except for Shanghai Guosheng Group, Shanghai Haiyan Investment, Bright Food Group and Shanghai Electric Group, other final target subscribers will be determined, upon obtaining the approval for the *Non-public Issuance, and in accordance with the requirements of the Implementation Rules for Non-public Issuance of Shares by Listed Companies* (《上市公司非公開發行股票實施細則》) (2020 Revision), based on the prices offered by the target subscribers in the price inquiry process and the principle of price priority.

In the event that the issuance price is not determined through market inquiry, Shanghai Guosheng Group, Shanghai Haiyan Investment, Bright Food Group and Shanghai Electric Group undertake to participate in the subscription and will adopt the floor price of the Issuance as their subscription price, being 80% of the average trading price of A Shares of the Company for the 20 trading days preceding the pricing benchmark date (exclusive) and the latest audited net assets per share attributable to owners of the Company before the issuance, whichever is higher.

All the target subscribers shall subscribe for A Share(s) to be issued under the Non-public Issuance in cash.

If additional shareholder qualification of the target subscribers and the corresponding review procedures are otherwise prescribed or required by regulatory authorities, such requirements shall be complied with.

Among them, as at the date of issuance of this Proposal, Shanghai Guosheng Group, Shanghai Haiyan Investment, Bright Food Group and Shanghai Electric Group are the existing Shareholders of the Company. Mr. Chen Bin, a director of the Company, has served as the deputy general manager of Shanghai Haiyan Investment during the past 12 months, and Ms. Yu Liping, a director of the Company, serves as the vice president of Bright Food Group, are the Director of the Company. After the Issuance, the proportion of Shares of the Company held by Shanghai Guosheng Group is expected to exceed 5%. Therefore, Shanghai Guosheng Group, Shanghai Haiyan Investment and Bright Food Group are related parties of the Company. Other than this, there is no related party relationship between other target subscribers and listed companies.

IV. Particulars of the Non-public Issuance Plan

(I) Class, nominal value and place of listing of shares to be issued

The class of shares under the Issuance is domestic listed ordinary shares denominated in Renminbi (A Shares), with a nominal value of RMB1.00 each. Shares under the Issuance will be applied for listing on the Shanghai Stock Exchange.

(II) Method and timing of the Issuance

The Company will issue A Shares to no more than 35 specific target subscribers by way of non-public issuance and will choose an appropriate opportunity to issue such A Shares within the validity period stipulated in the approval issued by the CSRC.

(III) Target subscribers and subscription method

The target subscribers for the Non-public Issuance shall not exceed 35 target subscribers, including existing Shareholders of the Company: Shanghai Guosheng Group, Shanghai Haiyan Investment, Bright Food Group and Shanghai Electric Group, as well as securities investment fund management companies, securities firms, trust investment companies, finance companies, insurance institution investors, qualified foreign institutional investors (QFII), and other domestic institutional and individual investors in compliance with the relevant requirements of the CSRC. A securities investment fund management company, securities firm, QFII and RMB QFII engaging in the subscription of A Shares through its two or more products under its management shall be deemed as one single target subscriber. Trust investment companies shall only subscribe for A Shares with their own funds.

Except for Shanghai Guosheng Group, Shanghai Haiyan Investment, Bright Food Group and Shanghai Electric Group, other final target subscribers will be determined, upon obtaining the approval for the *Non-public Issuance, and in accordance with the requirements of the Implementation Rules for Non-public Issuance of Shares by Listed Companies* (《上市公司非公開發行股票實施細則》), based on the prices offered by the target subscribers in the price inquiry process and the principle of price priority.

In the event that the issuance price is not determined through market inquiry, Shanghai Guosheng Group, Shanghai Haiyan Investment, Bright Food Group and Shanghai Electric Group undertake to participate in the subscription and will adopt the floor price of the Issuance as their subscription price, being 80% of the average trading price of A Shares of the Company for the 20 trading days preceding the pricing benchmark date (exclusive) and the latest audited net assets per share attributable to owners of the Company before the issuance, whichever is higher.

All the target subscribers shall subscribe for A Share(s) to be issued under the Non-public Issuance in cash.

If additional shareholder qualification of the target subscribers and the corresponding review procedures are otherwise prescribed or required by regulatory authorities, such requirements shall be complied with.

(IV) Number of shares to be issued and amount of proceeds to be raised

The number of A Shares to be issued under the Non-public Issuance shall be no more than 1,618,426,236 A Shares (inclusive). The amount of proceeds to be raised from the Non-public Issuance is expected to be no more than RMB20.0 billion (inclusive). Among them, Shanghai Guosheng Group intends to subscribe for RMB10.0 billion; Shanghai Haiyan Investment intends to subscribe for no more than RMB3.0 billion (inclusive), and the proportion of Shares of the Company held after subscription is less than 5%; Bright Food Group intends to subscribe for no less than RMB0.8 billion (inclusive) and no more than RMB1.0 billion (inclusive), and the proportion of Shares of the Company held after subscription is less than 5%; Shanghai Electric Group intends to subscribe for no less than RMB1.0 billion.

The number of A Shares to be issued under the Non-public Issuance shall be adjusted correspondingly in case of ex-rights matters, such as bonus issuance and conversion of capital reserve into share capital during the period commencing from the date of the resolution(s) approved by the Board in connection with the Non-public Issuance to the date of the issuance of such A Shares.

The final number of A Shares under the Non-public Issuance shall be determined by the negotiations between the Board and its authorised person(s), under the authorisation granted at the general meeting of the Company, and the sponsor (the lead underwriter), based on the upper limit of the number of shares to be issued as approved by the CSRC and issuance price. After the approval from the CSRC in connection with the Non-public Issuance of A Shares is obtained and the offering period is determined by the Company in accordance with the secondary market conditions, Shanghai Guosheng Group, Shanghai Haiyan Investment, Bright Food Group and Shanghai Electric Group shall determine the final number of A Shares to be subscribed, respectively, in accordance with the issuance price, investment demand and negotiation with the Company, etc.

(V) Issuance price and pricing principle

The pricing benchmark date of the Non-public Issuance shall be the first day of the offering period of A Shares under the Non-public Issuance, and the issuance price shall not be lower than 80% of the average trading price of A Shares for the 20 consecutive trading days preceding the pricing benchmark date (exclusive), or the latest audited net assets per share attributable to owners of the Company before the issuance, whichever is higher.

The average trading price of A Shares for the 20 consecutive trading days preceding the pricing benchmark date = total trading amount of A Shares for the 20 consecutive trading days preceding the pricing benchmark date / total trading volume of A Shares for the 20 consecutive trading days preceding the pricing benchmark date. In the event that any ex-right or ex-dividend activity causes any adjustment in the share prices during the 20 trading days, the trading prices for the trading days before such adjustment shall be calculated on the basis of the adjusted price caused by the ex-right or ex-dividend activities.

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

The final issuance price of the Non-public Issuance will be determined, upon obtaining the approval issued by the CSRC, by the Board and its authorised person(s) under the authorisation granted at the general meeting of the Company, with the sponsor (the lead underwriter), in accordance with the relevant requirements of the CSRC, and based on the prices offered by the target subscribers as well as the principle of price priority. Shanghai Guosheng Group, Shanghai Haiyan Investment, Bright Food Group and Shanghai Electric Group have not participated in the price inquiry process for pricing in the Non-public Issuance price, but have committed to accept the price inquiry results and subscribe at the same price as other target subscribers.

In the event that the issuance price is not determined through market inquiry, Shanghai Guosheng Group, Shanghai Haiyan Investment, Bright Food Group and Shanghai Electric Group undertake to participate in the subscription and will adopt the floor price of the Issuance as their subscription price, being 80% of the average trading price of A Shares of the Company for the 20 trading days preceding the pricing benchmark date (exclusive) and the latest audited net assets per share attributable to owners of the Company before the issuance, whichever is higher.

(VI) Lock-up period

In accordance with relevant requirements of the *Administrative Measures for Issuance of Securities by Listed Companies* (《上市公司證券發行管理辦法》), the *Implementation Rules for Non-public Issuance of Shares by Listed Companies* (《上市公司非公開發行股票實施細則》) and the *Guidelines on Administrative Approval for Securities Companies No. 10 – Increase and Change in Equity Interest of Securities Companies* (《證券公司行政許可審核工作指引第10號—證券公司增資擴股和股權變更》), upon completion of the Non-public Issuance, the specific target subscribers shall not transfer their A Shares within 48 months from the date of completion of the issuance if they hold not less than 5% (inclusive) of the shares of the Company. The specific target subscribers shall not transfer their A Shares within 18 months from the date of completion of the issuance if they hold less than 5% of the shares of the Company and are strategic investors introduced by the Board. Other investors shall not transfer their A Shares within 6 months from the date of completion of the issuance. If a longer lock-up period is otherwise prescribed or required by applicable laws and regulations, such requirements shall be complied with.

(VII) Distribution of retained profits of the Company prior to the Issuance

The undistributed retained profits of the Company prior to the Issuance are subject to the entitlement of both the new shareholders and the existing shareholders upon completion of the Issuance.

(VIII) Validity period of the resolution

The resolution(s) in relation to the Non-public Issuance of A Shares shall remain valid for 12 months from the date on which relevant resolution(s) are considered and approved at the relevant general meeting of the Company.

V. Amount of proceeds to be raised and investment

The amount of proceeds to be raised from the Non-public Issuance is expected to be no more than RMB20.0 billion (inclusive), which, after deducting the issuance expenses, will be fully utilised to increase the capital base of the Company, replenish working capital, optimise the structure of assets and liabilities, improve its financial service industry chain and serve the real economy. The use of proceeds of the Non-public Issuance are as follows:

No.	Projects to be invested with the proceeds	Proposed amounts of proceeds to be applied
1	To develop capital-based intermediary business and further enhance financial service capabilities	No more than RMB6 billion

No.	Projects to be invested with the proceeds	Proposed amounts of proceeds to be applied
2	To increase FICC investment and optimize the structure of assets and liabilities	No more than RMB10 billion
3	To increase the investment in information system construction to improve overall informatisation level of the Company	No more than RMB1.5 billion
4	To increase investment in investment banking business and further promote investment banking business development	No more than RMB2 billion
5	To replenish working capital	No more than RMB0.5 billion
	Total	**No more than RMB20 billion**

VI. Whether the Issuance constitutes a related party transaction

As the Company's related parties, namely Shanghai Guosheng Group, Shanghai Haiyan Investment and Bright Food Group directly participate in the Issuance, the Issuance constitutes a related party transaction. The Company will strictly comply with the laws and regulations as well as its internal rules to fulfill the approval procedures for related party transactions. When the Board of the Company votes on the Non-public Issuance of A Shares, the related Directors have abstained from voting. Shanghai Electric Group does not constitute a related legal person of the Company. However, given the appointment of Mr. Xu Jianguo, the Company's Director, in Shanghai Electric Group, Mr. Xu Jianguo has abstained from voting based on the principle of prudence. Independent Directors have already expressed their opinions on such related party transaction. When the proposal related to the Non-public Issuance is submitted to the Company's general meeting for deliberation, the related shareholders will abstain from the voting on the relevant proposal.

VII. Whether the Issuance results in any change in control of the Company

The shareholding structure of the Company is relatively decentralised. The Company has no controlling shareholder nor de facto controller before the Issuance, and will not have any controlling shareholder or de facto controller after the Issuance. Therefore, the Issuance will not result in any change in control of the Company.

VIII. Approvals for the Issuance plan which have been obtained from the competent authorities and the outstanding approvals and procedures to be fulfilled

The Issuance plan has been considered and approved by the Board at the 6th meeting (extraordinary meeting) of the seventh session of the Board, which is subject to approvals by Shareholders at the general meeting of the Company. Upon consideration and approval by shareholders at the general meeting, the Issuance is also subject to approvals by the CSRC in accordance with relevant laws, regulations and regulatory documents, including the Securities Law, the Company Law, the Administrative Measures and Implementation Rules. Upon obtaining the approval of the CSRC, the Company will apply to the Shanghai Stock Exchange and the Shanghai Branch of China Securities Depository and Clearing Corporation Limited for matters relating to issuance and listing of shares to complete the application and approval procedure for the Non-public Issuance.

SECTION II BASIC INFORMATION OF TARGET SUBSCRIBERS AND CONDITIONAL SHARE SUBSCRIPTION AGREEMENT

The target subscribers for the Non-public Issuance shall not exceed 35 target subscribers, including existing Shareholders of the Company: Shanghai Guosheng Group, Shanghai Haiyan Investment, Bright Food Group and Shanghai Electric Group, as well as securities investment fund management companies, securities firms, trust investment companies, finance companies, insurance institution investors, qualified foreign institutional investors (QFII), and other domestic institutional and individual investors in compliance with the relevant requirements of the CSRC. A securities investment fund management company, securities firm, QFII and RMB QFII engaging in the subscription of A Shares through its two or more products under its management shall be deemed as one single target subscriber. Trust investment companies shall only subscribe for A Shares with their own funds.

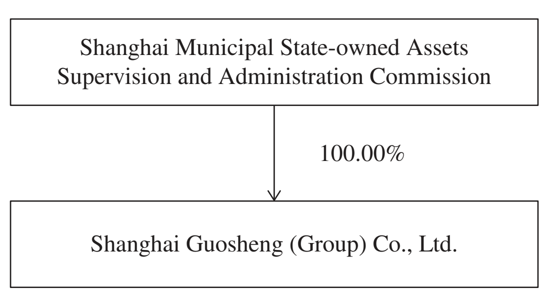
I. Basic information of target subscribers

(I) Shanghai Guosheng (Group) Co., Ltd.

1. Basic information

Name	Shanghai Guosheng (Group) Co., Ltd.
Domicile	1/F, Building 3, No. 137, Xingfu Road, Changning District, Shanghai
Registered capital	RMB20,066.0 million
Legal representative	Shou Weiguang
Type of enterprise	Limited liability company (wholly state-owned)
Date of incorporation	26 September 2007
Scope of business	Engaging in non-financial, financial-assisted investments, capital operations and asset management, industrial research, and socio-economic consulting. Projects subject to approval according to law can be carried out only after approval by relevant departments.

