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Application Proof of



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

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蚂蚁集团
ANT GROUP

ANT GROUP CO., LTD.
蚂蚁科技集团股份有限公司

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

H SHARE [REDACTED]

Number of [REDACTED] under the H Share [REDACTED] : [REDACTED] H Shares (subject to the H Share [REDACTED])
Number of Hong Kong [REDACTED] : [REDACTED] H Shares (subject to adjustment)
Number of International [REDACTED] : [REDACTED] H Shares (subject to adjustment and the H Share [REDACTED])
H Share [REDACTED] : HK\$[REDACTED] per H Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value : RMB1.00 per H Share
Stock code : [REDACTED]

Joint Sponsors



J.P.Morgan

Morgan Stanley



(in alphabetical order)

[REDACTED]

Financial Advisor to Company



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The H Share [REDACTED] is expected to be fixed by agreement between the [REDACTED] (for themselves and on behalf of the [REDACTED]) and us on the [REDACTED]. The [REDACTED] is expected to be on or around [REDACTED] (Hong Kong time) and, in any event, not later than [REDACTED] (Hong Kong time). If, for any reason, the H Share [REDACTED] is not agreed by [REDACTED] (Hong Kong time) between the [REDACTED] (for themselves and on behalf of the [REDACTED]) and us, the H Share [REDACTED] will not proceed and will lapse.

The [REDACTED] (for themselves and on behalf of the [REDACTED]) with our consent may, where considered appropriate, reduce the number of [REDACTED] and/or the H Share [REDACTED] that is stated in this document (which is HK\$[REDACTED] at any time prior to the morning of the last day for lodging applications under the [REDACTED]). In such a case, notices of the reduction in the number of [REDACTED] and/or the H Share [REDACTED] will be published in the South China Morning Post (in English) and the [Hong Kong Economic Times] (in Chinese) as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the [REDACTED]. Such notices will also be available on the website of the Company at www.antgroup.com and on the website of the Hong Kong Stock Exchange at www.hkexnews.hk. Further details are set forth in “Structure of the H Share IPO” and “How to Apply for the Hong Kong Offer Shares” in this document.

We are incorporated in, and most of our revenues are derived from, mainland China. Potential investors should be aware of the differences in the legal, economic and financial systems between mainland China and Hong Kong, despite both being a part of PRC, and that there are different risk factors relating to investment in our Company. Potential investors should also be aware that the regulatory framework in mainland China is different from that in Hong Kong and should take into consideration the different market nature of the H Shares. Such differences and risk factors are set out in “Risk Factors,” “Appendix V — Summary of Legal and Regulatory Matters” and “Appendix VI — Summary of Articles of Association” in this document.

The obligations of the [REDACTED] under the [REDACTED] are subject to termination by the [REDACTED] (for themselves and on behalf of the [REDACTED]) if certain grounds arise prior to 8:00 a.m. on the H Share [REDACTED]. See “Underwriting — [REDACTED]” of this document.

The [REDACTED] have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may be offered and sold only (a) in the United States to “Qualified Institutional Buyers” in reliance on Rule 144A under the U.S. Securities Act or another exemption from, or in a transaction not subject to, the registration requirements under the U.S. Securities Act and (b) outside the United States in an offshore transaction in accordance with Regulation S under the U.S. Securities Act.

ATTENTION

We have adopted a fully electronic application process for the [REDACTED]. We will not provide printed copies of this document or printed copies of any [REDACTED] to the public in relation to the [REDACTED].

This document is available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk and our website at www.antgroup.com. If you require a printed copy of this document, you may download and print from the website addresses above.

[REDACTED]

IMPORTANT

[REDACTED]

IMPORTANT

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

CONTENTS

This document is issued by our Company solely in connection with the [REDACTED] and the [REDACTED] and does not constitute an offer to sell or a solicitation of an offer to subscribe for or buy any security other than the [REDACTED]. This document may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to subscribe for or buy any security in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the [REDACTED] or the distribution of this document in any jurisdiction other than Hong Kong. The distribution of this document and the offering and sale of the [REDACTED] in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. You should rely only on the information contained in this document to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this document. Any information or representation not included in this document must not be relied on by you as having been authorized by us, the Joint Sponsors, [REDACTED], any of our or their respective directors or advisors, or any other person or party involved in the H Share [REDACTED]. Information contained on our website, located at www.antgroup.com, does not form part of this document.

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SUMMARY

This summary aims to give you an overview of the information contained in this document. As it is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by and should be read in conjunction with the full document. You should read the whole document before you decide to invest in the [REDACTED]. There are risks associated with any investment. Some of the particular risks in investing in the [REDACTED] are set forth in the section headed “Risk Factors” of this document. You should read that section carefully before you decide to invest in the [REDACTED].

Ant’s origins date to 2004 when Alipay was created in the nascent days of e-commerce to solve the trust issue between buyers and sellers in online transactions. Our innovative payment solution bridged the trust gap, facilitated online transactions and underpinned the development of e-commerce in China. Having pioneered digital payments in China, we have since expanded our service offerings through technology and innovation to enable digital finance for consumers and businesses.

Trust is the cornerstone of all commercial activities and is at the core of what we do. Our story is one of building trust through innovation and technology. We enable participants in commercial activities, including consumers, businesses and partners, to build and strengthen trust among each other. As each participant’s trusted status grows, doing business becomes easier for everyone, ultimately contributing to a vibrant economy. In the process, we have become a platform deeply trusted by consumers, businesses and partners. We believe our new technologies, including our blockchain solution that we call AntChain, will continue to strengthen the foundation of trust in this digital era.

Innovation is in our DNA. We believe our relentless focus on innovation is the only way to serve our customers’ evolving needs. Being at the forefront of innovation provides us with the means to enhance our leadership position.

In 2011 our predecessor company was spun off from Alibaba. This origin and continued affiliation with Alibaba is a source of strength as well as purpose. Hence, we and Alibaba share a common mission and a common set of values that are imbued in our operating philosophy.

Our Mission

Our mission is to make it easy to do business anywhere.

Our company was founded to champion the small and the underserved, in the belief that our open technology platforms could help service providers and institutions to reach customers that previously were not accessible. We believe that concentrating on customers’ needs and solving their problems ultimately will lead to the best outcome for our business. Our decisions are guided by how they serve our mission over the long term, not by the pursuit of short-term gains.

Our Vision

Our vision is to build the future digital infrastructure of services, and thereby bring about constant and incremental changes that are beneficial to the world. We do not believe bigger is better; our pursuit is sustainable development that lasts at least 102 years.

SUMMARY

Our aim is:

- for everyone to enjoy inclusive, sustainable financial services;
- to provide every small business with a level playing field to develop and grow; and
- to make all aspects of digital life accessible — anytime, anywhere, through open collaboration with partners.

Who We Are

We are the parent company of China’s largest digital payment platform, Alipay, and the leader in the development of open platforms for technology-driven inclusive financial services. Through technology and innovation, we enable the digitalization of the modern service industry globally from financial services to services for everyday life. We are committed to working with partners in China and around the world to bring services to consumers and small businesses that are inclusive, green and sustainable. Our name is important to us. We call ourselves Ant because we believe that small is beautiful, small is powerful.

We are the leading digital payments provider and leading digital finance platform in China based on total payment volume and transaction volume, respectively, according to iResearch and Oliver Wyman. In the twelve months ended June 30, 2020, TPV transacted on our platform in mainland China reached RMB118 trillion. We primarily generate digital payment services revenues by charging merchants transaction fees based on a percentage of volume. We have also established international payment connections to meet the needs of an increasingly digitalized global economy. During the twelve months ended June 30, 2020, International TPV transacted on our platform reached RMB622 billion.

Through our mobile app Alipay’s reach of over one billion users and 80 million merchants, we provide digital finance technology, customer reach and risk management solutions to partner financial institutions, enabling them to provide services in consumer credit, SMB credit, investments and insurance. Our services bring significant value to consumers and small businesses whose financial needs are substantially underserved in China.

Through our ubiquitous super app Alipay, we provide value to our participants in many ways:

- Consumers can access the full array of services, including payments, digital finance, such as consumer credit, investment and insurance, as well as daily life services provided by third parties including food delivery, transportation, entertainment, and access to municipal resources for everyday citizens.
- Businesses can receive payments, access digital finance, for example SMB credit and investment products, and offer daily life services through the Alipay app and over two million mini programs, easily discoverable by consumers through the Alipay search function or customized icon placement.

SUMMARY

- Financial institutions can access our platform to distribute credit, investment and insurance products, powered by our intelligent decisioning and dynamic risk management solutions as well as technology infrastructure. As a provider of technology, we collaborate with, rather than compete against, our partner financial institutions.

Consumers come to the Alipay app for digital payments and to access digital finance services and digital daily life services. Digital payments is the infrastructure that empowers nearly all consumer activities and digital finance use cases, which is important for broadening our customer reach online and offline. Easy access to a broad range of digital daily life services within the Alipay app plays an important role in user engagement and retention. Our digital finance services are highly innovative and attractive to users and highly synergistic with digital payments and digital daily life services. The interaction among digital payment, digital daily life services and digital finance creates a virtuous cycle that drives our growth.

We refer to this platform of comprehensive digital payment, digital finance and digital daily life services as our Alipay platform.

With China’s economy shifting towards domestic consumption and the growth of small businesses, the financial services needs of consumers and small businesses have expanded considerably and demand for credit, investment and insurance products is projected to increase substantially. These needs are underserved by brick and mortar channels of the financial system because of the lack of reach and customer insights in the process of underwriting risk, for example in the case of a micro-loan or small-claims insurance.

We are well positioned, by working with our partner financial institutions and leveraging our proprietary technology and high-quality customer insights, to accelerate the digitalization of the financial services industry. This digitalization is creating opportunities to more efficiently serve a broader customer base by anticipating and addressing their needs real time.

Through the massive reach of the Alipay platform to all levels of the economy, we have established the “capillaries” of the financial system to complement the “arteries” operated by major financial institutions. Our platform model whereby banks can tap into our customer reach and technology to provide financial services facilitates efficient allocation of capital while achieving societal goals of inclusiveness and sustainability.

We provide the following capabilities to partner financial institutions: broad and targeted reach, intelligent decisioning systems, dynamic risk management systems, and technology infrastructure.

- **CreditTech**, serving consumer credit and SMB credit needs. We are the largest online consumer credit and SMB credit services provider in China in terms of total outstanding credit balance originated through our platform, according to Oliver Wyman. Our CreditTech services address the unmet credit demands of unserved and underserved consumers and small businesses in China. We openly collaborate with our partner financial institutions through our technology platform. We originate loans, which are then independently underwritten by our partner financial institutions. As of June 30, 2020, we worked with approximately 100 partner banks, including all policy banks, large national state-owned banks, all national joint stock banks, leading city and rural commercial banks, international banks that operate in China, as well as trust companies. We

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generate technology service fees from our partner financial institutions that are based on the credit balance originated through our platform. Our approach is not to use our own balance sheet or provide guarantees. As of June 30, 2020, approximately 98% of credit balance originated through our platform was underwritten by our partner financial institutions or securitized.

- ***InvestmentTech***, serving investment needs. We are the largest online investment services platform in China by AUM matched and distributed through us, according to Oliver Wyman. Through our InvestmentTech services, we enable our partner asset managers to provide transparent, personalized and easy-to-understand investment options with low minimum investment amounts for a wide range of consumers. As of June 30, 2020, we worked with approximately 170 partner asset managers, including the vast majority of mutual fund companies as well as leading insurers, banks and securities companies in China. We leverage AI to provide intelligent matching of investment products with customers taking into account their risk tolerance. Our massive user base, technology, customer insights and the trust consumers place in our brand have helped our partner financial institutions to expand the reach of a broad range of innovative investment products to a wider customer segment. We generate technology service fees from our partner financial institutions that are based on the volume of investment products distributed through our platform.
- ***InsureTech***, serving insurance needs. We are the largest online insurance services platform in China in terms of premiums generated through our platform, according to Oliver Wyman. Through our InsureTech services, we enable our partner insurers to offer a wide range of innovative, customized and accessible insurance products, covering life, health and P&C insurance areas. As of June 30, 2020, we worked with approximately 90 partner insurance institutions in China. The ongoing digitalization of the economy presents transformative opportunities in the insurance sector, as any risk-bearing activity may be insured against where there is sufficient high-quality data. The massive scale and commercial nature of our platform and of the Alibaba ecosystem enable us to innovate and to develop new insurance products that address consumer and business needs. We receive technology service fees from our partner insurance institutions based on a percentage of the insurance premiums and contributions generated through our platform.

SUMMARY

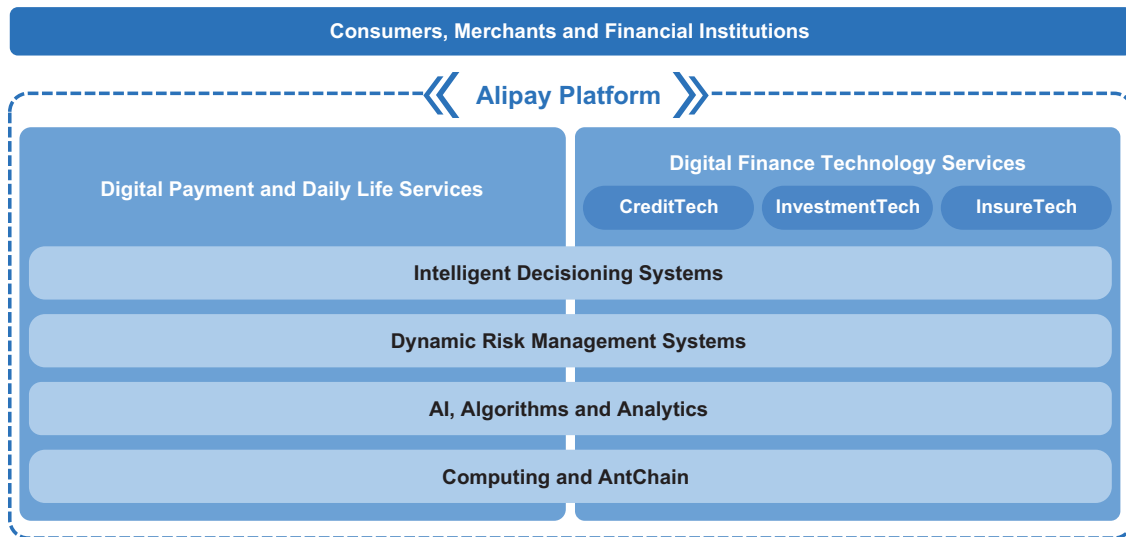
Our Ecosystem

We, together with Alibaba, are building the infrastructure for commerce and services. We have created an ecosystem around our platform that consists of consumers, merchants, financial institutions, third-party service providers, strategic alliance partners and other businesses.

We develop security and communications technologies that foster trust among participants; we provide tools that facilitate integration of financial institutions with our platform; we develop product and service offerings that attract users and increase usage; we implement rules that promote openness and transparency; we invest in digital technology infrastructure to achieve an unrivalled user experience for all participants. Much of our effort, time and energy is spent on initiatives that are for the greater good of the ecosystem and on balancing the interests of its participants. We feel a strong responsibility for the continued development of the ecosystem and we take ownership in this development.

We collaborate with Alibaba in a number of areas including: (i) jointly serving consumers and merchants across consumption and daily life use cases; (ii) sharing insights derived from platform activity; and (iii) expanding cross-border activities.

Our Capabilities Stack



SUMMARY

Our Size and Scale



1,000+ million

Alipay app
Annual Active Users⁽¹⁾



80+ million

Alipay app
Monthly Active Merchants⁽²⁾



711 million

Alipay app
Monthly Active Users⁽²⁾



729 million

Alipay app
Digital Finance Annual Active Users⁽³⁾



2,000+

Partner Financial Institutions⁽⁴⁾



200+

Countries and Regions with Online
Payment Services⁽⁵⁾



RMB118 trillion

Digital Payments
Total Payment Volume in Mainland
China⁽⁶⁾



RMB1.7 / 0.4 trillion

CreditTech
Consumer / SMB Credit Balance⁽⁷⁾



RMB4.1 trillion

InvestmentTech
AUM⁽⁸⁾



RMB52 billion

InsureTech
Insurance Premiums and Contributions⁽⁹⁾

Notes:

1. During the twelve months ended the Latest Practicable Date.
2. In the month ended June 30, 2020.
3. Users who transacted in one or more digital finance services in Alipay during the twelve months ended June 30, 2020.
4. Total number of partner financial institutions across our digital payments and digital finance services, including banks, asset managers, insurance institutions and other licensed financial institutions as of June 30, 2020.
5. Overseas countries and regions where we support online transactions through Alipay as of June 30, 2020.
6. During the twelve months ended June 30, 2020.
7. Balance of consumer and SMB credit enabled through our platform as of June 30, 2020, including balance of third-party partner financial institutions (including MYbank) and our licensed financial services subsidiaries, as well as balance securitized.
8. Balance of AUM enabled through our platform as of June 30, 2020, including AUM of third-party partner financial institutions and our licensed financial services subsidiary.
9. Insurance premiums enabled through our platform as well as contributions by Xianghubao participants during the twelve months ended June 30, 2020. Insurance premiums include premiums of third-party partner financial institutions and our licensed financial services subsidiary.

SUMMARY

Our Strengths

We believe that the following strengths contribute to our success and are differentiating factors that set us apart from our peers.

- Our thriving Alipay platform and Ant ecosystem;
- Innovation to serve customers;
- Deep domain expertise, unparalleled customer insights, and leading technology;
- Win-win partnership with financial institutions; and
- Synergy with Alibaba.

Our Strategies

We will continue to innovate in the areas of business models, products and services, as well as technology to create value for consumers, businesses and partners. We formulate and evolve strategies that aim to best serve ecosystem participants’ interests.

- Drive user engagement and expand user base;
- Build value with partners;
- Invest in innovation and technology; and
- Expand cross-border payment and merchant services.

Summary of Historical Financial Information

Our consolidated financial statements have been prepared in accordance with IFRS. The following selected consolidated financial data for the periods and as of the dates indicated are qualified by reference to and should be read in conjunction with the Accountant’s Report in Appendix I to this document and the section titled “Financial Information” in this document.

SUMMARY

Selected Consolidated Statements of Profit or Loss Data

The following table sets out our selected consolidated statements of profits or loss data for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	RMB	% of Revenues	RMB	% of Revenues	RMB	% of Revenues	RMB	% of Revenues	RMB	% of Revenues
(in millions, except for percentages)										
Revenues										
Digital payment and merchant services	35,890	54.9%	44,361	51.8%	51,905	43.0%	22,994	43.7%	26,011	35.9%
Digital finance technology platform										
CreditTech	16,187	24.8%	22,421	26.2%	41,885	34.7%	17,925	34.1%	28,586	39.4%
InvestmentTech	10,490	16.0%	13,882	16.2%	16,952	14.1%	7,221	13.7%	11,283	15.6%
InsureTech	2,315	3.5%	4,313	5.0%	8,947	7.4%	4,145	7.9%	6,104	8.4%
Subtotal	28,993	44.3%	40,616	47.4%	67,784	56.2%	29,291	55.7%	45,972	63.4%
Innovation initiatives and others ..	514	0.8%	745	0.9%	930	0.8%	256	0.5%	544	0.8%
Total	65,396	100.0%	85,722	100.0%	120,618	100.0%	52,540	100.0%	72,528	100.0%
Operating profit	13,182	20.2%	4,502	5.3%	24,071	20.0%	4,273	8.1%	24,903	34.3%
Profit for the year/period	8,205	12.5%	2,156	2.5%	18,072	15.0%	1,892	3.6%	21,923	30.2%
Supplemental Information —										
Non-IFRS measures⁽¹⁾:										
Non-IFRS operating profit/(loss) (unaudited)	21,129	32.3%	(14,379)	(16.8%)	32,088	26.6%	7,119	13.5%	27,612	38.1%
Non-IFRS profit/(loss) attributable to owners of the parent (unaudited)	14,119	21.6%	(18,333)	(21.4%)	24,160	20.0%	3,980	7.6%	23,912	33.0%

(1) See “Financial Information — Non-IFRS Measures: Non-IFRS Operating Profit and Non-IFRS Profit Attributable to Owners of the Parent” for the definitions and reconciliation of these non-IFRS measures to the nearest comparable IFRS measures.

We achieved significant growth and strong operating results during the Track Record Period. For a discussion and analysis of the reasons for the changes in our key financial statement line items across periods, please refer to “Financial Information — Period-to-Period Comparison of Results of Operations.”

SUMMARY

Selected Operating Data

The table below sets forth Alipay app’s MAUs for the periods indicated.

	The month ended			
	December 31, 2017	December 31, 2018	December 31, 2019	June 30, 2020
	(in millions)			
Alipay app MAUs	499	618	659	711

The table below sets forth TPV transacted through our platform, as well as balances and volumes of digital finance technology services enabled through our platform as of the dates or during the periods indicated.

	As of or for the year ended December 31,			As of or for the twelve months ended June 30,
	2017	2018	2019	2020
	(in RMB billions)			
TPV	68,518	90,762	111,057	117,964
Digital Finance – Balances and Volumes				
CreditTech – Consumer and SMB credit balance ⁽¹⁾	647	1,046	2,014	2,154
InvestmentTech – AUM ⁽²⁾	2,227	2,709	3,398	4,099
InsureTech – Insurance premiums and contributions ⁽³⁾	9	14	38	52

- (1) Balance of consumer and SMB credit enabled through our platform as of the end of the period, including balances of third-party partner financial institutions (including MYbank) and our licensed financial services subsidiaries, as well as balance securitized.
- (2) Balance of AUM enabled through our platform as of the end of the period, including AUM of third-party partner financial institutions and our licensed financial services subsidiary.
- (3) Insurance premiums enabled through our platform as well as contributions by Xianghubao participants during the period. Insurance premiums include premiums of third-party partner financial institutions and our licensed financial services subsidiary.

SUMMARY

Risk Factors

There are certain risks involved in our business and industries, our business operations in China and the H Share [REDACTED], many of which are beyond our control. For example, these risks include the following risks related to our business:

- Any failure to maintain, protect, enhance and promote the trust in us or our platform or our brand would materially and adversely affect our business, financial condition, results of operations and prospects.
- If we cannot continue to innovate, our business, financial condition, results of operations and prospects would be materially and adversely affected.
- If we cannot respond or adapt to the rapid technological development, our business, financial condition and results of operations would be materially and adversely affected.
- If we are unable to compete effectively, our business, financial condition, results of operations and prospects would be materially and adversely affected.
- If consumers and businesses decrease their level of engagement or activity on our platform or if we are unsuccessful in promoting usage of our services, our financial results and business may be significantly harmed.
- Our success depends on our ability to maintain a mutually beneficial partnership with financial institutions.
- We may not be able to maintain and strengthen the network effects of our platform, which could materially and adversely affect our business, financial condition, results of operations and prospects.
- We and our partners are subject to a broad range of laws and regulations, and future laws and regulations may impose additional requirements and other obligations that could materially and adversely affect our business, financial condition and results of operations.
- If we cannot resolve any potential conflict between us and Alibaba in our favor, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Our Controlling Shareholders

As of the Latest Practicable Date, Hangzhou Junhan and Hangzhou Junao held approximately 29.86% and 20.66% (together approximately 50.52%) of our total issued Shares, respectively. Hangzhou Yunbo is the executive partner and general partner of, and controls, Hangzhou Junhan and Hangzhou Junao.

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Mr. Jack Ma held a 34% equity interest in Hangzhou Yunbo and each of Mr. Eric Jing, Mr. Simon Hu and Ms. Fang Jiang held a 22% equity interest in Hangzhou Yunbo. Pursuant to the Concert Party Agreement entered into between them and the articles of association of Hangzhou Yunbo, Mr. Jack Ma has ultimate control over our Company.

As of the Latest Practicable Date, Alibaba, through its subsidiaries Hangzhou Alibaba and Taobao Holding Limited, owned a 33% equity interest in our Company, assuming the redemption and subscription arrangement described in “History and Development” had been completed as of the Latest Practicable Date.

Accordingly, each of Mr. Jack Ma, Mr. Eric Jing, Mr. Simon Hu, Ms. Fang Jiang, Hangzhou Yunbo, Hangzhou Junhan, Hangzhou Junao and Alibaba is considered our Controlling Shareholder strictly in accordance with the definition under the Hong Kong Listing Rules. However, only Hangzhou Junhan and Hangzhou Junao, but not the others, are considered to be our controlling shareholders pursuant to relevant PRC laws and regulations.

Pursuant to the SAPA and related documents, Alibaba has an anti-dilution right to subscribe for additional Shares in our [REDACTED] so that it may hold an equity interest not exceeding 33% in our Company upon completion of the H Share [REDACTED] and the A Share [REDACTED].

See “History and Development” and “Relationship with Controlling Shareholders” for details.

Arrangements with Alibaba

We have entered into a number of transactions with Alibaba and its subsidiaries on arm’s length terms which constitute the framework of our synergetic business cooperation. Among these transactions, each of the Payment Services Commercial Agreement, the Cross License Agreement, the Data Sharing Agreement and the Trademark Agreement has a term of around 50 years and the Payment Services Commercial Agreement can be renewed for further terms of 50 years after its initial 50-year term expires in 2061. The SME Loan Cooperation Framework Agreement has an initial term of five years and can be renewed for further terms of five years after its current term expires in 2024.

Apart from the above agreements, we have also entered into other Payment Services Agreements, the Marketplace Software Technology Services Framework Agreement, the Cloud Services Framework Agreement, the Shared Services Agreement and the SME Loan Software System Use and Service Agreement with Alibaba or its associates. These agreements, which govern commercial transactions between us and Alibaba and its associates, were entered into in our ordinary course of business and constitute our continuing connected transactions. We have applied for and the Hong Kong Stock Exchange [has granted] waivers for strict compliance with the Hong Kong Listing Rules in respect of these transactions. See “Connected Transactions” for details.

Our Pre-[REDACTED] Investments and Redemption and Subscription

We have conducted a few rounds of equity financings in 2015, 2016 and 2018. In 2018, our subsidiary, Ant International issued non-voting shares, the Ant International Class C Shares, to the Offshore Pre-[REDACTED] Investors. These Ant International Class C shares will be exchanged into our H Shares on a one-for-one basis through the redemption and subscription mechanism described in “History and Development – Redemption and Subscription by Ant International Securities Holders.”

SUMMARY

[REDACTED]

We estimate that the [REDACTED] of the H Share [REDACTED] which we will receive, assuming an [REDACTED] of HK\$[REDACTED] per H Share will be approximately HK\$[REDACTED] million, after deduction of [REDACTED] fees and commissions and estimated expenses payable by us in connection with the H Share [REDACTED] and assuming the [REDACTED] are not exercised. We intend to use the [REDACTED] of the H Share [REDACTED] for the following purposes:

Amount (in HK\$ millions)	Approximate % of total [REDACTED]	Intended use
[REDACTED]	[REDACTED]%	further pursue our vision to digitalize the service industry
[REDACTED]	[REDACTED]%	enhance our innovation and research and development capabilities
[REDACTED]	[REDACTED]%	expand our cross-border payment and merchant services initiatives
[REDACTED]	[REDACTED]%	working capital and general corporate purposes
	[REDACTED]%	

See “Future Plans and Use of Proceeds” for further details.

[REDACTED] Statistics

The statistics in the following table are based on the assumptions that (i) the H Share [REDACTED] is completed and [REDACTED] H Shares are newly issued pursuant to the H Share [REDACTED] and 3,256,446,324 H Shares are issued pursuant to the Redemption and Subscription, (ii) the A Share [REDACTED] is completed and [REDACTED] A Shares are newly issued in the A Share [REDACTED], (iii) the [REDACTED] are not exercised, and (iv) [REDACTED] Shares are issued and outstanding following the H Share [REDACTED] and A Share [REDACTED].

	Based on an [REDACTED] per H Share of HK\$[REDACTED] and an [REDACTED] per A Share of RMB[REDACTED]
Market capitalization of the Shares ⁽¹⁾	HK\$[REDACTED] million
Unaudited pro forma Adjusted net tangible asset value per Share ⁽²⁾ ...	HK\$[REDACTED]

SUMMARY

Notes:

- (1) The calculation of market capitalization is based on [REDACTED] Shares expected to be in issue immediately following the [REDACTED], assuming that the [REDACTED] are not exercised.
- (2) The pro forma adjusted net tangible assets value per Share is based on a total of [REDACTED] Shares expected to be in issue immediately after, and assuming the completion of, the H Share [REDACTED] and the A Share [REDACTED], without taking into account any Shares that may be allotted and issued upon exercise of the [REDACTED].

H Share [REDACTED]

[REDACTED] will initially be made available under the H Share [REDACTED], comprising:

- (a) the [REDACTED] of initially [REDACTED] H Shares (subject to reallocation); and
- (b) the [REDACTED] of initially [REDACTED] H Shares (subject to reallocation and the H Share [REDACTED]).

Up to [REDACTED] additional [REDACTED] representing not more than approximately [REDACTED]% of the number of [REDACTED] initially being [REDACTED] under the H Share [REDACTED] may be issued upon exercise of the H Share [REDACTED].

A Share [REDACTED]

Concurrently with the H Share [REDACTED], we are undertaking a [REDACTED] of our A Shares in the PRC.

The A Share [REDACTED] comprises an [REDACTED] of initially [REDACTED] A Shares for subscription, representing approximately [REDACTED]% of our total outstanding Shares following the completion of the H Share [REDACTED] and the A Share [REDACTED], assuming that the [REDACTED] are not exercised. The information set forth in this document related to our A Share [REDACTED] has been prepared based on the assumption that our A Share [REDACTED] will comprise an [REDACTED] of initially [REDACTED] A Shares for subscription.

Our A Shares and H Shares will rank *pari passu* with each other in all material respects other than the exceptions described in “Share Capital” and “Appendix VI — Summary of Articles of Association”. Dividends on our A Shares will be paid in Renminbi. Our H Shares and A Shares will not be fungible. See “A Share IPO” for further details.

Future Dividends

Since our inception, we have not declared or paid any dividends on our Shares. We expect to continue to invest in technology and innovation to implement our growth strategies, which we believe will contribute to the value creation for customers, employees and shareholders. Our Board of Directors regularly review our dividend policy by taking into consideration a number of factors, including our evolving strategies, results of operations, financial condition, operating and capital investment requirements and other factors it may deem relevant. Any declaration and payment, as well as the amount of any dividends, will be subject to our Articles and the relevant PRC laws and regulations, according to which the dividends may be paid only out of the distributable profits as determined under PRC GAAP or IFRS, whichever is lower.

SUMMARY

[REDACTED] Expenses

Based on the [REDACTED] being HK\$[REDACTED], the total estimated [REDACTED] expenses in relation to the H Share [REDACTED] is approximately RMB[REDACTED] million. [REDACTED] expenses of approximately RMB[REDACTED] million were incurred and charged to our consolidated income statements during the Track Record Period. We estimate that we will incur additional [REDACTED] expenses of RMB[REDACTED] million, of which RMB[REDACTED] million will be charged to our consolidated income statement for the remaining period of 2020. The balance of approximately RMB[REDACTED] million, which mainly includes [REDACTED] commission, is expected to be accounted for as a deduction from equity upon the completion of the H Share [REDACTED].

Recent Developments

After due and careful consideration, our directors confirm that, up to the date of this document, there has not been any material adverse change in our financial or trading position or prospects since June 30, 2020, and there is no event since June 30, 2020 which would materially affect the information shown in the Accountant’s Report in Appendix I to this document.

DEFINITIONS

In this document, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain other terms are explained in the section entitled “Glossary of Technical Terms” in this document.