2. Equity control relationship between the target subscriber and its controlling shareholders and de facto controllers



3. Principal business status and operating results of the target subscriber

Shanghai Guosheng Group is a wholly state-owned large-scale investment holding and capital operation company. It was incorporated in April 2007 and currently has a registered capital of RMB20.066 billion. At the beginning of its incorporation, the Group acts as an investment channel for major industrial projects of the Shanghai Municipal Government. Its main functions are to serve the overall transformation of Shanghai's economic transformation and reform of state-owned assets and state-owned enterprises, and to give a full play to two major functions of industrial investment and capital operation. In 2014, in order to further deepen the reform of state-owned assets and state-owned enterprises in Shanghai, the Shanghai Municipal Government determined Shanghai Guosheng Group as one of the two state-owned operating platforms in Shanghai. Since then, Shanghai Guosheng Group has closely focused on the functional positioning of the state-owned operating platform, accelerated the reform and adjustment and transformation and development, and played an active role in innovating the operating mechanism of state-owned assets, promoting the optimisation, restructuring and orderly flow of state-owned assets, and promoting the development of strategic emerging industries. The operating mode of "equity injection – capital operation – income investment" has basically formed.

4. Brief financial position in the most recent year and period

Unit: RMB'000

Item	**30 September 2019/January to September, 2019**	**31 December 2018/2018**
Total assets	104,793,855.3	92,939,419.6
Total equity of owners	70,557,199.4	64,261,219.9
Operating income	387,431.2	517,662.1
Profit for the year	3,031,358.5	1,388,979.8

Note: The data for 2018 have been audited by Zhonghua Certified Public Accountants LLP., and the data from January to September 2019 have not been audited.

5. *Administrative penalties, criminal penalties, civil litigation and arbitration in the past five years*

Shanghai Guosheng Group and its directors, supervisors and senior management personnel have not been subject to administrative penalties (except for those not clearly related to the securities market) and criminal penalties in the past five years, nor have they involved in major civil litigation or arbitration related to economic disputes.

Shanghai Guosheng Group has issued the Commitment and Explanation and committed that: "As of the date of issuance of this Commitment and Explanation, the company has no major litigation, arbitration and administrative penalty cases that have not been settled or are foreseeable."

6. *Peer competition and related party transactions*

(1) Peer competition

The Company and Shanghai Guosheng Group and its controlling shareholders and *de facto* controllers will not cause peer competition due to the Issuance.

(2) Related party transactions

After the Issuance, the proportion of shares of the Company held by Shanghai Guosheng Group is expected to exceed 5%. This subscription constitutes a related party transaction. After the completion of the Issuance, the business relationship between Shanghai Guosheng Group and the Company will not change. In case of a related party transaction occurred between Shanghai Guosheng Group and the Company, it will be conducted in strict compliance with relevant laws, regulations, normative documents and the Company's internal management system.

7. *Significant transactions between the target subscriber and the Company within 24 months prior to the disclosure of the proposal on the Issuance*

Within 24 months prior to the disclosure of the proposal on the Issuance, major transactions (if any) existing between Shanghai Guosheng Group and its controlling shareholders, *de facto* controllers and the Company have been disclosed and announced.

(II) Shanghai Haiyan Investment Management Company Limited

1. Basic information

Name	Shanghai Haiyan Investment Management Company Limited
Domicile	Room 318, Building 3, 717 Changyang Road, Yangpu District, Shanghai
Registered capital	RMB9,000 million
Legal representative	Chen Xuanmin
Type of enterprise	Limited liability company (sole proprietorship of legal person of non-natural person investment or holding)
Date of incorporation	15 October 2009
Scope of business	Industrial investment (except for equity investment and equity investment management), investment management (except for equity investment and equity investment management), project management, asset management (except for equity investment and equity investment management), corporate management consulting (not allowed to engage in brokerage), domestic trade (except for special control). Projects subject to approval according to law can be carried out only after approval by relevant departments.

2. *Equity control relationship between the target subscriber and its controlling shareholders and de facto controllers*

3. *Principal business status and operating results of the target subscriber*

Shanghai Haiyan Investment is mainly engaged in investment management. It is a wholly-owned subsidiary of Shanghai Tobacco Group Co., Ltd., which was incorporated in October 2009. Its scope of business includes: industrial investment (except for equity investment and equity investment management), investment management (except for equity investment and equity investment management), project management, asset management (except for equity investment and equity investment management), corporate management consulting (not allowed to engage in brokerage) and domestic trade (except for special control). The operation of Shanghai Haiyan Investment is good. In recent years, it has actively invested in the financial sector and holds shares in China Pacific Property Insurance Co., Ltd., China Pacific Life Insurance Co., Ltd. and Haitong Securities Co., Ltd.

4. *Brief financial position in the most recent year*

Unit: RMB'000

Item	**31 December 2018/2018**
Total assets	39,220,435.5
Total equity of owners	33,199,100.7
Operating income	1,275,598.5
Profit for the year	1,082,846.0

Note: The data for 2018 have been audited by BDO China Shu Lun Pan CPAs LLP.

5. Administrative penalties, criminal penalties, civil litigation and arbitration in the past five years

Shanghai Haiyan Investment and its directors, supervisors and senior management personnel have not been subject to administrative penalties (except for those not clearly related to the securities market) and criminal penalties in the past five years, nor have they involved in major civil litigation or arbitration related to economic disputes.

Shanghai Haiyan Investment has issued the Commitment and Explanation and committed that: "As of the date of issuance of this Commitment and Explanation, the company has no major litigation, arbitration and administrative penalty cases that have not been settled or are foreseeable."

6. Peer competition and related party transactions

(1) Peer competition

The Company and Shanghai Haiyan Investment and its controlling shareholders and *de facto* controllers will not cause peer competition due to the Issuance.

(2) Related party transactions

The Company has fully disclosed the existing related parties, related relationships and related party transactions in the periodic reports and temporary announcements. The related party transactions are all related to the operational needs, and are compensation for equal value behaviors according to the fair market principle and the actual situation. The price is fair, does not deviate from comparable market prices, and the necessary procedures are fulfilled. Related party transactions do not affect the independence of the operations of listed companies, and there is no harm to the interests of the Company and minority shareholders, and will not have a significant impact on the normal operations and ongoing operations of the Company.

Shanghai Haiyan Investment is one of the top ten shareholders of tradable A Shares of the Company, and Mr. Chen Bin, a director of the Company, has served as the deputy general manager of Shanghai Haiyan Investment in the past 12 months. According to the Rules Governing the Listing of Stocks on Shanghai Stock Exchange, Shanghai Haiyan Investment is a related legal person of the Company, and it constitutes a related party transaction in this subscription. After the completion of the Issuance, the business relationship between Shanghai Haiyan Investment and the Company will not change. In case of a related party transaction occurred between Shanghai Haiyan Investment and the Company, they will strictly comply with relevant laws, regulations, normative documents and internal management system.

7. *Significant transactions between the target subscriber and the Company within 24 months prior to the disclosure of the proposal on the Issuance*

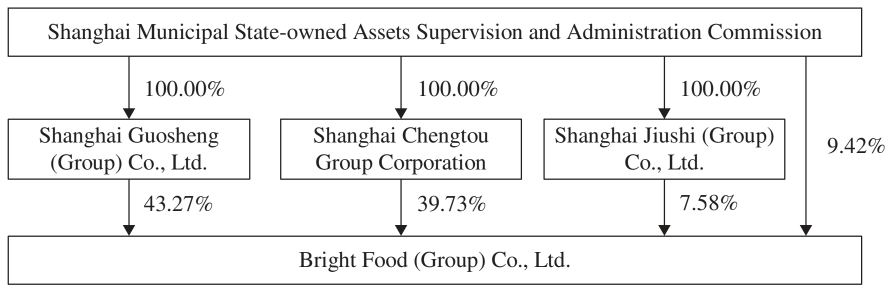
Within 24 months prior to the disclosure of the proposal on the Issuance, major transactions (if any) existing between Shanghai Haiyan Investment and its controlling shareholders, *de facto* controllers and the Company have been disclosed and announced.

(III) Bright Food (Group) Co., Ltd.

1. *Basic information*

Name	Bright Food (Group) Co., Ltd.
Domicile	No. 7, Lane 263, Huashan Road, Shanghai
Registered capital	RMB4,936.587615 million
Legal representative	Shi Mingfang
Type of enterprise	Other limited liability company
Date of incorporation	26 May 1995
Scope of business	Food sales management (non-physical methods), operation and management of state-owned assets, industrial investment, agriculture, forestry, animal husbandry, fishery, water conservancy and other service industries, domestic commercial wholesale and retail (except for special provisions), engaged in import and export of goods and technology, property brokerage, exhibition services. Projects subject to approval according to law can be carried out only after approval by relevant departments.

2. *Equity control relationship between the target subscriber and its controlling shareholders and de facto controllers*



3. *Principal business status and operating results of the target subscriber*

Bright Food Group is a conglomerate food industry group with a complete food industry chain integrating modern agriculture, food processing and manufacturing and food distribution. The company has a large number of domestic and overseas listed companies, and the operating income of Bright Food Group in 2017 exceeded RMB160 billion. Bright Food Group has currently established an "One Body Two Wings" industrial structure with the food industry as the main body and real estate and finance as the two wings. In the future, the company will focus on "Reshaping New Bright Food in Five Years, Building Bright Food with Powerful Strength in Ten Years" and building Yin Shi Farm symbolising "Advanced Industry, Beautiful Environment and Superior Life" as the strategic goals, and strive to implement the integration strategy, platform strategy, brand strategy and channel strategy, is committed to becoming the base of the main and non-staple food supply in Shanghai's mega-city, a safe, high-quality and healthy food benchmark, and an influential multinational food industry group in the world.

4. *Brief financial position in the most recent year and period*

Unit: RMB'000

Item	**30 September 2019/January to September 2019**	**31 December 2018/2018**
Total assets	272,521,980.2	257,437,071.8
Total equity of owners	91,076,560.6	87,192,987.8
Operating income	115,775,888.5	157,566,163.1
Profit for the year/period	2,404,079.2	2,629,530.6

Note: The 2018 data have been audited by BDO China Shu Lun Pan CPAs LLP, and the data from January to September 2019 have not been audited.

5. Administrative penalties, criminal penalties, civil litigation and arbitration in the past five years

Bright Food Group and its directors, supervisors and senior management personnel have not been subject to administrative penalties (except for those not clearly related to the securities market) and criminal penalties in the past five years, nor have they involved in major civil litigation or arbitration related to economic disputes.

Bright Food Group has issued the Commitment and Explanation and committed that: "As of the date of issuance of this Commitment and Explanation, the company has no major litigation, arbitration and administrative penalty cases that have not been settled or are foreseeable."

6. Peer competition and related party transactions

(1) Peer competition

The Company and Bright Food Group and its controlling shareholders and *de facto* controllers will not cause peer competition due to the Issuance.

(2) Related party transactions

The Company has fully disclosed the existing related parties, related relationships and related party transactions in the periodic reports and temporary announcements. The related party transactions are all related to the operational needs, and are compensation for equal value behaviors according to the fair market principle and the actual situation. The price is fair, does not deviate from comparable market prices, and the necessary procedures are fulfilled. Related party transactions do not affect the independence of the operations of listed companies, and there is no harm to the interests of the Company and minority shareholders, and will not have a significant impact on the normal operations and ongoing operations of the Company.

Bright Food Group is one of the top ten shareholders of tradable A Shares of the Company, and Ms. Yu Liping, a director of the Company, currently serves as the vice president of Bright Food Group. According to the Rules Governing the Listing of Stocks on Shanghai Stock Exchange, Bright Food Group is a related legal person of the Company, and it constitutes a related party transaction in this subscription. After the completion of the Issuance, the business relationship between Bright Food Group and the Company will not change. In case of a related party transaction occurred between Bright Food Group and the Company, they will strictly comply with relevant laws, regulations, normative documents and internal management system.

7. *Significant transactions between the target subscriber and the Company within 24 months prior to the disclosure of the proposal on the Issuance*

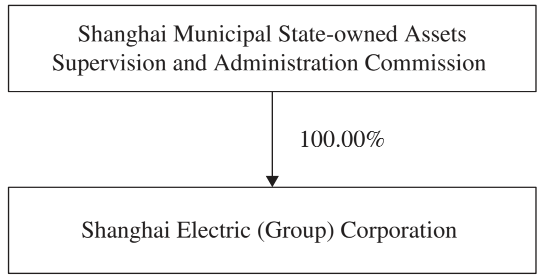
Within 24 months prior to the disclosure of the proposal on the Issuance, major transactions (if any) existing between Bright Food Group and its controlling shareholders, *de facto* controllers and the Company have been disclosed and announced.

(IV) Shanghai Electric (Group) Corporation

1. *Basic information*

Name	Shanghai Electric (Group) Corporation
Domicile	110 Sichuan Middle Road, Shanghai
Registered capital	RMB9,080.366 million
Legal representative	Zheng Jianhua
Type of enterprise	Wholly people-owned
Date of incorporation	14 January 1985
Scope of business	General contracting of power engineering projects, complete set or split equipment, overseas contracted labor, industrial investment, manufacturing and sales of mechanical and electrical products and equipment in related industries, providing relevant technical consulting and training for domestic and export projects, operation and management of state-owned assets within the scope authorised by the Municipal State-owned Assets Supervision and Administration Commission, domestic trade (except for special provisions), design, production, agency and release of various types of advertising. Projects subject to approval according to law can be carried out only after approval by relevant departments.

2. *Equity control relationship between the target subscriber and its controlling shareholders and de facto controllers*



3. *Principal business status and operating results of the target subscriber*

Shanghai Electric Group was incorporated in January 1985. Its core businesses include four segments, namely high efficiency and clean energy equipment business segment, new energy equipment business segment, industrial equipment business segment and modern services business segment, which mainly involve manufacturing and engineering services for energy equipment such as thermal power, nuclear power, wind power, power transmission and distribution, energy conservation and environmental protection, production of industrial equipment such as elevators, compressors, industrial robots, key components, electric motors and machine tools, as well as modern service businesses such as general contracting and system integration and equipment and financial services.

4. *Brief financial position in the most recent year and period*

Unit: RMB'000

Item	**30 September 2019/January to September 2019**	**31 December 2018/2018**
Total assets	296,136,668.0	250,796,289.9
Total equity of owners	90,610,818.9	74,126,187.9
Operating income	85,956,749.7	114,527,579.7
Profit for the year/period	3,949,314.5	5,239,133.7

Note: The 2018 data have been audited by Baker Tilly International Limited. The data for January to September 2019 have not been audited.

5. *Administrative penalties, criminal penalties, civil litigation and arbitration in the past five years*

Shanghai Electric Group and its directors, supervisors and senior management personnel have not been subject to administrative penalties (except for those not clearly related to the securities market) and criminal penalties in the past five years, nor have they involved in major civil litigation or arbitration related to economic disputes.

Shanghai Electric Group has issued the Commitment and Explanation and committed that: "As of the date of issuance of this Commitment and Explanation, the company has no major litigation, arbitration and administrative penalty cases that have not been settled or are foreseeable."

6. *Peer competition and related party transactions*

(1) Peer competition

The Company and Shanghai Electric Group and its controlling shareholders and *de facto* controllers will not cause peer competition due to the Issuance.

(2) Related party transactions

Shanghai Electric Group does not constitute a related legal person of the Company, and this subscription does not constitute a related party transaction.

7. *Significant transactions between the target subscriber and the Company within 24 months prior to the disclosure of the proposal on the Issuance*

Within 24 months prior to the disclosure of the proposal on the Issuance, major transactions (if any) existing between Shanghai Electric Group and its controlling shareholders, *de facto* controllers and the Company have been disclosed and announced.

II. Extract of the contents of the conditional share subscription agreement

The Company signed a conditional share subscription agreement and a supplementary agreement of which with Shanghai Guosheng Group, Bright Food Group, Shanghai Haiyan Investment and Shanghai Electric Group on 25 April 2019 and 25 February 2020 respectively. The contents are summarised as follows:

(I) Contract Subject

Share issuer:	Haitong Securities ("**Party A**")
Share subscribers:	Shanghai Guosheng Group, Shanghai Haiyan Investment, Bright Food Group and Shanghai Electric Group (collectively "**Party B**")

(II) Subscription price and quantity of shares

1. The type of shares issued by Party A is domestically listed RMB-dominated ordinary shares (A shares), and the nominal value of the shares is RMB1.

2. The pricing benchmark date of the Issuance of Party A shall be the first day of the offering period under the Issuance, and the issuance price shall not be lower than 80% of the average trading price of A Shares of Party A for the 20 consecutive trading days preceding the pricing benchmark date (exclusive), or the latest audited net assets per share attributable to owners of Party A before the issuance, whichever is higher.

   The average trading price of A Shares for the 20 consecutive trading days preceding the pricing benchmark date = total trading amount of A Shares for the 20 consecutive trading days preceding the pricing benchmark date / total trading volume of A Shares for the 20 consecutive trading days preceding the pricing benchmark date. In the event that any ex-right or ex-dividend activity causes any adjustment in the share prices during the 20 trading days, the trading prices for the trading days before such adjustment shall be calculated on the basis of the adjusted price caused by the ex-right or ex-dividend activities.

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

The final issuance price of the Issuance will be determined, upon obtaining the approval issued by the CSRC, by the Board of Party A and its authorised person(s) under the authorisation granted at the general meeting of Party A, with the sponsor (the lead underwriter), in accordance with the relevant requirements of the CSRC, and based on the prices offered by the target subscribers as well as the principle of price priority. Party B has not participated in the price inquiry process for pricing in the Issuance price, but has committed to accept the price inquiry results and subscribe at the same price as other investors.

In the event that the issuance price is not determined through market inquiry, Party B will still participate in the subscription and will adopt the floor price of the Issuance as their subscription price, being 80% of the average trading price of A Shares of Party A for the 20 trading days preceding the pricing benchmark date (exclusive) and its latest audited net assets per share attributable to owners of Party A before the issuance, whichever is higher.

3. The number of A Shares to be issued under the Issuance shall be no more than 1,618,426,236 A Shares (inclusive). The amount of proceeds to be raised from the Issuance is expected to be no more than RMB20.0 billion (inclusive).

   Shanghai Guosheng Group agrees to subscribe for the Shares issued by Party A and the subscription amount is RMB10.0 billion;

   Shanghai Haiyan Investment agrees that the subscription amount does not exceed RMB3 billion (inclusive), and the proportion of Shares of Party A held by Shanghai Haiyan Investment after the subscription is less than 5%;

   Bright Food Group agrees that the subscription amount is not less than RMB0.8 billion (inclusive) and does not exceed RMB1.0 billion (inclusive), and the proportion of Shares of Party A held by Bright Food Group after the subscription is less than 5%;

   Shanghai Electric Group agrees to subscribe for the Shares issued by Party A and the subscription amount is not less than RMB1.0 billion.

   The number of Shares of Party A to be issued under the Issuance and the number of Shares to be subscribed by Party B shall be adjusted correspondingly in case of ex-rights matters, such as bonus issuance and conversion of capital reserve into share capital during the period commencing from the date of the resolution(s) approved by the Board in connection with the Issuance to the date of the issuance of such Shares. In the event that the total number of Shares to be issued under the Issuance is reduced due to policy changes or according to the requirements of the issuance approval document, the number of Shares subscribed by Party B under the Issuance shall be reduced according to relevant requirements.

4. The Shares subscribed by Shanghai Guosheng Group shall not be transferred within 48 months from the date of completion of the issuance; the Shares subscribed by Shanghai Haiyan Investment and Bright Food Group shall not be transferred within 18 months from the date of completion of the issuance; after the completion of the Issuance, in the event that Shanghai Electric Group holds no less than 5% (inclusive) of the Shares of the Company, the Shares subscribed by Shanghai Electric Group shall not be transferred within 48 months from the date of completion of the issuance, in the event that Shanghai Electric Group holds less than 5% of the Shares of the Company, the shares subscribed by Shanghai Electric Group shall not be transferred within 18 months from the date of completion of the issuance. Where laws and regulations provide otherwise for the lock-up period, such provisions shall be complied with. Party B shall, in accordance with the relevant laws and regulations and the relevant provisions of the CSRC and the Exchanges, and in accordance with the requirements of Party A, issue relevant letter of commitment for matters such as the lock-up period of the Shares subscribed under the Issuance, and handle the relevant share lock-up matters.

5. The pricing principle for the proceeds to be raised, pricing method, pricing benchmark date, final issuance price, number of Shares to be issued, amount of proceeds to be raised, use of proceeds to be raised, share lock-up period and timing of the issuance for the shares under the Issuance of Party A, and the final number of shares subscribed by Party B and subscription amount and other matters shall be subject to the plan of the Issuance implemented under the final approval of the general meeting of Party A and the CSRC.

(III) Time and method of payment of subscription funds and delivery of shares

1. Party B agrees to pay all the share subscription funds to the bank account designated by Party A and the sponsor in RMB within 5 working days after Party A has obtained the approval of the CSRC for the Issuance and Party B has received the notice of payment of subscription funds issued by Party A and the sponsor.

2. Party A shall, within 10 working days from the date of payment of all share subscription funds by Party B, process the share registration formalities to register the Party A's shares subscribed by Party B in the name of Party B to realise the delivery.

(IV) Default liability

1. The parties agree that in case of occurrence of the following circumstances by either party concerned, such party shall be deemed to have defaulted:

   (1) One party fails to perform its obligations hereunder and has not taken effective remedial measures to perform such obligations within 15 days after the other party has given a written notice requesting for the performance of the obligations;

   (2) The statements and warranties made by one party to the other party herein or in documents related to this Agreement or relevant documents, materials or information submitted by one party are proved to be false or inaccurate or contain material omissions or misleading statements;

   (3) Any other circumstances in violation of the provisions herein.

2. The parties agree that in case of occurrence of the following circumstances by either party concerned, such party shall be deemed to have seriously defaulted:

   (1) One party commits the breach of contract mentioned in paragraph 1 of this Article, and such breach of contract causes the Agreement to be unable to continue to be performed;

   (2) One party commits the breach of contract mentioned in paragraph 1 of this Article, and the amount involved in such breach of contract is relatively large, which has a serious adverse impact on the Issuance or the financial statements of the other party;

   (3) The financial data (including but not limited to debts, guarantees, etc.) disclosed by one party to the other party herein or in documents related to this Agreement is proved to be false or inaccurate or contain material omissions or misleading statements, and the deviation between such false or inaccurate financial data or financial data containing material omissions or misleading statements and the actual financial data is relatively large, which has a serious adverse impact on the Issuance or the financial statements of the other party.

3. In the event that either party (the defaulting party) defaults, the non-defaulting party shall have the right to take one or more of the following remedial measures to protect its rights:

   (1) Require the defaulting party to perform actually;

(2) Temporarily stop performing the obligations hereunder, and resume performance until the breach of contract committed by the defaulting party has been eliminated; the suspension of performance of the obligations by the non-defaulting party in accordance with the provisions of this paragraph does not constitute non-performance or delay in performance of the obligations by the non-defaulting party;

(3) Require the defaulting party to compensate the direct economic loss of the non-defaulting party, including the actual expenses incurred for such transaction, and other foreseeable economic losses; and the costs incurred by the non-defaulting party in litigation or arbitration for this purpose;

(4) The benefits obtained by the defaulting party due to the violation of the Agreement shall be used as compensation to pay to the non-defaulting party;

(5) Any other remedies provided for by laws and regulations or herein.

4. In the event that Party B fails to perform its full payment obligations in accordance with the time limit stipulated herein, it shall pay liquidated damages to Party A on the basis of one-thousandth of the unpaid share subscription funds; in the event that it still fails to pay in full within 10 working days from the delay, it shall be deemed to have waived the payment, and Party B shall pay liquidated damages to Party A on the basis of 5% of the share subscription funds to be paid. In the event that the aforesaid liquidated damages are still insufficient to make up for Party A's losses, Party B shall be further responsible for compensation until it compensates for all losses suffered by Party A. The liquidated damages and loss payment agreed in this paragraph shall be all paid in cash.

5. The rights and remedies provided herein are cumulative and do not exclude other rights or remedies provided by laws.

6. The fact that one party to this Agreement or its representative is aware that the other party's statements and warranties are untrue, inaccurate or incomplete through investigation or otherwise does not cause the non-defaulting party to lose any right to claim against the defaulting party. The failure of one party to exercise or delay the exercise of any of its rights or remedies hereunder does not constitute a waiver; part of the exercise of rights or remedies does not hinder such party from exercising other rights or remedies.

7. The legal effect stipulated in this Article is not affected by the termination or rescission of this Agreement.

(V) Effectiveness, amendment and termination of the agreement

1. This Agreement shall be established from the date on which the legal representatives or authorised representatives of both parties sign and affix the official seals of both parties. This Agreement shall enter into force after the following conditions are met:

   (1) All matters related to the Issuance are considered and approved by the Board and general meeting of Party A respectively;

   (2) The CSRC approves the Issuance.

   After the above conditions are met, the date on which the last condition is satisfied is the effective date of the Agreement.

   In the event that any of the aforesaid conditions are not met, the Agreement shall not be effective, and each party shall bear the costs paid as a result of signing and preparing to perform the Agreement, and both parties shall not be liable for breach of contract.

   Both Parties agrees that the Department of Fund and Intermediary Supervision of CSRC has no objection to Party A's application for Non-public Issuance of A shares, and agrees to the changes in registered capital, the application for qualification of major shareholders and other matters involved in the Issuance by Party A.

2. Any amendment to the Agreement shall be made upon execution of written agreement by both parties.

3. The Agreement may be terminated by the unanimous written consent of both parties.

4. In the event that the Agreement is terminated by unanimous written consent of both parties:

   (1) Save for the confidentiality obligations to be performed or the liability for breach of contract to be borne by the defaulting party, both parties shall be exempt from continuing to perform their obligations hereunder;

   (2) Both parties shall provide the necessary assistance to return any completed transfer or change formalities to their original or mutually agreed status. The documents and materials of the other party that have been obtained by both parties shall be returned in time.

SECTION III FEASIBILITY ANALYSIS ON THE USE OF PROCEEDS RAISED FROM THE ISSUANCE BY THE BOARD

I. The plan of the use of proceeds from the Non-public Issuance

The total amount of proceeds to be raised from the Non-public Issuance is expected to be no more than RMB20 billion (inclusive), which, after deducting the issuance expenses, will be fully utilised to increase the capital base of the Company, replenish working capital, optimize the structure of assets and liabilities, improve its financial service industry chain and serve the real economy. The specific use of proceeds raised from the Issuance is as follows:

(I) To develop capital-based intermediary business and further improve the financial service ability

Not more than RMB6 billion of the proceeds raised from the Issuance will be used for the development of the capital-based intermediary business, which is helpful for the Company to further expand the size of credit transactions such as stock pledged business and margin financing and securities lending.