“2020 H Share Equity Incentive Plan” the equity incentive plan approved and adopted on August 6, 2020 and on August 21, 2020 by our Board and our Shareholders, respectively, pursuant to which awards in the form of restricted share units, share appreciation rights and/or restricted shares with H Shares as the underlying shares may be granted by us, a summary of the principal terms of which is set out in the section headed “Appendix VII — Statutory and General Information — D. Employees Equity Incentive Plans — 2. 2020 H Share Equity Incentive Plan” in this document

[REDACTED]

“A Share(s)” domestic shares in the share capital of the Company with a nominal value of RMB1.00 each, which are to be subscribed for and [REDACTED] in Renminbi and are to be [REDACTED] on the STAR Market

[REDACTED]

“Alibaba” or “Alibaba Group” Alibaba Group Holding Limited (阿里巴巴集團控股有限公司), a company incorporated in the Cayman Islands with limited liability on June 28, 1999 (American Depositary Shares of which are listed on the New York Stock Exchange (symbol: BABA) and shares of which are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 9988)), where the context requires, its consolidated subsidiaries and its affiliated consolidated entities, including its variable interest entities and their subsidiaries, from time to time

DEFINITIONS

“Alipay China”	Alipay.com Co., Ltd. (支付寶(中國)網絡技術有限公司), a company incorporated under the laws of the PRC on December 8, 2004, a wholly-owned subsidiary of ours
“Ant International”	Ant International Co., Limited, a company incorporated in the Cayman Islands with limited liability on December 27, 2017, a subsidiary of ours
“Ant Shangcheng”	Chongqing Ant Shangcheng Micro Loan Co., Ltd. (重慶市螞蟻商誠小額貸款有限公司), a company incorporated under the laws of the PRC on June 1, 2011, a wholly-owned subsidiary of ours
“Ant Small and Micro Loan”	Chongqing Ant Small and Micro Loan Co., Ltd. (重慶市螞蟻小微小額貸款有限公司), a company incorporated under the laws of the PRC on August 5, 2013, a wholly-owned subsidiary of ours
“Articles of Association” or “Articles”	the articles of association of the Company approved by Shareholders’ meeting on August 21, 2020, which will become effective upon the completion of our A Share [REDACTED] or H Share [REDACTED] (whichever is earlier), as amended from time to time, a summary of which is set out in Appendix VI to this document
“Board” or “Board of Directors”	the board of Directors
“Business Day” or “business day”	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, a Sunday or a public holiday in Hong Kong
“Cathay Insurance”	Cathay Insurance Company Limited (國泰財產保險有限公司), a company incorporated under the laws of the PRC on August 28, 2008, a subsidiary of ours
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation

DEFINITIONS

“CCASS Operational Procedures”	the operational procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to the operation and functions of CCASS, as from time to time in force
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China” or the “PRC”	the People’s Republic of China, except where the context indicates or requires otherwise
“CBIRC”	the China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會), which is created by a merger of the former China Banking Regulatory Commission (中國銀行業監督管理委員會) and the former China Insurance Regulatory Commission (中國保險監督管理委員會)
“Company,” “our Company,” “Group,” “our Group,” “we,” “our” or “us”	Ant Group Co., Ltd. (螞蟻科技集團股份有限公司), a company organized under the laws of the PRC on October 19, 2000 and, where the context requires, its consolidated subsidiaries and in respect of the period before the Company became the holding company of its present consolidated subsidiaries, the business operated by such consolidated subsidiaries or their predecessors (as the case may be)
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
“Companies (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented from time to time
“Concert Party Agreement”	the concert party agreement entered into among Mr. Jack Ma, Mr. Eric Jing, Mr. Simon Hu and Ms. Fang Jiang on August 21, 2020, as further described in “Relationship with Controlling Shareholders” in this document
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules and, strictly in accordance with such meaning, includes Hangzhou Junhan, Hangzhou Junao, Hangzhou Yunbo, Mr. Jack Ma, Mr. Eric Jing, Mr. Simon Hu, Ms. Fang Jiang and Alibaba; and “Controlling Shareholder” shall mean any one of them

DEFINITIONS

“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	director(s) of the Company
“Domestic Share(s)”	our Shares subscribed for or credited as paid in Renminbi, which will be [REDACTED] upon completion of the H Share [REDACTED] and A Share [REDACTED]

[REDACTED]

“H Share [REDACTED]”	the [REDACTED] of H Shares pursuant to the H Share [REDACTED] and the Redemption and Subscription

[REDACTED]

“H Share(s)”	overseas [REDACTED] foreign shares in the share capital of the Company with a nominal value of RMB1.00 each, which are to be subscribed for and [REDACTED] in HK dollars and are to be [REDACTED] on the Hong Kong Stock Exchange

DEFINITIONS

“Hangzhou Alibaba”	Hangzhou Alibaba Network Technology Co., Ltd. (杭州阿里巴巴網絡科技有限公司), a company incorporated under the laws of the PRC on March 19, 2018 and a wholly-owned subsidiary of Alibaba
“Hangzhou Junao”	Hangzhou Junao Equity Investment Partnership (Limited Partnership) (杭州君澳股權投資合夥企業(有限合夥)), a limited liability partnership incorporated under the laws of the PRC
“Hangzhou Junhan”	Hangzhou Junhan Equity Investment Partnership (Limited Partnership) (杭州君瀚股權投資合夥企業(有限合夥)), a limited liability partnership incorporated under the laws of the PRC
“Hangzhou Yunbo”	Hangzhou Yunbo Investment Consultancy Co., Ltd. (杭州雲鉅投資諮詢有限公司), a limited liability company incorporated under the laws of the PRC, the executive partner and general partner of Hangzhou Junhan and Hangzhou Junao
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time

[REDACTED]

“Hong Kong Share Registrar”	[REDACTED]
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited

[REDACTED]

DEFINITIONS

[REDACTED]

“IFRS”

International Financial Reporting Standards

[REDACTED]

“iResearch”

Shanghai iResearch Co., Ltd., an industry consultant

[REDACTED]

DEFINITIONS

“Joint Sponsors”	the joint sponsors of the [REDACTED] of our H Shares on the Main Board of the Hong Kong Stock Exchange, being Citigroup Global Markets Asia Limited (<i>in alphabetical order</i>), J.P. Morgan Securities (Far East) Limited (<i>in alphabetical order</i>), Morgan Stanley Asia Limited (<i>in alphabetical order</i>) and China International Capital Corporation Hong Kong Securities Limited
“Latest Practicable Date”	August 17, 2020, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information contained in this document
“Listing Committee”	the listing committee of the Hong Kong Stock Exchange
“Listing Rules for the STAR Market”	the Rules Governing the Listing of Stocks on the Science and Technology Innovation Board of Shanghai Stock Exchange (《上海證券交易所科創板股票上市規則》) promulgated on March 1, 2019 and amended with immediate effect on April 30, 2019
“Macau”	the Macau Special Administrative Region of the PRC
“Mandatory Provisions”	the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (《到境外上市公司章程必備條款》), as amended, supplemented or otherwise modified from time to time, for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas (including Hong Kong), which were promulgated by the former Securities Commission of the State Council (國務院證券委員會) and the former State Commission for Restructuring the Economic Systems (國家經濟體制改革委員會) on August 27, 1994
“MIIT”	the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
“MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Eric Jing”	Eric Xiandong JING (井賢棟), our executive Chairman, a shareholder of Hangzhou Yunbo and one of our Controlling Shareholders

DEFINITIONS

“Mr. Jack Ma”	Jack Yun MA (馬雲), the lead founder, one of the directors and principal shareholders of Alibaba, and our ultimate controller
“Mr. Joe Tsai”	Joseph C. TSAI (蔡崇信), one of our non-executive Directors and a founder, one of the directors and principal shareholders of Alibaba
“Mr. Simon Hu”	Simon Xiaoming HU (胡曉明), our Chief Executive Officer, executive Director, a shareholder of Hangzhou Yunbo and one of our Controlling Shareholders
“Ms. Fang Jiang”	Fang JIANG (蔣芳), one of our non-executive Directors, a shareholder of Hangzhou Yunbo and one of our Controlling Shareholders
“MYbank”	Zhejiang E-Commerce Bank Co., Ltd. (浙江網商銀行股份有限公司), one of our key associates in which we own 30% equity interest
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“NPC”	the National People’s Congress of the PRC (全國人民代表大會)

[REDACTED]

“Offshore Pre-[REDACTED] Investors”	the offshore pre-[REDACTED] investors identified in the table under “History and Development — Capitalization of Our Company”
“Oliver Wyman”	Oliver Wyman, Inc. (Hong Kong Branch), an industry consultant
“Onshore Pre-[REDACTED] Investors”	the onshore pre-[REDACTED] investors identified in the table under “History and Development — Capitalization of Our Company”

[REDACTED]

“PBOC”	People’s Bank of China (中國人民銀行)

DEFINITIONS

“Post-[REDACTED] H Share Equity Incentive Plan”	the equity incentive plan approved and adopted on August 6, 2020 and on August 21, 2020 by our Board and our Shareholders, respectively, pursuant to which awards in the form of restricted share units, share appreciation rights and/or restricted shares with H Shares as the underlying shares may be granted by us, a summary of the principal terms of which is set out in the section headed “Appendix VII — Statutory and General Information — D. Employees Equity Incentive Plans — 3. Post-[REDACTED] H Share Equity Incentive Plan” in this document
“PRC Company Law”	Company Law of the People’s Republic of China (中華人民共和國公司法), as amended and adopted by the Standing Committee of the Tenth National People’s Congress on October 27, 2005 and effective on January 1, 2006 as amended, supplemented or otherwise modified from time to time, which was last amended and took effect on October 26, 2018
“PRC GAAP”	China Accounting Standards and Accounting Regulations for Business Enterprises issued by the MOF and its supplementary regulation
“PRC Securities Law”	the Securities Law of the PRC (中華人民共和國證券法), which was enacted by the Standing Committee of the National People’s Congress on October 27, 2005 and last amended on December 28, 2019 and became effective on March 1, 2020
“Pre-[REDACTED] Investments”	the 2015 Equity Transactions, the 2016 Equity Transactions, the 2018 Equity Transactions and the 2018 Offshore Equity Financing
“Pre-[REDACTED] Investors”	the Offshore Pre-[REDACTED] Investors and the Onshore Pre-[REDACTED] Investors
“Pre-[REDACTED] Offshore ESOP Plan”	the equity incentive plan approved and adopted on April 23, 2018 by Ant International, and amended on May 7, 2018 and further amended on June 28, 2020, pursuant to which awards in the form of restricted share units and share appreciation rights with Ant International Class B shares as the underlying shares have been granted by Ant International, a summary of the principal terms of which is set out in the section headed “Appendix VII — Statutory and General Information — D. Employees Equity Incentive Plans — 1. Pre-[REDACTED] Employee Equity Incentives” in this document

DEFINITIONS

[REDACTED]

“document”	this document being issued in connection with the [REDACTED]
“QFII”	qualified foreign institutional investors licensed by the CSRC to invest in RMB-denominated shares listed on China’s domestic securities exchanges
“QIB” or “Qualified Institutional Buyer”	a qualified institutional buyer within the meaning of Rule 144A under the U.S. Securities Act
“Redemption and Subscription”	the redemption of all Ant International Class C shares and Ant International Class B shares in issue and the subscription for and issuance of 2,997,090,484 H Shares and 259,355,840 H Shares pursuant to the arrangements with the Ant International Class C shareholders and the arrangement in respect of the Pre-[REDACTED] Offshore ESOP Plan, respectively, as further described in “History and Development — Redemption and Subscription by Ant International Securities Holders”
“Regulation S”	Regulation S under the U.S. Securities Act
“RMB” or “Renminbi”	the lawful currency of the PRC
“Restricted A Shares Incentive Plan”	the equity incentive plan approved and adopted on August 6, 2020 and on August 21, 2020 by our Board and our Shareholders, respectively, pursuant to which restricted A Shares may be granted by us, a summary of the principal terms of which is set out in the section headed “Appendix VII — Statutory and General Information — D. Employees Equity Incentive Plans — 5. Restricted A Shares Incentive Plan” in this document
“RSU(s)”	restricted share unit(s)
“Rule 144A”	Rule 144A under the U.S. Securities Act

DEFINITIONS

“SAPA”	a share and asset purchase agreement entered into, among others, the Company and Alibaba on August 12, 2014, which was amended on February 1, 2018, September 23, 2019 and August 24, 2020, respectively
“SARs”	share appreciation rights
“Securities and Futures Ordinance” or “SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“SFC”	the Securities and Futures Commission of Hong Kong
“Share Economic Rights Plan”	the incentive plan approved and adopted in January 2014 by our Board and Shareholders, and amended in 2015, pursuant to which awards in the form of share economic rights may be granted by Hangzhou Junhan, a summary of the principal terms of which is set out in the section headed “Appendix VII — Statutory and General Information — D. Employees Equity Incentive Plans — 4. Share Economic Rights Plan” in this document
“Shareholder(s)”	holder(s) of our Shares
“Share(s)”	ordinary shares in the share capital of the Company with a nominal value of RMB1.00 each, comprising A Shares and H Shares
“Special Regulations”	the Special Regulations of the State Council on Overseas Offering and Listing of Shares by Joint Stock Limited Companies (《國務院關於股份有限公司境外募集股份及上市的特別規定》), promulgated by the State Council on August 4, 1994
	[REDACTED]
“STAR Market”	the Science and Technology Innovation Board of Shanghai Stock Exchange
“State Administration of Foreign Exchange” or “SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“State Taxation Administration” or “STA”	the State Taxation Administration of the PRC (中華人民共和國國家稅務總局)
“subsidiary(ies)”	has the meaning ascribed to it under the Hong Kong Listing Rules

DEFINITIONS

“Supervisor(s)”	member(s) of Supervisory Committee
“Supervisory Committee”	supervisory committee of the Company
“Tianhong”	Tianhong Asset Management Co., Ltd. (天弘基金管理有限公司), a company incorporated under the laws of the PRC on November 8, 2004, a subsidiary of ours
“Track Record Period”	the three years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020

[REDACTED]

“US\$,” “USD,” or “U.S. dollars”	United States dollars, the lawful currency of the United States
“US,” “U.S.,” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder

[REDACTED]

In this document, the terms “associate(s),” “close associate(s),” “controlling shareholder(s),” “connected person(s),” “core connected person(s)” and “substantial shareholder(s)” shall have the meanings given to such terms in the Hong Kong Listing Rules, unless the context otherwise requires.

GLOSSARY AND CONVENTIONS

The following is a glossary of certain terms used in this document in connection with us and/or our business. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.

“Annual Active Users” or “AAUs”	Alipay app user accounts through which one or more services were accessed during the previous twelve months
“ABS”	asset-backed security
“AI”	artificial intelligence
“AML”	anti-money laundering
“AUM”	assets under management
“bp(s)”	basis point(s), where one basis point is the equivalent of 0.01%
“CAGR”	compound annual growth rate
“digital finance activity volume”	the aggregate value of the following for a user on the Alipay platform during a given period: (i) daily average balance of consumer credit, (ii) daily average balance of Yu’eobao, (iii) insurance premiums paid, (iv) Xianghubao contributions made
“e-wallet”	digital wallet, which allows users to store cash and make payments online and offline
“GDP”	gross domestic product
“IaaS”	infrastructure-as-a-service
“International Total Payment Volume” or “International TPV”	the value of successfully completed cross-border payment transactions processed through Alipay or enabled by Alipay payment services during a given period
“IoT”	Internet of things
“IT”	information technology
“KYC”	know your customer
“Monthly Active Merchants”	merchant accounts in mainland China that have completed at least one transaction during that month

GLOSSARY AND CONVENTIONS

“Monthly Active Users” or “MAUs”	Alipay app user accounts through one or more of our services were accessed during that month
“PaaS”	platform-as-a-service
“payment fraud loss rate”	total amount of fraud loss divided by total payment volume for a given period
“P&C insurance”	property and casualty insurance
“POS terminal”	point of sale terminal
“Quick Pay”	a type of secure and convenient payment service provided by Alipay, where direct linkage between various banks and Alipay is set up to enable seamless payment through users’ bank cards
“QR code”	usually a pattern of black and white squares, typically used for storing information, that can be read by a smartphone
“SMB”	small and micro businesses
“Total Payment Volume” or “TPV”	the value of successfully completed payment transactions in mainland China processed through Alipay, including commercial, financial and personal transactions during a given period
“users”	in the context of number of users, it refers to Alipay app user accounts; otherwise, individual users

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements that involve risks and uncertainties, including statements based on our current expectations, assumptions, estimates and projections about us, our industries and the regulatory environment in which we and companies integral to our ecosystem operate. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. In some cases, these forward-looking statements can be identified by words or phrases such as “may,” “will,” “strive to,” “seek,” “expect,” “target,” “goal,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “potential,” “continue,” “projected,” “is/are likely to” or other similar expressions. The forward-looking statements included in this document relate to, among others:

- our growth strategies;
- our future business development and goals, results of operations and financial condition;
- trends and developments in digital payment, digital finance, the overall technology and the other service industries in which we operate, both in China and globally;
- competition;
- fluctuations in general economic and business conditions in China and globally;
- expected changes in our revenues and certain cost and expense items and our operating margins;
- geopolitical tensions, international trade policies, protectionist policies and other policies that could place restrictions on economic and commercial activity;
- the regulatory environment in which we and participants in our ecosystem operate; and
- assumptions underlying or related to any of the foregoing.

The global and China Internet, digital payment and digital finance, the overall technology and the other service industries may not grow at the rates projected by market data, or at all. The failure of these industries or markets to grow at the projected rates may have a material adverse effect on our business, financial condition and results of operations and the market price of our H Shares. If any one or more of the assumptions underlying the industry or market data turns out to be incorrect, actual results may differ from the projections based on these assumptions. You should not place undue reliance on these forward-looking statements.

The forward-looking statements made in this document relate only to events or information as of the date on which the statements are made in this document. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this document and the documents that we have referred to in this document completely and with the understanding that our actual future results may be materially different from what we expect.

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You should carefully consider all of the information in this document, including the risks and uncertainties described below, before making an investment in our H Shares. Our business, financial condition or results of operations could be materially and adversely affected by any of these risks. The [REDACTED] of our H Shares could significantly decrease due to any of these risks, and you may lose all or part of your investment. You should also pay particular attention to the fact that we are a PRC company and are governed by a legal and regulatory system which may differ from what prevail in other countries. For more information concerning the PRC legal and regulatory system and certain related matters discussed below see “Appendix IV — Regulations,” “Appendix V — Summary of Legal and Regulatory Matters” and “Appendix VI — Summary of Articles of Association.”

Risks Related to Our Business and Industry

Our business depends on the trust in us, our platform and our brand, and any failure to maintain, protect, enhance and promote such trust would materially and adversely affect our business, financial condition, results of operations and prospects.

Our origins date to 2004 when Alipay was created in the nascent days of e-commerce to solve the trust issue between buyers and sellers in online transactions. Trust is at the core of what we do. We enable participants in commercial activities, including consumers, businesses and partners to build and strengthen trust among each other. In the process, we have become a platform deeply trusted by consumers, businesses and partners. Maintaining, protecting, enhancing and promoting the trust in us, our platform and our brand is critical to expanding the base of consumers, businesses and partners on our platform, as well as increasing their engagement with our services. Many factors could undermine or damage the trust in us, our platform or our brand, including:

- failure to satisfy the expectations of the quality or reliability of the financial products and services on our platform;
- inadequate protection of user information, commercially sensitive or other important information, or inadequate protection of users’ rights to personal information;
- failure in the reliability and integrity of us or partners on our platform;
- negative publicity about us, our platform, partners on our platform, Alibaba, our investee companies, or the industries in which we operate;
- negative perceptions of the effectiveness and robustness of our compliance functions;
- failure in the effectiveness of our intelligent decisioning and dynamic risk management processes and systems;
- non-compliance incidents, litigations or other claims or investigation proceedings;
- employee misconduct, rumors or false stories, or misconduct by our partners, service providers, or other counterparties; and

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- failure to effectively manage or resolve customer complaints.

If we do not successfully maintain the trust in us, our business, financial condition, results of operations and prospects would be materially and adversely affected.

If we cannot continue to innovate, our business, financial condition, results of operations and prospects would be materially and adversely affected.

Our success has largely been driven by our capability to innovate and introduce new products and solutions, and identify potential customer needs even before they are recognized by consumers and businesses. Innovation, one of our key competitive advantages, is essential for the introduction of new products, services and use cases and is the driver of our market leadership. Failure to continue to innovate, or effectively identify and address new customer needs could severely damage our leading position and erode our market share, which in turn would materially and adversely affect our business, financial condition, results of operations and prospects.

Sustained innovation requires us to invest significant resources to identify new opportunities, create new markets and develop new services that deliver more value for consumers, businesses and our partners. Our investments in innovations, which may be significant, may not enhance our competitiveness or generate financial returns in the short term, or at all. As we expand into other jurisdictions, we need to innovate and develop new products and business models rather than simply replicating our successful business model in China to address the distinct needs in different markets. In addition, due to the evolving nature of the intellectual property protection regimes around the world, we may not be able to adequately protect our innovations.

The changes and developments taking place in our industries may also require us to re-evaluate our business model and adopt significant changes to our long-term strategies and business plans. Our failure to innovate, respond and adapt to these changes and developments and our inability to protect our innovations would have a material adverse effect on our business, financial condition, results of operations and prospects. Even if we succeed in identifying new opportunities, creating new markets, innovating new products and solutions and adopting changes in our strategies and plans, we may nevertheless fail to realize the anticipated benefits of these changes and our financial performance may suffer as a result.

If we cannot respond or adapt to the rapid technological development, our business, financial condition and results of operations would be materially and adversely affected.

The business environment in which we operate, is characterized by rapidly changing technology, evolving industry standards and regulations, new mobile applications and protocols, new products and services, and changing user demands and trends. Our success will depend, in part, on our ability to identify, develop, acquire or license leading technologies useful for our business, and respond to technological development and evolving industry standards and regulations in a cost-effective and timely manner. As a result, we must continue to invest significant resources in technology infrastructure, and research and development to enhance our technology capabilities. We cannot assure you that we will be successful in adopting and implementing new technologies, such as blockchain and AI. If we are unable to respond or adapt in a cost-effective and timely manner to technological development, our business, financial condition and results of operations could be materially and adversely affected.

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If we are unable to compete effectively, our business, financial condition, results of operations and prospects would be materially and adversely affected.

We face intense competition, principally from established Chinese Internet companies, Chinese financial technology companies, payment service providers, including commercial banks that issue payment cards or provide QR codes for payments, payment processing networks and digital payment service providers, and companies providing similar technology or distribution-driven financial services in China and the rest of the world. Some of these competitors may generate significant traffic and have established strong brand recognition, robust technological capabilities and significant financial resources. In addition, although global payment companies currently have a limited presence in China, as we expand into other jurisdictions, we face significant competition from them in the area of cross-border payments. We compete to attract and retain consumers, merchants and partners based on various factors. We compete for customers based on factors, such as the value and user experience we offer as well as the security of our Alipay app and other services offerings. We compete for merchants based on factors, such as scale and engagement of consumers on our platform, cost, convenience, quality and the innovative nature of our products and services. We compete for partner financial institutions based on factors such as fee rates, efficient customer reach, customer insights, intelligent decisioning systems, dynamic risk management systems and technology. We also compete for motivated and capable talents, including technology and financial services talents.

Our competitors are continuously investing to innovate, grow their businesses and enhance user reach and engagement, and can outcompete us in any of these areas. They may also be able to obtain certain licenses that we are unable to obtain, which may hinder our ability to offer certain products or access certain pools of liquidity that are the subject of such licenses. Increased investments made, lower prices or innovative products and services offered by our competitors may require us to divert significant managerial, financial and human resources in order to remain competitive, and ultimately may reduce our market share and negatively impact the revenues growth and profitability of our business. Furthermore, our business is subject to rapid changes in the industries we operate in, such as the introduction of new business models, and the entry of new and well-funded competitors or industry disruptors, including other leading Internet, financial technology and payment services companies.

Our ability to compete depends on a number of other factors as well, some of which may be beyond our control, including alliances, acquisitions or consolidations within our industries that may result in stronger competitors, and changes in the regulatory environment in the markets we operate in. Existing and new competitors may leverage their established platforms or market positions, or introduce innovative business models, to launch products or services that may attract a large user base and achieve rapid growth, which may materially and adversely affect our business and results of operations. As we continue to expand into markets outside of China, we increasingly face competition from domestic and international players operating in these markets, as well as geopolitical tensions, regulatory challenges and protectionist policies that may support domestic players in those markets.

If we are not able to compete effectively, the level of economic activity and user engagement on our platform may decrease and our market share and profitability may be negatively affected, which could materially and adversely affect our business, financial condition, results of operations and prospects, as well as our reputation and brand.

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If consumers and businesses decrease their level of engagement or activity on our platform or if we are unsuccessful in promoting usage of our services, our financial results and business may be significantly harmed.

The level of engagement and activity by consumers and businesses on our platform and the level of usage of our services are critical to our success. Our financial performance has been and will continue to be significantly determined by our success in adding, retaining, and engaging active users and growing the usage of our services. As our Alipay AAUs exceeded one billion in China, growing our existing business and services as well as developing new business and services to increase user engagement and the usage of our services is particularly important for us to maintain and grow our revenues. Materialization of any risk factors discussed elsewhere in this section can result in reduced user engagement or usage of our services, including primarily:

- our failure to maintain trust in us and our platform;
- our failure to develop or source high quality financial products or services on our platform;
- our failure to innovate and adapt to rapid technological developments;
- our failure to strengthen our existing services or develop new services;
- our failure to maintain and enhance the attractiveness and usefulness of our services to users and merchants;
- our failure to maintain or enhance user experience or to balance the need for prudent risk management and user experience;
- our failure to maintain or increase the breadth of use cases we offer on our platform;
- our failure to compete effectively; and
- our failure to attract high quality partner financial institutions and maintain our relationship with them.

In addition, growing merchant activity is also an important part of our overall growth strategies to drive user engagement and participation. However, we cannot assure you that we will be successful in growing and expanding our merchant services to a significant scale, or at all, or that the growth of our merchant services, if any, will result in increased user engagement and merchant activity on our platform. Failure to achieve our strategic target may result in our users being attracted by our competitors who may offer stronger value propositions, thereby resulting in significant competitive disadvantage for our digital payment and merchant services and digital finance technology platform businesses.

If we are unable to maintain or increase level of user engagement, merchant activity, or usage of our services, our financial results and business may be adversely affected.

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Our success depends on our ability to maintain a mutually beneficial partnership with financial institutions.

We collaborate with partner financial institutions to create value for consumers and businesses on our platform. Our success depends on our ability to maintain a mutually beneficial partnership with these financial institutions. In particular, revenues from our digital finance technology platform account for an increasing proportion of our total revenues and is expected to be a major driver of our future growth. Our revenues from digital finance technology platform accounted for 56% and 63% of our total revenues for the year ended December 31, 2019 and the six months ended June 30, 2020, respectively. The substantial majority of our revenues from digital finance technology platform was generated from technology service fees we charge our partner financial institutions. Materialization of any risk factors discussed elsewhere in this section can negatively affect our partnership with these financial institutions, including:

- our failure to maintain trust in us and our platform;
- our failure to maintain broad customer reach as expected by our partner financial institutions;
- our failure to maintain effective intelligent decisioning and dynamic risk management processes and systems;
- our failure to empower our partner financial institutions to cost-effectively distribute financial products and services to targeted consumers and businesses;
- our failure in our credit monitoring and collection efforts;
- our failure to innovate and respond and adapt to rapid technological development;
- our failure to maintain or increase user engagement and merchant activity level;
- our failure to compete effectively; and
- any regulatory non-compliance or failure to adapt to changes in regulatory environment.

If any of these happens, we will be subject to, among others, the following risks:

- our partner financial institutions may determine to reach and acquire customers directly instead of partnering with us;
- our partner financial institutions may renegotiate commercial terms of the fee arrangements we have with them;
- our partner financial institutions may become unwilling to offer products and services on our platform; and
- our partner financial institutions may reduce or cease their cooperation with us and therefore expose us to greater partner concentration risk or ultimately lead to our inability to satisfy demand from customers.

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Furthermore, despite our efforts in maintaining mutually beneficial partnerships with these financial institutions, they may still offer financial products or services that compete with us or decide to limit their business volume on our platform to avoid their own dependence and/or concentration risks.

We may not be able to maintain and strengthen the network effects of our platform, which could materially and adversely affect our business, financial condition, results of operations and prospects.

Our platform and services generate powerful self-reinforcing network effects that enhance the value that we create for our consumers, businesses and partners. The extent to which we are able to maintain and strengthen these network effects depends on our ability to:

- attract and retain consumers and businesses and provide a superior experience to them;
- offer and maintain a scalable and efficient platform for consumers, businesses and partners on our platform;
- provide a wide range of high-quality, secure and trustworthy services to consumers, businesses and partner financial institutions;
- maintain a high level of engagement and activity of consumers and businesses on our platform;
- improve the quality of our customer insights;
- consistently innovate and improve the services offered on our platform;
- address user concerns with respect to data security and privacy in connection with our data processing activities;
- increase the effectiveness of businesses and partners engaging with consumers on our platform;
- attract and retain partners that are able to provide quality products and services on commercially reasonable terms on our platform;
- provide effective technologies, infrastructure and services that meet the evolving needs of consumers, businesses and partners; and
- continue adapting to the changing demands of the market and user behavior and preference.

In addition, the interests of consumers, businesses or partners on our platform may not always be aligned. For example, rigorous risk management systems can benefit our partner financial institutions but negatively affect user experiences. To the extent we are not able to address the needs and demands of any particular participant group, those participants may spend less time, mind-share and resources on our platform and may conduct fewer transactions or use alternative platforms, any of which could result in a material decrease in the network effects on our platform and therefore materially and adversely affect our business, financial condition, results of operations and prospects.

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We may not be able to maintain the levels of growth in our revenues or our business.

We have experienced significant growth in revenues and in our business in recent years. Our ability to continue maintaining the levels of growth in revenues and our business depends on a number of factors. See “Financial Information — Factors Affecting Our Results of Operations” and “— Our Revenue Model.” Materialization of any risk factors described in this “Risk Factors” section can negatively affect our ability to operate and grow our existing businesses. Our future commercial and financial successes also depend on our ability to successfully execute our growth strategies, including driving user engagement, expanding the number of users on our platform, strengthening our platform and continuing to foster win-win relationships with our partners, investing in innovation and technology and expanding our cross-border payment business.

We are exploring and will continue to explore new business initiatives, including in industries and markets in which we have limited or no experience, as well as new business models that may be untested or even create new markets. Developing new business initiatives and models or new markets requires significant investments of time and resources, and may present new and difficult technological, operational and compliance challenges. Many of these challenges may be specific to business areas we do not have sufficient or may even have no experience with. We may encounter difficulties or setbacks when we continue to innovate, develop new services and technologies that unlock opportunities from the digital transformation of finance and services for ourselves or for businesses or partners on our platform, which we expect to be an important driver of our future growth. New products or services may not achieve sufficient market acceptance, or at all. As a result, our new products or services and the other growth strategies may not generate the returns we expect in a timely manner, or at all. For example, we are expanding our merchant services and daily life services. We cannot assure you that we will be able to successfully monetize our merchant services or our daily life services and generate results that meet our expectations, or at all.

Our historical success has largely been driven by our capability to innovate new products, services and business models. We may need to make adjustments to our new products, services and business models from time to time in response to evolving regulatory regimes, which may negatively affect our business and prospects. Furthermore, our revenues growth may decline for other reasons, including reduced market acceptance of our existing products or services, decreasing engagement and transaction activities of consumers, our partner financial institutions seeking to reduce the fees we charge to them, increasing competition and slowing growth of digital payment and digital finance industries, interest rate risk which could affect our CreditTech, InvestmentTech and InsureTech businesses, disruptions to China’s economy or the global economy from pandemics, adverse weather conditions, natural disasters or other events, as well as changes in the geopolitical landscape, government policies, regulatory environment or general economic conditions. Our revenues growth rate may also slow in the future as our revenues grows to a higher base level.

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We may not be able to maintain our culture, which has been a key to our success.

Our culture has been defined by our mission, vision and values. In particular, our culture has helped us serve the long-term interests of the participants on our platform, attract, retain and motivate employees and create value for participants on our platform and our shareholders. We face a number of challenges that may affect our ability to sustain our corporate culture, including:

- failure to identify, attract, promote and retain talents at all levels of our organization who share our culture, mission, vision and values;
- generational shift and attitude changes that could lead to a failure to maintain our culture, mission, vision and values;
- challenges of effectively incentivizing and motivating employees, including members of senior management;
- the increasing size, complexity, geographic coverage and cultural diversity of our business and workforce;
- challenges in managing a workforce that is expanding through both organic growth and acquisitions, in providing effective training to this workforce, and in promoting a culture of compliance with laws and regulations and preventing misconduct among our employees and participants on our platform;
- competitive pressures to move in directions that may dilute our culture and divert us from our mission, vision and values;
- failure to execute an effective management succession plan;
- the pressure from the public markets to focus on short-term results instead of long-term value creation; and
- the increasing need to recruit new talents and develop more expertise in new areas of business, innovations and technology, such as the expansion in digital daily life, cross-border payment services and innovation initiatives such as blockchain solutions.

If we are not able to maintain our culture or if our culture fails to deliver the long-term results we expect to achieve, our reputation as a trusted platform, business, financial condition, results of operations and prospects could be materially and adversely affected.

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Our business generates and processes a large amount of data, including personal and business data, and the improper collection, hosting, use or disclosure of data could harm our reputation and have a material adverse effect on our business and prospects.

Our business generates and processes a large quantity of personal data as well as user and user group profiles based on our analysis of personal data. Our privacy policies concerning the collection, use and disclosure of personal data are posted on our platform. We face risks inherent to handling and protecting a large volume of data, especially user data. In particular, we face a number of challenges relating to data security and privacy, including but not limited to:

- protecting the data in and hosted on our system, including against attacks on our system by outside parties, data leakage or fraudulent behavior or improper use by our employees or business partners;
- addressing concerns, challenges, negative publicity and litigation related to data security and privacy, collection, use and actual or perceived sharing (including sharing among our own businesses, with business partners or regulators), safety, security and other factors that may arise from our existing businesses or new businesses and technology, such as new forms of data (for example, biometric data, location information and other demographic information); and
- complying with applicable laws and regulations relating to the collection, use, storage, transfer, disclosure and security of personal data, including requests from data subjects and compliance requirements in accordance with applicable laws and regulations.

These challenges are heightened as we expand our business into jurisdictions with different legal and regulatory regimes. There have been reports of a number of incidents relating to data security and unauthorized use of user data by other high-profile Internet and technology companies and their business partners. The improper collection, use or disclosure of our user data could result in a loss of consumers, businesses, partner financial institutions and other participants on our platform, loss of confidence or trust in our platform, litigation, regulatory investigations, penalties or actions against us, significant damage to our reputation, and have a material adverse effect on the [REDACTED] of our H Shares, our business, financial condition, results of operations and prospects.