In recent years, the capital-based intermediary business, which mainly includes stock pledged business and margin financing and securities lending, has become the most important component of the assets and liabilities businesses of securities companies. As at the end of September 2019, the Company recorded a financing business scale of RMB113.201 billion (including RMB73.779 billion of stock pledged business), an average performance guarantee ratio of 221.21%. A balance of margin financing and securities lending of RMB39.310 billion, a maintenance guarantee ratio of 256.25%, among which the financing business has a market share of 4.16%, which secured an industry leadership of the Company. In respect of capital-based intermediary business, the Company has developed strong market competitive advantages. By taking such measures as actively enhancing risk monitoring, sorting various stock businesses and actively improving business layout in the previous year, the Company achieved steadily rising quality and benefits in the capital-based intermediary business including stock pledged business and margin financing and securities lending. In the future, with more optimistic prospects in the securities market, the development of capital-based intermediary business is of great significance in enhancing the overall profitability of the Company's assets and liabilities businesses and better repaying the investors.

In the background of the new era, serving the real economy is the general direction of the development of the financial service industry. The funds lent by securities companies to real economy through the stock pledged business can effectively solve the financing problem for some enterprises. The funds or securities lent to customers through margin financing and securities lending can relieve the capital pressure of the market, activate the stock market, and effectively play the role of the capital market as a stabiliser, so as to improve the securities market and protect investors' rights and interests.

To sum up, the development of the capital-based intermediary business will still generate great capital demand. The Company intends to raise funds through the Non-public Issuance to ensure the reasonable growth of capital-based intermediary business and to comply with various risk control indicators.

(II) To expand FICC investment scale and improve the asset and liability structure

Not more than RMB10 billion of the proceeds raised from the Issuance will be used for expanding the scale of the FICC and improve the percentage of liquidity assets of the Company.

The FICC business line of the Company mainly includes domestic principal investment, gold ETF transactions, gold lending business, reverse repurchase business, treasury bond futures trading, interest rate swap business, and credit risk mitigation instruments. In the future, upon obtaining related qualifications, the Company may actively carry out foreign exchange transactions, bills, crude oil futures and other businesses.

The FICC business is an important instrument for financial innovation and risk management, relating to the international pricing of strategic resources and Renminbi internationalisation. As a nationwide and comprehensive financial company located in Shanghai, actively participating in the FICC transaction will not only improve the Company's investment management and risk management capabilities but also has a far-reaching significance for Shanghai to enhance its position as an international financial centre.

In terms of the FICC business, the Company has always adhered to the harmonisation of liquidity, safety and profitability, and is committed to financial innovation, nurturing industry-leading asset management capabilities and research and development capabilities, and has achieved sound investment performance in recent years. However, compared with that of its counterparties, the Company's overall scale of FICC business is still small, and the FICC business management capabilities and research capabilities have not been fully utilised.

Therefore, the Company plans to raise funds through the Non-public Issuance to expand the FICC investment scale and further improve its asset and liability structure.

(III) To increase the investment in information system construction to improve overall informatisation level of the Company

Not more than RMB1.5 billion of the proceeds raised from the Issuance will be used for information system construction to improve overall informatisation level of the Company.

In recent years, new changes have taken place in the internal and external environments such as corporate business, regulatory environment and technological development. The Company's business has developed rapidly, and the scale and profit have continued to grow. The Company's total assets and net assets have been in a leading position in the industry, which poses new challenges of how IT can support rapid business growth. The continuous development of overseas businesses poses new challenges of how IT can realise domestic and overseas linkages. The comprehensive financial service platform is constantly improving, which poses new challenges of how IT can realise integrated management. With the accelerating business innovation, the Company has been designated by the regulatory authorisations to participate in new businesses' pilot projects for several times. The independent business innovation activities have been more active, and the in-depth application of Internet technology in various businesses has become new key innovation areas, which poses new challenges of how IT can support accelerated innovation. Meanwhile, with more standardised and stricter regulatory requirements and the publication of various IT special regulations in the industry, securities companies shall comply with higher requirements on the standardisation and capabilities of IT construction.

Under the new situation and new environment such as the changes in external industry competition and internal business transformation, the Company has achieved good effects in information system construction, but still lags behind the international leading level. In the future, the Company will make scientific judgement on the trend of IT development, accurately grasp the needs of business development, and focus on resolving outstanding issues in IT development, so as to give full play to the role of IT in promoting and leading the Company's business development.

Therefore, the Company plans to raise funds through the Non-public Issuance to increase investment in information system construction to further improve overall informatisation level of the Company.

(IV) Increase funds in investment banking business to further promote the development of investment banking business

Not more than RMB2 billion of the proceeds raised from the Issuance will be used to increase funds in the investment banking business to further promote the development of investment banking business.

With continuously deepened the economic reform, the further increase in the proportion of direct financing will help enterprises reduce financing costs and stimulate enterprises' development vitality. Besides, it not only promotes the financial supply-side reform, but also propels fund flow from virtual development to real development so as to support real economy development.

The pilot registration system of the Sci-Tech Innovation Board has fully demonstrated the regulators' resolution to insist on market-oriented and legislative reform and promotion of the registration system is the general trend of the future development in the capital market. Sponsor institutions will face more market opportunities with gradually improved multi-level capital market, more abundant financing tools and more open capital market. Relevant systems launched by the Sci-Tech Innovation Board have specified the investment following mechanism of sponsor institutions. In addition, the underwriting mechanism of market-oriented issuance has raised higher requirements for the Company in injecting funds in the investment banking business.

From January to September 2019, the Company underwrote equity and bonds of RMB340 billion of equity, which secured a top industry position of the Company in investment banking business. In the future, the Company will actively implement the national policies, vigorously develop investment banking business such as equity and bond underwriting, support the development of the Sci-Tech Innovation Board, and continue to help domestic and overseas enterprises seek equity and bond financing under the guidelines of macro policies, so as to expand the direct financing channels of real economy.

(V) To supplement working capital

Not more than RMB0.5 billion of the proceeds raised from the Issuance will be used to supplement the Company's working capital.

Therefore, the Company will, according to its own strategic plans and development, reasonably allocate the proceeds from the Issuance and timely supplement working capitals for the Company's business development, so as to ensure orderly development of various businesses.

II. Necessity of the Non-public Issuance

Under the background of the new era in which China's economy has shifted from the high-speed growth to the high-quality development, deepening the transformation and upgrading of China's economy and the financial supply-side structural reform, accelerating the pace of opening up and enhancing the ability of finance serving the real economy will bring new opportunities for the development of the capital market and the securities industry. It is a significant sign of a strong capital market to build the world leading investment banks with Chinese characteristics and give full play to the function of securities companies as a core carrier of the capital market.

Securities companies are faced with the trend of transforming from channel-based to capital-based intermediaries, the industry's profit model is undergoing profound reform. The capital strength will become a key element for securities companies to develop capital-based intermediary businesses, enhance integrated financial service capabilities for the real economy, and develop core competitiveness and differentiated competitive advantages.

The Company intends to increase capital size and enhance capital strength through the non-public issuance of A Shares, and seize the development opportunities in the capital market and securities industry to build differentiated competitive advantages, improve the capabilities of risk resilience, and gain the strategic initiative in the increasingly fierce competition.

(I) The Issuance is an inevitable choice for acclimating to the development trend of the securities industry

With the indirect financing system shifting to a direct financing system, the increasing demand for cross-border investment and financing, the constant accelerating of state-owned enterprise reforms and supply-side reforms, the establishment of the Sci-Tech Innovation Board and the launch of the pilot registration system, a series of internationalisation and marketisation reforms of capital markets will be further deepened, the securities industry will have a rebuilt ecosystem in the long and medium term and the Company is facing with better opportunities for development of wealth management, investment banking, asset management, transaction and institution and financial leasing businesses. Meanwhile, driven by the rapid development of Internet finance and the lowering of market entry barriers of the industry, the profitability foundation of the securities industry will undergo profound changes with the industry's development space to be suppressed in the short term, and competition in the industry further intensifying.

It is expected that the industry development in the future will show the following trends: the two-way market opening up and the free flow of cross-border capital will promote the internationalisation and globalisation of the industry; the consolidation of the industry will accelerate, with the market concentration further increasing, and the competition among industry leaders becoming more intense; differentiated operations will be formed in areas such as business and services, capital driving, integration, productisation and financial technology; the profit model based on licenses and supervision will gradually disappear, and the business model will surely transform from the previous channel commissions-based business model to the integrated business model focusing on fee-based intermediary business, capital-based intermediary business, and self-funded investment business, with capital, customer flow, and professional service capabilities becoming the important foundations for enhancing core competitiveness. The capital-based intermediary business, cross-border business, and self-funded business, rely both on the enhancement of capital strength and on the capital support for the necessary information systems, human resources, and promotion for obtaining customer flow.

(II) The Issuance is a powerful support for the Company to achieve its strategic goals

Under the background of economic transformation in China, the Company's overall development strategy is to adhere to the customer-prioritisation approach, to focus on intermediary businesses such as brokerage, investment banking and asset management, supplemented by capital-based intermediary business and investment business as "Two Wings", with conglomeration, internationalisation and informatisation as the driving force, to strengthen the construction of the four pillars including compliance and risk control, human resources, IT, and research, and to enhance the five capabilities including capital and investment management, asset and wealth management, investment banking contracting and sales pricing, asset management, institutional brokerage and sales transactions and wealth management in order to build Haitong into a domestic leading and globally influential intelligent investment bank. However, in view of the competitive landscape of the securities industry in recent years, the profitability of securities companies has shown a high degree of correlation with their capital strength. Modest capital replenishment will help the Company obtain business development opportunities. The Non-public Issuance will help the Company actively respond to the increasingly fierce capital competition in the securities industry, and enhance the overall strength of the Company's overseas business and cross-border business and reinforce the business basis for the future development of the Company amidst the broader integration of international finance.

(III) The Issuance will enable the Company to effectively cope with the increasingly fierce capital competition in the securities industry and actively participate in the competition in the international market

With the further opening of the financial market, competition in the future securities market will be more intense. With the support of the regulatory policies, the establishment process of joint venture securities companies has also accelerated, which has intensified competition in the industry. After the CSRC issued the Measures for the Administration of Foreign-Funded Securities Companies in April 2018, UBS Securities was approved as the first foreign-funded holding securities company at the end of 2018. In March 2019, two foreign-funded holding securities companies namely J.P. Morgan Securities (China) Company Limited and Nomura Oriental International Securities Co., Ltd. were established upon approval. The accessible information about the financial industry reported at the 2019 Boao Forum shows that no separate limits will be set on the business scope of foreign-funded securities companies. To cope with the industry competition and the need to transform profit models, the financing scale of the securities industry has continued to expand in recent years with nearly 40 securities companies currently listed in China or overseas. Since 2017, Huatai Securities, Shenwan Hongyuan, DFZQ and other companies have completed non-public issuance of A Shares. The plan of non-public issuance of A Shares of Guoxin Securities has been approved by the CSRC, Guotai Junan has completed the IPO of H Shares and CITIC Securities has issued shares for the purpose of asset purchase. At present, although the Company's net asset level ranks top among domestic securities companies, the original capital advantage is gradually disappearing. The Issuance will help the Company maintain its capital advantage in the new round of industry competition.

Meanwhile, compared with international investment banks, although the Company already has strong competitiveness in Hong Kong, it still needs strong capital strength to support other overseas market competition and cross-border business activities.

(IV) The Issuance will further reduce the liquidity risk and enhance the Company's capacity of risk resistance

With the continuous expansion of the operating scale in recent years, it is more and more obvious that the Company's operation is vulnerable to macroeconomic policies, market changes, operating conditions, and customer credit and other factors.

The Company has always adhered to the concept of "robust and even conservative" risk control philosophy, and continued to control liquidity risk exposure within reasonable limits through a reasonable monitoring mechanism and regulatory means according to the requirements of liquidity risk appetite and risk indicator limits determined in the previous period.

Capital is still the most direct tool for risk resistance. Increasing long-term capital and optimising capital structure not only relate to the long-term competitiveness but also the risk resistance capacity of the Company. Under the existing regulatory framework, only by maintaining long-term capital matching the scale of assets can the Company continue to meet regulatory requirements. For the unexpected losses caused by market risk, credit risk or operational risk, robust capital can also provide sufficient buffer and help avoid liquidity risks at the same time.

Therefore, the Non-public Issuance of the Company will help strengthen the Company's capability to withstand various operating risks.

III. Feasibility of the Non-public Issuance

(I) The non-public Issuance complies with the conditions stipulated in relevant laws, regulations and regulatory documents

Haitong Securities is among the first batch of comprehensive securities companies approved by the CSRC, national innovative securities companies and Class A Grade AA securities companies. The Company has a sound and well-operated organisational structure, and an established and improved internal control system. The Company has strictly followed the regulatory requirements and established a scientific and reasonable risk management system with clear responsibilities, and has strong risk control capabilities; it has standardised basic accounting work, good asset quality and sustainable profitability. The Company satisfies the conditions for non-public issuance and domestic listing of Renminbi ordinary shares (A Shares) as specified in laws and regulations and regulatory documents including the *Administrative Measures for Issuance of Securities by Listed Companies* (《上市公司證券發行管理辦法》), the Implementation Rules for Non-public Issuance of Shares by Listed Companies (2020 Revision) (《上市公司非公開發行股票實施細則》 (2020年修訂)), and the *Q&A on Issuance Supervision – Regulations on Guiding and Regulating Financing Activities of Listed Companies* (《發行監管問答—關於引導規範上市公司融資行為的監管要求》).

(II) The Non-public Issuance complies with the national industrial policy guidelines

At present, China's economy is undergoing a critical period of transformation from high-speed growth to high-quality development. Optimising the financing structure, increasing the proportion of direct financing, improving the efficiency of financial resources allocation, and better serving the development of the real economy are the future directions for the development of the capital market.

In May 2014, the State Council issued the *Several Opinions on Further Promoting the Healthy Development of the Capital Market* (《關於進一步促進資本市場健康發展的若干意見》), proposing to promote the differentiated, professional, and characteristic development of securities operation institutions, and the formation of several modern investment banks with international competitiveness, brand influence and systemic importance. On 13 May 2014, the CSRC issued the *Opinions on Further Promoting the Innovation and Development of Securities Operation Institutions* (《關於進一步推進證券經營機構創新發展的意見》) to clarify the main tasks and specific measures for the promotion of innovation and development of securities operation institutions from three aspects, which include building modern investment banks, supporting business and product innovation, and promoting regulatory transformation. It has explicitly proposed to support securities operation institutions in improving their comprehensive financial services capabilities, improving basic functions, and expanding financing channels. In June 2016, the CSRC revised the *Administrative Measures for the Risk Control Indicators of Securities Companies* (《證券公司風險控制指標管理辦法》) and supporting rules. In view of the new circumstances in the development of the industry, it has improved the calculation formula of net capital and risk capital reserve, and indicators such as leverage and liquidity supervision, clarified counter-cyclical adjustment mechanism, improved the completeness and effectiveness of the risk control indicators, to further promote the long-term healthy development of the securities industry.

With the rapid growth of the Company's business scale and the gradual adjustment of industry regulatory policies, the current size of net capital can no longer meet the Company's business development needs. The Non-public Issuance is the Company's positive move to comply with the CSRC's efforts, which encourages securities companies to further replenish capital and in line with the national industrial policy guidelines.

SECTION IV DISCUSSION AND ANALYSIS OF THE BOARD ON THE IMPACT OF THE ISSUANCE ON THE COMPANY

I. The plan for the integration of the Company's business and assets after the Issuance, the adjustment of the Articles of Association, and the changes in the Company's shareholder structure, senior management structure, and business structure

The Company's scope of business includes: Securities brokerage; securities proprietary trading business; securities underwriting and sponsorship; securities investment advisory; financial advisory services relating to securities trading and investment activities; direct investment business; securities investment fund consignment; provision of intermediary introduction business for the futures companies; margin financing and securities lending business; agency sales of financial products; stock options market making business; other businesses approved by the CSRC. In addition, the Company is permitted to establish subsidiaries that are engaged in outbound investments including investments in financial products. The proceeds from the Issuance will mainly be used to increase the Company's capital and supplement its working capital. The Company's existing main businesses will not undergo major changes.

After the Issuance, the Company's total share capital will increase accordingly, and the shareholding percentages of some existing shareholders will change. However, the Issuance will not lead to major changes in the Company's share capital structure and will not disqualify the Company's share distribution as a listed company. Since there will be changes in the registered capital and the total number of shares of the Company after the Non-public Issuance, the Company will amend relevant clauses of the Articles of Association based on the results of the Non-public Issuance.

The Company does not intend to change its senior management personnel, therefore the senior management structure of the Company will not change as a result of the Issuance.

II. Changes in the financial position, profitability capability and cash flow of the Company after the Issuance

After completion of the Non-public Issuance, the Company's total assets, net assets and net capital scale will increase accordingly, and the gearing ratio will decline, thereby optimising the Company's capital structure, effectively reducing financial risks, and stabilising the Company's financial structure.

Under the current regulatory system with net capital as the core indicator, the business scale and risk resistibility of securities companies are closely related to its net capital size. Through the Issuance, the Company can rapidly enlarge its net capital size, speed up the development of related businesses, and improve its overall profitability and risk resistibility.

After the completion of the Issuance, the raised proceeds will contribute to a great increase in the cash inflow generated by the Company's fundraising activities. With the proceeds gradually in place, the net cash flow from the Company's operating activities will also increase to certain extent.

III. Changes in the business relationship, management relationship, related party transactions, and peer competition between the Company with its controlling shareholder and its related parties after the Issuance

The shareholding structure of the Company is relatively decentralised. The Company has no controlling shareholder before the Issuance, and will not have any controlling shareholder after the Issuance. After the completion of the Issuance, the shareholding percentage of Shanghai Guosheng Group in the Company is expected to exceed 5% and Shanghai Guosheng Group will therefore become a related party of the Company. Apart from the aforesaid circumstance, the completion of the Issuance will not lead to changes in the business relationship, management relationship, related party transactions, and peer competition between the Company with its substantial shareholder and its related party.

IV. After the completion of the Issuance, whether the Company's funds and assets are occupied by the controlling shareholder and its related parties, or whether the listed company provides guarantees to the controlling shareholder and its related parties

The Company has no controlling shareholder. Before the completion of the Issuance, the Company's substantial shareholders and the related parties under its control did not illegally occupy the Company's funds and assets, nor did the Company provide guarantees to the substantial shareholders and its related parties.

V. Whether the liability structure of the listed company is reasonable, whether liabilities (including contingent liabilities) increase significantly due to the Issuance, and whether the proportion of debt is too low or the financial cost is unreasonable

As at 30 September 2019, the Company's gearing ratio on consolidated statement (based on data of securities companies) was 74.70%. Based on an assumption of total proceeds of RMB20 billion from the Issuance, the Company's gearing ratio on consolidated statement is expected to be 72.08% (without taking into account changes in other assets and liabilities) after the Issuance. The financial position and capital structure of the Company are more stable and reasonable. Neither did the liabilities (including contingent liabilities) increase significantly due to the Issuance, nor was the proportion of debt too low and the financial cost unreasonable.

SECTION V PROFIT DISTRIBUTION POLICY AND IMPLEMENTATION

I. Profit distribution policy of the Company

According to the Articles of Association:

Article 240 The profit distribution policy and the profit distribution plan of the Company are formulated and considered by the Board. The Board shall take various factors into consideration, including its industry features, development stages, business model and profitability as well as whether it has any substantial capital expenditure arrangement, and differentiate the circumstances to propose a specific policy for distributing cash dividend according to the procedures of the Articles of Association. Independent Directors may also collect the opinions of minority shareholders for proposing profit distribution plan, which is then directly submitted to the Board for consideration.

Once the Board resolved on the profit distribution policy and the profit distribution plan, they are submitted to the Shareholders' general meeting for consideration. Independent Directors shall review and provide clear opinions in writing on the profit distribution policy and the profit distribution plan being submitted to the Shareholders' general meeting for consideration. Prior to the consideration by the Shareholders' general meeting on the specific cash dividend distribution plan, the Company should take initiatives to communicate with shareholders through various channels, especially to communicate and exchange with minority shareholders. The views and aspirations of minority shareholders shall be fully heard, with their questions concerned promptly addressed.

After the profit distribution plan has been resolved at the Shareholders' general meeting, the Board shall complete the dividend (or share) distribution within two months after the holding of the Shareholders' general meeting.

Article 241 The Company adopts a continuous, stable and aggressive profit distribution policy, which focuses on providing reasonable investment returns to shareholders. The Company may, according to the profit made by the Company and taking into account the actual situation as well as current and long-term benefit of the Company, distribute dividend by way of cash or shares, and have the priority to distribute dividend by cash.

In principle, the Company will distribute cash dividend for the year with profit. The Company may distribute interim dividend. Profit distribution shall satisfy the regulatory requirements, not exceed the accumulated distributable profit and not influence continuous operation capacity of the Company. If the Company generated profits in the previous accounting year but the Board did not make any cash profit distribution proposal after the end of the previous accounting year, the Company shall state the reasons for not distributing the profit and the usage of the profit retained in the annual report and the Independent Directors shall give an independent opinion in such regard.

The accumulated cash distribution of profit for the last three years of the Company was not less than 30% of the average annual distributable profit realised in the last three years. Specific percentage of dividend distribution for each year shall meet the needs of corporate operation and development and be resolved in accordance with the annual earnings conditions and future plans on usage of funds.

If any of the following circumstances occurs, the Company can adjust or amend the aforesaid profit distribution policy by obtaining the approval from more than two thirds of voting rights held by shareholders attending the Shareholders' general meeting:

(I) there are changes in, or adjustments to, the relevant laws and regulations;

(II) the risk control indicators (such as net capital) reach the warning levels;

(III) the Company's operating conditions deteriorate;

(IV) the Board proposes the adjustments.

In the event that adjustments to the Company's profit distribution policy are necessary due to the needs of operation and long-term development, the adjusted profit distribution policy shall comply with the relevant requirements of the regulatory authorities. Any resolution regarding the adjustments to the Company's cash dividend policy shall be approved by two thirds of the voting rights of the shareholders attending the Shareholders' general meeting and online voting shall be available. The Company shall consider the views of public investors and timely respond to the questions concerned by public investors.

The Company should disclose in annual reports the formulation, implementation of the dividend distribution policy and other relevant circumstances in accordance with the relevant provisions. If the cash dividend policy is to be adjusted or amended, whether the conditions and procedures for the adjustments or amendments are in compliance with the regulations and transparent should be disclosed in details.

Article 242 In the event the Board of the Company considers that, as a result of the rapid growth in the Company's operating income, the share price of the Company no longer matches the scale of the share capital of the Company, the Board may propose a policy of dividend distribution in the form of shares on the basis of cash dividend. Once the Board resolved on the share dividend distribution, they are submitted to the Shareholders' general meeting for consideration and reported to the relevant competent authorities, such as the CSRC, for approval.

II. Profit distribution over the last three years

The Company's cash dividends in 2016, 2017 and 2018 are set out as follows:

Year of distribution	Amount of dividend for every 10 shares (RMB) (inclusive of tax)	Amount of cash dividends (RMB) (inclusive of tax)	Net profit for the year attributable to ordinary shareholders of the listed company in the consolidated financial statements during the year of distribution (RMB)	Percentage of amount of net profit for the year attributable to ordinary shareholders of the listed company in the consolidated financial statements
2018	1.5	1,725,255,000.00	5,211,093,198.87	33.11%
2017	2.3	2,645,391,000.00	8,618,423,293.06	30.69%
2016	2.2	2,530,374,000.00	8,043,334,519.30	31.46%
Cash dividends accumulated over the last three years				6,901,020,000.00
Annual average net profit attributable to owners of the parent company over the last three years				7,290,950,337.08
Cash dividends accumulated over the last three years/Annual average net profit attributable to owners of the parent company over the last three years				94.65%

III. Arrangements for use of undistributed profits

(I) Use of undistributed profits

Over the last three years, the Company's undistributed profits, as a part of the funds for business development of the Company, were used to meet the Company's demands for net capital.

The undistributed retained profits of the Company prior to the Non-public Issuance are subject to the entitlement of both new shareholders and existing shareholders upon completion of the Non-public Issuance of A Shares.

(II) Shareholders' return plan for the next three years

In full consideration of factors such as the Company's profitability, strategic plan for development, shareholder returns, risk control and supervision indicators of securities companies, cost of social capital and external financing environment and relevant requirements of the CSRC, the Company formulated the Shareholders' Return Plan for the Three Years from 2018 to 2020 of the Company, details of which are as follows:

1. In compliance with relevant laws and regulations, regulatory documents, the Articles of Association and cash dividend conditions above mentioned, the Company's profits accumulatively distributed in cash for the three years from 2018 to 2020 shall not be less than 30% of the annual average distributable profits realised in the next three years.

2. If the Company is in good operating condition with operating income and net profit increasing steadily, and the Board believes that the distribution of profits by share dividends is in line with the Company's long-term development needs and the overall interests of all shareholders, it may propose the profit distribution by share dividends distribution to the Company.

   In the case of share dividends distribution, with full consideration of the true and reasonable factors such as corporate growth and diluted net asset per share, and in compliance with the requirements of the Articles of Association and the above cash dividends distribution and ensuring the reasonable scale of the Company's share capital, the Company may distribute profits based on the situations of cumulative distributable profits, provident fund and cash flow. When determining the specific amount and proportion of the distribution, the Company shall ensure that the distribution plan is in line with the overall and long-term interests of all shareholders.

3. The profit distribution plan of the Company is formulated in accordance with the requirements of laws, regulations and relevant regulatory documents and the Articles of Association after considering the Company's profitability, capital requirements, and shareholders' return plans and carefully studying and deliberating the timing, conditions, and minimum ratio of the Company's cash dividends and adjustment conditions. The Independent Directors shall issue independent opinions, which shall be submitted to Shareholders' general meeting for consideration and approval after approved by the Board. Independent Directors may solicit the opinions of minority shareholders, propose and submit dividend distribution plans directly to the Board for resolution.

   When the Company holds the Shareholders' general meeting to consider specific plans for profit distribution, it shall actively communicate with shareholders, especially minority shareholders, through various channels (including but not limited to telephone, fax, correspondence, e-mails, and the interactive investor relationships platform on the Company's website), to effectively protect the rights of public shareholders to attend shareholders' general meetings, fully listen to the opinions and appeals of minority shareholders, and promptly respond to the concerns of minority shareholders.

SECTION VI RISK WARNING FOR DILUTION OF CURRENT RETURNS AS A RESULT OF NON-PUBLIC ISSUANCE OF A SHARES AND REMEDIAL MEASURES

In accordance with the requirements of the *Opinions of the General Office of the State Council on Further Strengthening the Protection of the Legitimate Rights and Interests of Small and Medium Investors in the Capital Markets* (Guo Ban Fa [2013] No. 110) (《國務院辦公廳關於進一步加強資本市場中小投資者合法權益保護工作的意見》) (國辦發[2013]110號), and the *Guidance Opinions in relation to Matters Relevant to Dilution of Current Returns by Initial Public Offering, Refinancing, and Material Assets Reorganisation* (the CSRC Notice [2015] No. 31) (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》) (證監會公告[2015]31號) issued by the CSRC, in order to protect the interests of small and medium investors, the Company carefully analysed the impacts of the Non-public Issuance of A Shares on dilution of current returns and proposed the relevant remedial measures based on the abovementioned relevant requirements:

I. Changes of the Company's earnings per share (the "EPS") after the completion of the Issuance

The Company recorded a total share capital of 11,501,700,000 shares before the Non-public Issuance and will issue no more than 1,618,426,236 shares (inclusive) for the Issuance. The share capital and net assets of the Company will increase significantly after the completion of the Issuance.

(I) Major assumptions and prerequisites

1. It is assumed that the Issuance will be completed before 30 June 2020, the expected time is used for the purpose of the Issuance only. The final completion date and impacts of dilution of current returns should be subject to approval from the CSRC and the actual completion time of the Issuance.