In addition, we have entered to a data sharing agreement with Alibaba, which provides for a governance framework regulating the sharing of certain data that are collected or generated as a result of the use by users of our and Alibaba’s respective products or services subject to applicable laws, regulations, industry standards and contractual requirements. See “Connected Transactions — Fully-Exempt Continuing Connected Transactions — 2. Data Sharing Agreement” for further details. If there is any system failure, security breach or lapse by us, Alibaba or other participants that join the data sharing arrangement results in release of user data, our reputation, brand and business may be harmed. As a result of any such failure, breach or lapse, we may also be exposed to liability and/or regulatory actions, and may attract negative publicity from media outlets, privacy advocates, our competitors or others.

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Moreover, we share a limited amount of user data with our business partners in accordance with applicable laws and regulations and subject to stringent data security and privacy requirements. If our business partners engage in activities that are negligent, fraudulent, illegal or otherwise harm the trustworthiness and security of our platform, including improper disclosure or use of user data, or if our business partners otherwise fail to meet their data security and privacy obligations, or users are otherwise dissatisfied with their service quality on or off our platform, we may be subject to user complaints and suffer reputational harm, even if due to actions or activities not related to, attributable to or caused by us, or within our control.

The COVID-19 pandemic presents challenges to our business and the effects of the pandemic could adversely affect our business, financial condition and results of operations.

The global outbreak of COVID-19 is having a significant negative impact on the global economy, especially in retail and service sectors. It has severely disrupted business operations, supply chains and workforce availability across the world, leading to substantial declines in business activity. The COVID-19 pandemic as well as the responses and measures taken in China and elsewhere by the governments and society as a whole in response to the COVID-19 pandemic, present challenges to our business operations as well as consumers, businesses, our partners and other participants on our platform. These challenges include, but are not limited to, lock-down and mandatory or voluntary social distancing measures, such as closure of offices and facilities, disruptions to or even suspensions of normal business operations, as well as restrictions on travel, which may adversely affect our ability to provide services to our customers. In particular, the widespread travel restriction imposed by governments in various jurisdictions has significantly reduced, and is expected to continue to reduce the amount of international travels, which in turn can have a significant negative impact on our ability to grow our cross-border digital payment services that relate to travel spending and overseas spending by Alipay users in China.

In the six months ended June 30, 2020, the impact of the COVID-19 pandemic and the measures implemented in response to the pandemic affected our results of operations in the following ways: (i) lower levels of consumption negatively impacted the use of our digital payment services, particularly for offline consumer and business activities as well as consumer cross-border activities, and negatively affected the growth of the balance of consumer and SMB credit; and (ii) negative effects on the growth of our TPV and revenues from digital payment and merchant services and revenues from CreditTech services. It is not possible to determine the ultimate impact of the COVID-19 pandemic on our business operations and financial results, which is highly dependent on numerous factors, including the duration and spread of the pandemic and any resurgence of COVID-19 in China or elsewhere, actions taken by governments, domestically and in international relations, the response of businesses and individuals to the pandemic, the impact of the pandemic on business and economic conditions in China and globally, consumer demand, our ability and the ability of business or partners on our platform to continue operations in areas affected by the pandemic and our efforts and expenditures to support merchants and partners and ensure the safety of our employees. The COVID-19 pandemic may continue to adversely affect our business, financial condition and results of operations.

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Our business operations and financial position may be materially and adversely affected by any economic slowdown in China as well as globally.

Our business, financial condition and results of operations as well as future prospects are impacted to a significant extent by general economic conditions in China and globally, as well as economic conditions specific to our business. The global economy, markets and level of activity by consumers and businesses are influenced by many factors beyond our control.

The growth of the PRC economy has slowed in recent years as compared to prior years. According to the National Bureau of Statistics of China, China’s real GDP growth rate was 6.9% in 2017 and slowed to 6.6% in 2018 and 6.1% in 2019. As a result of the COVID-19 pandemic, China’s real GDP growth rate is expected to further decline. In the first and second quarters of 2020, China’s real GDP contracted by 6.8% and grew by 3.2%, respectively, on a year-on-year basis.

There have also been concerns about the relationships among China and other Asian countries, the relationship between China and the United States, as well as the relationship between the United States and certain Asian countries such as North Korea, which may result in or intensify potential conflicts in relation to territorial, regional security and trade disputes and negatively affect our cross-border business. See “— We may face challenges in expanding our cross-border businesses and operations, and we may not be able to successfully grow our cross-border payment business.”

Any disruption or continuing or worsening downturn, whether as a result of geopolitical tensions, the COVID-19 pandemic or other reasons, could significantly reduce commerce activities in China and globally, which could lead to a significant reduction in demand for and spending on the various services we offer. For example, a lower level of consumption can reduce the TPV on our platform, thereby resulting in a decrease in revenues from our digital payment and digital finance services. Economic downturn or turmoil can also lead to lower disposable income, lower demand for investment and insurance products, distress in financial markets, and reduced market liquidity, which in turn could lower the business volume on our platform. If China’s credit cycle tightens, or if we implement stricter risk management during economic downturn, there will be negative impact on the performance or growth rate of loans enabled through our platform. Adverse weather conditions or natural disasters could trigger an economic downturn in the areas directly or indirectly affected by the weather or disasters. These consequences could, among other things, result in a decline in business and increased insurance claims for our partner insurers from those areas. They could also result in reduced underwriting capacity of our partner insurers, making it more difficult for them to underwrite insurance products on our platform. An economic downturn, whether actual or perceived, a further decrease in economic growth rates or an otherwise uncertain economic outlook in China or any other market in which we may operate could have a material adverse effect on business and consumer spending and, as a result, adversely affect our business, financial condition, results of operations, and future prospects.

In addition, because we hold a significant amount of cash and cash equivalents and short-term investments, if the financial institutions that we make deposits with or the issuers of the financial instruments that we hold become insolvent or if the market for these financial instruments become illiquid as a result of a severe economic downturn, our business and financial condition could be materially and adversely affected. Furthermore,

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our customers’ funds in Yu’eobao are held in custodial accounts maintained with various financial institutions. If these financial institutions were to fail, our customers may suffer losses, and as a result, our reputation, business, results of operations and financial position could be materially and adversely affected.

We and our partners are subject to a broad range of laws and regulations, and future laws and regulations may impose additional requirements and other obligations that could materially and adversely affect our business, financial condition and results of operations.

We have created a vibrant ecosystem and a platform that offers a broad range of digital payment, digital finance and digital daily life services. As such, we and our subsidiaries, associates, joint ventures and affiliates, as well as businesses, partner financial institutions and other participants on our platform, are subject to a broad range of laws, rules and regulations as described in “Appendix IV — Regulations,” among others, including the laws and regulations on Internet content providers, e-commerce, digital payments, data collection and data security and privacy and consumer protection and are required to obtain and maintain relevant licenses, permits or approvals in the PRC. These laws, rules and regulations are highly complex, and continuously evolving. They could change or be reinterpreted to be burdensome or difficult for us, businesses on our platform or our partners to comply with. As we further expand into other markets, we increasingly become subject to additional legal and regulatory compliance requirements as well as political and regulatory challenges, including scrutiny on data security and privacy and AML compliance, or on national security grounds or for other reasons.

Moreover, we cannot assure you that we and our partner financial institutions will be able to maintain existing licenses and permits, renew any of them when their current term expires or obtain additional licenses required to expand our and their businesses. If we or our partner financial institutions are unable to maintain and renew one or more of the current licenses and permits, or obtain such renewals or additional licenses requisite for future business expansion, the operations and prospects of our business could be materially disrupted. Furthermore, new PRC regulations promulgated in the future may require that we or our partner financial institutions obtain additional licenses or permits in order to continue to conduct our business operations and maintain the cooperation between us and our partner financial institutions. However, we can give no guarantee that we and our partner financial institutions would be able to obtain such licenses or permits in a timely fashion, or at all. If any of the foregoing were to occur, our business, financial condition and prospects would be materially and adversely affected.

We have from time to time been subject, and are likely again in the future to be subject, to PRC and foreign government inquiries, inspections and investigations, including those relating to AML, anti-terrorist financing and sanctions, data security and privacy, cybersecurity, foreign exchange control, consumer protection, anti-bribery, anti-corruption, advertising and content control laws and regulations.

We also face scrutiny, and have been subject and continue to be subject to inquiries, inspections and investigations, from PRC and foreign government authorities that focus on cross-border trade, tax, intellectual property protection, our investment activities and allegedly fraudulent or other criminal transactions. We may also face protectionist policies and regulatory scrutiny, on national security grounds or for other reasons, in foreign

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countries in which we conduct business or investment activities. As we continue to grow in scale and significance, we expect to face increased scrutiny, which will, at a minimum, result in our having to continue to increase our investment in legal and compliance and related capabilities and systems.

The financial services industry is subject to evolving and extensive regulation.

We provide digital payment services, and we partner with a large number of financial institutions and enable them to provide services in consumer and SMB credit, investments and insurance. As such, our business model and these financial institutions, as well as our cooperation model with them are subject to evolving and extensive regulation governing the financial services industry. Moreover, the intersection of finance and digital services is a new phenomenon but one that has attracted significant regulatory attention. See “Appendix IV — Regulations” for further details.

These laws, rules and regulations are highly complex, continuously evolving and could change or be reinterpreted to be burdensome or difficult to comply with. In the past, we had adjusted our business in response to the evolving regulatory environment with respect to digital payments, consumer and SMB credit, investments and insurance. In particular, our services cover various aspects of the financial services industry, and we are the leading digital payment services provider and leading digital finance platform in China. As such, we may be subject to additional scrutiny from regulators and subject to more stringent requirements. We cannot assure you that we will be able to make adjustments to our business in the future in a timely manner to respond to such additional scrutiny and requirements. Even if we are able to adapt and comply, increased regulatory requirements would have the effect of increasing the compliance burden, compliance costs and restrict our flexibility in operating and introducing new businesses. Government authorities in the PRC and other countries are likely to continue to issue new laws, rules and regulations governing the industries in which we operate in the PRC and other countries and enhance enforcement of existing laws, rules and regulations. They have imposed, and may continue to impose, requirements relating to, among other things, new and additional licenses, permits and approvals or governance or ownership structures on us, which we may not be able to obtain, maintain or comply with.

Our partner financial institutions are also subject to continuously evolving regulations on the financial services industry and tightened scrutiny from the regulators, which may be difficult for our partners to comply with or affect their cooperation model with us. Potential scrutiny includes more stringent capital requirements, risk weighting requirements, data security and privacy requirements, limitation on reliance on any single platform, tighter operational standards or more stringent conduct requirements of financial services industry. Furthermore, if new regulations or rules limit the overall debt balance in China, our partner financial institutions’ ability to cooperate with us on consumer and SMB credit may be limited. There can be no assurance that they will be able to make adjustments to their businesses or their cooperation model with us in a timely manner. This in turn can result in reduced user engagement and merchant activity level on our platform, which could harm our business, prospects and results of operations.

Our licensed financial services subsidiaries and associates are subject to evolving and extensive regulation.

In addition to partnering with financial institutions to provide financial products and services, we also provide consumer and SMB credit, investment products, and insurance products through our licensed small loan subsidiaries Ant Shangcheng and Ant Small and

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Micro Loan, licensed commercial factoring subsidiary, Shangrong (Shanghai) Commercial Factoring Co., Ltd., licensed asset management subsidiary, Tianhong, licensed P&C insurance company, Cathay Insurance, and our associate MYbank. These licensed financial services subsidiaries and associate are subject to the same or similar regulations as our partner financial institutions. In particular, our licensed financial services subsidiaries and associate are subject to capital, leverage ratio or solvency margin ratio requirements in the PRC. Any change in regulatory regime or additional requirements may constrain their businesses or result in additional compliance costs. Local authorities in different regions of the PRC may interpret, apply and enforce the relevant rules and regulations in different ways. These various regulatory requirements and their interpretation, application and enforcement relating to our licensed financial services subsidiaries and associate may increase their compliance costs or limit their scale of operations unless we make additional capital contributions to them, or such requirements could restrict our expansion entirely without any possibility of increasing the capital contribution into these subsidiaries and associates. In addition, these licensed subsidiaries and associate are subject to regular and ad hoc regulatory inspections, and may be subject to actions, by the relevant regulators regarding the compliance with relevant laws and regulations.

In July 2019, the PBOC issued a draft regulation on financial holding companies for comments. To better react to and prepare for this regulation, based on our understanding of the current regulatory intent and applicable laws and regulations, we plan to use Zhejiang Finance Credit Network Technology Co., Ltd. (浙江融信網絡技術有限公司), a wholly owned subsidiary of ours, as the entity to apply for being a financial holding company subject to regulation and hold our licensed financial services subsidiaries. Since the draft regulation may be subject to further change, we may need to make adjustments to such plan in accordance with the specific requirements in the enacted regulation.

If we cannot resolve any potential conflict between us and Alibaba in our favor, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We and Alibaba have established a strategic and synergistic partnership and comprehensive business cooperation. Alibaba relies on us to conduct substantially all of the payment processing and all of the escrow services on its marketplaces through long-term contract arrangements, and we derive a portion of our revenues from Alibaba and users on its marketplaces. Also, our strategic relationship with Alibaba enables us to access the users of Alibaba’s ecosystem, which has facilitated, and is expected to continue to facilitate us, the growth, diversity and scale of our user base, as well as the network effects of our platform. We and Alibaba have also established a broad range of business cooperation and transactional arrangements as detailed in “Relationship with Controlling Shareholders — Relationship with Alibaba” and “Connected Transactions.” Conflicts may arise from any aspects of these cooperation and arrangements.

Meanwhile, although we and Alibaba have each agreed to certain non-competition undertakings, conflicts of interest between us may arise relating to commercial or strategic opportunities or initiatives, and there can be no assurance that Alibaba would not pursue opportunities that would conflict with our interests. Under the SAPA, subject to certain limitations and unless both parties agree, we may not engage in any business conducted by Alibaba from time to time or logical extensions thereof, and Alibaba is restricted from engaging in specified business activities within our scope of business enumerated in the SAPA. As a result, our future expansion can be restricted if the particular area we plan to venture into is considered a business conducted by Alibaba or logical extensions thereof. Because Alibaba’s scope of business is broad and expanding, our ability to expand our

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business to new areas may be limited. In addition, Alibaba is not restricted from competing with us in new businesses we are permitted to expand into. As such, although we and Alibaba have distinct business strategies and generally do not compete with each other, there can be no assurance that we and Alibaba will not enter into the same business in the future that would result in competition between us and Alibaba. Furthermore, we and Alibaba may make passive investments in competing businesses below specified thresholds, in some cases after offering the investment opportunity to the other party. In cases where we need to first offer the investment opportunity to Alibaba prior to making a proposed investment, Alibaba may decide to pursue such investment itself. If Alibaba decides not to pursue such investment, we may only make such investment on terms no more favorable than the terms previously offered to Alibaba. Such contractual obligation may impede our ability to make strategic investment.

Alibaba is a major shareholder of ours and is considered to be a controlling shareholder of the Company strictly in accordance with the definition under the Hong Kong Listing Rules only. Mr. Jack Ma, who controls Hangzhou Yunbo, the general partner of both Hangzhou Junhan and Hangzhou Junao, controls 50.52% of our Shares as of the date of this document, and will control [REDACTED]% of Shares immediately following the completion of the [REDACTED], assuming that neither of the A Share [REDACTED] or the H Share [REDACTED] is exercised, is also one of the major shareholders and directors of Alibaba. Three members of Alibaba’s senior management (including two Directors nominated by Alibaba) also serve as our Directors. Accordingly, these and other potential conflicts of interest between us and Alibaba, and between us and Mr. Jack Ma, may not be resolved in our favor, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Moreover, because of Alibaba’s equity interest in and close association with us and overlapping user bases, events that negatively affect Alibaba could also negatively affect customers’, regulators’ and other third parties’ perception of us. In addition, any actual or perceived conflict of interest between us and Alibaba, or any other company integral to the functioning of our platform, could also materially harm our reputation as well as our business and prospects.

Geopolitical tensions have led to a worsening relationship between China and the United States and this adverse trend may continue to deteriorate, which could negatively affect our business and results of operations.

In recent years, there has been a deterioration in the relationship between China and the United States which has resulted in intense potential conflicts between the two countries in trade, technology, finance and other areas, and this has led to greater uncertainties in the geopolitical situations in other parts of the world affecting China and Chinese companies. For example, export controls, economic and trade sanctions have been threatened and/or imposed by the U.S. government on a number of Chinese technology companies. The United States has also threatened to impose further export controls, sanctions, trade embargoes, and other heightened regulatory requirements on China and Chinese companies for alleged activities both inside and outside of China. These have raised concerns that there may be increasing regulatory challenges or enhanced restrictions against China and other Chinese technology companies, including us and Alibaba, in a wide range of areas such as data security and privacy, emerging technologies, “dual-use” commercial technologies and applications that could be deployed for surveillance or military purposes, import/export of technology or other business activities. For instance, in 2019 and 2020, the U.S. government announced several executive orders and regulations effectively barring American firms from selling, exporting, re-exporting, or transferring U.S.-origin technology, components and software, among other items, to Chinese technology companies, including Huawei Technologies Co., Ltd., and their respective affiliates. Companies that have been targeted by such export restrictions, and can no longer obtain much U.S.-origin technology,

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components and software, including Megvii Technology Limited, in which we hold a minority interest. In May 2020, the U.S. Bureau of Industry and Security announced plans to restrict certain Chinese companies and their overseas-related affiliates’ ability to use U.S.-origin technology, component and software to design and manufacture their products. On August 5, 2020, the U.S. government announced plans to expand their “Clean Network” program, among other things, to cover the availability of apps from Chinese companies and to prevent U.S. citizens’ most sensitive personal information and businesses’ most valuable intellectual property, including COVID-19 vaccine research, from being stored and processed on cloud-based systems accessible to certain Chinese companies, including Alibaba. On August 6, 2020, President Donald Trump issued executive orders setting forth restrictions on persons subject to U.S. jurisdiction from entering into transactions with ByteDance Ltd. or entering into transactions related to WeChat with Tencent Holdings Ltd. On August 15, 2020, President Trump issued a second executive order to, among other things, order ByteDance to destroy all copies of data attached to U.S. users. Although the full scope of these executive orders and details of their implementation remain unclear, when such measures become effective, transactions by persons, or with respect to property, subject to the jurisdiction of the United States, with such targeted companies are likely to be prohibited or restricted. These restrictions, and similar or more expansive restrictions that may be imposed by the U.S. or other jurisdictions in the future, may materially and adversely affect our ability to acquire or use technologies, systems, devices or components that may be critical to our technology infrastructure, service offerings and business operations; to access U.S. cloud-based systems and other infrastructure; and to operate in the U.S. In addition, these policies and measures directed at China and Chinese companies could have the effect of discouraging U.S. persons to work for Chinese companies, which could hinder our ability to hire or retain qualified personnel to work for our business. We cannot assure you that the current export controls or economic, trade or other sanctions regulations will not have a negative impact on our business operations or reputation, or that the related trend will not further deteriorate in the future. Furthermore, policies of the United States tend to be followed by certain other countries, and these countries may adopt similar policies regarding their relationships with China or against Chinese companies and restricting their operations.

In addition, if we, any merchants, partner financial institutions and other participants on our platform or other parties that have collaborative relationships with us or our affiliates were to become targeted under sanctions or export control restrictions, this may result in significant interruption in our business, regulatory investigations and reputational harm to us. Particularly, any Chinese companies or individuals targeted under U.S. economic sanctions may lose access to the U.S. markets and the U.S. financial system, including the ability to use U.S. dollars to conduct transactions, settle payments or to maintain correspondent accounts with U.S. financial institutions, U.S. entities and individuals may not be permitted to do business with sanctioned companies and persons, and international banks and other companies may as a matter of law and/or policy decide not to engage in transactions with such company or person. Separately, media reports on alleged violations of applicable export controls, economic and trade sanctions, or data security and privacy laws, or on uses of the technologies, systems or innovations that we develop for purposes which could be perceived as inappropriate or controversial, by us, merchants, partner financial institutions and other participants on our platform, even on matters not involving us, could nevertheless damage our reputation and lead to regulatory investigations, fines and penalties against us. Such fines and penalties may be significant, and if we were publicly named or investigated by any regulator on the basis of suspected or alleged violations of export control or economic and trade sanctions or data security and privacy laws and rules, even in situations where the potential amount or fine involved may be relatively small, our business could be severely interrupted and our reputation could be significantly harmed.

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Furthermore, trade tension between the United States and China could place pressure on the economic growth in China as well as the rest of the world. The U.S. government has recently advocated for and taken steps toward restricting trade in certain goods, particularly from China. While the two nations have reached a phase one trade agreement in January 2020, the progress of future trade talks between China and the United States are subject to uncertainties, and there can be no assurance as to whether the United States will maintain or reduce tariffs, or impose additional tariffs on Chinese products in the near future. Trade tension between China and the United States may intensify and the United States may adopt even more drastic measures in the future. China has retaliated and may further retaliate in response to new trade policies, treaties and tariffs implemented by the United States. Any further escalation in trade or other tensions between the United States and China or news and rumors of any escalation, could introduce uncertainties to China’s economy and the global economy, which in turn could affect activity level on our platform.

Our focus on long-term performance as well as long-term strategic initiatives and investments may affect our results of operations in the short term.

We focus on the long-term interests of consumers, businesses and partners participating in our ecosystem and are dedicated to creating sustainable long-term value for them by enhancing our platform and services to better meet their needs. We have made, and will continue to make, significant investments in our platform and ecosystem to better serve consumers, businesses and partners, enhance user experience, and expand the capabilities and scope of our platform.

We believe these investments are important to our long-term success and future growth, but they may have the effect of increasing our costs and lowering our margins and profit, and this effect may be significant in the short term and potentially over longer periods. For example, in 2018 we made significant investments in promotion and advertising and achieved our strategic objective of serving most of China’s Internet users and merchants as well as driving their engagement. As a result, we incurred significant selling and marketing expenses of RMB47,345 million in 2018, representing 55.2% of our revenues for the year, which reduced our profitability in that year. We continued these efforts during the six months ended June 30, 2019 and selling and marketing expenses accounted for 19.8% of our revenues for the period. There can be no assurance that we will not engage in any investment in business or undertake any strategic initiative that may have similar or larger negative impact on our profitability in the future, or that we will realize the expected benefit of these investments.

The payment industry is highly regulated in China and we are subject to extensive regulations.

The payment industry is highly regulated in China. Several regulatory authorities, primarily the PBOC, oversee different domains of the payment industry. There are laws and regulations that cover different aspects of the industry including entry into such businesses, scope of permitted activities, licenses and permits for various operations and pricing. Major laws and regulations that govern our digital payment business include or may in the future include those relating to payment and merchant services, such as payment processing and settlement, money transfer, foreign exchange, AML, and other financial services. See “Appendix IV — Regulations.” Non-compliance with or changes to the regulations or licensing regimes may materially affect our business and financial results.

As the payment industry in China is still evolving, the applicable laws, rules, and regulations are continually developing and evolving. Any change in the relevant laws, rules and regulations may result in an increase in our cost of compliance, or might restrict our business activities. If we fail to continuously comply with applicable laws, rules and regulations, we may face fines or restrictions on our digital payment business activities, or

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even a suspension or revocation of some or all of our licenses and permits that allow us to carry on our digital payment business activities. During the Track Record Period and as of the Latest Practicable Date, we had not experienced any incidents in this respect that had a material impact on our results of operations or financial condition. However, we cannot assure you that the PBOC, the SAFE and other relevant regulators will not take regulatory measures or orders against us. Any such measure or order may materially and adversely affect our business, financial condition and results of operations. Furthermore, the PRC government may institute new licensing regime covering our current and future payment services. If such a licensing regime were introduced, we cannot assure you that we would be able to obtain any newly required license in a timely manner, or at all, which could materially and adversely affect our business and impede our ability to continue our operations or grow our business.

In addition, our digital payment business has been and will continue to be subject to regular and ad hoc regulatory inspections and actions by the PBOC and other authorities regarding our compliance with applicable rules and regulations. If the results of the inspections reveal any non-compliance or misconduct, the regulatory authorities may take disciplinary action against us, such as imposing fines on us, suspension of our business in certain locations, or even full suspension or revocation of our licenses. During the Track Record Period and as of the Latest Practicable Date, we had been in compliance with all the relevant requirements in all material aspects and had not received material fines. However, we cannot guarantee that the PBOC, the SAFE or other regulatory authorities will not find us to be not in compliance with those requirements in any material aspects in the future and impose material fines or other disciplinary actions accordingly. Any material disciplinary actions taken against or material penalties imposed on us in the future could have a materially adverse impact on our business, brand, reputation, financial condition, results of operations and prospects.

Our business may be adversely affected by new initiatives in the payment industry in China.

At the end of 2017, the PBOC initiated a research into digital currency electronic payment (the “DC/EP”), the sovereign digital currency in the PRC, with the participation of some of the businesses in China, including us. In August 2020, as part of a broad package to stimulate the service sector, the MOFCOM announced that it would launch DC/EP trials in some developed regions in the PRC to be supported by the PBOC. The DC/EP was reported to be the digitalized form of RMB and part of the most liquid form of money supply that includes banknotes and coins in circulation in the PRC. It will be issued and backed by the PBOC and is intended to be used to simulate daily banking activities including payments, deposits and withdrawals from a digital wallet, and as a result may replace some of the country’s banknotes and coins in circulation. The DC/EP is still in pilot phase in limited areas and the details of its implementation remain unclear. As such, we do not have sufficient visibility as to the impact of the DC/EP on consumers’ payment behavior and the payment industry. It is not clear how the DC/EP will fit into or change the current digital payment industry landscape.

In September 2019, the PBOC published the Fintech Development Plan (2019-2021), which includes, among others, an initiative to unify technology standards and promote interoperability of the QR code payment service. We cannot predict how such initiative may change the competitive environment and dynamics in the digital payment industry if the program of an integrated QR code payment service is rolled out officially by the government. If we fail to adapt to these new initiatives in a timely manner, our business, financial condition and results of operations may be materially and adversely affected.

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Changes in the rules of payment networks may adversely affect our business, financial condition and results of operations.

We rely on payment networks, including China NetsUnion Clearing Corporation (“NetsUnion”) and China UnionPay Co., Ltd. (“UnionPay”), for the infrastructure that connects, secures and transmits transactions between payment card issuing banks and us to facilitate the authorization, clearing and settlement of payments. In August 2017, the PBOC mandated the establishment of NetsUnion, which is a nationwide centralized payment network for mobile and Internet payments. Online payment service providers have been required to route mobile and Internet payments involving bank accounts via NetsUnion or UnionPay since June 30, 2018. We have established mutually beneficial relationships with these payment networks, but if we are unsuccessful in maintaining such relationships, our business may be harmed.

The payment networks require us to comply with their network operating rules, including special operating rules that apply to us as a digital payment services provider to consumers and businesses. These rules are set by the payment networks, who have the discretion to their interpretation and alteration. If the payment networks interpret or alter the network rules in a way that is inconsistent with the way we currently operate, we may be required to make changes to our operations. Such changes could be costly or difficult to implement. If we fail to make such changes or otherwise resolve the issue with the payment networks, we could be fined or prohibited from processing payments. In addition, violations of the network rules or failure to maintain good relationships with the payment networks could increase our costs and operating expenses, divert our management’s attention, or otherwise harm our business. Furthermore, if we were unable to accept payment cards or were limited in our ability to do so due to friction with payment networks or other reasons, our business could be materially and adversely affected.

As a result of competitive pressures, customer expectations, differences in our estimation of payment network fees and the actual fees charged by these payment networks, or for other reasons that result in an increase in the network fees, we may be unable to pass all payment network fees or fee increases on to our customers, which could result in us absorbing all or a portion of such fees or fee increases in the future. In addition, the payment network fees charged by the payment networks are subject to government regulation. Changes in such government regulation may lead to increases in these fees. Any of these events would increase our operating costs, reduce our profit margins and adversely affect our business, results of operations and financial condition.

Fraudulent and fictitious transactions pose severe challenges to our risk management capabilities and failure to identify those transactions and manage the related risks may adversely affect our business, reputation, financial condition and results of operations may be harmed.

We experience and face risks of loss due to fraudulent and fictitious transactions, including merchant fraud, fraudulent chargeback, unauthorized use of account information and identity theft. We have taken measures to detect and reduce the incidents and risk of fraud. However, as the methods used to perpetrate fraudulent and fictitious transactions have become increasingly sophisticated, these measures need to be continually improved and may not be effective at all times against new and continually evolving forms of fraud or in connection with new services and products on our platform. If our risk management measures against fraudulent and fictitious transactions do not succeed, fraudulent

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transactions may increase, which could lead to losses, regulatory penalties or even restrictions to our operations, and as a result, and our business, reputation, financial condition and results of operations may be materially and adversely affected.

Global regulatory and legislative activities directly related to the payment industry may have a material adverse impact on our overall business and results of operations.

Regulators of various jurisdictions increasingly seek to regulate certain aspects of payment related activities, including ours, or establish or expand their authority to do so. Many jurisdictions have enacted such regulations, establishing, and potentially further expanding, obligations or restrictions with respect to the types of products and services that we may offer, the countries in which our services may be used, the way we structure and operate our business and the types of consumers and merchants who can obtain or accept our services. New regulations and regulatory oversight could also relate to our cross-border payment business, including risk management policies and procedures, the ability to complete financial transactions in a timely manner, currency conversion, and capital and financial resource requirements. In addition, central banks or similar regulatory bodies around the world have increased, or are seeking to increase, their formal oversight of the digital payments industry. These obligations, designations and restrictions may further expand and could conflict with each other as more jurisdictions impose oversight of payment systems. Moreover, as regulators around the world increasingly look to implement similar regulation of payments and other industries, regulatory efforts in any one jurisdiction may influence regulators’ approaches in other jurisdictions. Similarly, new initiatives within a jurisdiction involving one product may lead to similar regulation on related products. As a result, the risks to our business created by any new law or regulation are magnified by the potential it has to be similarly enacted to some extent in other jurisdictions or involve other products and services within any particular jurisdiction.

Increased regulation and regulatory oversight of payment systems may result in increased compliance burdens or otherwise increase our costs. Such laws or compliance burdens may make our services less desirable to consumers, businesses and partners, reduce the volume of domestic and cross-border transactions or other operational metrics, disintermediate us, impact our profitability, restrict our business or limit our ability to innovate or offer differentiated services, all of which could materially and adversely impact our financial performance and prospects. In addition, any regulation that is enacted related to the type and level of fees we charge could also materially and adversely impact our results of operations. Regulators could also require us to obtain prior approval for changes to our system rules, procedures or operations, which could lead to new or different criteria for participation in and access to our payments system by financial institutions or other participants, and negatively affect our operations. Moreover, failure to comply with the laws and regulations to which we are subject could result in fines, sanctions, civil damages or other penalties, which could materially and adversely affect our overall business and results of operations, as well as our brand and reputation. In addition, we are subject to AML, counter-terrorist financing and sanctions laws and regulations, security and privacy laws and regulations globally. Any violation and subsequent judgment or settlement against us, or those with whom we may be associated, under these laws could subject us to substantial monetary penalties and damages, restrict or interrupt our businesses, and harm our brand and reputation.

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Our profitability could be negatively affected if our transaction fees payable to financial institutions outgrow our revenues.

A substantial portion of our cost of services is transaction fees, which are primarily fees paid to financial institutions for funds drawn to facilitate transactions on the Alipay platform. Transaction fees as a percentage of cost of services were 81.6%, 81.3%, 77.2% and 75.5% for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020. As such, any increase in transaction fees could adversely impact our profitability. For example, our gross margin decreased to 52.3% in 2018 from 63.7% in 2017, primarily due to an increase in the overall fee rate charged by financial institutions as a result of the renewal of agreements to reflect prevailing market rates in 2018. We cannot assure you that the transaction fee rate and any other fee or cost will not increase in the future, or that we will be able to pass any resulting incremental cost to our customers. This in turn could materially and adversely affect our results of operations.

The laws and regulations governing the online lending and consumer finance industry in China are evolving, and our business operations have been and may need to continue to be modified to ensure full compliance with relevant laws and regulations.

The online lending and consumer finance industry in China, similar as the overall financial services industry, is subject to evolving regulation. Our CreditTech services address the unmet credit demands of unserved and underserved consumers and small businesses in China, which entails partnering with a large number of financial institutions in China to provide consumer and SMB credit through our platform. The way financial institutions collaborate with their partners, including us, may subject them to regulatory uncertainties. To cope with the evolving regulatory regime, our partner financial institutions may need to adopt changes to the cooperation model with their business partners, including us, which may adversely affect our business. In addition, we cannot assure you that the business operations of our partner financial institutions currently are or will be in compliance with the relevant PRC laws and regulations, and in the event that our partner financial institutions do not operate their businesses in accordance with the relevant PRC laws and regulations, they will be exposed to various regulatory risks, and as a result, our cooperation model with them would be impacted and our business, financial condition and prospects would be materially and adversely affected. Furthermore, our licensed subsidiaries are also subject to evolving laws and regulations and local authorities’ interpretation thereof and may need to respond and adapt to changes in regulatory requirements. See “Risk Factors — Risks Related to Our Business and Industry — Our licensed financial services subsidiaries and associates are subject to evolving and extensive regulation.”

The PRC government and relevant regulatory authorities have issued various laws and regulations governing the online lending and consumer finance industry as described in the section headed “Appendix IV — Regulations.” For example, the CBIRC issued the Provisional Regulatory Measures for Commercial Banks’ Online Lending Business on July 12, 2020 to provide for the regulatory requirements on the extension of credit by commercial banks via online channels in various aspects. In addition, our partner banks are also subject to changes to capital adequacy and other regulatory requirements that may affect the risk weightings for various credit assets. Any increase in risk weightings for loans enabled through our platform will increase our partner banks’ capital required, which may reduce the attractiveness of these loans or reduce or eliminate their interests in cooperating with us. In addition, a large number of consumers and small businesses have no or only a limited credit history, fewer financial resources or a lower borrowing capacity than large entities, and may be more vulnerable to economic downturns. As such, regulators

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may take steps to require lenders, including our partner financial institutions, to limit their exposure to these borrowers. Regulatory authorities may also require our partner financial institutions to undertake additional borrower suitability assessments. If our partner financial institutions were required to adopt changes to their cooperation models with us as a result of new laws and regulations, our business, financial condition, results of operation and prospects would be materially and adversely affected.

Furthermore, relevant regulatory and judicial authorities may change the private lending rate of interest that can be charged by unlicensed financial institutions from time to time. On August 20, 2020, China’s Supreme People’s Court (the “SPC”) announced its decision to lower the cap for such private lending rate in a revised judicial interpretation. Under the revised judicial interpretation, such total annual percentage rates (inclusive of any default rate and default penalty and any other fee) exceeding four times that of China’s benchmark one-year loan prime rate (the “LPR”) as published on the 20th of each month will not be legally protected. Based on the LPR of 3.85% as published on July 20, 2020, such cap would be 15.4%. The revised judicial interpretation does not apply to licensed financial institutions. However, the SPC’s prior rulings were inconsistent as to whether licensed small loan companies would qualify as licensed financial institutions. Accordingly, there is uncertainty as to whether our licensed small loan subsidiaries would be subject to the cap provided under the revised judicial interpretation. If our licensed small loan subsidiaries are subject to the cap, and if the rate cap is further lowered by any newly adopted, or by the application of any existing, laws, regulations or rulings, our licensed small loan subsidiaries may need to change our loan pricing or our business model, which may have a material and adverse effect on our business, financial condition, results of operation and prospects.

To comply with existing laws, regulations, rules and government policies relating to the online lending and consumer finance industry, we have implemented and will continue to implement various policies and procedures to conduct our business in collaboration with partner financial institutions. During the Track Record Period and as of the Latest Practicable Date, we have not been subject to any material fines or other material penalties under any PRC laws or regulations, including those governing the online lending and consumer finance industry in China. However, due to the lack of detailed rules and the expectation that the relevant laws, regulations and rules may continue to evolve, we cannot be certain that our existing practices would not be deemed by regulators in the future to violate any existing or future laws, regulations and rules.

In addition, new laws and regulations may be adopted, and existing laws and regulations may be interpreted in ways that are inconsistent with our existing business practices, which, along with any possible changes needed to fully comply with any existing or newly released regulations, could require us to further modify our business or operations. The cost to comply with such laws or regulations could force us to incur increased operating expenses, and modifications of our business may have a material and adverse impact on our business, financial condition and results of operations.

Our CreditTech business may not sustain its historically rapid growth.

Revenues from our CreditTech services grew rapidly during the Track Record Period and have been a major driver of our overall revenues growth. However, the revenues growth rate of our CreditTech services decreased in the first half of 2020. We cannot assure you that revenues from our CreditTech business can grow at a high rate going forward. The revenues growth of our CreditTech business is affected by the technology service fee rate we charge our partner financial institutions and the balance of consumer and SMB credit enabled through our platform. Competition and factors beyond our control, such as cost of

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capital, prevailing interest rates, overall liquidity, diversity of funding, return on allocated capital and maximum interest rate prescribed by regulatory authorities and delinquency rate of loans enabled through our platform may affect our partner financial institutions’ willingness to accept the fee rate we charge or to continue to collaborate with us to provide the loans enabled through our platform. For example, the historically low interest rate environment can negatively impact pricing of the loans enabled through our platform. If our partner financial institutions are unable to lower their funding costs as quickly as the decline of the rates they earn on the loans, their net interest income will decrease. On the other hand, higher interest rates would result in higher funding costs to our licensed subsidiaries and our partner financial institutions. This in turn may result in higher interest charged to the borrowers and therefore reduce demand for credit products, or result in a lower interest spread that would negatively impact the fees and fee rates we are able to charge these partner financial institutions. Further limitations on the maximum interest rates our partner financial institutions can charge on the consumer and SMB credit enabled through our platform can also decrease their net interest income. Occurrence of any of the foregoing may in turn affect the business volume enabled through our platform and our partner financial institutions’ willingness to continue to collaborate with us to provide the loans enabled through our platform or accept the fee rates we charge, as well as our bargaining power as we negotiate the commercial terms with them.

The credit balance enabled through our platform is also affected by our cooperation with our partner financial institutions, including the diversity and availability of funding from our partner banks to ensure disbursement of loans in a timely manner, the availability of sources of liquidity such as ABS and the competitiveness of our credit products, which can also be affected by factors beyond our control. For example, rising loan loss rates and deteriorating financial health of consumers and small businesses as a result of the COVID-19 pandemic affected the balance and performance of consumer and SMB credit enabled through our platform. Failure to manage the growth of our CreditTech services effectively could materially and adversely affect its prospects. As a result, our results of operation and prospects could be materially and adversely affected.

In addition to the business volume enabled through our platform, revenues from our CreditTech services are also affected by the fee rates we charge to our partner financial institutions. For example, we may decide to offer lower-priced loans due to reasons such as competition, expansion of target market, regulatory guidance and interpretation of such guidance by regulators and government agencies, or change of product mix. If we target borrowers with better credit quality, we will offer credit products with lower interest rates to reflect the lower risk. However, such low-risk credit products may be subject to more intense competition and result in a reduction of the fee rate we charge our partner financial institutions. Furthermore, factors beyond our control also affect the rates we are able to charge our partner financial institutions, including competition, regulatory environment, interest rate and loan performance.

The performance of the loans we enable through our platform is subject to credit cycles.

Through our platform, we empower our partner financial institutions to extend the availability of credit to unserved and underserved consumers and small businesses to meet their credit needs. Factors including, among others, the slowdown and structural reform of the PRC economy, adverse development in general economic conditions, an increase in unemployment rates among our consumers, health pandemics or epidemics, adverse weather conditions and natural disasters could result in the deterioration of credit profiles of our consumers and small businesses. These consumers and small businesses generally have no or limited credit history, fewer financial resources or borrowing capacity than large entities,

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and may be more vulnerable to economic downturns. In addition, the underserved consumers often have limited or unstable income and small businesses frequently have negligible market shares and often need substantial additional capital to expand or compete and may experience substantial volatility in results of operations, any of which may impair a borrower's ability to service a loan. If general economic conditions negatively impact China or the specific markets in which we operate and consumers or small businesses are adversely affected by adverse business conditions, the credit balance enabled through our platform may decrease, thereby negatively impacting the technology service fee we charge our partner financial institutions that are linked to such business volume. Moreover, an economic downturn could reduce risk appetite of our partner financial institutions. If any of the forgoing materialized, it would affect their collaboration with us, and as a result, adversely affect our business, financial condition and results of operations.

In addition, our intelligent decisioning systems and dynamic risk management systems have not been fully tested in a credit cycle; and we may not be able to accurately predict the performance of loans we enable through our platform. For example, various borrowers have become directly or indirectly affected by the COVID-19 pandemic, including mandatory or recommended closure of businesses, which resulted in higher delinquency rate for consumer and SMB credit enabled through our platform. If there is any sustained adverse trend of asset quality of the loans enabled by our platform, our CreditTech services may be less attractive to our partner financial institutions, thereby negatively affecting their willingness to continue to collaborate with us to provide the loans enabled through our platform or our bargaining power as we negotiate the commercial terms with them, and as a result, our business, financial condition and results of operations may be materially and adversely affected.

We rely on our partner financial institutions for our CreditTech business.

We rely on our partner financial institutions, including partner banks and trust companies, to collaborate with us to provide consumer and SMB credit to our customers. To the extent these partner financial institutions determine not to cooperate with us, our platform may not be able to satisfy the demand from consumers and small businesses. In addition, our partner financial institutions may develop their own technology capabilities to serve consumers and small businesses. There can be no assurance that we can maintain relationships with our partner financial institutions on commercially desirable terms, if at all. Furthermore, if PRC laws and regulations impose more restrictions on cooperation between financial institutions and Internet platforms such as ours, these partner financial institutions will become more selective about their cooperation partners. We have significant relationships with some of our partner financial institutions, for which we enabled large volumes of loans. If we fail to increase the number of our partners, or if existing partners change their mode of cooperation with us, we may face constraints on growth or greater concentration among the remaining partner financial institutions, which in turn can result in our reliance on them and challenges in negotiating favorable commercial terms with them. Even if we are able to retain our partner financial institutions, they may not be able to satisfy all of the demand for consumer and SMB credit through our platform for various reasons beyond our control, including their own liquidity constraints and the capital adequacy requirements imposed on them under applicable laws and regulations. Furthermore, if regulatory action aimed at deleveraging the consumer sector or otherwise limiting the scale of consumer credit in China, our partner financial institutions and our licensed small loan subsidiaries will not be able to meet the demand for consumer credit enabled through our platform. Any of these events could materially and adversely affect our business, financial performance and prospects.

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The trust companies we work with are required to comply with a wide array of laws and regulations that are continually evolving, which may affect their ability to collaborate with us to provide the loans enabled through our platform. For example, on April 27, 2018, the PBOC, the CBIRC, the CSRC and the SAFE jointly issued the Guiding Opinions on Regulating the Asset Management Business of Financial Institutions (the “Asset Management Guiding Opinions”), which, among other things, prohibits the rolling issuance of a series of assets management products (including trust plans) that enables the transfer of the principal, expected investment return and risks among different investors, and sets limit on the structural leverage ratio of trust plans. If our partner trust companies fail to comply with applicable requirements or if they are required to adopt changes to their trust plans, their ability to provide the loans enabled through our platform would be affected.

Our ability to provide the consumer and SMB credit enabled through our platform, to some extent, is affected by the conditions of the ABS market in China.

We and our partner financial institutions, including MYbank, sell a portion of the loans enabled through our platform as ABS. The ABS market in China is subject to evolving regulatory regime, which may limit the investors’ ability to invest in ABS or constrain market size, and therefore affect our ability and that of our partner financial institutions to access the market. Our ability and that of our partner financial institutions to access the market could also be limited by, among other things, the state of the economy, and the liquidity of the market, which are outside of our control. Any inability to access the market could adversely impact our ability and that of our partner financial institutions to fund the loans enabled through our platform, which could in turn have a material adverse effect on our business, financial condition and results of operations. In addition, our licensed small loan subsidiaries may from time to time face challenges when exploring alternative funding initiatives to fund their approved credit lines, to support our rapid business growth or in response to the change of regulatory environment. For example, in 2018, we reduced the use of ABS to support our credit origination in response to certain regulatory guidance. While we were able to develop a partnership model to make appropriate adjustment and maintain strong growth, there can be no assurance that we will be able to implement alternatives in a timely manner to support credit origination and our rapid business growth or in response to the change of regulatory environment and other changes in the future.

Our intelligent decisioning systems and dynamic risk management systems may not be able to effectively assess or mitigate the risks of loans enabled through our platform.

Our ability to attract users and partner financial institutions to use, and build trust in, our CreditTech services is significantly dependent on our credit assessment capabilities. We continuously fine-tune our intelligent decisioning systems and dynamic risk management systems to continually develop and train our algorithms and risk-detection algorithms. If any of these decision-making systems contain programing or other errors, the criteria or parameters we use for the analysis of borrower credit profiles are inaccurate, the risk management models are flawed or ineffective or the customer insights we develop or receive for credit assessment are incorrect or stale, our credit assessment process related to the loans enabled through our platform could be negatively affected, resulting in incorrect approvals or denials of loans or mispriced loans or biased rejection rates for the potential borrowers we assess. If any of the foregoing were to occur, the performance of our credit assessment will be compromised, and our partner financial institutions may be hesitant to continue to partner with us. As a result, our business, brand, reputation, results of operations and financial condition may be materially and adversely affected. Furthermore, if our intelligent decisioning systems or our dynamic risk management systems are proven or perceived to be ineffective, our partner financial institutions may become unwilling to pay

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us the same or similar level of technology service fee rate, or partner with us at all, due to worsening loan performance, among other reasons. Our partner financial institutions are also required to assume an active role in managing their assets and conduct an independent risk management process as part of their underwriting following which they will approve, reject or modify our suggested credit limit and other terms of the credit line. If as a result our customers’ demands are not adequately addressed, our reputation and trustworthiness may be materially and adversely affected. This in turn can lower our revenues from CreditTech services.

To further enhance our credit risk management capability and that of our partners, we are developing more advanced joint credit risk models by collaborating with some of our partner financial institutions. Based on data from both sides, the joint credit risk models enable both parties to capture more customer insights and create more accurate borrower credit profiles. There can be no assurance that we will be able to attract a meaningful number of partner financial institutions to adopt joint credit risk models or to develop them as meaningful enhancement to our business. Moreover, our ability to collect, use and share user information may be limited by evolving data security and privacy laws and regulations in China and jurisdictions outside China in which we operate, which may hinder our efforts to establish this joint credit risk models.

In addition, we are subject to the risk of fraudulent activity both on our platform and associated with borrowers. Our resources, technologies and fraud detection tools may be insufficient to accurately detect and prevent fraud. Significant increases in fraudulent activity could negatively impact our reputation, cause loss to our partner financial institutions and reduce the balance of credit enabled through our platform. We may also find it necessary to take additional steps to reduce fraud risk, which could increase our costs and expenses.

Collection efforts of our own and of our third-party service providers may be ineffective or deemed improper.

Our CreditTech services include collection services for our partner financial institutions. The majority of our collection activities are conducted through automated digital processes such as payment reminder notifications in the Alipay app, text messages, voice messages or AI-initiated collection calls. If a loan had remained overdue for a certain period of time, we typically outsource loan collection to third-party service providers in order to optimize collection efficiency. If our collection efforts are not as effective as expected, it may result in a reduction of the asset quality of the loans enabled through our platform, our partner financial institutions may find their returns less attractive and our relationships with our partner financial institutions may be materially and adversely affected.

Moreover, the laws and regulations governing debt collection in the PRC are still developing and evolving. Although we intend to comply with the relevant laws and regulations and have adopted policies and guidelines on selecting third-party service providers and regulating and closely monitoring their collection efforts, we cannot assure you that our third-party service providers, over whom we do not have control, will not engage in any misconduct or be perceived as engaging misconduct as part of their collection efforts. Any such misconduct or perceived misconduct may harm our reputation and hinder our collection efforts. It may also result in regulatory inquiries or penalties to us. Any of the above may have an adverse effect on our brand, reputation and results of operations.

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Our licensed small loan subsidiaries are subject to risk of loan losses.

Our licensed small loan subsidiaries funded a limited portion of the consumer and SMB credit enabled through our platform. We choose to hold a small portion of these loans on our balance sheet primarily to innovate new products and services, expand into new categories of customers and where we have a co-lending arrangement with our partner financial institutions. Consequently, the loans we hold on our balance sheet usually have higher credit costs than the loans we enable for partner financial institutions. Direct funding of the loans subjects us to the risk of loan defaults. In addition, a portion of the loans we fund are sold as ABS, and we retain a small portion as holders of the subordinated tranches of these ABS and are exposed to credit risks for the principal amount of the subordinated tranches we subscribe for. As a result, we have exposure to the credit cycle associated with the volatility of the general economy for the loans directly funded by us. If economic conditions deteriorate, we may face increased risk of default or delinquency of borrowers. In the event that the creditworthiness of borrowers deteriorates or we cannot track the deterioration of their creditworthiness, the criteria we use for the analysis of borrower credit profiles may be rendered inaccurate, and our risk management system may be rendered ineffective. This in turn may lead to higher delinquency rates, higher capital requirements or lower leverage ratio and adverse impacts on our brand, reputation, business, results of operations and financial position.

Deterioration in general economic conditions and unforeseen risks, such as the COVID-19 pandemic, affecting borrowers may have an adverse effect on their capacity to fulfill their repayment obligations in a timely manner before our assessment on borrowers' credit profile could reflect those changing conditions, thereby increasing the delinquency rate of our outstanding loans receivables. Any adverse change in economic and market conditions may result in losses from fair value changes or defaults incurred on loans receivables, which could materially and adversely affect our results of operations and financial position.

Our associate company MYbank is our most important partner in serving small businesses. If MYbank fails to adapt to changes in the policies, laws and regulations relating to the highly regulated PRC banking industry, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We own a 30% equity interest in MYbank, our most important partner in serving small businesses and an important part of our digital finance technology services. We collaborate with MYbank to conduct SMB CreditTech services and InvestmentTech services as MYbank possesses the necessary licenses and permits for these businesses. Therefore, MYbank is one of our largest customers.

As a licensed bank in the PRC, MYbank's business is highly regulated and is subject to various regulatory requirements and guidelines set forth by the PRC regulatory authorities, which include, but are not limited to, the CBIRC, the PBOC, the MOF, the STA, the CSRC, the SAFE and their respective local branches, particularly in Zhejiang Province. Some of these regulatory authorities conduct regular and ad hoc inspections, examinations and inquiries on MYbank's business operations and compliance with the laws, regulations and guidelines, and have the authority to impose sanctions, penalties or remediation actions. These laws, regulations and guidelines impose regulatory requirements on, among others, banking products and services, related party transactions, market entry, risk management, tax and accounting policies and pricing. The CBIRC, as the primary banking industry regulator in the PRC, has promulgated a series of banking regulations and guidelines aimed at improving the operations and risk management of Chinese commercial banks. In particular, since late 2017, in line with the policy to mitigate potential risks in

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the PRC financial markets, the CBIRC has promulgated a series of rules and regulations enhancing supervision and adding restrictions on various business operations of banks, including entrusted loans and cooperation between banks and trust companies. These regulations encourage banking institutions and other financial institutions to improve their risk management systems, enhance supervision on business operations and adopt more stringent corporate governance measures. Many of the policies, laws and regulations governing the banking industry or the interpretation thereof may change in the future. As we do not control MYbank, we cannot assure you that MYbank will always be able to adapt to such changes in a timely manner or at all. We also cannot assure you that we can determine MYbank’s strategic objectives, business priorities, capital allocations and risk management. If MYbank fails to comply with new laws, regulations or policies or alters its strategies accordingly in a manner that reduces its cooperation with us, our business, reputation, financial condition, results of operations and prospects may be materially and adversely affected.

In addition, as a commercial bank, MYbank is subject to capital requirements under applicable PRC laws and may need additional capital to meet its capital adequacy requirements. If MYbank cannot continue to access sufficient liquidity or optimize its balance sheet through funding sources such as the ABS market, its business growth may be restrained. As such, as a shareholder, we may need to inject additional capital if we wish to maintain MYbank’s growth. However, there can be no assurance that other shareholders of MYbank will provide their proportional share of additional capital if needed. Furthermore, in the event of MYbank’s failure, pursuant to the articles of association of MYbank, in addition to the paid-in capital contributed by us, we have agreed to contribute to MYbank an amount up to its fully paid-in capital to cover any residual loss of MYbank’s individual depositors that is not covered by deposit insurance.

The PRC regulatory environment for asset management industry is evolving, and we are susceptible to changes in regulations and government policies.

Asset management businesses operated by our partner financial institutions and our licensed asset management subsidiary, Tianhong, as well as our fund distribution activities are primarily subject to the regulatory requirements and guidelines set forth by the CSRC and the CBIRC. As the asset management industry in the PRC is at an early stage of development, new laws and regulations may be adopted to address new issues that arise from time to time, to impose new requirements or to require additional licenses and permits for the distribution of products other than funds such as asset management plans. For example, the Asset Management Guiding Opinions impose new requirements on asset management industry, including leverage limits and prohibition on implicit guarantees and provide a transition period ending at the end of 2020 (which was recently extended to the end of 2021) during which financial institutions are required to rectify or improve their existing investment products to be in compliance with the new requirements. As a result, substantial uncertainties exist regarding the evolution of the regulatory environment and the interpretation and implementation of current and any future PRC laws and regulations applicable to the asset management industry.

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Businesses engaged in distribution of publicly-offered funds or consultation of securities investment are required to obtain a license from the CSRC, which we have obtained. In addition, we are subject to the regulatory requirements on fund sales activities, such as marketing and distribution of funds. These requirements include but are not limited to compliance with the principles of good faith and investor suitability, and prohibition of any false records, misleading statements, material omissions, illegal earnings commitment, and exaggeration or other false advertising. If regulators decide to impose more stringent requirements on fund sales activities or further scrutinize fund sales marketing activities on Internet platforms, our InvestmentTech business could be adversely affected.

If we fail to effectively and appropriately match suitable investment products with our customers, our reputation as a trusted platform, business, financial condition and results of operations may be materially and adversely affected.

Our InvestmentTech services enable partner asset managers to offer personalized investment options with varying returns to meet the different needs and risk profiles of our customers. Such personalized investor services are driven by our intelligent decisioning systems, which help analyze investors' risk profiles and match products with investors. Our ability to attract customers and partner asset managers to use, and build trust in, our InvestmentTech services is significantly dependent on our ability to match suitable products to our customers. In order to present suitable products that fit consumers' risk profiles, we evaluate each user's risk preference at least on an annual basis. We construct a user risk profile based on transaction data on our platform as well as the user's inputs. If a user is in the process of purchasing investment products where the risk level exceeds the user's risk appetite, our platform would notify the user about the potential investment risks before the user is able to purchase such products.

If any of our intelligent decisioning systems contain programming errors or other errors, the criteria or parameters we use for the analysis of customer risk profiles are inaccurate, the risk profiling model is flawed or ineffective or the data we accumulate or receive for risk profiling are incorrect or stale, our evaluation of customer's risk profile could be negatively affected, resulting in presentation of unsuitable investment products to our customers. Even if our suitability analysis is effective, our customers may still find the investment products we present to them dissatisfactory if they suffer any losses. If any of the foregoing were to occur in the future, our customers may move assets off our platform, may decide to hold us responsible for any losses they suffer, and our partner asset managers may be hesitant to continue to partner with us. As a result, our reputation as a trusted platform, business, financial condition and results of operations may be materially and adversely affected.

If we fail to continue to expand product offerings on our platform or if our partner asset managers fail to provide high quality and attractive products for our customers or manage risks effectively, our InvestmentTech business may be materially and adversely affected.

Our InvestmentTech services enable partner asset managers to serve the investment needs of consumers and small businesses on our platform. Starting from a single money market fund product managed by Tianhong under Yu'ebao, we now enable partner asset managers to offer customers a broad range of investment products. Yu'ebao continues to represent a significant portion of the AUM enabled through our platform. If we fail to continue to expand product offerings on our platform, a decline in AUM of Yu'ebao could adversely

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affect our InvestmentTech business. Failure to retain partner asset managers can also result in greater concentration on the remaining partner financial institutions, which in turn can result in undue reliance on them and challenges in negotiating favorable commercial terms with them.

Our success in InvestmentTech business also depends on our partner asset managers’ ability to generate attractive return for our customers as well as their risk management capability. Investment performance may be affected by various factors, such as partner asset managers’ investment strategies, market or economic conditions, interest rate and government regulations, which we cannot control. In particular, the investment products currently available on our platform are mostly money market funds, fixed income products, fixed term products or time deposits, and the return on these products is dependent upon prevailing interest rates and interest rate movements, and therefore highly susceptible to risks of interest rate fluctuations. Furthermore, a low interest rate environment could reduce the overall attractiveness of the investment products enabled on our platform and result in capital outflows from our platform. Limited availability of investment options and hedging strategies in China, together with market volatility, could also negatively affect the ability of our partner asset managers to provide stable and attractive returns for customers on our platform. Furthermore, for certain investment products, the asset management contracts that customers have entered with our partner asset managers through our InvestmentTech services may be terminated without cause. As a result, even short-term declines in the performance of the investment products on our platform could cause some of our customers to move assets off our platform. Poor investment performance could also adversely affect our ability to attract new customers to our platform. In addition, our partner asset managers need to accurately describe the products to, and evaluate them for, our customers. Although we use a set of criteria to evaluate our partners and their products before granting access to our platform and conduct regular assessment, we do not control our partner asset managers’ risk management process. Their risk management policies and procedures may not be fully effective in mitigating the risk exposure of our customers in all market environments or against all types of risks. If our partner asset managers cannot identify or effectively control the various risks involved in the investment products that they offer on our platform, or fail to disclose such risks to our customers in a sufficiently clear and timely manner, or to in a timely manner dispose of such investments in our customers’ investment portfolios, our customers may suffer financial loss or other damages; and as a result, we could be subject to claims or litigation, and our reputation and business could be adversely affected.

The insurance industry is highly regulated in China. Non-compliance with the evolving laws and regulations may materially and adversely affect our business and prospects.

The insurance industry is highly regulated in China, and the regulatory regime continues to evolve. The CBIRC has extensive authority to supervise and regulate the insurance industry in China. Since the online insurance industry in China is evolving rapidly, the CBIRC has been enhancing its supervision over this industry in recent years, and new laws, regulations and regulatory requirements have been promulgated and implemented from time to time. We face challenges brought by these new laws, regulations and regulatory requirements, as well as significant uncertainties in the interpretation and application thereof. Moreover, there exist uncertainties as to how the regulatory environment might change.

On June 22, 2020, the CBIRC published the Notice on Regulating the Backtracking Management of Online Insurance Sales Behavior (the “Online Insurance Sales Notice”) with effect from October 1, 2020. The Online Insurance Sales Notice sets out requirements on various aspects of online sales by insurance institutions, including sales practices,

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record-keeping for backtracking sales, and disclosure requirements. For example, the Online Insurance Sales Notice requires that online sales pages should be displayed only on insurance institutions’ self-operated online platforms and should be separated from non-sales pages. Insurance institutions should keep records for five years after the expiry of the policy for policies with a term of one year or less and for ten years for policies with a term longer than one year for purposes of backtracking sales. It is also required that important policy terms and conditions should be presented on a separate page and be confirmed by policyholders or insureds.

China’s insurance regulatory regime is still evolving. Further development of regulations applicable to us or our partner insurers may result in additional restrictions on our business operations or more intensive competition in this industry. For example, on December 13, 2019, the CBIRC distributed the draft Regulatory Measures for Online Insurance Business (the “Draft Measures”) for comments among insurance industry participants. The Draft Measures are intended to replace the existing regulations on the same subject that were adopted in 2015. The Draft Measures, if enacted in substantially the form released for comment, will change regulatory requirements for online insurance business in various aspects. According to the Draft Measures, marketing partners of insurers will be required to disclose the insurers’ names and disclaimers on their web page. Furthermore, insurers will be required to manage marketing activities of their marketing partners, which may impact our cooperation with our partner insurers. We might be required to spend significant time and resources in order to comply with any material changes in the regulatory environment, which could trigger significant changes to the competitive landscape of our industry, and we may lose some or all of our competitive advantages during this process. We may change the insurance product mix we make available on our platform in response to changing market demands following any change of regulatory requirements. In doing so, we may have to include insurance products that we have little experience with on our platform, or reduce or cease the offering of insurance products that used to be popular on our platform, either of which may adversely affect our results of operations.

If we cannot continue to innovate and co-innovate with our partner insurers to deliver new insurance products, or the innovative products are not commercially viable, our reputation, business, financial condition and results of operations would be materially and adversely affected.

Our success depends on our ability to innovate and co-innovate with our partner insurers to deliver new insurance products that identify and anticipate consumer and business needs. We leverage our customer insights to identify customer needs to be addressed by innovative insurance products we jointly design with our partner insurers. However, the complex nature of insurance products may constrain our partner insurer’s ability to design new products that can sufficiently address the customer needs we have identified or are suitable for distribution on our platform. In addition, increased insurance regulations may complicate, delay and increase the costs of innovating, marketing and distributing new insurance products on our platform.

Even if we are able to innovate or co-innovate with our partner insurers, the new insurance products we innovate or co-innovate with our partner insurers may not achieve sufficient market acceptance, or at all. In addition, the viability of new insurance products depends to a significant extent on the level of consistency between actual benefits and claims our partner insurers pay out and the assumptions and estimates used for underwriting the new insurance products. These assumptions and estimates are based in part on our customer insights and our intelligent decisioning systems. Given new insurance products have limited claim history, we are only able to verify the reliability of our customer insights during such

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limited period and may lack sufficient historical information to contribute to the accurate pricing and risk management. In addition, our intelligent decisioning systems may not be effective in identifying appropriate products feature and pricing. If the actual circumstances are not consistent with the assumptions and estimates used for underwriting the new insurance products, our partner insurers may suffer significant claims losses. These assumptions and estimates are also based on expected rates of return on plan assets. Changes in these assumptions, including interest rate environment, may result in lower investment returns which could impact our partner insurers’ liquidity and financial condition. Lower investment returns can also make our partner insurers’ products less attractive, resulting in lower sales and, thus, lower income in the form of premiums that our partner insurers receive. In addition, if we fail to effectively detect fraudulent claims during the claim process, our partner insurers may incur additional loss. If any of the foregoing were to occur, our partner insurers may be hesitant to continue to partner with us, and their willingness to accept the fee rate we charge will be affected. If our partner insurers increase the premiums as a result, our customers may be negatively affected, which could impact our reputation. Furthermore, the insurance market in China is concentrated. We partner with a limited number of insurance companies for certain insurance products that are highly popular on our platform. Failure to retain any of our partner insurers could result in greater concentration among the remaining partner insurers, which in turn could result in undue reliance on them and challenges in negotiating favorable commercial terms with them.

Our mutual aid program, Xianghubao, is subject to regulatory and business risks.

Our mutual aid program Xianghubao, is subject to a number of regulatory and business risks. See “Our Business — Digital Finance Technology Platform — InsureTech” for more details on Xianghubao. Currently, such mutual aid program is not regulated as an insurance product in China. However, as more companies began to follow our lead and roll out identical or similar mutual aid programs, regulatory authorities in China may determine to regulate these programs as an insurance product, or otherwise impose comprehensive regulatory oversight, which may add considerable compliance complexity and cost with respect to Xianghubao.

In addition, Xianghubao does not require any upfront payment or admission fee for joining. When a participant makes a claim and submits supporting evidence via the Alipay app, we will conduct an investigation, review and approval process. Upon approval, the participant will receive a one-time payout, the cost of which will be allocated equally among all the other participants. As Xianghubao grows, we may make errors in any of the large number of claims we process through our complex administrative systems. Any mistakes during the claim process may harm our business, reputation, results of operations, or financial condition. In addition, if we are unable to obtain necessary and accurate information from participants, we may be unable to pay claims, or we may pay claims without sufficient documentation, which may harm our business, reputation, results of operations, or financial condition. Furthermore, if claim payouts increase, participants may decline to pay the allocated payout amounts and Xianghubao may need additional funding to make the payouts. If the annual fee per participant continues to increase, some of the participants may decide to withdraw from the platform, which would have a material adverse effect on the operations of Xianghubao.

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We rely on our partners to provide reliable and satisfactory products and services, and we may be unable to effectively manage them.

Our success depends on our ability to manage various partners including financial institutions and independent service vendors, or ISVs, to provide reliable and satisfactory products and services to users on our platform. Our collaboration with various partners is critical for us to address the massive digital payment, digital finance and digital daily life services opportunities for consumers and businesses. To the extent we are unable to effectively manage these partners to provide satisfactory services to our users to address their needs on commercially acceptable terms, or at all, or if we fail to retain existing or attract new quality partners to our platform, our ability to retain, attract or engage our users may be severely limited, which may have a material and adverse effect on our business, financial condition and results of operations.

In addition, our ability to manage our partners or properly monitor the quality and efficacy of their service or product delivery may be limited in certain circumstances. For example, although we screen our partners’ products and product providers before distributing them on our platform, we do not have control over the performance of their investment products or the coverage of their insurance products. Despite a clear disclaimer on risks associated with the quality of these products, we may be perceived as endorsing the quality of these products, such as the investment returns of investment products and the terms and coverage of insurance products distributed through our platform. Any unsatisfactory performance for these products or services may harm our reputation. Furthermore, unsatisfactory performance for the products or services offered by our partners that are customized based on our customer insights can result in more serious harm to our reputation. Furthermore, we also rely on partner financial institutions for complete, accurate and timely disclosure of their product information. While product information from these partners has been generally reliable, there can be no assurance that the same degree of reliability will be maintained in the future. Any incomplete, misleading, inaccurate or fraudulent information provided by our partner financial institutions could result in investment and other losses by our users, harm our reputation and drive users away from our platform, or subject us to claims or litigation, which in turn could materially and adversely affect our business, financial condition and results of operations.

Our business is subject to complex and evolving domestic and international laws and regulation regarding data security and privacy. These laws and regulations can be complex and stringent, and many are subject to change and uncertain interpretation, which could result in claims, changes to our data security and privacy practices or other our business activities, penalties, increased cost of operations, or declines in user growth or engagement, or otherwise negatively affect our business.