2. It is assumed that 1,618,426,236 shares will be issued and the total proceeds raised will be RMB20 billion, without taking into account the issuance expenses.

3. According to *the Announcement on Positive Profit Highlight for the 2019 Annual Results of Haitong Securities*, Haitong Securities' net profit attributable to owners of the parent company for 2019 ranged from RMB9,379.9678 million to RMB9,692.6334 million, assuming that (1) Haitong Securities' net profit attributable to shareholders of the parent company for 2019 amounted to RMB9,536.3006 million; (2) equity attributable to the shareholders of the parent company for 2019 = equity attributable to the shareholders of the parent company at the beginning of 2019 + net profit attributable to owners of the parent company for 2019 – cash

dividend for 2018 amounted to RMB125,669.6203 million); and (3) net profit attributable to owners of the parent company for 2020 would increase by 20% to RMB11,443.5607 million, remain the same as RMB9,536.3006 million and decrease by 20% to RMB7,629.0405 million compared with that in 2019 respectively.

4. It is assumed that cash dividend for 2019 accounted for 30% of the net profit attributable to owners of the parent company for 2019 and the implementation will be completed by June 2020.

   The above assumptions and analysis on profit value do not constitute the Company's forecast for the profits for the year 2019, which are uncertain as the realisation depends on such factors as national macroeconomic policies and changes of operations of the securities market. Investors should not make investment decisions based on such analysis. The Company is not liable for any losses arising from the investment decisions made by investors based on such analysis.

5. Equity attributable to shareholders of the parent company as of 31 December 2020 = the opening balance of equity attributable to shareholders of the parent company in 2020 + net profit attributable to shareholders of the parent company in 2020 + changes of equity in the current period (if any) – cash dividend distributed in the current period.

   The above data of net assets do not represent the Company's forecast for the net assets at the end of 2020.

6. The impacts of receiving proceeds raised from the Issuance on the Company's operations and financial position (such as operating income, financial expenses and return on investments) will not be taken into account.

7. The Company does not take into account other factors which may have impacts on net assets (other than raised proceeds, net profit, and profit distribution) when forecasting the net assets upon completion of the Issuance.

(II) Analysis of impacts on the Company's EPS and weighted average return on net assets

Based on the above assumptions and prerequisites, the Company calculates the impacts of the Issuance on the Company's basic EPS and weighted average return on net assets:

Item	For the year 2019/ As at 31 December 2019	Comparison before and after the Issuance (For the year 2020/As at 31 December 2020) Before the Issuance	After the Issuance (without taking into account any returns on investment with proceeds)
Total share capital at the end of the period (share)	11,501,700,000	11,501,700,000	13,120,126,236
Total proceeds raised from the Issuance (RMB'000)			20,000,000.00
Number of shares to be issued under the Issuance (share)			1,618,426,236
Scenario I: Profit attributable to the shareholders of the parent company for 2020 increases by 20% from 2019 to RMB11,443.5607 million			
Equity attributable to the shareholders of the parent company at the end of the period (RMB'000)	125,669,620.3	134,252,290.8	154,252,290.8
Basic EPS (RMB/share)	0.83	0.99	0.93
Diluted EPS (RMB/share)	0.83	0.99	0.93
Net assets per share (RMB/share)	10.93	11.67	11.76
Weighted average return on net assets (%)	7.83	8.81	8.18
Scenario II: Profit attributable to the shareholders of the parent company for 2020 remains the same (i.e. RMB9,536.3006 million) as 2019			
Equity attributable to the shareholders of the parent company at the end of the period (RMB'000)	125,669,620.3	132,345,030.7	152,345,030.7
Basic EPS (RMB/share)	0.83	0.83	0.77
Diluted EPS (RMB/share)	0.83	0.83	0.77
Net assets per share (RMB/share)	10.93	11.51	11.61
Weighted average return on net assets (%)	7.83	7.39	6.86

Item	For the year 2019/ As at 31 December 2019	Comparison before and after the Issuance (For the year 2020/As at 31 December 2020) Before the Issuance	After the Issuance (without taking into account any returns on investment with proceeds)
Scenario III: Profit attributable to the shareholders of the parent company for 2020 decreases by 20% from 2019 to RMB7,629.0405 million			
Equity attributable to the shareholders of the parent company at the end of the period (RMB'000)	125,669,620.3	130,437,770.6	150,437,770.6
Basic EPS (RMB/share)	0.83	0.66	0.62
Diluted EPS (RMB/share)	0.83	0.66	0.62
Net assets per share (RMB/share)	10.93	11.34	11.47
Weighted average return on net assets (%)	7.83	5.96	5.53

Note: EPS and weighted average return on net assets are calculated in accordance with the *Guidance Opinions in relation to Matters Relevant to Dilution of Current Returns by Initial Public Offering, Refinancing and Material Assets Reorganisation* (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》), and the *Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No. 9 – Calculation and Disclosure of Return on Net Assets and Earnings per Share* (《公開發行證券的公司信息披露編報規則第9號—淨資產收益率和每股收益的計算及披露》) formulated by CSRC.

Based on the aforesaid calculation, without taking into account the efficiency of use of proceeds, the total ordinary share capital of the Company will increase by approximately 14% upon completion of the Issuance. On such basis, basic EPS will be kept undiluted if the Company's net profit attributable to shareholders of the parent company in 2020 represents a year-on-year growth of approximately 7%. As calculated based on the aforesaid three scenarios, i.e. under scenario I that the Company's net profit attributable to the parent company in 2020 increases by 20% as compared with 2019, current returns of the Company will not be diluted; under scenario II that the net profit in 2020 remains unchanged on a year-on-year basis and under scenario III that the net profit in 2020 represents a year-on-year decrease of 20%, the current returns of the Company will be diluted.

II. The relationship between projects to be invested with the proceeds raised from the Issuance and existing businesses of the Company and the Company's reserve of the projects to be invested in terms of personnel, technology, market, etc.

(I) The relationship between projects to be invested with proceeds raised from the Issuance and the existing businesses of the Company

The total amount of proceeds to be raised from the Issuance will not exceed RMB20.0 billion (inclusive). The net proceeds (after deducting the issuance expenses) will be fully utilised to increase the capital base of the Company.

After the completion of the Issuance, the Company's major businesses will remain unchanged and the capital strength of the Company will be further enhanced, which will help the Company to expand and consolidate, strengthen its core competitiveness in domestic and overseas markets, further expand its business scale, and enhance its risk resistance capacity in domestic and overseas markets.

(II) Operation and development trend of the Company's existing business sectors

For the years of 2016, 2017 and 2018 and the nine months ended 30 September 2019, the Company achieved an operating income of RMB28,011.0146 million, RMB28,221.6672 million, RMB23,765.0146 million and RMB25,147.4215 million respectively, and the net profit attributable to parent company were RMB8,043.3345 million, RMB8,618.4233 million, RMB5,211.0932 million and RMB7,385.6484 million respectively.

The Company has formed a financial services group covering various businesses including securities and futures brokerage, investment banking, asset management, PE investment, alternative investment and financial leasing, etc. Haitong International Securities Group Limited, as the major subsidiary for the Company's overseas businesses, has become an important investment bank in Hong Kong.

(III) The Company's reserve of the projects to be invested in terms of personnel, technology, market, etc.

Since the establishment, the Company has attached great importance to attracting, motivating, cultivating and utilising the talents. The Company has established a high-quality talent team with high professional dedication and technological skills. As at the end of the third quarter of 2019, the total number of the Company' employees was 10,589, among which the proportion of employees with bachelor's degree or above accounts for approximately 90.5%. In addition, the Company attached great importance to employee training. The Company relies on the platform of Haitong Wealth

Management Institute to fully integrate internal and external training resources and has established a training system that meets the Company's development needs, providing strong support for the improvement of the Company's talent development strategy and organisational performance.

In terms of technology, the Company adheres to the guiding philosophy of "unified management, self-initiation and controllability, integration of business and leading development" and has continuously improved the three technological capabilities including production operation, software research and development, and technology management, providing comprehensive support for the Company to realise its corporate strategy and to build a benchmark investment bank in China.

In terms of market development, after 30-year development, the Company has become a leading large-scale comprehensive securities company in China. The Company has a strong customer base in brokerage business, ranking in leading position in the industry in investment banking business, continuously increasing scale of assets under active management, and ranked in leading position in the industry of private equity investment business, and profit contribution. The Company's performance indicators of Hong Kong based businesses, the financial leasing business and research services are in the leading position in the industry, with relatively strong market competitiveness as a whole. The Non-public Issuance will further enhance the Company's competitive advantages.

III. Risk warning for dilution of the current returns from the Non-public Issuance

The Company's total share capital and net assets will increase correspondingly after receiving the raised proceeds. However, it takes time to put the proceeds into use and generate profits. With the increase in the Company's total share capital and net assets, if the Company fails to correspondingly increase its business scale and net profits in the future, it is expected that the Company's EPS, weighted average return on net assets and other indicators will decline to certain degree in a short term and there will be a risk that the current returns for shareholders will be diluted after the raised proceeds are in place. The investors are hereby advised to exercise caution to risks of such investment.

IV. Proposed measures to be taken by the Company to address the dilution of current returns

(I) Enhancing the management of proceeds and improving utilisation efficiency of proceeds

The Company has formulated the Proceeds Management System in accordance with laws, regulations and other regulatory documents, including the Securities Law, the *Administrative Measures for Issuance of Securities by Listed Companies* (《上市公司證券發行管理辦法》), the *Administrative Provisions of Shanghai Stock Exchange on*

Capital Raised by Listed Companies (《上海證券交易所上市公司募集資金管理規定》), and the Articles of Association, providing detailed requirements in respect of the deposit, usage, investment changes and supervision of the use of proceeds.

The proceeds raised from the Issuance will be deposited in the special account approved by the Board (hereinafter referred to as "special proceeds account"), which shall not be used to deposit capital other than the proceeds or be used for other purposes. The Company will sign a Three-Party Escrow Agreement with the sponsor(s) and the commercial bank(s) where the proceeds are deposited, so that the sponsor(s), the bank(s) of deposit and the Company can jointly supervise the raised proceeds. At the same time, the Company will conduct internal audit on the raised proceeds and examine and supervise the usage of the raised proceeds. In the annual audit, the Company will engage an accounting firm to issue a certification report for the deposit and usage of the raised proceeds.

(II) Optimising income structure and maintaining moderate leverage level to improve return rate on net assets

The projects to be invested with the proceeds raised are mainly for the Company's major businesses, which is in line with the Company's development strategies. The proceeds will help the Company seize the favourable opportunities of the transformation and upgrading of the securities industry, further optimise income structure, enhance the Company's ability in capital-based intermediary business, accelerate the development of innovative businesses and strengthen the competitiveness of cross-border business, so as to minimise operational risks and enhance sustainable profitability and sustainable development capability.

After the proceeds raised from the Non-public Issuance is in place, the Company will promote the use of proceeds and leverage the proceeds to strengthen its debt capacity, expand the scale of assets, further increase the scale of its traditional businesses such as investment banking, asset management and investment business, increase the scale of capital-based intermediary business, international business and other innovative businesses, so as to further increase the Company's return rate on net assets and bring better returns to its shareholders.

(III) Continuously improving corporate governance and strengthening risk management measures

The Company will constantly improve its corporate governance structure according to requirements of the Company Law, the Securities Law, relevant regulations of the CSRC and the Hong Kong Listing Rules, to ensure its standardised operations and its scientific, standardised and transparent corporate governance. Moreover, the Company will continue to strengthen the construction of a comprehensive risk management system in the future, constantly improve its ability in managing credit risks, market risks, operational risks and liquidity risks, strengthen risk prevention and control in key areas, and make continuous efforts in the identification, measurement, monitoring, handling and reporting of risks in key areas, so as to comprehensively improve its risk management capability.

(IV) Strictly implementing profit distribution policies to ensure stable returns to shareholders

The Company has formulated relevant provisions on profit distribution in the Articles of Association in accordance with the requirements of the *Notice on Further Implementing Matters Relevant to the Cash Dividend Distribution by Listed Companies* (《關於進一步落實上市公司現金分紅有關事項的通知》) and the *Guideline No. 3 on the Supervision and Administration of Listed Companies – Distribution of Cash Dividends of Listed Companies* (《上市公司監管指引第3號－上市公司現金分紅》) issued by the CSRC. Meanwhile, the Company also deliberated and passed the Shareholders' Return Plan for the Three Years from 2018 to 2020 at the 2017 Annual General Meeting, with a plan to distribute cash dividends to shareholders annually in the amount of not less than 30% of the distributable profits realised in the current year.

In the past three years, the annual dividend amount of the Company accounted for over 30% of the profits available for distribution among investors in the year. In the future, the Company will continue to attach great importance to protecting the shareholders' interest, maintain continuity and stability of the profit distribution policy and insist on creating long-term value for shareholders.

V. Commitment of Directors, senior management and controlling shareholders of the Company

(I) Commitment of Directors and senior management of the Company

To guarantee the Company's ability in continually making profits and ensure that the remedial measures relating to returns can be effectively implemented, the Directors and senior management of the Company undertake that:

1. they will not provide any benefits to other entities or individuals at no consideration or on an unfair basis, nor harm the interests of the Company in any other way;

2. they will restrain position-related consumption behaviors;

3. they will not use the Company's assets to engage in any investment or consumption activities not relating to the performance of their duties;

4. the implementation of the remuneration system formulated by the Board or the Nomination, Remuneration and Assessment Committee will be linked to the implementation of the remedial measures relating to returns of the Company;

5. in the event of the implementation of any share option incentive scheme by the Company in the future, the vesting conditions of the equity incentive plan to be announced will be linked to the implementation of the remedial measures relating to returns of the Company.