Regulatory authorities in the PRC and around the world have implemented and are considering further legislative and regulatory proposals concerning data security and privacy. New laws and regulations that govern new areas of data security and privacy or impose more stringent requirements may be introduced in the PRC and other jurisdictions where we conduct business or may expand into. In addition, the interpretation and application of data security and privacy laws in the PRC and elsewhere are often uncertain and in flux. Existing or newly-introduced laws and regulations, or their interpretation, application or enforcement, could have the potential to significantly affect the value of our data and require us to change our data security and privacy practices and other business activities.

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The PRC regulatory and enforcement regime with regard to data security and privacy is evolving, including the adoption of the Cybersecurity Law of the PRC (《中華人民共和國網絡安全法》) (the “Cybersecurity Law”) and relevant regulations. See “Appendix IV — Regulations — Regulations on Telecommunication and Internet Information Services — Regulations on Cybersecurity and Data Security.” Compliance with the Cybersecurity Law as well as additional or amended laws and regulations that PRC regulatory bodies may enact in the future, may result in additional expenses to us and subject us to negative publicity, which could harm our reputation among users and negatively affect our business and the [REDACTED] of our H Shares. There are also uncertainties with respect to the laws and regulations related to data security and privacy in the PRC. Regulators in the PRC, including MIIT and the Cyberspace Administration of China, have been increasingly focused on regulation in the areas of data security and privacy. We expect that these areas will receive greater and continued attention and scrutiny from regulators and the public going forward, which could increase our compliance costs and subject us to heightened risks and challenges associated with data security and data protection. If we are unable to manage these risks, we could become subject to penalties, including fines, suspension of business and revocation of required licenses, and our reputation and results of operations and the [REDACTED] of our H Shares could be materially and adversely affected.

In addition, in July 2020, the Standing Committee of the National People’s Congress of China released the draft data security law for public comment (“Draft Data Security Law”). The Draft Data Security Law provides that a classified data protection system will be applied based on the level of importance of the data and at the national level a centralized mechanism for risk assessment, monitoring, and early warning of potential data security risks and emergency response will be established. The Draft Data Security Law also provides for the data security and privacy obligations on entities and individuals carrying out data activities. As the Draft Data Security Law remains subject to change, we may be required to make further adjustments to our business practices to comply with the enacted form of the law.

As we expand our operations into other jurisdictions, we will be subject to additional laws and regulations in these jurisdictions, including where we operate or where our consumers, merchants, partner financial institutions and other participants are located. The laws and regulations of other jurisdictions may be subject to change or uncertain interpretation, be more comprehensive, detailed and nuanced in their scope, or may impose requirements and penalties that conflict with, or are more stringent than, those in China. In addition, these laws and regulations may restrict the collection, storage, transmission and exchange of data across jurisdictions, which could impose additional and substantial operational, administrative and compliance burdens on us, and may also restrict our business activities and expansion plans, as well as impede our business strategies. Complying with laws and regulations for an increasing number of jurisdictions could require significant resources and costs. The increasing number of new legal requirements in various jurisdictions, such as the European Union General Data Protection Regulation (the “GDPR”), present increased challenges and risks in relation to policies and procedures relating to data collection, storage, transfer, disclosure, protection and privacy, and may impose significant penalties for noncompliance, including for example, penalties calculated as a percentage of global revenues under the GDPR.

A failure, or perceived failure, by us to comply with the legal or regulatory requirements or privacy protection-related laws and regulations of other jurisdictions, could result in reputational harm, investigations, proceedings or actions against us by regulatory authorities, users, business partners or others. In addition, our data processing activities that are determined to be in violation of these laws and regulations or detrimental to privacy

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interests could also result in significant harm to our reputation and similar investigations, proceedings or actions against us by regulatory authorities, users, business partners and others, as well as negative publicity. These investigations, proceedings or actions could subject us to significant penalties and negative publicity, require us to change our data security and privacy practices or other business activities, increase our costs, severely disrupt our business, hinder our expansion plans or otherwise negatively affect the [REDACTED] of our H Shares.

Any failure by us or our partners who work with us in connection with our digital payment and digital finance services to comply with applicable AML, counter-terrorist financing and economic sanction laws and regulations could lead to significant penalties and damages to our reputation.

We and our partners who work with us in connection with our digital payment and digital finance businesses are required to comply with certain AML requirements set out by PBOC and other regulators in the jurisdictions where we and our partners operate. These requirements include the establishment of a client identification program, the monitoring and reporting of suspicious transactions, the preservation of client information and transaction records, and the provision of assistance in investigations and proceedings in relation to AML matters. We and our partner financial institutions are also subject to various counter-terrorist financing and economic sanction laws and regulations that prohibit, among other things, any involvement in transferring the proceeds of criminal activities. These laws and regulations require us and our partners to establish sound internal control policies and procedures with respect to AML, counter-terrorist financing and economic sanction monitoring and reporting obligations.

The policies and procedures we and our partners have adopted may not be effectively implemented in protecting our services from being exploited for money laundering, terrorist financing and other illegal purposes. If we fail to comply with AML, anti-terrorist and economic sanction laws and regulations, we will be subject to fines, enforcement actions, regulatory sanctions, additional compliance requirements, increased regulatory scrutiny of our business, or other penalties levied by regulators, and damages to our reputation, all of which may adversely affect our business operations, and results of operations. In particular, if we were publicly named as a sanctioned entity by relevant regulatory authorities or become subject to investigation, our business may be significantly interrupted and our reputation will be severely damaged. Similarly, if our partners fail to comply with applicable laws and regulations, it could disrupt our services and could result in potential liability for us and damage our reputation. We and our partners have been and will continue to be required to make changes to our and their respective compliance programs in response to any new or revised laws and regulations on AML, counter-terrorist financing and economic sanctions, which could make compliance more costly and operationally difficult to manage.

Our failure to manage the significant management, operational and financial challenges involved in growing our business and operations could harm us.

Our business has become increasingly complex as the scale, diversity and geographic coverage of our business and our workforce continue to expand. This expansion increases the complexity of our operations and places a significant strain on our management, operational and financial resources. The challenges involved in expanding our business require our employees to handle new and expanded responsibilities and duties. If our

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employees fail to adapt to the expansion or if we are unsuccessful in hiring, training, managing and integrating new employees or retraining and expanding the roles of our existing employees, our business, financial condition, results of operations and prospects may be materially harmed.

Moreover, our current and planned staffing, systems, policies, procedures and controls may not be adequate to support our future operations. To effectively manage continuing expansion and growth of our operations and workforce, we will need to continue to improve our personnel management, transaction processing, operational and financial systems, policies, procedures and controls, which could be particularly challenging as we expand to new operations with different and incompatible systems in new industries or geographic areas. These efforts will require significant managerial, financial and human resources. There can be no assurance that we will be able to effectively manage our growth or to implement all these systems, policies, procedures and control measures successfully. If we are not able to manage our growth effectively, our business and prospects may be materially and adversely affected.

Even if we are able to manage and overcome challenges associated with our growth, we may face challenges in our cooperation with partner financial institutions, as they may not be able to effectively manage the challenges described above to handle the incremental business volume brought by the growth of our platform.

We face risks relating to our acquisitions, investments and alliances.

In order to further sustain and expand our thriving ecosystem, strengthen our relationship with partners, supplement our technology portfolio and expand into other markets, we have made selected strategic investments and acquisitions, including those in different countries and regions, technologies, services and products in recent years, including investments of varying sizes in equity investees and joint ventures, and, from time to time, we may have a number of pending investments and acquisitions that are subject to closing conditions. Historically, most of these transactions are minority interest investments. See “Financial Information — Strategic Investments and Acquisitions.” We expect to continue to evaluate and consider a wide array of potential strategic transactions as part of our overall business strategy, including business combinations, acquisitions and dispositions of businesses, technologies, services, products and other assets, as well as strategic investments, joint ventures and alliances. At any given time, we may be engaged in discussing or negotiating a range of these types of transactions. These transactions also involve significant challenges and risks, including:

- for investments over which we may not obtain management and operational control, we may lack influence over the controlling partners or shareholders, or may not have aligned interests with our partners or other shareholders, and, as a result, we may not be able to achieve our strategic intent. In addition, although we seek contractual protection of our rights when making investments, these agreements may not always be effective in protecting our minority interest;
- heightened restrictions on and scrutiny of investments, acquisitions and foreign ownership in other jurisdictions, on national security grounds, protectionist policies or for other reasons, as well as regulatory hurdles such as filings and approvals under the anti-monopoly and competition laws, rules and regulations of China and other countries in connection with any investments or acquisitions;

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- actual or alleged misconduct, unscrupulous business practices or non-compliance by us or any company we acquire or invest in (or by its affiliates), or by its management, whether before, during or after our acquisition or investments;
- difficulties in, and significant and unanticipated additional costs and expenses resulting from, integrating into our business the large number of personnel, operations, products, services, technology, internal controls and financial reporting of the businesses we acquire;
- difficulties in identifying and selecting appropriate targets and strategic partners, including potential loss of opportunities for strategic transactions with competitors of our investee companies and strategic partners;
- difficulties in conducting sufficient and effective due diligence on potential targets and unforeseen or hidden liabilities or additional incidences of non-compliance, operating losses, costs and expenses that may adversely affect us following our acquisitions or investments or other strategic transactions;
- difficulties in achieving expected synergies, returns and operating efficiencies from the acquisition of or investment in potential targets within the expected time frames or at all; and
- negative impact on our cash flow or results of operations from various fair value charges, impairment charges or write-offs.

Our strategic investments and acquisitions also affect our liquidity, financial condition and results of operation. Strategic investments and acquisitions partially contributed to our negative cash flow from investing activities. Any significant cash outflow as a result of such strategic investments and acquisitions can affect our liquidity and our ability to undertake other initiatives to grow our business and ecosystem. Acquired businesses that are loss-making may continue to sustain losses and may not become profitable in the near future or at all. During the Track Record Period, we incurred losses in connection with these investments. See “Financial Information — Strategic Investments and Acquisitions” for further details. These investments may also have the effect of resulting in one-time gains. For example, in 2018, we recorded net other income and gains of RMB19,623 million, which was primarily due to a one-time gain from deemed disposal of our equity interest in Koubei Holding Limited (“Koubei”) in the amount of RMB22,485 million. Such gains are not recurrent in nature and there can be no assurance whether we will incur any gain or loss of similar nature in the future.

The challenges and risks involved in the strategic investments and acquisitions could lead to negative publicity, litigation, government inquiries, investigations or actions against the companies we invest in or acquire, or even against our other businesses, and may force us to incur significant additional expenses and allocate significant management and human resources to rectify or improve these companies’ corporate governance standards or internal controls and systems. As we continue to expand our platform, we expect to continue our

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acquisition and investment activity, with a large number and diverse range of target companies, and we will continue to face significant challenges, including unanticipated ones, in integrating these acquisitions and investments into our existing businesses.

Furthermore, our investments are subject to general credit, liquidity, foreign exchange and market risks. These risks may be exacerbated by global macroeconomic conditions, market volatility, geopolitical frictions and regulatory, financial and other difficulties affecting the companies in which we invest. In addition, we may incur investment losses as a result of unusual and unpredictable market developments.

We may face challenges in expanding our cross-border businesses and operations, and we may not be able to successfully grow our cross-border payment business.

We are expanding our cross-border payment business to serve the needs of consumers and businesses for digital payment and daily life services, starting from cross-border activities. We cannot assure you that we will succeed in operating our business and offering services tailored to the various markets and generate revenues or make profit from our operations outside of China. As we expand across the globe, we may need to innovate and develop new business models rather than replicating our success in China to better cater to the distinct needs of different markets. We may be less well-known and have difficulty expanding user base or have fewer local resources in different markets and we may need to localize our business practices, culture and operations. Consumers and merchants may also choose to use alternatives that have stronger presence in the region. In addition, geopolitical tensions, protectionist or national security policies could, among other things, hinder our ability to execute our cross-border payment business strategies, make investments that develop new growth initiatives and technologies, or even divest from our current investees, and put us at a competitive disadvantage relative to local companies in other jurisdictions. For example, in 2018, our attempt to acquire MoneyGram International Inc., a remittance company based in the United States, was not successful. Separately, in 2020, a change in foreign investment regulation in India led to our further evaluation of the timing of our additional investment in Zomato, a restaurant aggregator and food delivery start-up based in India. The expansion of our cross-border payment business will also expose us to risks and challenges inherent in operating businesses in multiple jurisdictions, including:

- lack of acceptance of our product and service offerings, and challenges of localizing our offerings to appeal to local preferences and facilitating effective local sales and marketing strategies;
- dependence on local partners and platforms in marketing our services in new jurisdictions;
- failure to attract and retain capable talents with international perspectives who can effectively manage and operate local businesses;
- challenges in replicating or adapting our company policies and procedures to operating environments different from that of China, including those relating to technology infrastructure;
- difficulties and costs associated with staffing and managing overseas operations, particularly on complying with the various labor regulatory requirements in different jurisdictions and different labor practice in different areas.

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- difficulties and costs associated with hosting data locally pursuant to data protection regulations as well as compliance with data security and privacy laws in a particular jurisdiction;
- difficulties and costs associated with protecting and enforcing our intellectual property rights overseas;
- the need for increased resources to manage regulatory compliance across our cross-border businesses;
- geopolitical frictions that can impede our ability to develop our business in new jurisdictions;
- regional social unrest that can result in economy downturn and lower level of consumption and transaction;
- exchange rate fluctuations, which may have a negative impact on our revenues in foreign currencies or result in foreign exchange loss in connection with our cross-border payment business; and
- political instability and general economic or political conditions in particular countries or regions, including territorial or trade disputes, war and terrorism.

In addition, we face risks specific to our business and the industries in which we operate:

- we depend on global payment networks that are necessary to our cross-border payment services, but e-wallet partners may view us as a competitor;
- e-wallet partners operating in emerging markets may face intense competition or evolving and more complex regulatory oversight;
- our merchant services and solutions, may not gain acceptance in various markets; and
- we may not be able to continue to offer technology solutions to e-wallet partners to satisfactorily address needs specific to the market(s) in which they operate.

Failure to manage these risks and challenges could negatively affect our ability to expand our cross-border payment business and operations as well as materially and adversely affect our business, financial condition, results of operations and prospects.

In addition, overseas businesses and partners that cooperate with us are also operating in an increasingly stringent regulatory environment. If they are unable to comply with various existing or future regulations in various jurisdictions to support our expansion into those markets, our business and prospects will be negatively affected.

Our reputation, our brand and our business may be harmed by aggressive and misleading marketing and communications strategies of certain third parties.

We have been and may, in the future, be the target of incomplete, inaccurate and false statements and complaints about us, our services and our management that could damage our reputation and brand and materially deter consumers, businesses and partners from engagement with our platform. In addition, certain third parties, including some of our

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competitors, have used, and may continue to use, methods such as lodging complaints with regulators, which may turn into inspections or investigations, initiating frivolous, untruthful and nuisance lawsuits, and other forms of attack litigation and “lawfare” that attempt to generate negative publicity or otherwise to harm our reputation and brand, hinder our operations, force us to expend resources on responding to and defending against these claims, and otherwise gain a competitive or other advantage over us by means of litigious and accusatory behavior. For example, on August 15, 2020, we received a letter from a minority shareholder of Tianhong, one of our subsidiaries, to raise an issue about the reasonableness of the level of the technology service fees that we charged Tianhong between 2014 to 2019, being an aggregate amount of RMB4,577 million. This issue was fully discussed and responded to at previous board meetings of Tianhong. The letter demands that the Company, Tianhong and the minority shareholder reach a plan to resolve this issue by August 30, 2020. While we believe that the transaction arrangements with our subsidiary Tianhong are fair and reasonable and in line with prevailing market terms, it is possible that this or some other minority shareholders of Tianhong may seek to raise this issue in public by way of legal proceedings or lodge complaints with regulators and we may nevertheless need to spend resources and divert management attention to respond to this dispute or other related issues. Our ability to respond on share price-sensitive information to misleading marketing efforts or misleading communications may be limited due to our internal policies or legal prohibitions on permissible public communications by us during certain periods, which may significantly expose our brand and business to reputation risk and in turn materially and adversely impact our business, financial condition and results of operations.

Failure to maintain or improve our technology infrastructure could harm our business and prospects.

We are continuously upgrading our platform to provide increased scale, improved performance, additional capacity and additional built-in functionality, including functionality related to security. Adopting new products and maintaining and upgrading our technology infrastructure require significant investment of time and resources. Any failure to maintain and improve our technology infrastructure could result in unanticipated system disruptions, slower response times, impaired user experience, delays in reporting accurate operating and financial information and failures in risk management. The risks of these events occurring are even higher during certain periods of peak usage and activity, such as on or around various shopping festivals or other promotional events, when transaction volume is significantly higher on our payment network compared to other days of the year. In addition, much of the software and interfaces we use are internally developed and proprietary technology. If we experience problems with the functionality and effectiveness of our software, interfaces or platform, or are unable to maintain and continuously improve our technology infrastructure to handle our business needs, our business, financial condition, results of operations and prospects, as well as our reputation and brand, could be materially and adversely affected.

Furthermore, our technology infrastructure and services, including our service offerings, incorporate third-party-developed software, systems and technologies, as well as hardware purchased or commissioned from outside and overseas suppliers. As our technology infrastructure and services expand and become increasingly complex, we face increasingly serious risks to the performance and security of our technology infrastructure and services that may be caused by these third-party-developed components, including risks relating to incompatibilities among these components, service failures or delays or back-end procedures on hardware and software. We also need to continuously enhance our existing technology. Otherwise, we face the risk of our technology infrastructure becoming unstable

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and susceptible to security breaches. This instability or susceptibility could create serious challenges to the security and uninterrupted operation of our platform and services, which would materially and adversely affect our business and reputation.

Security breaches and attacks against our systems and network, and any potentially resulting breach or failure to otherwise protect personal, confidential and proprietary information, could damage our reputation and negatively impact our business, as well as materially and adversely affect our financial condition and results of operations.

Our cybersecurity measures may not detect, prevent or control all attempts to compromise our systems, including distributed denial-of-service attacks, viruses, Trojan horses, malicious software, break-ins, phishing attacks, third-party manipulation, security breaches, employee misconduct or negligence or other attacks, risks, data leakage and similar disruptions that may jeopardize the security of data stored in and transmitted by our systems or that we otherwise maintain. Breaches of our cybersecurity measures could result in unauthorized access to our systems, misappropriation of information or data, deletion or modification of user information, or a denial-of-service or other interruption to our business operations. As techniques used to obtain unauthorized access to or sabotage systems change frequently and may not be known until launched against us or our third-party service providers, there can be no assurance that we will be able to anticipate, or implement adequate measures to protect against, these attacks.

We have in the past and are likely again in the future to be subject to these types of attacks, breaches and data leakage, although to date no attack, breach or data leakage has resulted in any material damage or remediation cost. In addition, we could be subject to an attack, breach or leakage, which we do not discover at the time or the consequences of which are not apparent until a later point in time, that could result in material damages or remediation costs. If we are unable to avert these attacks and security breaches, we could be subject to significant legal and financial liabilities, our reputation would be harmed and we could sustain substantial revenue loss from lost transactions between and among consumers, businesses and our partners and their dissatisfaction. We may not have the resources or technical sophistication to anticipate or prevent rapidly-evolving cyber-attacks. Cyber-attacks may target us, consumers, businesses, our partners or other participants on our platform, or the communication infrastructure on which we depend. We only carry limited cybersecurity insurance, and actual or anticipated attacks and risks may cause us to incur significantly higher costs, including costs to deploy additional personnel and network protection technologies, train employees, and engage third-party experts and consultants. Cybersecurity breaches would not only harm our reputation and business, but also could materially decrease our revenues and net income.

The successful operation of our business depends upon the performance, reliability and security of the Internet infrastructure in China and other countries in which we operate.

Our business depends on the performance, reliability and security of the telecommunications and Internet infrastructure in China and other countries in which we operate. Substantially all of our computer hardware and a majority of our online services are currently located in China. Almost all access to the Internet in China is maintained through state-owned telecommunication operators under the administrative control and regulatory supervision of the MIIT. In addition, the national networks in China are connected to the Internet through state-owned international gateways, which are the only channels through which a domestic user can connect to the Internet outside of China. We may face similar or other limitations in other countries in which we operate. We may not have access to alternative networks in the event of disruptions, failures or other problems

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with the Internet infrastructure in China or elsewhere. In addition, the Internet infrastructure in the countries in which we operate may not support the demands associated with continued growth in Internet usage.

The failure of telecommunications network operators to provide us with the requisite bandwidth could also interfere with the speed and availability of our websites and mobile applications. We have no control over the costs of the services provided by the telecommunications operators. If the prices that we pay for telecommunications and Internet services rise significantly, our margins could be adversely affected. In addition, if Internet access fees or other charges to Internet users increase, our user base may decrease, which in turn may significantly decrease our revenues.

Moreover, if the security of domain names is compromised, we will be unable to use the domain names in our business operations, which could materially and adversely affect our business operations, reputation and brand image. If we fail to implement adequate encryption of data transmitted through the networks of the telecommunications and Internet operators we rely upon, there is a risk that telecommunications and Internet operators or their business partners may misappropriate our data, which could materially and adversely affect our business operations and reputation.

Our platform could be disrupted by systems failures, downtime and network interruptions.

Our platform depends on the efficient and uninterrupted operation of our computer and communications systems. Reliability is particularly critical for us because the full-time availability of our services is necessary to our ability to attract consumers, businesses and our partners. Systems failures, downtime and network interruptions will prevent us from efficiently processing the large volume of transactions on our platform. In addition, because we are licensed in certain jurisdictions, frequent or persistent site interruptions could lead to regulatory scrutiny, significant fines and penalties, and/or mandatory and costly changes to our business practices, and could result in suspension of our licenses, which could have an adverse effect on our ability to service our customers.

As we continue to grow our user base and empower more merchants and partners, we have experienced high growth rates in transaction volumes generated by our consumers, businesses and partners on our platform over the past years and expect growth to continue for the coming years. This places a significant strain on our platform’s processing capacity. We cannot assure you that our current processing capacity will be able to handle the growth of the transaction volumes on our platform. A failure to adequately scale the processing capacity of our platform could therefore materially and adversely affect our user experience, business, financial condition, results of operations and prospects. In addition, our efforts to further scale the processing capacity of our platform involve significant technical risks and will increase our capital expenditure, which may divert our resources from new features and products, and there can be no guarantee that these efforts will succeed due to technical difficulties.

We and the participants on our platform, our third-party service providers, including partner financial institutions, data center, cloud storage and computing services providers, have experienced, and may experience in the future, system interruptions and delays that render websites, mobile applications and services (such as digital payment services and digital finance technology services) temporarily unavailable or slow to respond. In addition, we do not control the operations of Alibaba, who provides cloud storage and computing services to us and third-party service providers. Although we have prepared for contingencies through redundancy measures and disaster recovery plans and also carry business

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interruption insurance, these preparations and insurance coverage may not be sufficient. Despite any precautions we may take, the occurrence of a natural disaster or other unanticipated problems at our facilities and our platform participants, including power outages, system failures, telecommunications delays or failures, construction accidents, break-ins to information technology systems, computer viruses or human errors, could result in delays in or temporary outages of our platform or services, loss of our users’ data and business interruption for us and our users. Any of these events could damage our reputation, significantly disrupt our operations and the operations of our platform participants on and subject us to liability, heightened regulatory scrutiny and increased costs, which could materially and adversely affect our business, financial condition and results of operations.

We depend on key management as well as experienced and capable personnel generally, and any failure to attract, motivate and retain our staff could severely hinder our ability to maintain and grow our business.

Our future success is significantly dependent upon the continued service of our key executives and other key employees. If we lose the services of any member of management or key personnel, we may not be able to locate, or may incur great costs to recruit suitable or qualified replacements.

As our business develops and evolves, it may become difficult for us to continue to retain our employees. Some of our employees, including certain members of management, may choose to pursue other opportunities outside of us. If we are unable to motivate or retain these employees, our business may be severely disrupted, and our prospects could suffer.

In addition, we have a number of employees, including many members of management, whose economic interests in our Company could give them a substantial amount of personal wealth following our [REDACTED]. As a result, it may be difficult for us to continue to retain and motivate these employees, and this wealth could affect their decisions about whether or not they continue to remain with us. If we are unable to motivate or retain these employees, our business may be severely disrupted and our prospects could suffer.

The size and scope of our platform also require us to hire and retain a wide range of capable and experienced personnel who can adapt to a dynamic, competitive and challenging business environment. We will need to continue to attract and retain experienced and capable personnel at all levels, including members of management, as we expand our business and operations. Our various incentive initiatives may not be sufficient to retain our management and employees. Competition for talents in our industry is intense, and the availability of suitable and qualified candidates in China and elsewhere is limited. Competition for these individuals could cause us to offer higher compensation and other benefits to attract and retain them. Even if we were to offer higher compensation and other benefits, there can be no assurance that these individuals will choose to join or continue to work for us. Any failure to attract or retain key management and personnel could severely disrupt our business and growth.

We have adopted a share economic rights plan to incentivize eligible plan participants, including our key management and other employees. Under the share economic rights plan, Hangzhou Junhan, one of our substantial shareholders, grants share economic rights to eligible plan participants and has the obligation to purchase or repurchase the share economic rights when they become vested and eligible for selling. See “Appendix VII — Statutory and General Information — D. Employees Equity Incentive Plans” for further

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details. There can be no assurance that Hangzhou Junhan will have enough capital resources to fund its purchase or repurchase obligations when due. If Hangzhou Junhan fails to repurchase the share economic rights from our key management and other employees, their morale, productivity and retention could suffer, which could severely disrupt our business and growth.

Failure to deal effectively with fraudulent or illegal activities by our employees would harm our business.

Illegal, fraudulent, corrupt or collusive activities or misconduct, whether actual or perceived, by our employees, could subject us to liability or negative publicity. Although we have implemented policies and internal controls with regard to the review and approval of payment accounts, sales activities, interactions with business partners and government officials and other relevant matters, there can be no assurance that our policies and internal controls will prevent fraud or illegal activity or misconduct by our employees or that similar incidents will not occur in the future. Any illegal, fraudulent, corrupt or collusive activity, misconduct, or perceptions of conflicts of interest and rumors, could severely damage our brand and reputation, even if they are baseless or satisfactorily addressed, which could drive consumers, businesses and our partners away from our platform, and materially and adversely affect our business, financial condition and results of operations.

We may not be able to fully protect our intellectual property rights; third parties may allege that we are infringing their intellectual property rights.

We face a number of challenges in protecting our intellectual property rights or enforcing our contractual rights. We rely on a combination of patents, trademarks, copyrights and trade secrets in the PRC and other jurisdictions, as well as confidentiality procedures and contractual provisions, to protect our intellectual property rights. We also enter into confidentiality agreements with our employees and third parties who may access our proprietary information, and we take reasonable security measures to control access to our proprietary technology and information.

Confidentiality agreements may be breached by counterparties; and they may use our intellectual property without authorization. We may not be able to effectively protect our intellectual property rights or to enforce our contractual rights. In addition, policing any unauthorized use of our intellectual property is difficult, time-consuming and costly and the steps we have taken may be inadequate to prevent the misappropriation of our intellectual property. In the event that we resort to litigation to enforce our intellectual property rights, litigation could result in substantial costs and a diversion of our managerial and financial resources. There can be no assurance that we will prevail in any litigation. Furthermore, the intellectual property protection mechanisms that we rely on may not be sufficient in the jurisdictions in which we operate. For example, effective intellectual property protection may not be available in every country in which we currently, or in the future, will operate.

If we fail to protect or enforce our intellectual property rights, our competitors may copy or reverse-engineer our products and services without authorization and compete with us. As a result, our customers and partners may devalue our services, and our ability to compete effectively may be impaired, which could have a material adverse effect on our business, financial condition and results of operations.

As the number of software products increases and the functionality of these products further overlap, and as we acquire technology through acquisitions or licenses, we may become increasingly subject to infringement claims made by third parties, including patent,

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copyright, trade secret and trademark infringement claims. Litigation may be necessary to determine the validity and scope of the patent and other intellectual property rights of others. The ultimate outcome of any allegation is uncertain and, regardless of the outcome, any such claim, with or without merit, may be time-consuming, result in costly litigation, divert management’s time and attention from our business, require us to stop selling, delay shipping, or redesign our services, or require us to pay substantial amounts to satisfy judgments or settle claims or lawsuits or to pay substantial royalty or licensing fees, or to satisfy indemnification obligations that we have with some of our customers. Our failure to obtain necessary licenses or other rights, or litigation or claims arising out of intellectual property matters, may harm our business.

In addition, Alibaba agreed to transfer certain intellectual property to us pursuant to the SAPA. As of the Latest Practicable Date, Alibaba and its subsidiaries have transferred a portion of such intellectual property to us and are in the process of transferring the remaining portion of such intellectual property to us. The formal recordation or registration of the intellectual property transfer can take time, and the duration is not within our control. In jurisdictions (such as the PRC) where assignment of intellectual property is not effective until such assignment is formally recorded or registered, we do not have ownership rights to such intellectual property during the recordation or registration period. We will need the cooperation of Alibaba to enjoy the full benefits of such intellectual property during the period, including protecting our intellectual property rights against any infringement by third parties. We cannot assure you that we will be able to secure Alibaba’s cooperation in a timely manner.

Legal proceedings against us could harm our reputation and have a material and adverse effect on our business, financial condition, results of operations and prospects.

We have been involved in litigation and other disputes in the ordinary course of our business, which include lawsuits, arbitration, regulatory proceedings and labor and other disputes. Along with the growth and expansion of our business, we may be involved in litigation, regulatory proceedings and other disputes arising outside of the ordinary course of our business, including those brought against us pursuant to anti-monopoly or unfair competitions laws or involving higher amounts of alleged damages. Such litigation and disputes may result in claims for actual damages, freezing of our assets and diversion of our management’s attention, as well as legal proceedings against our directors, officers or employees. The probability and amount of liability, if any, may remain unknown for long periods of time. Given the uncertainty, complexity and scope of many of these litigation matters, their outcome generally cannot be predicted with any reasonable degree of certainty. As a result, any unfavorable final resolution of pending litigation matters, including substantial liabilities arising from lawsuit judgments, could have a material and adverse effect on our business, results of operations and financial condition. Moreover, even if we eventually prevail in these matters, we could incur significant legal fees or suffer significant reputational damage, which could have a material and adverse effect on our prospects and future growth, including our ability to attract new customers and merchants, retain existing customers and merchants, expand our cooperation with existing or new business partners and recruit and retain employees and agents.

As we expand our cross-border payment business, we may face an increasing number and a wider variety of claims in overseas jurisdictions. Laws, rules and regulations may vary in their scope and overseas laws and regulations may impose requirements that are more stringent than, or which conflict with, those in the PRC. We may acquire companies that have been subject to or may become subject to litigation, as well as regulatory proceedings. In addition, in connection with litigation or regulatory proceedings we may be subject to in

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various jurisdictions, we may be prohibited by laws, regulations or government authorities in one jurisdiction from complying with subpoenas, orders or other requests from courts or regulators of other jurisdictions, including those relating to data held in or with respect to persons in these jurisdictions. Our failure or inability to comply with the subpoenas, orders or requests could subject us to fines, penalties or other legal liability, which could have a material adverse effect on our reputation, business, and results of operations.

In addition, as the interpretation and implementation of the labor laws and regulations in the PRC are still evolving, there can be no assurance that our employment practices will at all times be deemed in full compliance with labor-related laws and regulations in the PRC, which may subject us to labor disputes or government investigations. If we are deemed to have violated relevant labor laws and regulations, we could be required to provide additional compensation to our employees and our business, financial condition and results of operations could be materially and adversely affected. Our international operations encounter labor laws, customs and employee relationships that can be difficult, less flexible than in our domestic operations and expensive to modify or terminate. Our success depends, in part, on our ability to anticipate these risks and manage these difficulties, and the failure to do so could have a material adverse effect on our brand, reputation, business, operating results and/or financial condition.

Anti-monopoly and unfair competition claims or regulatory actions against us may result in our being subject to fines, constraints on our business and damage to our reputation.

The PRC anti-monopoly enforcement agencies have in recent years strengthened enforcement under the PRC Anti-monopoly Law with respect to concentration of undertakings and cartel agreements, as well as abusive behavior by companies with market dominance. Although we believe that our business practices do not violate anti-monopoly or unfair competition laws, due to our large scale of business and close media attention, there can be no assurance that regulators will not initiate anti-monopoly investigations into specific business practices we have adopted.

The PRC Anti-monopoly Law provides a private right of action for competitors, business partners or customers to bring anti-monopoly claims against companies. As the PRC Anti-monopoly Law is relatively new, misinterpretation by market participants has led to and may continue to lead to public allegations or media campaigns against us or complaints to regulators or private litigation that targets our prior and current business practices.

Any anti-monopoly lawsuit, regulatory investigations or administrative proceedings initiated against us could also result in our being subject to adverse court decisions and regulatory actions, such as confiscation of illegal revenue and heavy fines. Any such adverse court decisions or regulatory actions may force us to change our business model or practices, which could materially and adversely affect our business, operations, reputation and brand.

In addition, due to our large revenue base, our significant investments and acquisitions may be subject to regulators’ merger reviews. As a result, we may be subject to significant difficulties in pursuing our investment and acquisition strategy and may not be able to complete these transactions in a timely manner or at all.

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Failure to comply with any restrictive covenants of our indebtedness could have an adverse effect on our cash flow and liquidity.

We had outstanding interest-bearing bank borrowings of RMB29,611 million as of June 30, 2020. Under the terms of our indebtedness and under any debt financing arrangement that we may enter into in the future, we are, and may be in the future, subject to covenants that could, among other things, restrict our business and operations. If we breach any of these covenants, our lenders under our credit facilities will be entitled to accelerate our debt obligations. Any default under our credit facilities could require that we repay these debts prior to maturity as well as limit our ability to obtain additional financing, which in turn may have a material adverse effect on our cash flow and liquidity.

We may not be able to obtain financing on favorable terms or at all.

We may require additional cash resources due to future growth and development of our business, including any investments or acquisitions we may decide to pursue. If our cash resources are insufficient to satisfy our cash requirements, we may seek to issue additional equity or debt securities or obtain new or expanded credit facilities. Our ability to obtain external financing in the future is subject to a variety of uncertainties. PRC companies may be required to complete filings with the applicable regulatory authorities before the launch of any onshore or offshore debt issuance. We are also subject to certain regulatory approval and/or filing procedures with PRC governmental authorities for any future equity financing. These filing and approval procedures will take time, which may result in our missing the best market windows for debt or equity issuances in the future. In addition, incurring indebtedness would subject us to increased debt service obligations and could result in operating and financial covenants that would restrict our operations. Our ability to access international capital and lending markets may be restricted at a time when we would like, or need, to do so, especially during times of increased volatility and reduced liquidity in global financial markets and stock markets, including due to policy changes and regulatory restrictions, which could limit our ability to raise funds. There can be no assurance that financing will be available in a timely manner or in amounts or on terms acceptable to us, or at all. Any failure to raise needed funds on terms favorable to us, or at all, could severely restrict our liquidity as well as have a material adverse effect on our business, financial condition and results of operations. Moreover, any issuance of equity or equity-linked securities could result in significant dilution to our existing shareholders.

We have granted and may continue to grant restricted share units, share appreciation rights and/or other types of share-based awards under our equity incentive plans, which may result in increased share-based compensation expenses and may dilute shareholder value and cause the price of our H Shares to decline.

We adopted certain equity incentive plans for the purpose of granting share-based compensation awards to plan participants to incentivize their performance and align their interests with ours. See “Appendix VII — Statutory and General Information — D. Employees Equity Incentive Plans” for further information. We recognize expenses in our consolidated financial statements in accordance with IFRS. We believe the granting of share-based compensation is important to attract and retain key personnel and employees, and we will continue to grant share-based compensation to employees in the future. As a result, our expenses associated with share-based compensation may increase, which may have an adverse effect on our results of operations. Furthermore, share-based compensation awards issued under our equity incentive plans may dilute the ownership interests of our Shareholders. The availability of our Shares for award under our equity incentive plans, or

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the grant of share-based compensation awards, may adversely affect the market price of our H Shares. In addition, if any awards that we may issue vest, and those Shares are sold into the public market, the market price of our H Shares may decline.

We may not have sufficient insurance coverage to cover our business risks.

We have obtained insurance to cover certain potential risks and liabilities, such as property damage, loss of profit insurance and public liabilities for certain businesses we operate. However, insurance companies in the PRC and other jurisdictions in which we operate may offer limited business insurance products. As a result, we may not be able to acquire any insurance for all types of risks we face in our operations in the PRC and elsewhere, and our coverage may not be adequate to compensate for all losses that may occur, particularly with respect to loss of business or operations. We do not maintain key-man life insurance. This potentially insufficient coverage could expose us to potential claims and losses. Any business disruption, litigation, regulatory action, outbreak of epidemic disease, adverse weather conditions or natural disasters could also expose us to substantial costs and diversion of resources. There can be no assurance that our insurance coverage is sufficient to prevent us from any loss or that we will be able to successfully claim our losses under our current insurance policy on a timely basis, or at all. If we incur any loss that is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our business, financial condition and results of operations could be materially and adversely affected.

An occurrence of widespread health epidemic or other outbreaks, adverse weather conditions or natural disasters could have a material adverse effect on our business, financial condition and results of operations.

Our business could be materially and adversely affected by the outbreak of a widespread health epidemic, such as COVID-19, swine flu, avian influenza, severe acute respiratory syndrome, or SARS, Ebola, Zika, adverse weather conditions or natural disasters, such as snowstorms, earthquakes, fires or floods, or other events, such as wars, acts of terrorism, environmental accidents, power shortage or communication interruptions. The occurrence of a disaster or a prolonged outbreak of an epidemic illness or other adverse public health developments in China or elsewhere in the world could materially disrupt our business and operations. These events could also significantly impact the industries we operate in and cause a temporary closure of the facilities we use for our operations, which would severely disrupt our operations and have a material adverse effect on our business, financial condition and results of operations. Our operations could be disrupted if any of our employees or employees of our business partners were suspected of contracting an epidemic disease, since this could require us or our business partners to quarantine some or all of these employees or disinfect the facilities used for our operations. In addition, our revenues and profitability could be materially reduced to the extent that a health epidemic, adverse weather conditions or natural disaster or other outbreak harms the global or Chinese economy in general. Our operations could also be severely disrupted if consumers, businesses, our partners or other participants on our platform were affected by health pandemics or epidemics, adverse weather conditions, natural disasters or other outbreaks. See also “— The COVID-19 pandemic presents challenges to our business and the effects of the pandemic could adversely affect our business, financial condition and results of operations.”

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Risks Related to China

China’s economic, political and social conditions, as well as government policies, could affect our business, financial condition and results of operations.

A substantial portion of our businesses, assets and operations are located in China. Accordingly, our financial condition, results of operations and business prospects are, to a significant degree, subject to the economic, political and legal developments in China. China’s economy differs from the economies of most developed countries in many respects, including, among other things, government involvement, level of economic development, economic growth rate, control of foreign exchange and allocation of resources.

China’s economy was a planned economy, and a substantial portion of productive assets in China is still owned or controlled by the PRC government. The government also exercises significant control over China’s economic growth by allocating resources, setting monetary policy and providing preferential treatment to particular industries or companies. Although the government has implemented economic reform measures to introduce market forces and establish sound corporate governance in business enterprises, the application of such economic reform measures may vary from industry to industry, or across different regions of the country. As a result, we may not benefit from certain of such measures.

Legal protections available to you under the PRC legal system may be limited.

Our operations in China are subject to PRC laws and regulations. We and most of our material subsidiaries are organized under the laws of the PRC. The PRC legal system is based on written statutes. Prior court decisions may be quoted for reference but have limited precedential value, although the PRC courts are moving towards the principle of “treat like cases alike.” The PRC government has promulgated laws and regulations dealing with such economic matters as securities, shareholders’ rights, foreign investment, corporate organization and governance, commerce, taxation and trade, with a view towards developing a comprehensive system of commercial law. However, as some of these laws and regulations are relatively new and continue to evolve, the effect of these laws and regulations on the rights and obligations of the parties involved may involve uncertainty. As a result, the legal protections available to you under the PRC legal system may be limited.

Our Articles of Association provide that disputes or claims between holders of H Shares and us, our Directors, Supervisors, general manager or members of our senior management or holders of A Shares arising out of our Articles of Association or any rights or obligations conferred or imposed thereupon by the PRC Company Law and related laws, rules and regulations concerning our affairs be resolved through arbitration. Our Articles of Association further provide that such arbitral award be final, conclusive and binding on all parties. A claimant may elect to submit a dispute to either the China International Economic and Trade Arbitration Commission in accordance with its rules or the Hong Kong International Arbitration Center in accordance with its Securities Arbitration Rules. Awards that are made by arbitral authorities in mainland China recognized under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong. Hong Kong arbitration awards in connection with the above-mentioned disputes can be recognized and enforced by courts in mainland China, subject to the satisfaction of certain legal requirements in mainland China. However, we cannot assure you that any action brought in mainland China by any holder of H Shares to enforce a Hong Kong arbitral award made in favor of holders of H Shares would succeed.

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You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.

We are a company incorporated under the laws of the PRC, and a substantial portion of our business, assets and operations are located in mainland China. In addition, a majority of our Directors, Supervisors or members of our senior management reside in mainland China, and a substantial portion of the assets of such Directors, Supervisors or members of our senior management are located in mainland China. As a result, it may be difficult, cumbersome, and time-consuming to effect service of process outside mainland China upon us or such Directors, Supervisors or members of our senior management. Moreover, mainland China has not entered into a treaty for the reciprocal recognition and enforcement of court judgments with the United States, the United Kingdom, Japan and many other countries. In addition, Hong Kong has no arrangement with the United States for reciprocal enforcement of judgments. As a result, recognition and enforcement in mainland China or Hong Kong of a court judgment obtained in the United States and any of the other jurisdictions mentioned above may be difficult or impossible.

Although we will be subject to the Hong Kong Listing Rules and the Hong Kong Codes on Takeovers and Mergers and Share Repurchases upon the [REDACTED] of our H Shares on the Hong Kong Stock Exchange, the holders of H Shares will not be able to bring actions on the basis of violations of the Hong Kong Listing Rules and must rely on the Hong Kong Stock Exchange to enforce its rules. The Hong Kong Listing Rules and Hong Kong Codes on Takeovers and Mergers and Share Repurchases do not have the force of law in Hong Kong.

You may be subject to taxation in mainland China.

Individual holders of H Shares who are not residents of mainland China and whose names appear on the register of members of H Shares (“non-mainland China resident individual holders”) are subject to PRC individual income tax on dividends received from us. Pursuant to the Circular on Questions Concerning the Collection of Individual Income Tax Following the Repeal of Guo Shui Fa [1993] No. 045 (《關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》) (Guo Shui Han [2011] No. 348) (國稅函[2011]348號), dated June 28, 2011, issued by the STA, dividends paid to non-mainland China resident individual holder of H Shares are generally subject to individual income tax of the PRC at the withholding tax rate of 10%, dependent on whether there is any applicable tax treaty between mainland China and the jurisdiction in which the non-mainland China resident individual holder of H Shares resides as well as the tax arrangement between mainland China and Hong Kong. Non-mainland China resident individual holders who reside in jurisdictions that have not entered into tax treaties with mainland China are subject to a 20.0% withholding tax on dividends received from us. For additional information, see “Appendix III — Taxation and Foreign Exchange — PRC Taxation.” In addition, under the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》) and its implementation regulations, non-mainland China resident individual holders of H Shares are subject to individual income tax at a rate of 20.0% on gains realized upon the sale or other disposition of H Shares. However, pursuant to the Circular Declaring that Individual Income Tax Continues to be Exempted over Income of Individuals from Transfer of Shares (《關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) issued by the MOF and the STA on March 30, 1998, gains of individuals derived from the transfer of listed shares in enterprises may be exempt from individual income tax. As of the Latest Practicable Date, no aforesaid provisions have expressly provided that whether individual income tax shall be levied from non-mainland China resident individual holders on the transfer of shares in mainland China resident enterprises listed on overseas stock exchanges, and to our

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knowledge, in practice the mainland China tax authorities had not collected individual income tax on such gains. If such tax is collected in the future, the value of such individual holders’ investments in H Shares may be materially and adversely affected.

Under the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the “EIT Law”) and its implementation regulations, a non-mainland China resident enterprise is generally subject to enterprise income tax at a rate of 10.0% with respect to its mainland China-sourced income, including dividends received from a mainland China company and gains derived from the disposal of equity interests in a mainland China company, subject to reductions under any special arrangement or applicable treaty between mainland China and the jurisdiction in which the non-mainland China resident enterprise resides. See “Appendix III — Taxation and Foreign Exchange — PRC Taxation.” There are uncertainties as to the interpretation and implementation of the EIT Law and its implementation regulations by mainland China tax authorities, including whether and how enterprise income tax on gains derived upon the sale or other disposal of H Shares will be collected from non-mainland China resident enterprise holders of H Shares. If such tax is collected in the future, the value of such non-mainland China resident enterprise holders’ investments in H Shares may be materially and adversely affected.

Payment of dividends is subject to restrictions under PRC laws.

Under the PRC laws, dividends may be paid only out of distributable profits. Our distributable profits represent our distributable net profits less appropriations to statutory surplus reserve, general reserve, and discretionary surplus reserve (as approved by our shareholders’ meeting), each such appropriation based on the unconsolidated net profit of determined under the PRC GAAP. Our distributable net profit referred to above represents the lowest of (i) our net profit attributable to our equity holders for a period plus distributable profits or net of accumulated losses, if any, at the beginning of such period, as determined under the PRC GAAP, and (ii) our net profit attributable to our equity holders for the period plus distributable profits or net of accumulated losses, if any, at the beginning of such period, as determined under IFRS. As a result, we may not have sufficient distributable profits, if any, to make dividend distributions to our shareholders in the future, including in respect of periods where we register an accounting profit. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years.

We are subject to the PRC government controls on currency conversion and risks relating to fluctuations in exchange rates.

We receive a majority of our revenues in Renminbi, which is currently not a freely convertible currency. A portion of these revenues must be converted into other currencies in order to meet our foreign currency obligations. For example, we need to obtain foreign currency to make payments of declared dividends, if any, on our H Shares.

Under the PRC’s existing foreign exchange regulations, by complying with certain procedural requirements, following completion of the H Share [REDACTED], we will be able to undertake current account foreign exchange transactions, including payment of dividends without prior approval from the SAFE. However, in the future, the PRC government may, at its discretion, take measures to restrict access to foreign currencies for capital account and current account transactions under certain circumstances. In this case, we may not be able to pay dividends in foreign currencies to holders of our H Shares.

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The value of the Renminbi against the U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in China’s and international political and economic conditions and the PRC government’s fiscal and currency policies. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous business day’s inter-bank foreign exchange market rates and current exchange rates on the world financial markets. It is expected that China may further reform its exchange rate system in the future.

Any appreciation of the Renminbi against the U.S. dollar or any other foreign currencies may result in the decrease in the value of our foreign currency-denominated assets. Conversely, any devaluation of the Renminbi may adversely affect the value of, and any dividends payable on, our H Shares in foreign currency terms. Furthermore, we are also currently required to obtain the approval of the SAFE before converting significant sums of foreign currencies into Renminbi. All of these factors could materially and adversely affect our financial condition and results of operations.

Risks Related to the H Share [REDACTED]

There has been no previous public market for our H Shares, and the liquidity and market price of our H Shares may be volatile.

Prior to the H Share [REDACTED], there has been no public market for our H Shares. The initial [REDACTED] range for our H Shares resulted from negotiations between ourselves and the [REDACTED] on behalf of the [REDACTED], and the [REDACTED] may differ significantly from the market price for our H Shares following the H Share [REDACTED]. We have applied for the [REDACTED] of, and permission to [REDACTED], our H Shares on the Hong Kong Stock Exchange. A [REDACTED] on the Hong Kong Stock Exchange, however, does not guarantee that an active and liquid [REDACTED] market for our H Shares will develop, or if it does develop, will be sustained following the H Share [REDACTED] or that the market price of our H Shares will not decline following the H Share [REDACTED]. Furthermore, the price and [REDACTED] volume of our H Shares may be volatile. The following factors may affect the volume and price at which our H Shares will [REDACTED]:

- actual or anticipated fluctuations in our revenues and results of operations;
- news regarding the recruitment or loss of key personnel by ourselves or our competitors;
- announcements of competitive developments, acquisitions or strategic alliances in our industry;
- changes in earnings estimates or recommendations by financial analysts;
- potential litigation or regulatory investigations;
- general market conditions or other developments affecting us or our industry;
- the operating and stock price performance of other companies, other industries and other events or factors beyond our control; and
- the release of lock-up or other transfer restrictions on our outstanding H Shares, or sales or perceived sales of additional H Shares by us or other Shareholders.

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Moreover, the securities market has from time to time experienced significant price and volume fluctuations that were unrelated, or not directly related, to the operating performance of the underlying companies. These broad market and industry fluctuations may have a material and adverse effect on the market price and [REDACTED] volume of our H Shares.

We are conducting a concurrent but separate A Share [REDACTED], and the characteristics of the A share and H share markets are different.

We intend to conduct an [REDACTED] of our A Shares in mainland China concurrently with the H Share [REDACTED] and [REDACTED] such shares on the Science and Technology Innovation Board of the Shanghai Stock Exchange. We refer to this [REDACTED] in this document as the A Share [REDACTED]. Our A Share [REDACTED] will initially comprise an [REDACTED] of [REDACTED] A Shares, representing approximately [REDACTED]% of our total outstanding Shares immediately following the completion of both the A Share [REDACTED] and the H Share [REDACTED], assuming that neither of the A Share [REDACTED] or the H Share [REDACTED] is exercised.

Our A Share [REDACTED] and H Share [REDACTED] are two separate and independent [REDACTED], and neither [REDACTED] is conditional upon the other. If for any reason we do not proceed with the A Share [REDACTED] as proposed, or if the number of our A Shares [REDACTED] in the A Share [REDACTED] is reduced or the actual [REDACTED] for our A Shares is not within the estimated price range of our A Share [REDACTED], the H Share [REDACTED] may nevertheless proceed as described in this document. Due to differences in the timetables and market practices for the A Share [REDACTED] and the H Share [REDACTED], you will not be notified of the final [REDACTED] or final size of our A Share [REDACTED], and we cannot assure you that you be notified of any delay or termination of the A Share [REDACTED], prior to the last time for lodging applications under the [REDACTED].

Following the A Share [REDACTED] and the H Share [REDACTED], our H Shares will be [REDACTED] on the Hong Kong Stock Exchange and our A Shares will be [REDACTED] on the STAR Market. Under current PRC laws and regulations, without approval from relevant regulatory authorities, our H Shares and A Shares are neither interchangeable nor fungible, and there is no trading settlement between the H share and A share markets. The H share and A share markets have different trading characteristics (including trading volume and liquidity) and investor bases, including different levels of retail and institutional participation. As a result of these differences, the [REDACTED] of our H Shares and A Shares may not be the same. Moreover, fluctuations in our A Share price may affect our H Share price, and vice versa. Because of the different characteristics of the A share and H share markets, the changes in the price of our A Shares may not be indicative of the price performance of our H Shares. You should therefore not place undue reliance on the [REDACTED] of our A Shares when evaluating an investment in our H Shares.

Future sales or perceived sales of substantial amounts of our Shares in the public market or the conversion of our A Shares into H Shares could have a material and adverse effect on the prevailing market price of our H Shares and our ability to raise additional capital in the future.

The market price of our H Shares could decline as a result of substantial future sales of our H Shares or other securities relating to our Shares in the public market. Such a decline could also occur with the issuance of new Shares or other securities relating to our Shares, or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amounts of our Shares could materially and adversely affect the prevailing

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market price of our H Shares and our ability to raise future capital at a favorable time and price. Our Shareholders would experience a dilution in their holdings upon the issuance or sale of additional securities for any purpose.

Furthermore, upon completion of the H Share [REDACTED] and the A Share [REDACTED], we will have [REDACTED] Shares outstanding, including [REDACTED] A Shares and [REDACTED] H Shares [REDACTED] and assuming the [REDACTED] are not exercised). In particular, our Pre-[REDACTED] Investors will collectively hold [REDACTED] A Shares and [REDACTED] H Shares, or approximately [REDACTED]% of the issued share capital of the Company. All of these Shares will be available for sale upon expiration of the respective lock-up undertaking made by the Onshore Pre-[REDACTED] Investors and Offshore Pre-[REDACTED] Investors as detailed in “Share Capital — Lock-up Undertakings.”

[REDACTED]

As the [REDACTED] of our H Shares is higher than our consolidated net tangible assets per share, purchasers of our H Shares in the H Share [REDACTED] may experience immediate dilution upon such purchases.

The [REDACTED] of our H Shares is higher than the net tangible asset value per Share of the outstanding Shares issued to our then existing Shareholders at June 30, 2020. Therefore, purchasers of our H Shares in the H Share [REDACTED] will experience an immediate dilution by HK\$[REDACTED] per H Share, representing the difference between the [REDACTED] and the pro forma adjusted net tangible assets per Share at June 30, 2020, without giving effect to any changes to our net tangible assets subsequent to June 30, 2020 other than the H Share [REDACTED] and the A Share [REDACTED] (assuming an [REDACTED] of RMB[REDACTED] per Share for our A Shares and the [REDACTED] of HK\$[REDACTED] per Share for our H Shares, and assuming that neither of the [REDACTED] is exercised, after deduction of the estimated [REDACTED] fees and [REDACTED] expenses in connection with the [REDACTED] payable by us). If the [REDACTED] are exercised, or if we issue additional Shares in the future, purchasers of our H Shares may experience further dilution.

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There can be no assurance whether and when we will pay dividends in the future.

Since our inception, we have not declared or paid any dividends on our Shares. We expect to continue to invest in technology and innovation to implement our growth strategies, which we believe will contribute to the value creation for customers, employees and Shareholders. Our Board of Directors regularly review our dividend policy by taking into consideration a number of factors, including our evolving strategies, results of operations, financial condition, operating and capital investment requirements and other factors it may deem relevant. Any declaration and payment, as well as the amount of the dividends, will be subject to our Articles and the relevant PRC laws and regulations, according to which the dividends may be paid only out of the distributable profits as determined under PRC GAAP or IFRS, whichever is lower. In addition, as a holding company, we rely on dividends and other distributions on equity from our subsidiaries for our cash requirements to pay dividends. Our ability to pay dividends may be adversely affected if our subsidiaries fail to adequately pay dividends and other distributions to us in a timely manner due to their respective capital needs. As a result, there can be no assurance whether, when and in which form we will pay dividends in the future or that we will pay dividends in accordance with our dividend policy. See “Financial Information — Future Dividends” for more details of our dividend policy.

Certain facts and statistics derived from public and third-party sources contained in this document may not be reliable and statistics in the document provided by iResearch and Oliver Wyman are subject to certain assumptions and methodologies.

We have derived certain facts and other statistics in this document, particularly those relating to the macroeconomy and financial services industry, from information provided by various public sources, industry associations, independent research institutes and other third-party sources. While we have taken reasonable care in the reproduction of the information, it has not been prepared or independently verified by us, the Joint Sponsors, the [REDACTED] or any of our or their respective affiliates or advisors and, therefore, we cannot assure you as to the accuracy and reliability of such facts and statistics. The facts and other statistics include the facts and statistics included in the sections entitled “Risk Factors,” and “Our Business.” Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable with statistics produced for other economies; and we cannot assure you that they are stated or compiled on the same basis, or with the same degree of accuracy, as similar statistics presented elsewhere. In addition, statistics in the document provided by iResearch and Oliver Wyman are subject to certain assumptions and methodologies set forth in “Appendix VII — Statutory and General Information — 6. Commissioned Industry Reports.” In all cases, you should consider carefully how much weight or importance you should attach to or place on such facts or statistics.

We strongly caution you not to place any reliance on any information contained in press articles or other media regarding our A Share [REDACTED] and H Share [REDACTED] or information released by us in connection with the A Share [REDACTED].

There have been prior to the publication of this document, and there may be subsequent to the date of this document but prior to the completion of the H Share [REDACTED], press and other media coverage regarding us, the A Share [REDACTED] and the H Share [REDACTED]. Such press and other media coverage may include references to certain events or information disclosed by us as part of the A Share [REDACTED], including information relating to us and the A Share [REDACTED]. The document and other information announced by us in connection with the A Share [REDACTED] are

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based on regulatory requirements and market practices in mainland China, which are different from those applicable to the H Share [REDACTED]. You should rely solely upon the information contained in this document, the [REDACTED] and any formal announcements made by us in Hong Kong in making your investment decision regarding our H Shares. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding our A Shares or H Shares, the A Share [REDACTED] or the H Share [REDACTED], or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Accordingly, prospective investors should not rely on any such information, reports or publications in making their decisions whether to purchase our H Shares in the H Share [REDACTED].

We are also required, in connection with our A Share [REDACTED], to make certain formal announcements or disclosure in mainland China relating to us and the A Share [REDACTED], including the publication of our A Share document. This information is released in connection with our A Share [REDACTED] pursuant to regulatory requirements that are not applicable to the H Share [REDACTED]. Certain announcements in relation to our A Share [REDACTED] will be published on the website of the Hong Kong Stock Exchange. However, such information and the document for the A Share [REDACTED] do not and will not form a part of this document. Prospective investors in H Shares are reminded that, in making their decisions as to whether to purchase our H Shares, they should rely only on the financial, operational and other information included in this document and the [REDACTED]. By [REDACTED] our H Shares in the H Share [REDACTED], you will be deemed to have agreed that you will not rely on any information other than that contained in this document and the [REDACTED].

**WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING
RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE
COMPANIES (WUMP) ORDINANCE**

In preparation for the H Share [REDACTED], we have sought the following waivers and exemptions from strict compliance with the relevant provisions of the Hong Kong Listing Rules and the Companies (WUMP) Ordinance.

[REDACTED]

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

[REDACTED]

Waiver in Respect of Management Presence in Hong Kong

Pursuant to Rule 8.12 and Rule 19A.15 of the Hong Kong Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. Since a substantial part of our Company’s business operations and management are located in mainland China, and our executive Directors, namely, Mr. Eric Jing, Mr. Simon Hu and Mr. Xingjun Ni, currently reside in mainland China where they manage our Group’s business operations, we do not and, for the foreseeable future, will not have sufficient management presence in Hong Kong for the purpose of satisfying the requirements under Rule 8.12 and Rule 19A.15 of the Hong Kong Listing Rules.

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

Accordingly, we have applied to the Hong Kong Stock Exchange for[, and the Hong Kong Stock Exchange has granted,] a waiver from strict compliance with the requirements under Rule 8.12 and Rule 19A.15 of the Hong Kong Listing Rules. In order to maintain effective communication with the Hong Kong Stock Exchange, we will put in place the following measures in order to ensure regular communication is maintained between the Hong Kong Stock Exchange and us:

- (a) We have appointed two authorized representatives pursuant to Rule 3.05 of the Hong Kong Listing Rules, who will act as our principal channel of communication with the Hong Kong Stock Exchange. The two authorized representatives are Mr. Simon Hu, our executive Director and Mr. Roy Leong Hung Chung, our company secretary. Both of the authorized representatives: (i) are, and will be, readily contactable by telephone, facsimile and/or email to deal promptly with any inquiries which may be made by the Hong Kong Stock Exchange; (ii) have the means to contact all our Directors (including our independent non-executive Directors) promptly at all times, as and when the Hong Kong Stock Exchange wishes to contact the Directors on any matters; and (iii) are to act at all times as the principal channel of communication between the Hong Kong Stock Exchange and us. Our Company will inform the Hong Kong Stock Exchange promptly in respect of any change in our authorized representatives and our compliance advisor;
- (b) Citigroup Global Markets Asia Limited, our compliance advisor, will act as an additional channel of communication with the Hong Kong Stock Exchange and will advise on ongoing compliance requirements and other issues pursuant to Rule 3A.23 and Rule 19A.06 of the Hong Kong Listing Rules from the H Share [REDACTED] until at least the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the H Share [REDACTED];
- (c) In compliance with Rule 19A.18(1) of the Hong Kong Listing Rules, one of our independent non-executive Directors is ordinarily resident in Hong Kong. Our remaining Directors who are not ordinarily resident in Hong Kong possess or can apply for valid travel documents to visit Hong Kong for business purpose and will be able to come to Hong Kong and meet with the Hong Kong Stock Exchange upon reasonable notice. In addition, each Director has provided his/her contact details, including mobile phone numbers, office phone numbers, email addresses and fax numbers (as applicable), to the authorized representatives and to the Hong Kong Stock Exchange.

Waiver in Respect of Document Disclosure Requirements under the Companies (WUMP) Ordinance in Relation to the Director’s Residential Address

We have applied to the SFC for[, and the SFC has granted,] a certificate of exemption under section 342A of the Companies (WUMP) Ordinance from strict compliance with the requirement of paragraph 6 of the Third Schedule to the Companies (WUMP) Ordinance, in respect of the disclosure of the residential address of Mr. Joe Tsai, our non-executive Director and executive vice-chairman of Alibaba, on the ground that such disclosure would be inappropriate having considered the following factors:

- (a) Mr. Joe Tsai is a member of our Board. Mr. Joe Tsai is also a member of the Alibaba founding team and has served on Alibaba’s Board of directors since its inception.

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

- (b) Mr. Joe Tsai is a high profile public figure due to the nature and scale of our business and that of Alibaba and his position held in other companies. Mr. Joe Tsai appears on news articles and interviews from time to time and the latest speeches made by Mr. Joe Tsai are often under the scrutiny by the general public and often generate interest across global media. Given he is a high profile public figure, the disclosure of the residential address of Mr. Joe Tsai may expose him and his family to unnecessary disturbance and unwanted public attention to their private lives or even potential harassment and endanger personal safety.
- (c) Disclosure of business address of Mr. Joe Tsai has been made in this document and the non-disclosure of the residential address of Mr. Joe Tsai in the document will not prejudice the interests of the investing public and would not affect potential investors’ ability to make an informed investment decision as to the securities for which [REDACTED] is sought.

[REDACTED]

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

[REDACTED]

Investments and Acquisitions after the Track Record Period

Pursuant to Rule 4.04(2) and Rule 4.04(4)(a) of the Hong Kong Listing Rules, the accountants’ report to be included in a listing document must include the income statements and balance sheets of any business and subsidiary acquired, agreed to be acquired or proposed to be acquired since the date to which its latest audited accounts have been made up in respect of each of the three financial years immediately preceding the issue of this document.

Pursuant to the Hong Kong Stock Exchange’s Guidance Letter HKEx-GL32-12 (“GL32-12”), acquisitions of business include acquisitions of associates and any equity interest in another company. Pursuant to GL32-12, the Hong Kong Stock Exchange may consider granting a waiver of the requirements under Rule 4.04(2) and Rule 4.04(4) of the Hong Kong Listing Rules on a case-by-case basis, and having regard to all relevant facts and circumstances and subject to certain conditions set out thereunder.

During the Track Record Period, we have made certain acquisitions and investments in a number of companies both in China and overseas in the ordinary and usual course of business to further our strategic objectives. Since June 30, 2020 and up to the Latest Practicable Date, we have made or proposed to make certain acquisitions and investments in a number of companies. It is possible that we may make further acquisitions or investments subsequent to the Latest Practicable Date and prior to the date of this

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document (collectively, the “Acquisitions”). Details of the investments and acquisitions that we had made or proposed to make since June 30, 2020 and up to the Latest Practicable Date include:

Target companies	Investment amount/ Consideration ⁽¹⁾ (RMB millions)	Percentage of shareholding/ equity interest ⁽²⁾	Principal business activities
Company A	400	100%	Technology services
Company B	10	100%	Insurance
Company C	4,000	50%	Consumer finance
Company D	790	42%	FinTech
Company E	1,040	35%	Local services
Company F	516	33%	FinTech
Company G	520	30%	FinTech
Company H	133	25%	Technology services
Company I	100	25%	Technology services
Company J	100	21%	Local services
Company K	413	20%	Insurance
Company L	510	18%	Lending
Company M	35	16%	Technology services
Company N	N/A ⁽³⁾	16%	FinTech
Company O	883	7%	Merchant services

Notes:

1. The investment amount/consideration, where applicable, involves translation of foreign currencies into RMB, and are rounded to the nearest million.
2. Represents cumulative shareholding in the relevant target companies rounded to the nearest percent.
3. Acquisition of interest in Company N is expected to be completed by way of a merger.

The consideration for the Acquisitions (other than in respect of Company C) was determined by commercial arm’s length negotiations in each case with reference to factors including, market dynamics, valuation for comparable companies and/or capital required for the target company’s operations.

Company C is a joint venture to be established by us and other independent third parties pursuant to a joint venture agreement entered into on August 21, 2020. The establishment of Company C is subject to applicable regulatory approval and it will apply for a consumer finance license in order to engage in consumer finance business. We will contribute RMB4,000 million of registered capital in the joint venture and hold a 50% interest, but the results of the joint venture are not expected to be consolidated in our financial statements.

The reasons for the Acquisitions are to further sustain and expand our thriving ecosystem, strengthen our relationship with partners, supplement our technology portfolio and expand into other markets.

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Conditions to waiver granted by the Hong Kong Stock Exchange

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange [has granted,] a waiver from strict compliance with Rule 4.04(2) and Rule 4.04(4) of the Hong Kong Listing Rules in respect of our Acquisitions on the following grounds:

(a) We have conducted the Acquisitions in our ordinary and usual course of business

We make strategic equity investments and acquisitions in sectors complementary to our business as part of our ordinary and usual course of business. We have a history of making investments and acquisitions.

(b) The percentage ratios of each Acquisitions are all less than 5% by reference to the most recent fiscal year of the Track Record Period

The relevant percentage ratios calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules for each of the Acquisitions are all less than 5% by reference to the most recent fiscal year of our Track Record Period. To the best of our knowledge, the Acquisitions are not subject to aggregation under Rule 14.22 of the Hong Kong Listing Rules. None of the Acquisitions should be aggregated because (i) each of the Acquisitions involves the acquisition of interests in a different target company and (ii) the counterparties for the Acquisitions are different.

Accordingly, we believe that the Acquisitions have not resulted in any significant change to our financial position since June 30, 2020, and all information that is reasonably necessary for potential investors to make an informed assessment of our activities or financial position has been included in this document. As such, a waiver from compliance with the requirements under Rule 4.04(2) and Rule 4.04(4)(a) of the Hong Kong Listing Rules would not prejudice the interests of the investing public.