(II) Commitment of controlling shareholders of the Company

The shareholding structure of the Company is relatively scattered, and the Company does not have a controlling shareholder either before or after the issuance. The shares held by HKSCC Nominees Limited are owned by non-registered shareholders of H Shares. Therefore, there is no situation in which a controlling shareholder interferes in the business activities and infringes the interests of the Company.

SECTION VII RISKS RELATED TO NON-PUBLIC ISSUANCE

In addition to other data provided in the Proposal, investors should carefully consider following risks when evaluating the Non-public Issuance of the Company:

I. Risk of declining operating performance due to macroeconomic and capital market fluctuations

China's capital market is subject to certain periodicity and is affected by factors such as overall economic development, macroeconomic policies, international economic environment, industry supervision policies and investment psychology. At present, the business of securities companies in China mainly includes securities brokerage business, investment banking business, proprietary trading business, margin financing and securities lending and asset management business, which are highly dependent on and sensitive to the long-term development and short-term conditions of the capital market. Therefore, the business performance is also highly volatile. If the macroeconomic environment or the securities market remains in prolonged recession in the future, or the market suffers from severe adverse fluctuations in the short term, the Company's operating performance and profitability might be adversely affected.

II. Industry competition risk

In recent years, the competition in the securities industry has become increasingly fierce. In particular, intermediary services with traditional channels represented by brokerage business have become more homogenous and the competition will further intensify. On the one hand, Shenwan Hongyuan, DFZQ, Huatai Securities, Guotai Junan Securities and other companies have successively enhanced their capital strength and expanded their business scale and increased their competitiveness through non-public issuance and initial public offering of H shares in recent years. On the other hand, with the intensification of competition in the financial market, banks, insurance companies, fund companies and trust companies have gradually entered the asset management business area and other related fields through their advantages in customers and channels. In addition, the development of Internet finance will quickly breaks the channel coverage and regional advantages that securities companies enjoyed in the past, and meanwhile, it will also promote the crossing and integration including brokerage, asset management, investment banking, and research businesses, contributing to increasingly intense competition in the securities industry.

Besides, China's entry to WTO expedited the opening-up of the domestic securities industry. A number of foreign-funded securities companies entered China's securities market by establishing joint venture securities companies. Compared with domestic securities companies, foreign-funded securities companies have more extensive management experience, wider international marketing network, stronger capital strength and market influence. In view of the opening-up of the securities industry in China, domestic securities companies will be subject to more fierce competition and the risk of loss of customers and a drop in the market share.

III. Policy and legal risk

The securities industry in China is currently under centralised and unified supervision and management of the CSRC, as well as self-discipline management on members by such self-regulatory organizations as the Securities Association of China and stock exchanges. A regulatory system has been formed in the securities industry, including such laws and regulations as the Securities Law, the *Regulations on Supervision and Administration of Securities Companies* (《證券公司監督管理條例》), the *Regulations on the Risk Disposal of Securities Companies* (《證券公司風險處置條例》) and the *Administrative Measures for the Risk Control Indicators of Securities Companies* (《證券公司風險控制指標管理辦法》). The Company's securities business is strictly supervised by regulatory authorities such as the CSRC and other authorities in terms of business licenses, operation supervision, daily management, risk prevention and personnel management. In the future, if the Company violates relevant regulations in the operation, the supervision and control measures or punishments imposed by the regulatory authorities will adversely affect the Company's reputation, which in turn will affect the Company's further performance and development.

Meanwhile, with increasingly acceleration in legal construction in China, the supervision over the capital market is strengthened and the regulatory system is improved. The issuance, abolishment, and revision of relevant laws and regulations are relatively frequent. If the Company fails to pay attention to these changes in a timely manner, it may be subject to operational risks.

In addition, the changes in national laws, regulations and policies in economic fields, such as fiscal and monetary policies, interest rate policies, taxation policies, business licenses and business charging standards, may cause fluctuations in the securities market as well as changes in the environment for the development of the securities industry, which may have a significant impact on various businesses of the Company.

IV. Business operation risk

(I) Risks of wealth management business

1. Risk of decrease in trading commission income

Income from trading commission largely relies on factors such as trading commission rate and transaction scale. With the gradual liberalisation of qualifications for the establishment of sales departments, the developments of Internet finance, the cancellation of the "one person, one account" restriction and the promotion of off-site account opening of securities companies, the industry competition has further intensified. If the stock trading volume is greatly affected by the market and the competition intensifies, the commission rate of securities trading will decline, which may affect the Company's competitiveness in the wealth management business and thus the profitability and operating performance of the Company.

2. Risks related to financing business

The Company's financing business mainly includes margin financing and securities lending business, stock repurchase transaction and stock pledged repurchase business. In the course of carrying out the relevant business, the Company is exposed to the risk of losses arising from the defaults by customers or counterparties. At present, the financing business in the industry is generally at the initial stage of development. If the Company's financing business expands too quickly, risk control measures may not be readily available, leading to the risks of bad debts and liquidity. If the Company fails to maintain and expand its market share and to develop high-quality customers, or lacks capital reserves in the market competition, it may be exposed to the decrease in financing business and incomes.

(II) Risks of investment banking

The Company's investment banking business mainly includes equity financing business, bond financing business, merger, acquisition and restructuring business, and financial advisory business. In this regard, the Company is mainly exposed to sponsoring risks and underwriting risks. The Company is facing risks and responsibilities in investment banking business have increased alongside the transformation of regulatory policies.

In carrying out its investment banking business, the Company may be subject to the risk of being punished by securities regulatory authorities for failing to perform or properly perform due diligence or for defects in the truthfulness, accuracy and completeness of information disclosed in public offering-related documents. The Company may suffer reputation loss due to the issuance failure arising from an unreasonable plan for corporate restructuring and listing or a misjudgement of the

Company's development prospects. The Company may be exposed to underwriting risks due to irrational issuance price of securities, bond terms not conforming to the needs of investors, or biases in market judgment and improper timing of issuance. The Company is also exposed to default risks due to improper commitments in contracting procedure.

(III) Risks of transaction business

The Company's transaction business mainly includes transactions relating to equity securities, fixed-income securities, derivative financial instruments with its own funds and direct equity investment. If the securities market weakens in the future, it will have a negative impact on the performance of the Company's transaction business, and thus its overall profitability.

In addition, factors such as inadequate research on the selection of investment products and specific investment objects by the investment personnel of transaction business of the Company, incorrect decisions, inappropriate investment timing, improper operation may all adversely affect the Company's transaction business and its overall business performance and financial position.

(IV) Risks of asset management business

The three major platforms for the asset management business of the Company include Shanghai Haitong Securities Asset Management Co., Ltd., Fullgoal Fund Management Co., Ltd. and HFT Investment Management Co., Ltd. The key performance drivers of the asset management business include management fees, performance fees and investment income. A continuing decline of the securities market conditions may affect investors' enthusiasm and willingness to subscribe for and hold wealth management products, which will lead to a decline in the assets of wealth management products of the Company and a decline in the management fee income of the Company's asset management business. A continuing decline in market conditions will also result in a drop in the product yields and the performance fee and commission income of the Company's asset management business, which will adversely affect the income of the Company's asset management business.

(V) Risks of financial leasing business

Financial leasing is an industry that combines fund financing, assets financing and trading. Therefore, industry development is closely related to the macroeconomic and financing environment. If the growth of the macro real economy slows down, the demand for financial leasing services will decrease, which may lead to a slowdown in the financing leasing business; if the financing environment is tight, the financing cost of operating funds will increase, which may lead to lower profitability of financial leasing.

(VI) ***Risks of overseas business***

The Company participates in overseas operation through Haitong International Securities Group Limited and Haitong Bank, including wealth management, investment banking, trading and institution, and asset management business. The key performance drivers of overseas business include brokerage commissions, underwriting sponsorship fees, advisory fees, interest income and asset management fees. The performance of the Company's overseas business may decline in case of continued volatility or weakness of global economy and adjustment of relevant business policies.

V. Financial risks

Given the capital-intensive nature of the securities industry, securities companies must maintain good capital liquidity and have diversified financing channels to guard against potential liquidity risks. Due to the large scale of proprietary trading business, rapid development of credit business and other factors, the Company is vulnerable to factors such as macro policies, market changes, operation conditions, customer credit in its operation and may face liquidity risk resulting from mismatched asset-liability structure.

VI. Information technology risk

The Company's main businesses are highly dependent on the electronic information system to accurately process massive transactions in a timely manner, to store and process massive business and operations data. IT system is an important carrier for the operation and management of securities companies, thus the security, stability and efficiency of IT system are crucial to the development of securities companies' businesses. Any system failure arising from such emergencies as hardware failures, software crashes, communication interruptions, virus and hacker attacks, data loss and leakage, or any malfunction due to the Company's failure to timely or effectively improve or upgrade its IT system may affect the Company's reputation and service quality and may even bring economic losses and legal disputes.

VII. Risk in obtaining approval for the Non-public Issuance

The Non-public Issuance is still subject to the deliberation and approval by the shareholders at the general meeting of the Company and the approval of the CSRC. It is uncertain whether the Company can obtain relevant approvals and the timing of the final approval.

VIII. Risk of dilution of current returns

The proceeds raised from the Non-public Issuance will be used to the Company's supplement capital to enhance its comprehensive competitiveness. However, it takes certain procedures and time for the projects to be invested with the proceeds raised from the Issuance to be put into operation and generate profits. Prior to the effectiveness of the projects to be invested with the proceeds raised from the Issuance, the realisation of the Company's profits and shareholders' returns still relies on the existing businesses. With the Company's total share capital and net assets both increasing, the financial indicators for current returns such as earnings per share and weighted average return on net assets and other indicators may be exposed to the risk of being diluted in a short term.

SECTION VIII OTHER MATTERS THAT ARE NECESSARY TO BE DISCLOSED

There are no other matters relating to the Non-public Issuance that shall be disclosed.

I. OVERVIEW OF RELATED PARTY TRANSACTIONS

On 14 February 2020, the China Securities Regulatory Commission (the "**CSRC**") issued the *Decision on Revising the Administrative Measures for the Issuance of Securities by Listed Companies* (《關於修改<上市公司證券發行管理辦法>的決定》) and the *Decision to Amend the Implementation Rules for Non-public Issuance of Shares by Listed Companies* (《關於修改<上市公司非公開發行股票實施細則>的決定》) and made amendments to the rules on the non-public issuance of shares by listed companies. In order to ensure the smooth performance of the Non-public Issuance of A Shares and to safeguard the legitimate interest of the Company and the shareholders, based on the relevant requirements after the amendments and taking into account the actual conditions of the Company and the subscription opinions of the investors, the Company held the sixth meeting of the seventh session of the Board (extraordinary meeting) on 25 February 2020 to consider and approve the non-public issuance of no more than 1,618,426,236 A Shares (inclusive) to no more than 35 target subscribers including Shanghai Guosheng (Group) Co., Ltd. ("**Shanghai Guosheng Group**"), Shanghai Haiyan Investment Management Company Limited ("**Shanghai Haiyan Investment**"), Bright Food (Group) Co., Ltd. ("**Bright Food Group**") and Shanghai Electric (Group) Corporation ("**Shanghai Electric Group**") to raise gross proceeds of no more than RMB20.0 billion. Among which, Shanghai Guosheng Group proposed to subscribe for an amount of RMB10.0 billion; Shanghai Haiyan Investment proposed to subscribe for an amount of no more than RMB3.0 billion (inclusive) and hold less than 5% of the shares in the Company upon subscription; Bright Food Group proposed to subscribe for an amount of no less than RMB0.8 billion (inclusive) and no more than RMB1.0 billion (inclusive) and hold less than 5% of the shares in the Company upon subscription; and Shanghai Electric Group proposed to subscribe for an amount of no less than RMB1.0 billion. The related party transaction does not constitute a material asset restructuring under the *Administrative Measures for the Significant Asset Restructurings of Listed Companies* (《上市公司重大資產重組管理辦法》).

Prior to the Issuance, Shanghai Guosheng Group and its wholly-owned subsidiary Shanghai Guosheng Group Asset Company Limited ("**Shanghai Guosheng Asset**") in aggregate held 4.9999% shares in the Company. Upon completion of the Issuance, it is expected that Shanghai Guosheng Group and its wholly-owned subsidiary Shanghai Guosheng Asset in aggregate will hold more than 5% shares in the Company. Mr. Chen Bin, a director of the Company served as the deputy general manager of Shanghai Haiyan Investment in the past 12 months and therefore a senior management officer of Shanghai Haiyan Investment. Ms. Yu Liping, a director of the Company is currently a vice president of Bright Food Group and therefore a senior management officer of Bright Food Group. Pursuant to the *Measures for the Administration of the Takeover of Listed Companies* (《上市公司收購管理辦法》), the *Measures for the Administration of Information Disclosure by Listed Companies* (《上市公司資訊披露管理辦法》) and the *Rules Governing the Listing of Stocks on Shanghai Stock Exchange* (上海證券交易所《上市規則》), the above transactions shall constitute related party transactions.

II. DESCRIPTION OF RELATED PARTIES

(1) Description of the related party relationship

Upon completion of the transaction, it is expected that Shanghai Guosheng Group and its wholly-owned subsidiary Shanghai Guosheng Asset in aggregate will hold more than 5% shares in the Company. Mr. Chen Bin, a director of the Company served as the deputy general manager of Shanghai Haiyan Investment in the past 12 months and therefore a senior management officer of Shanghai Haiyan Investment. Ms. Yu Liping, a director of the Company is currently a vice president of Bright Food Group and therefore a senior management officer of Bright Food Group. Pursuant to the *Measures for the Administration of the Takeover of Listed Companies* (《上市公司收購管理辦法》), the *Measures for the Administration of Information Disclosure by Listed Companies* (《上市公司資訊披露管理辦法》) and the *Rules Governing the Listing of Stocks on Shanghai Stock Exchange* (上海證券交易所《上市規則》), Shanghai Guosheng Group, Shanghai Haiyan Investment and Bright Food Group shall constitute related parties of the Company.