(c) We are neither able to exercise any control, nor have any significant influence, over the underlying company or business

Except for Company A, Company B and Company C above, we only hold and/or will only hold a minority equity interest in each of the target companies and do not control their boards of directors; and (ii) we are also not involved in the day to day management of these target companies and only enjoy minority strategic shareholder rights. The minority rights given to us are generally commensurate to our status as a minority shareholder and are for the protection of our interests as a minority stakeholder in such target companies. These rights are neither intended, nor sufficient to compel or require the relevant companies to prepare or to disclose in this document audited financial statements for the purposes of compliance with Rule 4.04(2) and Rule 4.04(4)(a) of the Hong Kong Listing Rules. It could be prejudicial and potentially harmful to the our portfolio relationships and commercial interests. In addition, as all except one of the target companies are private companies, disclosing this information could harm their interests and bring them into an unfavorable competitive position. Accordingly, as we do not expect the Acquisitions to result in any material changes to our financial position after the Track Record Period, we do not believe the non-disclosure of the required information pursuant to Rule 4.04(2) and Rule 4.04(4)(a) of the Hong Kong Listing Rules would prejudice the interests of investors to assess our Company.

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

(d) The historical financial information of the target companies is not available and would be unduly burdensome to obtain or prepare

Except for Company O above, the target companies do not have available historical financial information which is readily available for disclosure in the document in accordance with the Hong Kong Listing Rules. In addition, it would require considerable time and resources for our Company and our reporting accountant to fully familiarize themselves with the management accounting policies of the target companies and compile the necessary financial information and supporting documents for disclosure in the document. As such, we believe that it would be impractical and unduly burdensome for us to disclose the audited financial information of the target companies as required under Rule 4.04(2) and Rule 4.04(4)(a) of the Hong Kong Listing Rules.

In addition, having considered the Acquisitions to be immaterial and that we do not expect each of the Acquisitions to have any material effect on our business, financial condition or operations, we believe that it would not be meaningful and would be unduly burdensome for us to prepare and include the financial information of the target companies during the Track Record Period in the document. As we do not expect each of the Acquisitions to result in any material changes to our financial position after the Track Record Period, we do not believe the non-disclosure of the required information pursuant to Rule 4.04(2) and Rule 4.04(4)(a) of the Hong Kong Listing Rules would prejudice the interests of the investors.

(e) Alternative disclosure of the Acquisitions will be provided in the document

We have provided in this section alternative information in connection with the Acquisitions. Such information includes that which would be required for a discloseable transaction under Chapter 14 of the Hong Kong Listing Rules that our directors consider to be material, including, for example, descriptions of the principal business activities, the consideration and a confirmation that the counterparties and the ultimate beneficial owners of the counterparties are independent third parties of our Company and our connected persons. For the avoidance of doubt, names of the target companies are excluded in the document because (i) we have entered into confidentiality agreements with these companies and do not have consent for such disclosure and/or (ii) given the competitive nature of the industries in which we operate, disclosure of the names of the relevant companies in the document is commercially sensitive and may be used by competitors to anticipate our investment strategy. Since the relevant percentage ratio of each Acquisitions is less than 5% by reference to the most recent fiscal year of the Track Record Period, the current disclosure in the document is adequate for potential investors to form an informed assessment of us. We do not expect to use any [REDACTED] from the H Share [REDACTED] to fund any of the Acquisitions.

CONTINUING CONNECTED TRANSACTIONS

We have entered into, and are expected to continue, certain transactions that will constitute continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules after the H Share [REDACTED]. Details about such transactions, together with the application for a waiver from strict compliance with the announcement, circular and independent shareholders' approval requirements (as applicable) under Chapter 14A of the Hong Kong Listing Rules are set out in the section headed “Connected Transactions” in this document.

INFORMATION ABOUT THIS DOCUMENT AND THE H SHARE IPO

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE H SHARE IPO

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE H SHARE IPO

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE H SHARE IPO

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE H SHARE IPO

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE H SHARE IPO

[REDACTED]

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE H SHARE IPO

Directors

Executive Directors

Name	Address	Country of Nationality
Eric Xiandong JING (井賢棟)	702, Unit 4 Building 4 Jinsejiayuan 16 Fuchun Road Shangcheng District Hangzhou, Zhejiang The People’s Republic of China	PRC
Simon Xiaoming HU (胡曉明)	1001, Unit 2 Building 7 Hanyuan Hejiayuan Xihu District Hangzhou, Zhejiang The People’s Republic of China	PRC
Xingjun NI (倪行軍)	Room 708 Building 8 Xixitianjie Longhu Hangzhou, Zhejiang The People’s Republic of China	PRC

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE H SHARE IPO

Non-executive Directors

<u>Name</u>	<u>Address</u>	<u>Country of Nationality</u>
Joseph C. TSAI (蔡崇信)	26/F Tower One Times Square 1 Matheson Street Causeway Bay Hong Kong The People’s Republic of China ⁽¹⁾	Canada
Li CHENG (程立)	902, Unit 1 Building 10 Dicuiyuan Chuntianjiayuan Xianlin Street Hangzhou, Zhejiang The People’s Republic of China	PRC
Fang JIANG (蔣芳)	3-1-601 Yingxiayuan Chunjianghuayue 158 Qianjiang Road Shangcheng District Hangzhou, Zhejiang The People’s Republic of China	PRC

Note:

(1) This is the director’s business address.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE H SHARE IPO

Independent Non-executive Directors

Name	Address	Country of Nationality
Quan HAO (郝荃)	12-1-802 Fenghuiyuan Xicheng District Beijing The People’s Republic of China	PRC
Fred Zulu HU (胡祖六)	House 9 Rosecliff 20 Tai Tam Road Hong Kong The People’s Republic of China	PRC
Yiping HUANG (黄益平)	406 Building 6 Wanliu Service Apartment Peking University 29 Wanliuzhong Road Haidian District Beijing The People’s Republic of China	PRC

Supervisors

Name	Address	Country of Nationality
Hang JIA (郝航)	52 Lakeside Drive #03-10 Caspian Republic of Singapore	Canada
Hong XU (徐宏)	1201 No. 25 1028 Chang Shou Road Shanghai The People’s Republic of China	PRC
Quan YU (余泉)	1-2-401 Shijiagu, Shanshui Renjia Xihu District Hangzhou, Zhejiang The People’s Republic of China	United States

See “Directors, Supervisors and Senior Management” for more information on the Directors and Supervisors.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE H SHARE IPO

Parties Involved in the H Share [REDACTED]

Joint Sponsors

Citigroup Global Markets Asia Limited

50th Floor, Champion Tower
Three Garden Road
Central
Hong Kong
The People’s Republic of China
(in alphabetical order)

J.P. Morgan Securities (Far East) Limited

23-29/F, Chater House
8 Connaught Road Central
Hong Kong
The People’s Republic of China
(in alphabetical order)

Morgan Stanley Asia Limited

46/F, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong
The People’s Republic of China
(in alphabetical order)

China International Capital Corporation Hong Kong Securities Limited

29/F, One International Finance Centre
1 Harbour View Street
Central
Hong Kong
The People’s Republic of China

[REDACTED]

Financial Advisor to our Company

Ampere Partners

Suite 1501, Nexxus Building
41 Connaught Road
Central
Hong Kong
The People’s Republic of China

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE H SHARE IPO

Legal Advisors to our Company *As to Hong Kong and United States law*

Simpson Thacher & Bartlett
ICBC Tower, 35/F
3 Garden Road
Central
Hong Kong
The People’s Republic of China

As to PRC law

Fangda Partners
24/F, HKRI Centre Two
HKRI Taikoo Hui
288 Shi Men Yi Road
Shanghai
The People’s Republic of China

Legal Advisors to the Joint Sponsors and the [REDACTED] *As to Hong Kong and United States law*

Freshfields Bruckhaus Deringer
55th Floor, One Island East
Taikoo Place
Quarry Bay
Hong Kong
The People’s Republic of China

As to PRC law

King & Wood Mallesons
18th Floor, East Tower, World Financial Center
1 Dongsanhuan Zhonglu
Chaoyang District
Beijing
The People’s Republic of China

Reporting Accountant and Independent Auditor

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong
The People’s Republic of China

Compliance Advisor

Citigroup Global Markets Asia Limited
50th Floor, Champion Tower
Three Garden Road
Central, Hong Kong
The People’s Republic of China

Receiving Banks

[REDACTED]

CORPORATE INFORMATION

Registered Office	Room 802 Building 5 Xixi New Block Xihu District Hangzhou The People’s Republic of China
Headquarters and Principal Place of Business in the PRC	Z Space No. 556 Xixi Road Hangzhou, Zhejiang The People’s Republic of China
Principal Place of Business in Hong Kong	26/F Tower One Times Square 1 Matheson Street Causeway Bay Hong Kong The People’s Republic of China
Company’s Website	<u>www.antgroup.com</u> <i>(This website and the information contained on this website do not form part of this document)</i>
Company Secretary	Roy Leong Hung CHUNG (鍾亮雄) <i>(Solicitor of the High Court of Hong Kong)</i> 26/F Tower One Times Square 1 Matheson Street Causeway Bay Hong Kong The People’s Republic of China
Authorized Representatives	Simon Xiaoming HU (胡曉明) Z Space No. 556 Xixi Road Hangzhou, Zhejiang The People’s Republic of China Roy Leong Hung CHUNG (鍾亮雄) 26/F Tower One Times Square 1 Matheson Street Causeway Bay Hong Kong The People’s Republic of China
Audit Committee	Quan HAO (郝荃) (Chairperson) Joseph C. TSAI (蔡崇信) Fred Zulu HU (胡祖六)
Nomination and Remuneration Committee	Fred Zulu HU (胡祖六) (Chairperson) Yiping HUANG (黃益平) Fang JIANG (蔣芳)

CORPORATE INFORMATION

Hong Kong Share Registrar

[REDACTED]

Principal Bankers

China Merchants Bank

19/F, China Merchants Bank Tower
No. 7088 Shennan Boulevard
Shenzhen
Guangdong
The People’s Republic of China

Citibank (Hong Kong) Limited

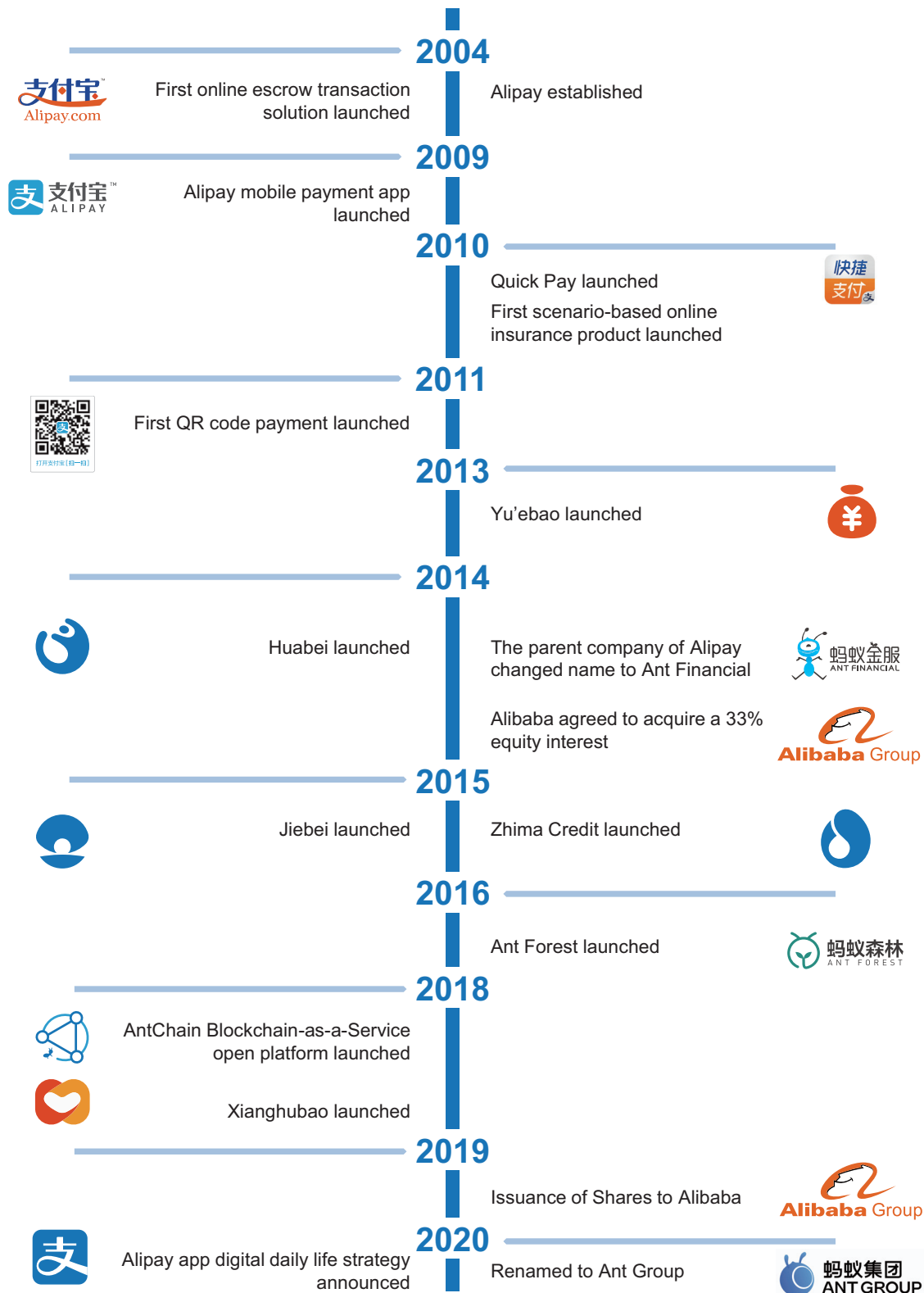
3 Garden Road
Central
Hong Kong
The People’s Republic of China

Standard Chartered Bank (Hong Kong) Limited

15th Floor Standard Chartered Tower
388 Kwun Tong Road
Hong Kong
The People’s Republic of China

HISTORY AND DEVELOPMENT

Our Major Corporate Milestones



HISTORY AND DEVELOPMENT

Development of Our Businesses — a History of Innovation

Digital Payments

Our origins date to 2004 when Alipay was created in the nascent days of e-commerce to solve the trust issue between buyers and sellers in online transactions. Our innovative payment solution bridged the trust gap, facilitated online transactions and underpinned the development of e-commerce in China. Having pioneered digital payments in China, we have since expanded our service offerings through technology and innovation to enable digital finance for consumers and businesses in China. In 2009, Alipay app, the first mobile payment app in China, was launched to provide fast, convenient and secure mobile payment solutions to consumers and merchants.

Digital Finance Technology Platform

CreditTech

In 2014, we launched Huabei, which was among the first digital unsecured revolving credit products for daily expenditures offered to consumers in China. In 2015, we launched Jiebei, a short-term digital unsecured consumer credit product for larger consumption transactions, to meet the spending needs of Huabei users who develop a sufficient credit history.

InvestmentTech

In 2013, we identified an opportunity to allow consumers to generate yield on their Alipay account balances. We created Yu’eobao, an innovative product that offers a simple and easy way for consumers to earn a return while allowing the funds to be instantly available for everyday purchases. Today, Yu’eobao remains the first financial investment product for many consumers and is the largest money market fund product globally.

InsureTech

In 2010, we launched shipping return insurance on Taobao, which was the first scenario-based online insurance product in China. This innovative and low-cost insurance product covers the purchaser’s shipping cost for returning products purchased on Alibaba e-commerce marketplaces. In 2018, we launched Xianghubao, a mutual aid program that provides affordable and accessible wealth protection to participants.

Innovation Initiatives and Technology Infrastructure

In 2018, we launched the AntChain cross-border remittance services leveraging blockchain technology and the Blockchain-as-a-Service (BaaS) open platform which supports diverse applications.

HISTORY AND DEVELOPMENT

Formation of Our Group

Acquisition of Alipay China by Our Predecessor

Alipay China was established under the laws of the PRC in December 2004 by Alibaba to provide digital payment services to consumers and merchants on Alibaba’s platforms.

Our predecessor company, Zhejiang Alibaba E-Commerce Co., Ltd. (浙江阿里巴巴電子商務有限公司), which was established by Mr. Jack Ma and Mr. Simon Shihuang Xie (holding 80% and 20% of the company’s equity interest, respectively), took control of Alipay China in 2011.

Hangzhou Junhan and Hangzhou Junao Became Our Largest Shareholders

In January 2013, Hangzhou Junao made a cash investment in our Company and became the owner of 42.14% of our Company’s equity interest, and the equity interests owned by Mr. Jack Ma and Mr. Simon Shihuang Xie were diluted to 46.29% and 11.57%, respectively. On June 11, 2014, the Company’s name was changed to Zhejiang Ant Small and Micro Financial Services Group Co., Ltd. (浙江螞蟻小微金融服務集團有限公司). On the same date, Mr. Jack Ma and Mr. Simon Shihuang Xie transferred their respective equity interests in our Company to Hangzhou Junhan, which became the owner of 57.86% of our equity interest.

In January 2015, Hangzhou Junhan transferred 4.61% of equity interest in our Company to Shanghai Qizhan Investment Center (Limited Partnership), a limited partnership established in China which focuses on private equity investment and is an independent third party.

2015 and 2016 Equity Transactions

In 2015, we conducted a round of equity financing and Shanghai Qizhan Investment Center (Limited Partnership) transferred part of its equity interest in our Company to certain new investors (the “2015 Equity Transactions”). Our registered capital increased to approximately RMB1,353 million.

In 2016, we conducted another round of equity financing while Hangzhou Junhan and Hangzhou Junao transferred part of their equity interests in our Company to certain new investors (the “2016 Equity Transactions”). Our registered capital further increased to approximately RMB1,459 million.

See “— Pre-[REDACTED] Investments” and “— Capitalization of our Company” for further details.

Conversion to Joint Stock Limited Liability Company

On December 16, 2016, shareholders of our Company resolved to convert our Company from a limited liability company to a joint-stock limited liability company by way of promotion in accordance with the PRC Company Law. Upon completion of all the required procedures on December 28, 2016, our Company was converted into a joint-stock limited liability company and was renamed Ant Small and Micro Financial Services Group Co., Ltd. (浙江螞蟻小微金融服務集團股份有限公司). In connection with the conversion, we issued an aggregate of 15,000,000,000 Shares to our Company’s then 23 shareholders, including Hangzhou Junhan, Hangzhou Junao, Shanghai Qizhan Investment Center (Limited

HISTORY AND DEVELOPMENT

Partnership) and 20 other investors that invested in our Company in the 2015 Equity Transactions and the 2016 Equity Transactions, in proportion to their equity interests before the conversion. These 23 shareholders are considered the promoters of our Company.

Issuance of Ant International Class B shares

Since May 2018, Ant International has issued non-voting shares (“Ant International Class B shares”) as offshore employee incentives. As of the Latest Practicable Date, there were 259,355,840 Ant International Class B shares outstanding which will be held in trust or as nominee by BOCI Trustee (Hong Kong) Limited. Such Ant International Class B shares will be redeemed by Ant International and H Shares (in the same number as the Ant International Class B shares) will be subscribed for and issued to holders of the Ant International Class B shares upon completion of the H Share [REDACTED]. See “— Redemption and Subscription by Ant International Securities Holders” for further details.

2018 Equity Transactions

In July 2018, we conducted another round of equity financing and issued an aggregate of 201,247,162 Shares. At the same time, Hangzhou Junhan and Hangzhou Junao transferred an aggregate of 266,358,322 Shares to certain investors that participated in the 2015 Equity Transactions and the 2016 Equity Transactions and certain new investors at around the same time (the “2018 Equity Transactions”). In July 2018, we also issued 560,000,000 Shares at par value of RMB1.00 per Share to Hangzhou Junhan for the purpose of supporting our Share Economic Rights Plan and our Company’s registered capital increased to approximately RMB15,761 million.

See “— Pre-[REDACTED] Investments” and “— Capitalization of our Company” for further details.

2018 Offshore Equity Financing

In June 2018, Ant International issued an aggregate of 1,838,517,798 non-voting shares (the “Ant International Class C shares”) to the Offshore Pre-[REDACTED] Investors (the “2018 Offshore Equity Financing”). These Ant International Class C shares will be redeemed by Ant International and H Shares (in the same number as the Ant International Class C shares) will be subscribed for and issued to holders of the Ant International Class C shares upon completion of the H Share [REDACTED].

See “— Pre-[REDACTED] Investments,” “— Capitalization of our Company” and “— Redemption and Subscription by Ant International Securities Holders” for further details.

Issuance of Shares to the Alibaba Group

In September 2019, pursuant to the SAPA, we issued 7,763,002,334 Shares to Hangzhou Alibaba, a wholly-owned subsidiary of Alibaba, and our Company’s registered capital increased to approximately RMB23,524 million. Ant International also issued 1,171,508,767 Ant International Class C shares to Taobao Holding Limited, a wholly-owned subsidiary of Alibaba in September 2019. The consideration for the above issuance was approximately RMB12,095 million. In addition, pursuant to the SAPA, Alibaba transferred certain intellectual property and assets to us for an aggregate consideration of approximately RMB12,204 million. The issuance of 7,763,002,334 Shares to Alibaba did not change the

HISTORY AND DEVELOPMENT

relationship between us and Alibaba and had no impact on our daily business operations. The addition of two non-executive Directors recommended by Alibaba to our Board did not change the balance of control at the Board level as the Board had seven members immediately after such addition. Our Company was managed by the same core management team before and after Alibaba’s receipt of the above equity interest in our Company. As such, we do not consider the issuance Shares to Alibaba has caused material changes in the management of our Company’s daily operations.

As of the Latest Practicable Date, Alibaba held our Shares and Ant International Class C shares, through Hangzhou Alibaba and Taobao Holding Limited, respectively. Assuming the redemption and subscription arrangement described in “— Redemption and Subscription by Ant International Securities Holders” had been completed as of the Latest Practicable Date such that all the Ant International Class B shares and the Ant International Class C shares, including the Ant International Class C shares held by Taobao Holding Limited, are redeemed and the same number of H Shares are issued, Alibaba’s equity interest through Hangzhou Alibaba and Taobao Holding Limited in our Company would be 33%.

Furthermore, pursuant to the SAPA as amended and related documents, Alibaba has an anti-dilution right to subscribe for Shares under the [REDACTED] so that it may hold an equity interest not exceeding 33% upon completion of the H Share [REDACTED] and the A Share [REDACTED]. See “Structure of the H Share IPO” [REDACTED] for details of Alibaba’s participation in the [REDACTED].

Under the SAPA, Alibaba has certain special rights including but not limited to the right to recommend a certain number of our Directors, customary information rights, approval rights over the size of our Board and certain actions of our Company and Alipay China. All special rights of Alibaba will be terminated upon the earlier of the H Share [REDACTED] or the A Share [REDACTED] and therefore, are expected to terminate on [REDACTED], except for the customary information rights, which will continue after our [REDACTED] but Alibaba will only receive our financial information on the date when we publicly disclose such information.

Issuance of Shares to Hangzhou Junhan

In June 2020, we issued 254,380,000 Shares at par value of RMB1.00 to Hangzhou Junhan for the purpose of supporting our Share Economic Rights Plan and our registered capital increased to approximately RMB23,779 million. Taking into consideration the 154,186,696 Shares Hangzhou Junao transferred to Hangzhou Junhan in February 2020, as of the Latest Practicable Date, Hangzhou Junhan and Hangzhou Junao owned 29.86% and 20.66% of our Shares, respectively, and together are our largest Shareholders.

Change of the Company’s Name

On July 13, 2020, the Company’s name was changed to Ant Group Co., Ltd. (螞蟻科技集團股份有限公司).

HISTORY AND DEVELOPMENT

Transfer of Hangzhou Yunbo’s Equity Interest

On August 18, 2020, Mr. Jack Ma entered into an equity transfer agreement with Mr. Eric Jing, Mr. Simon Hu and Ms. Fang Jiang, pursuant to which, Mr. Jack Ma transferred 22% equity interest in Hangzhou Yunbo, the executive partner and general partner of Hangzhou Junhan and Hangzhou Junao, to each of Mr. Eric Jing, Mr. Simon Hu and Ms. Fang Jiang. After such transfer of 66% equity interests, Mr. Jack Ma retained the remaining 34% equity interest in Hangzhou Yunbo. Mr. Jack Ma, Mr. Eric Jing, Mr. Simon Hu and Ms. Fang Jiang also entered into the Concert Party Agreement on August 21, 2020. Pursuant to such agreement and the articles of association of Hangzhou Yunbo, Mr. Jack Ma can, through his control over resolutions passed at the general meetings of Hangzhou Yunbo which relate to the exercise of right by Hangzhou Junhan and Hangzhou Junao as Shareholders, effectively exercise control over the Shares held by Hangzhou Junhan and Hangzhou Junao and accordingly, has ultimate control over our Company.

No changes were made to our Board or our core management team as a result of the transfer of Hangzhou Yunbo’s equity interest by Mr. Jack Ma, nor has it caused material changes in the management of our daily operations. In addition, the Concert Party Agreement imposes certain restrictions on the disposal of equity interest in Hangzhou Yunbo held by its shareholders. See “Relationship with Controlling Shareholders — Our Controlling Shareholders — Mr. Jack Ma and Other Shareholders of Hangzhou Yunbo” for details.

Pre-[REDACTED] Investments

Overview

Set forth below is a summary of our few rounds of Pre-[REDACTED] Investments, namely the 2015 Equity Transactions, the 2016 Equity Transactions, the 2018 Equity Transactions and the 2018 Offshore Equity Financing.

The issuance of Shares to Hangzhou Alibaba and the Ant International Class C shares to Taobao Holding Limited are not considered to be our pre-[REDACTED] investments.

Round	Date of share initial subscription agreement	Date of last payment of consideration	Approximate Post-Investment Valuation		Total consideration paid by the investors	Discount to the H Share [REDACTED] ⁽¹⁾
			(in RMB billions)	(in US\$ billions) ⁽²⁾	(in billions)	(%)
2015 Equity Transactions	June 15, 2015	August 27, 2015	260	43 ⁽⁴⁾	RMB19.2	[REDACTED]%
2016 Equity Transactions	April 8, 2016	April 22, 2016	390	60 ⁽⁴⁾	RMB29.1	[REDACTED]%
2018 Equity Transactions	May 29, 2018	June 27, 2018	960	150 ⁽⁵⁾	RMB21.8	—
2018 Offshore Equity Financing ⁽³⁾	May 16, 2018	June 22, 2018			US\$10.3	

HISTORY AND DEVELOPMENT

Notes:

- (1) Based on the post-investment valuation and assuming (i) a foreign exchange rate of RMB0.9134 to HK\$1.00 or RMB7.0651 to US\$1.00, as applicable, and (ii) the H Share [REDACTED] of HK\$[REDACTED] per H Share.
- (2) Based on the foreign exchange rate as of the signing date of the subscription agreements for the 2015 Equity Transactions and the 2016 Equity Transactions for illustrative purpose and a foreign exchange rate as agreed with the investors for the 2018 Equity Transactions and the 2018 Offshore Equity Financing in the various share subscription or transfer agreements.
- (3) Ant International Class C shares, which will be redeemed and the same number of H Shares will be subscribed for and issued upon completion of the H Share [REDACTED]. See “— Redemption and Subscription by Ant International Securities Holders” for further details.
- (4) The valuation has given pro forma effect to the issuance of certain shares to Alibaba and/or its subsidiaries pursuant to SAPA.
- (5) The valuation has given pro forma effect to (i) the issuance of certain shares to Alibaba and/or its subsidiaries pursuant to SAPA; (ii) the issuance of shares for the purpose of supporting our Share Economic Rights Plan; (iii) the issuance of Ant International Class B shares for offshore employee incentives purpose; and (iv) the redemption and subscription arrangement described in “— Redemption and Subscription by Ant International Securities Holders.”

Principal Terms of the Pre-[REDACTED] Investments

Use of Proceeds from the Pre-[REDACTED] Investments

We utilized the entire proceeds that we received from the Onshore Pre-[REDACTED] Investors for the development and operation of our business, including but not limited to strategic investments or acquisitions, new business and product development, technology infrastructure, personnel recruitment and sales and marketing, as well as other general corporate purposes.

We utilized the entire proceeds that we received from the Offshore Pre-[REDACTED] Investors for funding the implementation of our globalization initiatives, including investments, acquisitions and formation of alliances in various overseas markets, repayment of offshore syndicated loans and bank borrowings and purchase of IP, trademark and patent related assets from Alibaba as part of the arrangement under the SAPA and for working capital and general corporate purposes.

Strategic benefits of the Pre-[REDACTED] Investors brought to our Company

At the time of the Pre-[REDACTED] Investments, we were of the view that our Company would benefit from the strategic value that Pre-[REDACTED] Investors would bring to our business, the additional capital provided by the Pre-[REDACTED] Investors’ investments in our Company and their knowledge relevant to our business.

Basis of determining the consideration paid

The consideration for the Pre-[REDACTED] Investments was determined based on arm’s length negotiations between our Company and the Pre-[REDACTED] Investors after taking into consideration the timing of the investments and the achievement and prospects of our businesses then.

Lock-up Period

For lock-up undertakings given by holders of Domestic Shares in connection with the A Share [REDACTED], see “Share Capital — Lock-up Undertakings” for details. For lock-up undertakings given by existing Shareholders in connection with the H Share [REDACTED], see “Underwriting” for further details.

HISTORY AND DEVELOPMENT

Special Rights of the Pre-[REDACTED] Investors

Pursuant to our amended and restated shareholders agreement dated June 12, 2020 entered into by the Company and other parties (the “Shareholders Agreement”), and the shareholder agreement of Ant International dated June 7, 2018 entered into by Ant International and other parties (the “Ant International Shareholders Agreement”), the Pre-[REDACTED] Investors were granted certain special rights in relation to the Company, including, among others, customary rights of first refusal, pre-emptive rights and information rights. The special rights provided in the Shareholders Agreement and the Ant International Shareholders Agreement will terminate effective upon the earlier of the H Share [REDACTED] or the A Share [REDACTED] and therefore, are expected to terminate on [REDACTED], in accordance with the respective terms of the Shareholders Agreement and the Ant International Shareholders Agreement.

Compliance with Interim Guidance and Guidance Letters

The Joint Sponsors confirm that the Pre-[REDACTED] Investments are in compliance with Guidance Letter HKEx-GL29-12 issued by the Hong Kong Stock Exchange in January 2012 and updated in March 2017, Guidance Letter HKEx-GL43-12 issued by the Hong Kong Stock Exchange in October 2012 and updated in July 2013 and March 2017 and Guidance Letter HKEx-GL44-12 issued by the Hong Kong Stock Exchange in October 2012 and updated in March 2017.

Redemption and Subscription by Ant International Securities Holders

Redemption of Ant International Class C shares and subscription for H Shares by holders of Ant International Class C shares

In the 2018 Offshore Equity Financing, Ant International issued and sold an aggregate of 1,838,517,798 Ant International Class C shares to the Offshore Pre-[REDACTED] Investors for cash consideration of approximately US\$10.3 billion. In September 2019, Ant International also issued 1,171,508,767 Ant International Class C shares to Taobao Holding Limited, a wholly-owned subsidiary of Alibaba. As part of the arrangements with the Offshore Pre-[REDACTED] Investors and Alibaba, we agreed to facilitate the exchange of these Ant International Class C shares into our H Shares at the time of our H Share [REDACTED] on a one-for-one basis, through the redemption and subscription mechanism as described below.

Pursuant to the arrangements with the Offshore Pre-[REDACTED] Investors and Alibaba, Ant International will redeem the Ant International Class C shares and the same number of H Shares will be subscribed for by and issued to the holders of Ant International Class C shares, thereby effecting an exchange of Ant International Class C shares into H Shares on a one-for-one basis. Concurrently, certain Ant International Class C Shares held by Taobao Holding Limited will be surrendered and cancelled so that a total of 1,158,572,686 Ant International Class C Shares will be redeemed and the same number of H Shares will be issued to Taobao Holding Limited. Both the redemption and the subscription will be at the H Share [REDACTED] (the “Class C Redemption and Subscription”). The Class C Redemption and Subscription will take place upon the completion of our H Share [REDACTED]. In connection with the Class C Redemption and Subscription, we will issue in aggregate 2,997,090,484 H Shares representing approximately 12.60% and [REDACTED]% of our total issued share capital immediately prior to and immediately following the H Share [REDACTED] and the A Share [REDACTED] (without taking into account any exercise of the [REDACTED]), respectively and approximately [REDACTED]% of our total number of issued H Shares immediately following the H Share [REDACTED].

HISTORY AND DEVELOPMENT

Redemption of Ant International Class B shares and subscription of H Shares by holders of Ant International Class B shares

In 2018, we restructured our offshore employee incentives with Ant International issuing Ant International Class B shares to support our offshore employee incentives. Ant International also implemented an ESOP plan, the Pre-[REDACTED] Offshore ESOP Plan, pursuant to which we granted awards in the form of RSUs and/or SARs to certain eligible participants of the ESOP plan including employees and directors of, and consultants engaged by, members of our Group and our associates and Alibaba and its subsidiaries, with Ant International Class B shares as the underlying shares. As of the Latest Practicable Date, there were 259,355,840 outstanding Ant International Class B shares and they will be held in trust or as nominee by BOCI Trustee (Hong Kong) Limited.