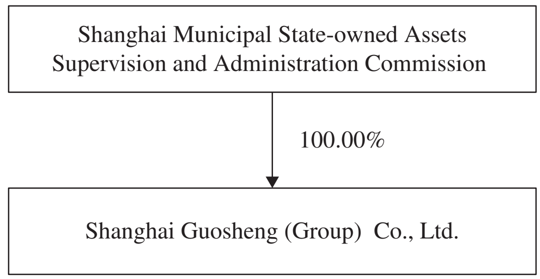
(2) Basic information of related parties

1. Shanghai Guosheng (Group) Co., Ltd.

(i) Basic information

Name	Shanghai Guosheng (Group) Co., Ltd.
Domicile	1/F, Building 3, No. 137, Xingfu Road, Changning District, Shanghai
Registered capital	RMB20,066.0 million
Legal representative	Shou Weiguang
Type of enterprise	Limited liability company (wholly state-owned)
Date of incorporation	26 September 2007
Scope of business	Engaging in non-financial, financial-assisted investments, capital operations and asset management, industrial research, and socio-economic consulting. Projects subject to approval according to law can be carried out only after approval by relevant departments

(ii) Equity control relationship between the target subscriber and its controlling shareholder and de facto controller



(iii) Principal business status and operating results of the target subscriber

Shanghai Guosheng Group is a wholly state-owned large-scale investment holding and capital operation company. It was incorporated in April 2007 and currently has a registered capital of RMB20.066 billion. At the beginning of its incorporation, the Group acts as an investment channel for major industrial projects of the Shanghai Municipal Government. Its main functions are to serve the overall transformation of Shanghai's economic transformation and reform of state-owned assets and state-owned enterprises, and to give a full play to two major functions of industrial investment and capital operation. In 2014, in order to further deepen the reform of state-owned assets and state-owned enterprises in Shanghai, the Shanghai Municipal Government determined Shanghai Guosheng Group as one of the two state-owned operating platforms in Shanghai. Since then, Shanghai Guosheng Group has closely focused on the functional positioning of the state-owned operating platform, accelerated the reform and adjustment and transformation and development, and played an active role in innovating the operating mechanism of state-owned assets, promoting the optimisation, restructuring and orderly flow of state-owned assets, and promoting the development of strategic emerging industries. The operating mode of "equity injection – capital operation – income investment" has basically formed.

(iv) Brief financial position in the most recent year and period

Unit: RMB'000

Item	**30 September 2019/ January to September 2019**	**31 December 2018/2018**
Total assets	104,793,855.3	92,939,419.6
Total equity of owners	70,557,199.4	64,261,219.9
Operating income	387,431.2	517,662.1
Profit for the period/year	3,031,358.5	1,388,979.8

Note: The data for 2018 have been audited by Zhonghua Certified Public Accountants LLP, and the data from January to September 2019 have not been audited.

2. *Shanghai Haiyan Investment Management Company Limited*

(i) Basic information

Name	Shanghai Haiyan Investment Management Company Limited
Domicile	Room 318, Building 3, 717 Changyang Road, Yangpu District, Shanghai
Registered capital	RMB9,000 million
Legal representative	Chen Xuanmin
Type of enterprise	Limited liability company (sole proprietorship of legal person of non-natural person investment or holding)
Date of incorporation	15 October 2009
Scope of business	Industrial investment (except for equity investment and equity investment management), investment management (except for equity investment and equity investment management), project management, asset management (except for equity investment and equity investment management), corporate management consulting (not allowed to engage in brokerage), domestic trade (except for special control). Projects subject to approval according to law can be carried out only after approval by relevant departments

(ii) Equity control relationship between the target subscriber and its controlling shareholders and de facto controllers

(iii) Principal business status and operating results of the target subscriber

Shanghai Haiyan Investment is mainly engaged in investment management. It is a wholly-owned subsidiary of Shanghai Tobacco Group Co., Ltd., which was incorporated in October 2009. Its scope of business includes: industrial investment (except for equity investment and equity investment management), investment management (except for equity investment and equity investment management), project management, asset management (except for equity investment and equity investment management), corporate management consulting (not allowed to engage in brokerage) and domestic trade (except for special control). The operation of Shanghai Haiyan Investment is good. In recent years, it has actively invested in the financial sector and holds shares in China Pacific Property Insurance Co., Ltd., China Pacific Life Insurance Co., Ltd. and Haitong Securities Co., Ltd.

(iv) Brief financial position in the most recent year

Unit: RMB'000

Item	**31 December 2018/2018**
Total assets	39,220,435.5
Total equity of owners	33,199,100.7
Operating income	1,275,598.5
Profit for the year	1,082,846.0

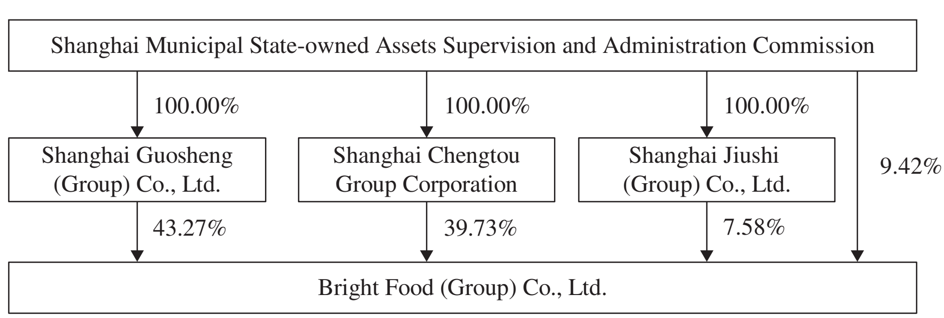
Note: The data for 2018 have been audited by BDO China Shu Lun Pan CPAs LLP.

3. *Bright Food (Group) Co., Ltd.*

(i) Basic information

Name	Bright Food (Group) Co., Ltd.
Domicile	No. 7, Lane 263, Huashan Road, Shanghai
Registered capital	RMB4,936.587615 million
Legal representative	Shi Mingfang
Type of enterprise	Other limited liability company
Date of incorporation	26 May 1995
Scope of business	Food sales management (non-physical methods), operation and management of state-owned assets, industrial investment, agriculture, forestry, animal husbandry, fishery, water conservancy and other service industries, domestic commercial wholesale and retail (except for special provisions), engaged in import and export of goods and technology, property brokerage, exhibition services. Projects subject to approval according to law can be carried out only after approval by relevant departments

(ii) Equity control relationship between the target subscriber and its controlling shareholders and de facto controllers



(iii) Principal business status and operating results of the target subscriber

Bright Food Group is a conglomerate food industry group with a complete food industry chain integrating modern agriculture, food processing and manufacturing and food distribution. The company has a large number of domestic and overseas listed companies, and the operating income of Bright Food Group in 2017 exceeded RMB160 billion. Bright Food Group has currently established an "One Body Two Wings" industrial structure with the food industry as the main body and real estate and finance as the two wings. In the future, the company will focus on "Reshaping New Bright Food in Five Years, Building Bright Food with Powerful Strength in Ten Years" and building Yin Shi Farm symbolising "Advanced Industry, Beautiful Environment and Superior Life" as the strategic goals, and strive to implement the integration strategy, platform strategy, brand strategy and channel strategy, is committed to becoming the base of the main and non-staple food supply in Shanghai's mega-city, a safe, high-quality and healthy food benchmark, and an influential multinational food industry group in the world.

(iv) Brief financial position in the most recent year and period

Unit: RMB'000

Item	30 September 2019/ January to September 2019	31 December 2018/ 2018
Total assets	272,521,980.2	257,437,071.8
Total equity of owners	91,076,560.6	87,192,987.8
Operating income	115,775,888.5	157,566,163.1
Profit for the year/period	2,404,079.2	2,629,530.6

Note: The 2018 data have been audited by BDO China Shu Lun Pan CPAs LLP, and the data from January to September 2019 have not been audited.

III. BASIC INFORMATION OF TARGET RELATED PARTY TRANSACTIONS

(1) Target transactions

Under the related party transaction, it is proposed to carry out a non-public issuance of shares of no more than 1,618,426,236 shares (inclusive) in aggregate to target subscribers.

Under the conditional Share Subscription Agreements and their supplemental agreement of the Company entered into with Shanghai Guosheng Group, Shanghai Haiyan Investment and Bright Food Group, pursuant to which, Shanghai Guosheng Group proposed to subscribe for an amount of RMB10.0 billion; Shanghai Haiyan Investment proposed to subscribe for an amount of no more than RMB3.0 billion (inclusive) and hold less than 5% shares in the

Company upon subscription; and Bright Food Group proposed to subscribe for an amount of no less than RMB0.8 billion (inclusive) and no more than RMB1.0 billion (inclusive) and hold less than 5% shares in the Company upon subscription. The number of Shares to be issued under the Issuance shall be adjusted accordingly in cases of ex-rights matters such as bonus issuance and conversion of capital reserve into share capital during the period from the date of the resolution(s) approved by the Board in connection with the Issuance to the date of the Issuance. The final number of Shares under the Issuance shall be determined by the negotiations between the Board of the Company and the management delegated by the Board under the authorisation granted at the general meeting, and the sponsor (the lead underwriter), based on the actual level of subscription.

(2) Pricing principle and method of the related party transactions

The pricing benchmark date of the Non-public Issuance shall be the first day of the offering period of Shares under the Non-public Issuance, and the issuance price shall not be lower than 80% of the average trading price of A Shares for the 20 consecutive trading days preceding the pricing benchmark date (exclusive), or the latest audited net assets per share attributable to shareholders of the parent company before the Issuance, whichever is higher.

The average trading price of Shares for the 20 consecutive trading days preceding the pricing benchmark date = total trading amount of Shares for the 20 consecutive trading days preceding the pricing benchmark date / total trading volume of Shares for the 20 consecutive trading days preceding the pricing benchmark date. In the event that any ex-right or ex-dividend activity causes any adjustment in the share prices during the 20 trading days, the trading prices for the trading days before such adjustment shall be calculated on the basis of the adjusted price caused by the ex-right or ex-dividend activities.

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

The final issuance price of the Issuance will, upon obtaining the approval issued by the CSRC, be determined by the Board of the Company and its authorised person(s) under the authorisation granted at the general meeting with the sponsor (the lead underwriter) in accordance with the relevant requirements of the CSRC, and based on the prices offered by the target subscribers as well as the principle of price priority. Shanghai Guosheng Group, Bright Food Group and Shanghai Haiyan Investment will not participate in the price quotation for the Non-public Issuance, but will accept results of market inquiry and subscribe for the Shares at the same subscription price as other target subscribers.

In the event of failure to determine the issuance price of the issuance through market inquiry, Shanghai Guosheng Group, Bright Food Group and Shanghai Haiyan Investment shall continue to participate in the subscription and take the floor price of the Issuance (the higher of 80% of the average trading price of A Shares of the Company for the 20 trading days preceding the pricing benchmark date (exclusive) and the latest audited net assets per share attributable to shareholders of the parent company before the issuance) as the subscription price.

IV. MAJOR CONTENTS OF RELATED PARTY TRANSACTIONS AND CONTRACTUAL PERFORMANCE ARRANGEMENTS

(1) Major terms of related party transaction agreements

For details, please refer to the Announcement on the Conditional Share Subscription Agreements of the Company dated 25 April 2019 and the Announcement on the Supplemental Agreements to the Subscription Agreements of the Company dated 25 February 2020.

(2) Contractual performance arrangements of related party transactions

The financial positions of Shanghai Guosheng Group, Shanghai Haiyan Investment and Bright Food Group in the recent three years are good. The Board of the Company considers that Shanghai Guosheng Group, Shanghai Haiyan Investment and Bright Food Group have a sound solvency position and the risks associated with the payment of subscription money are controllable.

V. PURPOSE OF THE RELATED PARTY TRANSACTIONS AND RELEVANT IMPACTS ON THE LISTED COMPANY

The Non-public Issuance of shares, in line with the development strategies of the Company, is beneficial for the Company's development and further reinforcement of its core competitiveness, and has shown confidence of Shanghai Guosheng Group, Shanghai Haiyan Investment and Bright Food Group in the development prospect of the Company and support for the development strategies of the Company.

The Board of the Company considers that the related party transactions did not affect the independence of the Company as the principal businesses of the Company did not rely on Shanghai Guosheng Group, Shanghai Haiyan Investment, Bright Food Group and their related parties as a result of the related party transactions.

VI. PROCEDURES FOR THE CONSIDERATION OF THE RELATED PARTY TRANSACTIONS

At the sixth meeting of the seventh session of the Board of the Company (extraordinary meeting) held on 25 February 2020, the resolutions including the proposal on the adjustments to the Non-public Issuance of A Shares of the Company. Among the resolutions, related directors have abstained from voting on the resolutions regarding matters involving related party transactions. Four independent directors of the Company voted for all the resolutions regarding related party transactions.

Prior to submitting the resolutions for consideration by the Board of the Company, resolutions involving the related party transactions have been granted prior consent of the independent directors of the Company. When the Board of the Company is considering the relevant resolutions, the independent directors of the Company have issued their independent opinions on the related party transactions and considered that the related party transactions involved in the Non-public Issuance are open, fair and reasonable; the relevant decision-making procedures for related party transactions are legal and valid; the subscription price of related parties is fair and the transactions do not affect the independence of the Company, and will not prejudice the interests of the Company, its minority shareholders and other shareholders, especially its non-related shareholders.

At the first meeting of Audit Committee for 2020 of the seventh session of the Board of the Company held on 24 February 2020, the Resolution regarding the Related Party Transactions involved in the Non-public Issuance of A Shares of the Company and the Resolution regarding the Supplemental Agreements to Subscription Agreements with the Target Subscribers were considered and approved, and such resolutions have been approved to be submitted to the Board of the Company for their consideration.

The transactions are subject to approval at the general meeting of the Company and the approval of CSRC.