Pursuant to the terms of the Ant International Class B shares, Ant International will effect an exchange of Ant International Class B shares into H Shares on a one-for-one basis by way of redemption and the holders of the Ant International Class B shares shall subscribe for the same number of H Shares. Both the redemption and the subscription will be at the H Share [REDACTED] (the “Class B Redemption and Subscription,” and together with the Class C Redemption and Subscription, the “Redemption and Subscription”). We intend to effect the Class B Redemption and Subscription on a group basis, with all H Shares issued in connection with the redemption of Ant International Class B shares to be held by BOCI Trustee (Hong Kong) Limited as trustee or nominee.

As a result of the Class B Redemption and Subscription, we will issue in aggregate 259,355,840 H Shares representing approximately 1.09% and [REDACTED]% of our total issued share capital immediately prior to and immediately following the H Share [REDACTED] and the A Share [REDACTED] (without taking into account any exercise of the [REDACTED]), respectively and approximately [REDACTED]% of our total number of issued H Shares immediately following the H Share [REDACTED] and without taking into account any exercise of the H share [REDACTED]).

Mechanism for effecting the Redemption and Subscription

The redemption and subscription mechanisms for the Ant International Class C shares and the Ant International Class B shares are the same.

Ant International will use available resources from the Company, including utilizing funds from liquidity facilities provided by third parties, to redeem the Ant International Class C shares and Ant International Class B shares for cash, and the holders of such shares would use the redemption proceeds to subscribe for H Shares. The amount of redemption proceeds and the subscription amount are both equal to the H Share [REDACTED] multiplied by the number of H Shares subscribed for and issued, or approximately HK\$[REDACTED] million in aggregate (based on H Share [REDACTED] of HK\$[REDACTED]). The funds paid for the redemption will be directly applied to the subscription of the H Shares, so that the Redemption and Subscription would be completed without holders of Ant International Class C shares and Ant International Class B shares paying any additional subscription amount. The proceeds from the subscription of H Shares will be fully utilized to settle the funding of the redemption amount. The Redemption and Subscription will take place at the same time as the completion of the H Share [REDACTED].

HISTORY AND DEVELOPMENT

Effect of the Redemption and Subscription

Other than the payment of certain miscellaneous administrative fees, the Redemption and Subscription will have no cash impact on our Company, as the funds paid by Ant International to redeem the Ant International Class B shares and Ant International Class C shares will immediately be used by such holders to subscribe for our H Shares and such amounts are equal.

In connection with the Redemption and Subscription, we will issue 3,256,446,324 H Shares representing approximately 13.69% and [REDACTED]% of our total issued share capital immediately prior to and immediately following the H Share [REDACTED] and the A Share [REDACTED] (without taking into account any exercise of the [REDACTED]), respectively and approximately [REDACTED]% of our total number of issued H Shares immediately following the H Share [REDACTED] and without taking into account any exercise of the H Share [REDACTED]).

Capitalization of Our Company

The following table sets out the shareholding structure of our Company and Ant International as of the date of this document and our shareholding structure upon completion of the H Share [REDACTED] and the A Share [REDACTED], assuming the [REDACTED] are not exercised:

Shareholders	Timing of becoming a Shareholder or Round of Investment	As of the date of this document		Immediately before the Redemption and Subscription	Upon completion of the H Share [REDACTED] and the A Share [REDACTED]		
		Number of Shares owned	Ownership percentage	Number of Ant International Class B/ Class C shares owned	Number of A Shares owned	Number of H Shares owned	Ownership percentage
Hangzhou Junhan	June 2014	7,100,807,353	29.86%	–	[REDACTED]	[REDACTED]	[REDACTED]
Hangzhou Junao	January 2013	4,911,619,577	20.66%	–	[REDACTED]	[REDACTED]	[REDACTED]
Alibaba Group ⁽³⁾	September 2019	7,763,002,334	32.65%	1,158,572,686 ⁽³⁾	[REDACTED]	[REDACTED]	[REDACTED]
Trustees/nominees ⁽⁴⁾	N/A ⁽⁴⁾	–	–	259,355,840 ⁽⁴⁾	[REDACTED]	[REDACTED]	[REDACTED]
Onshore Pre-[REDACTED] Investors:							
National Council for Social Security Fund ⁽⁵⁾	2015 Equity Transactions	698,966,840	2.94%	–	[REDACTED]	[REDACTED]	[REDACTED]
Zhifu (Shanghai) Investment Center (Limited Partnership) ⁽⁶⁾	2016 Equity Transactions	461,354,708	1.94%	–	[REDACTED]	[REDACTED]	[REDACTED]
Shanghai Zhongfu Equity Investment Management Center (Limited Partnership) ⁽⁷⁾	2015 Equity Transactions and 2018 Equity Transactions	307,611,214	1.29%	–	[REDACTED]	[REDACTED]	[REDACTED]
China Life Insurance (Group) Company ⁽⁸⁾	2015 Equity Transactions and 2016 Equity Transactions	249,400,603	1.05%	–	[REDACTED]	[REDACTED]	[REDACTED]

HISTORY AND DEVELOPMENT

Shareholders	Timing of becoming a Shareholder or Round of Pre-[REDACTED] Investment	As of the date of this document		Immediately before the Redemption and Subscription	Upon completion of the H Share [REDACTED] and the A Share [REDACTED]		
		Number of Shares owned	Ownership percentage	Number of Ant International Class B/ Class C shares owned	Number of A Shares owned	Number of H Shares owned	Ownership percentage
Shanghai Qihong Investment Center (Limited Partnership) ⁽⁷⁾	2016 Equity Transactions	247,947,076	1.04%	–	[REDACTED]	[REDACTED]	[REDACTED]
Shanghai Qizhan Investment Center (Limited Partnership) ⁽⁷⁾	January 23, 2015 ⁽⁹⁾	240,162,546	1.01%	–	[REDACTED]	[REDACTED]	[REDACTED]
Beijing Jingguan Investment Center (Limited Partnership) ⁽¹⁰⁾	2016 Equity Transactions and 2018 Equity Transactions	218,337,790	0.92%	–	[REDACTED]	[REDACTED]	[REDACTED]
Hainan CCB Capital Conglin Fund Partnership (Limited Partnership) ⁽¹¹⁾	2016 Equity Transactions	190,284,963	0.80%	–	[REDACTED]	[REDACTED]	[REDACTED]
China Pacific Insurance Co., Ltd. ⁽¹²⁾	2015 Equity Transactions, 2016 Equity Transactions and 2018 Equity Transactions	173,661,636	0.73%	–	[REDACTED]	[REDACTED]	[REDACTED]
Beijing China Post Investment Center (Limited Partnership) ⁽¹³⁾	2015 Equity Transactions, 2016 Equity Transactions and 2018 Equity Transactions	164,172,335	0.69%	–	[REDACTED]	[REDACTED]	[REDACTED]
Shanghai Yunfeng Xincheng Investment Center (Limited Partnership) ⁽⁷⁾	2016 Equity Transactions	155,687,692	0.65%	–	[REDACTED]	[REDACTED]	[REDACTED]
PICC Capital Investment Management Co., Ltd. ⁽¹⁴⁾	2015 Equity Transactions and 2016 Equity Transactions	128,091,283	0.54%	–	[REDACTED]	[REDACTED]	[REDACTED]
New China Life Insurance Company Ltd. ⁽¹⁵⁾	2015 Equity Transactions and 2016 Equity Transactions	99,479,107	0.42%	–	[REDACTED]	[REDACTED]	[REDACTED]
Shanghai Financial Sector Investment Fund II (I) (Limited Partnership) ⁽¹⁶⁾	2015 Equity Transactions, 2016 Equity Transactions and 2018 Equity Transactions	84,698,808	0.36%	–	[REDACTED]	[REDACTED]	[REDACTED]
Beijing Innovative Growth Enterprises Management Co., Ltd. ⁽¹⁷⁾	2015 Equity Transactions, 2016 Equity Transactions and 2018 Equity Transactions	71,199,073	0.30%	–	[REDACTED]	[REDACTED]	[REDACTED]

HISTORY AND DEVELOPMENT

Shareholders	Timing of becoming a Shareholder or Round of Pre-[REDACTED] Investment	As of the date of this document		Immediately before the Redemption and Subscription	Upon completion of the H Share [REDACTED] and the A Share [REDACTED]		
		Number of Shares owned	Ownership percentage	Number of Ant International Class B/ Class C shares owned	Number of A Shares owned	Number of H Shares owned	Ownership percentage
Chunhua Jingxin (Tianjin) Investment Center (Limited Partnership) ⁽¹⁸⁾	2015 Equity Transactions	70,648,061	0.30%	–	[REDACTED]	[REDACTED]	[REDACTED]
Shanghai Jingyi Investment Center (Limited Partnership) ⁽⁷⁾	2015 Equity Transactions	62,808,757	0.26%	–	[REDACTED]	[REDACTED]	[REDACTED]
China Life Insurance Co., Ltd. ⁽⁸⁾	2018 Equity Transactions	56,689,342	0.24%	–	[REDACTED]	[REDACTED]	[REDACTED]
Suzhou Industrial Park Xinyuan Guangyi Investment Center (Limited Partnership) ⁽¹⁹⁾	2015 Equity Transactions, 2016 Equity Transactions and 2018 Equity Transactions	47,999,714	0.20%	–	[REDACTED]	[REDACTED]	[REDACTED]
Chunhua Rongxin (Tianjin) Equity Investment Fund Partnership (Limited Partnership) ⁽¹⁸⁾	2018 Equity Transactions	45,351,473	0.19%	–	[REDACTED]	[REDACTED]	[REDACTED]
Beijing Qianshun Investment Co., Ltd. ⁽²⁰⁾	2018 Equity Transactions	42,517,006	0.18%	–	[REDACTED]	[REDACTED]	[REDACTED]
China International Television Corporation ⁽²¹⁾	2018 Equity Transactions	42,517,006	0.18%	–	[REDACTED]	[REDACTED]	[REDACTED]
Chunhua Jingxin Jingfu (Tianjin) Investment Center (Limited Partnership) ⁽¹⁸⁾	2016 Equity Transactions	40,363,477	0.17%	–	[REDACTED]	[REDACTED]	[REDACTED]
Beijing CICC Alpha V Equity Investment Partnership (Limited Partnership) ⁽²²⁾	2016 Equity Transactions	28,831,046	0.12%	–	[REDACTED]	[REDACTED]	[REDACTED]
Tohigh Capital Investment & Management Co., Ltd. ⁽²³⁾	2018 Equity Transactions	28,344,671	0.12%	–	[REDACTED]	[REDACTED]	[REDACTED]
Tebon StarRay Co. Ltd. ⁽²⁴⁾	2018 Equity Transactions	17,006,802	0.07%	–	[REDACTED]	[REDACTED]	[REDACTED]
Beijing Yingyi Internet Technology Co., Ltd. ⁽²⁵⁾	2018 Equity Transactions	14,172,335	0.06%	–	[REDACTED]	[REDACTED]	[REDACTED]
Shanghai Shihong Investment Center (Limited Partnership) ⁽²⁶⁾	2016 Equity Transactions	9,225,934	0.04%	–	[REDACTED]	[REDACTED]	[REDACTED]
Hainan CCB Capital Project Fund I Partnership ⁽²⁷⁾	2018 Equity Transactions	5,668,934	0.02%	–	[REDACTED]	[REDACTED]	[REDACTED]
Offshore Pre-[REDACTED] Investors:							
Gamnate Pte. Ltd. ⁽²⁸⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	76,638,591	[REDACTED]	[REDACTED]	[REDACTED]
Tetrad Ventures Pte Ltd ⁽²⁸⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	62,388,591	[REDACTED]	[REDACTED]	[REDACTED]

HISTORY AND DEVELOPMENT

Shareholders	Timing of becoming a Shareholder or Round of Pre-[REDACTED] Investment	As of the date of this document		Immediately before the Redemption and Subscription	Upon completion of the H Share [REDACTED] and the A Share [REDACTED]		
		Number of Shares owned	Ownership percentage	Number of Ant International Class B/ Class C shares owned	Number of A Shares owned	Number of H Shares owned	Ownership percentage
Pantai Juara Investments Limited ⁽²⁹⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	115,864,527	[REDACTED]	[REDACTED]	[REDACTED]
WP Capital Investment, L.P. ⁽³⁰⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	101,614,527	[REDACTED]	[REDACTED]	[REDACTED]
Canada Pension Plan Investment Board ⁽³¹⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	106,951,871	[REDACTED]	[REDACTED]	[REDACTED]
SL Elephant Holdco Limited ⁽³²⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	106,951,871	[REDACTED]	[REDACTED]	[REDACTED]
CA Fourmi Investments ⁽³³⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	89,126,559	[REDACTED]	[REDACTED]	[REDACTED]
Evans Investments Pte. Ltd. ⁽³⁴⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	53,475,935	[REDACTED]	[REDACTED]	[REDACTED]
Glittertind Investments Pte. Ltd. ⁽³⁴⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	35,650,623	[REDACTED]	[REDACTED]	[REDACTED]
General Atlantic Singapore Commander Pte. Ltd. ⁽³⁵⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	89,126,559	[REDACTED]	[REDACTED]	[REDACTED]
Funds and accounts advised or subadvised by T. Rowe Price Associates, Inc. or T. Rowe Price Hong Kong Limited ⁽³⁶⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	89,126,559	[REDACTED]	[REDACTED]	[REDACTED]
Giant Sports Limited ⁽³⁷⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	80,213,903	[REDACTED]	[REDACTED]	[REDACTED]
Anchor Innovation Limited ⁽³⁸⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	71,301,247	[REDACTED]	[REDACTED]	[REDACTED]
Clouse S.A., acting for the account of its Compartment 41 ⁽³⁹⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	71,212,121	[REDACTED]	[REDACTED]	[REDACTED]
Growth Succession Limited ⁽⁴⁰⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	62,388,591	[REDACTED]	[REDACTED]	[REDACTED]
PV Orange Limited ⁽⁴¹⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	62,388,591	[REDACTED]	[REDACTED]	[REDACTED]
Funds and accounts managed by direct and indirect subsidiaries of BlackRock, Inc. ⁽⁴²⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	47,237,076	[REDACTED]	[REDACTED]	[REDACTED]

HISTORY AND DEVELOPMENT

Shareholders	Timing of becoming a Shareholder or Round of Pre-[REDACTED] Investment	As of the date of this document		Immediately before the Redemption and Subscription	Upon completion of the H Share [REDACTED] and the A Share [REDACTED]		
		Number of Shares owned	Ownership percentage	Number of Ant International Class B/ Class C shares owned	Number of A Shares owned	Number of H Shares owned	Ownership percentage
Scottish Mortgage Investment Trust plc ⁽⁴³⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	44,563,279	[REDACTED]	[REDACTED]	[REDACTED]
The Monks Investment Trust plc ⁽⁴³⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	2,139,037	[REDACTED]	[REDACTED]	[REDACTED]
BPAF Limited ⁽⁴⁴⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	29,978,808	[REDACTED]	[REDACTED]	[REDACTED]
PV Internet Holdings LLC ⁽⁴⁵⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	14,584,472	[REDACTED]	[REDACTED]	[REDACTED]
DG-ANT LP ⁽⁴⁶⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	42,780,748	[REDACTED]	[REDACTED]	[REDACTED]
Funds and accounts advised by Fidelity Management & Research Company or its affiliate ⁽⁴⁷⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	42,350,267	[REDACTED]	[REDACTED]	[REDACTED]
Antenna DF Holdings, LP ⁽⁴⁸⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	26,737,967	[REDACTED]	[REDACTED]	[REDACTED]
SC GGF III Holdco, Ltd. ⁽⁴⁹⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	26,737,967	[REDACTED]	[REDACTED]	[REDACTED]
Ample Era Investments Limited ⁽⁵⁰⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	17,825,311	[REDACTED]	[REDACTED]	[REDACTED]
Fourmy Pte. Ltd ⁽⁵¹⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	17,825,311	[REDACTED]	[REDACTED]	[REDACTED]
Coatue PE Asia XIII LLC ⁽⁴⁵⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	17,825,311	[REDACTED]	[REDACTED]	[REDACTED]
Intime International Holdings Limited ⁽⁵²⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	17,825,311	[REDACTED]	[REDACTED]	[REDACTED]
Kofu International Limited ⁽⁵³⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	17,825,311	[REDACTED]	[REDACTED]	[REDACTED]
Tahoe Ltd ⁽⁵⁴⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	17,825,311	[REDACTED]	[REDACTED]	[REDACTED]
Credit Suisse AG, Singapore Branch ⁽⁵⁵⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	14,260,249	[REDACTED]	[REDACTED]	[REDACTED]

HISTORY AND DEVELOPMENT

Shareholders	Timing of becoming a Shareholder or Round of Pre-[REDACTED] Investment	As of the date of this document		Immediately before the Redemption and Subscription	Upon completion of the H Share [REDACTED] and the A Share [REDACTED]		
		Number of Shares owned	Ownership percentage	Number of Ant International Class B/ Class C shares owned	Number of A Shares owned	Number of H Shares owned	Ownership percentage
Active Noble Limited ⁽⁵⁶⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	8,912,655	[REDACTED]	[REDACTED]	[REDACTED]
Hutchison Whampoa Europe Investments S.à r.l. ⁽⁵⁷⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	8,912,655	[REDACTED]	[REDACTED]	[REDACTED]
Moraine Master Fund, LP ⁽⁵⁸⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	6,238,859	[REDACTED]	[REDACTED]	[REDACTED]
Falcon CI V, LLC ⁽⁵⁸⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	2,673,796	[REDACTED]	[REDACTED]	[REDACTED]
Athena Investment Limited ⁽⁵⁹⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	6,238,859	[REDACTED]	[REDACTED]	[REDACTED]
Sinovation Fortune Limited ⁽⁶⁰⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	5,347,593	[REDACTED]	[REDACTED]	[REDACTED]
Domenick Limited ⁽⁶¹⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	1,782,531	[REDACTED]	[REDACTED]	[REDACTED]
GGV Capital Holdings, L.L.C. ⁽⁶²⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	3,565,062	[REDACTED]	[REDACTED]	[REDACTED]
HS Investments AP10 Limited ⁽⁶³⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	28,520,499	[REDACTED]	[REDACTED]	[REDACTED]
HS Investments WT Limited ⁽⁶³⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	4,456,328	[REDACTED]	[REDACTED]	[REDACTED]
Platinum Lotus B 2018 RSC Limited ⁽⁶⁴⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	35,650,624	[REDACTED]	[REDACTED]	[REDACTED]
Public Investment Fund ⁽⁶⁵⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	35,650,624	[REDACTED]	[REDACTED]	[REDACTED]
Talent Science Limited ⁽³⁷⁾	2018 Offshore Equity Financing ⁽⁶⁶⁾	–	–	17,825,311	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED] Shareholders:							
A Share Holders	A Share [REDACTED]	–	–	–	[REDACTED]	[REDACTED]	[REDACTED]
H Share Holders	H Share [REDACTED]	–	–	–	[REDACTED]	[REDACTED]	[REDACTED]
Total		23,778,629,496	100.0%	3,256,446,324	[REDACTED]	[REDACTED]	[REDACTED]

HISTORY AND DEVELOPMENT

Notes:

- (1) [REDACTED]
- (2) [REDACTED]
- (3) As of the Latest Practicable Date, Alibaba, through Hangzhou Alibaba, its wholly-owned subsidiary, held 7,763,002,334 Shares and through Taobao Holding Limited, its wholly-owned subsidiary, held 1,171,508,767 Ant International Class C shares. Certain Ant International Class C shares held by Taobao Holding Limited will be surrendered and cancelled so that a total of 1,158,572,686 Ant International Class C shares will be redeemed and the same number of H Shares will be issued to Taobao Holding Limited. Assuming the redemption and subscription arrangement described in “— Redemption and Subscription by Ant International Securities Holders” had been completed as of the Latest Practicable Date such that all the Ant International Class B shares and the Ant International Class C shares, including the Ant International Class C shares held by Taobao Holding Limited, are redeemed and the same number of H Shares are issued, Alibaba’s equity interest through Hangzhou Alibaba and Taobao Holding Limited in our Company would be 33%. See “— Redemption and Subscription by Ant International Securities Holders” for further details. Pursuant to the SAPA as amended in 2020 and related documents, Alibaba has an anti-dilution right to subscribe for Shares under the [REDACTED].
- (4) BOCI Trustee (Hong Kong) Limited as trustee or nominee will hold 259,355,840 Ant International Class B shares immediately before the H Share [REDACTED]. These Ant International Class B shares will be redeemed and the same number of H Shares will be subscribed for and issued to BOCI Trustee (Hong Kong) Limited as trustee or nominee upon completion of the H Share [REDACTED]. See “— Redemption and Subscription by Ant International Securities Holders” for further details.
- (5) National Social Security Fund is a state-run investment fund established primarily to provide a fund reserve for China’s social security system. The fund is managed by the National Council for Social Security Fund.
- (6) Zhifu (Shanghai) Investment Center (Limited Partnership) is a China-based limited partnership engaged in investment activities and managed by CICC Zhide Equity Investment Management Co., Ltd., an indirect wholly-owned subsidiary of China International Capital Corporation Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 3908).
- (7) Shanghai Qizhan Investment Center (Limited Partnership), Shanghai Zhongfu Equity Investment Management Center (Limited Partnership), Shanghai Jingyi Investment Center (Limited Partnership), Shanghai Qihong Investment Center (Limited Partnership) and Shanghai Yunfeng Xincheng Investment Center (Limited Partnership) are China-based limited partnerships engaged in investment activities and controlled by Shanghai Zhongfu Asset Management Center (Limited Partnership).
- (8) China Life Insurance (Group) Company is a state-owned financial and insurance company in China. China Life Insurance Co., Ltd., a company listed on the New York Stock Exchange (NYSE Ticker: LFC), the Shanghai Stock Exchange (Stock Code: 601628) and the Hong Kong Stock Exchange (Stock Code: 2628), is a subsidiary of China Life Insurance (Group) Company.
- (9) On January 23, 2015, Hangzhou Junhan transferred 4.61% of equity interest in our Company to Shanghai Qizhan Investment Center (Limited Partnership), a limited partnership established in China which focuses on private equity investment and is an independent third party. Part of the equity interest held by Shanghai Qizhan Investment Center (Limited Partnership) was subsequently transferred to other investors in the 2015 Equity Transactions.
- (10) Beijing Jingguan Investment Center (Limited Partnership) is a China-based limited partnership engaged in investment activities.
- (11) Hainan CCB Capital Conglin Fund Partnership (Limited Partnership) is a China-based limited partnership engaged in investment activities, the executive partners of which are CCB (Beijing) Investment Fund Management Co., Ltd. and Chunhua Jingshi Jingfu (Tianjin) Investment Management Partnership (Limited Partnership).

HISTORY AND DEVELOPMENT

- (12) China Pacific Life Insurance Co., Ltd. is an insurance company in China. The majority shareholder of China Pacific Life Insurance Co., Ltd. is China Pacific Insurance (Group) Co., Ltd., a company listed on the London Stock Exchange (Stock Code: CPIC), the Shanghai Stock Exchange (Stock Code: 601601) and the Hong Kong Stock Exchange (Stock Code: 2601).
- (13) Beijing China Post Investment Center (Limited Partnership), a subsidiary of China Post Group Corporation Limited (China Post Group Co., Ltd.), is a China-based limited partnership engaged in investment activities.
- (14) PICC Capital Investment Management Co., Ltd. is a wholly-owned subsidiary of the People’s Insurance Company (Group) of China Limited, a company listed on the Shanghai Stock Exchange (Stock Code: 601319) and the Hong Kong Stock Exchange (Stock Code: 1339).
- (15) New China Life Insurance Company Ltd. is an insurance company in China and is a company listed on the Shanghai Stock Exchange (Stock Code: 601336) and the Hong Kong Stock Exchange (Stock Code: 1336).
- (16) Shanghai Financial Sector Investment Fund II (I) (Limited Partnership) is a China-based limited partnership engaged in investment activities and controlled by Shanghai GP Financial Capital Co., Ltd.
- (17) Beijing Innovative Growth Enterprises Management Co., Ltd is a China-based corporate management company and wholly-owned by China Development Innovation Capital Investment Co., Ltd., which is controlled by China Development Bank.
- (18) Chunhua Jingxin (Tianjin) Investment Center (Limited Partnership), Chunhua Jingxin Jingfu (Tianjin) Investment Center (Limited Partnership) and Chunhua Rongxin (Tianjin) Equity Investment Fund Partnership are China-based limited partnerships engaged in investment activities and managed by Chunhua Qiushi (Tianjin) Equity Investment Management Co., Ltd.
- (19) Suzhou Industrial Park Xinyuan Guangyi Investment Center (Limited Partnership) is previously known as Suzhou Industrial Park National Development Xinyuan Investment Center (limited Partnership). Suzhou Industrial Park Xinyuan Guangyi Investment Center (Limited Partnership) is a China-based limited partnership engaged in investment activities and managed by CDB Capital FOF Management Co., Ltd.
- (20) Beijing Qianshun Investment Co., Ltd. is a China-incorporated company engaged in investment activities and controlled by China Investment Corporation, a state-owned sovereign wealth fund.
- (21) The controlling shareholder and actual controller of China International Television Corporation is China Central Television, which is a public institution under the supervision of State Council of the PRC.
- (22) Beijing CICC Alpha V Equity Investment Partnership (Limited Partnership) is managed by Xinjiang CICC Alpha Equity Investment Management Co., Ltd., which is a wholly-owned subsidiary of CICC Alpha (Beijing) Investment Fund Management Co., Ltd., which is in turn a joint venture of CICC Capital Operations Co., Ltd., a wholly-owned subsidiary of China International Capital Corporation Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 3908).
- (23) Tohigh Capital Investment & Management Co., Ltd. is a China-incorporated company engaged in investment activities and is controlled by Tohigh Holdings Co., Ltd., a China-based conglomerate.
- (24) Tebon StarRay Co. Ltd. is a China-incorporated company engaging in investment activities and wholly-owned by Tebon Securities Co. Ltd., a securities firm.
- (25) Beijing Yingyi Internet Technology Co., Ltd., is a China-incorporated company engaging in investment activities and controlled by Shanghai Jukun Network Technology Co., Ltd.
- (26) Shanghai Shihong Investment Center (Limited Partnership) is a China-based limited partnership engaged in investment activities and managed by E fund overseas investment (Shenzhen) Co., Ltd.
- (27) Hainan CCB Capital Project Fund I Partnership is a China-based limited partnership engaged in investment activities and managed by CCB (Beijing) Investment Fund Management Co., Ltd.
- (28) Tetrad Ventures Pte Ltd. is a private limited company incorporated in Singapore. Tetrad Ventures Pte Ltd. is wholly-owned by GIC (Ventures) Private Limited and managed by GIC Special Investments Private Limited, which in turn is wholly-owned by GIC Private Limited (“GIC”). Gamnat Pte Ltd. is a private limited company incorporated in Singapore. Gamnat Pte Ltd. is wholly-owned by Eurovest Private Limited and managed by GIC Asset Management Private Limited, which in turn is wholly-owned by GIC.

HISTORY AND DEVELOPMENT

- (29) Pantai Juara Investments Limited is a wholly-owned subsidiary of Khazanah Nasional Berhad (“Khazanah”). Khazanah is the sovereign wealth fund of Malaysia tasked with growing the long-term wealth of the nation. Khazanah invests in companies and assets across multiple sectors and geographies. Khazanah was incorporated under the Companies Act 1965 on 3 September 1993 as a public limited company. Except for one share owned by the Federal Lands Commissioner, all the share capital of Khazanah is owned by the Minister of Finance Incorporated, a body pursuant to the Ministry of Finance (Incorporation) Act 1957.
- (30) WP Capital Investment, L.P. is indirectly wholly-owned by private equity funds managed by Warburg Pincus LLC. Warburg Pincus LLC is a leading global private equity firm focused on growth investing.
- (31) Canada Pension Plan Investment Board (“CPP Investments”) is a professional investment management organization that invests around the world in the best interests of the more than 20 million contributors and beneficiaries of the Canada Pension Plan.
- (32) SL Elephant Holdco Limited is an investment holding company incorporated under the laws of the Cayman Islands. SL Elephant Holdco Limited is controlled by its member, Silver Lake Partners V Cayman, L.P., which is controlled by its general partner, Silver Lake Technology Associates V Cayman, L.P., which is in turn controlled by its general partner, Silver Lake (Offshore) AIV GP V, Ltd., which is advised by Silver Lake Group, L.L.C. which is a global technology investment firm.
- (33) CA Fourmi Investments is wholly owned by CAP IV AIV Mauritius Limited, CAP IV Coinvest AIV Mauritius Limited and Carlyle Fourmi Co-Investment Limited (collectively, the “Funds”). The Funds are investment funds managed and advised by affiliated entities of the Carlyle Group Inc. (“Carlyle”). The Funds, by and through its control affiliates including their respective general partners, are ultimately controlled (directly or indirectly) by Carlyle, a public entity listed on Nasdaq (ticker symbol: CG).
- (34) Evans Investments Pte. Ltd. and Glittertind Investments Pte. Ltd. are wholly-owned entities of Temasek, which are used for investment holding activities. Temasek is an investment company with an investment portfolio covering a broad spectrum of industries, which include: financial services; telecommunications, media and technology; consumer and real estate; transportation and industrials; life sciences and agribusiness; and energy and resources.
- (35) General Atlantic Singapore Commander Pte. Ltd. is a private company limited by shares, incorporated under laws of Singapore. It is wholly-owned by General Atlantic Singapore Fund Pte. Ltd.
- (36) T. Rowe Price Associates, Inc. provides investment management services to mutual funds, pooled investment vehicles and individual and institutional accounts. For most clients, T. Rowe Price Associates, Inc. exercises investment discretion and has the authority to select securities consistent with clients’ investment guidelines. T. Rowe Price Associates, Inc. is an investment advisor registered under the Investment Advisors Act of 1940, as amended and is a wholly-owned subsidiary of T. Rowe Price Group, Inc. (NASDAQ: TROW). T. Rowe Price Hong Kong Limited is an indirect wholly-owned subsidiary of T. Rowe Price Associates, Inc.
- (37) Giant Sports Limited, a company incorporated under the laws of the British Virgin Islands, is an investment holding company and a wholly-owned subsidiary of YF Fintech Fund I, L.P. Talent Science Limited, a company incorporated under the laws of the British Virgin Islands, is an investment holding company and a wholly-owned subsidiary of YF Fintech Fund II, L.P. The general partner of each of YF Fintech Fund I, L.P. and YF Fintech Fund II, L.P. is YF Fintech GP I, Ltd. Mr. Feng Yu is the sole shareholder of YF Fintech GP I, Ltd.
- (38) Anchor Innovation Limited is an investment company established in the Cayman Islands and advised by Janchor Partners Limited, a company licensed by the SFC to conduct asset management and a long-term industrialist investor.
- (39) Clouse S.A., for the account of its Compartment 41, is a public limited liability company existing under the laws of the Grand Duchy of Luxembourg as a securitization company.
- (40) Growth Succession Limited is wholly-owned by Boyu Capital Fund III, L.P., an exempted limited partnership registered in the Cayman Islands. Boyu Capital Fund III, L.P. is managed by Boyu Capital.
- (41) PV Orange Limited is owned by a Primavera Capital Group (“Primavera”) managed investment partnership. Primavera is a leading China-based global investment management firm.
- (42) Such funds and accounts are managed by the investment subsidiaries of BlackRock, Inc. (“BlackRock”), which have investment management power over such funds and accounts. BlackRock is listed on the New York Stock Exchange (stock code: BLK).

HISTORY AND DEVELOPMENT

- (43) Scottish Mortgage Investment Trust PLC is an actively managed, low cost investment trust listed on the London Stock Exchange (stock code: SMT) which aims to maximize total returns by investing in a high conviction, global portfolio of public and private growth companies over the long term. The Monks Investment Trust PLC is an actively managed, low cost investment trust listed on the London Stock Exchange (stock code: MNKS) which aims to deliver above average long term returns for shareholders by investing principally in a global portfolio of public companies together with a small proportion of private companies. Both Scottish Mortgage Investment Trust PLC and The Monks Investment Trust PLC are managed by Baillie Gifford, an independent investment partnership founded in Edinburgh, Scotland in 1908.
- (44) BPAF Limited is an investment company established in the Cayman Island. BPAF is primarily focused on investing in the technology sector. It is a pooled investment vehicle in which no participant holds more than a 12% interest.
- (45) Coatue PE Asia XIII LLC and PV Internet Holdings LLC are managed by Coatue Management, L.L.C. as the investment manager. The sole owner of Coatue Management, L.L.C. is Coatue Management Partners L.P., for which Coatue Management Partners GP L.L.C. serves as general partner. Mr. Philippe Laffont serves as managing member of Coatue Management Partners GP L.L.C.
- (46) DG-ANT LP, is a Delaware, USA, limited partnership whose general partner is DG-ANT GP LLC and whose investment manager is Discovery Capital Management, LLC. (“Discovery”). Founded in 1999, Discovery specializes in multi-asset class investing across global financial markets.
- (47) These funds and accounts are advised or sub-advised by a group of companies collectively known as Fidelity Investments.
- (48) Antenna DF Holdings, LP is an advisory client of, and controlled by, Dragoneer Investment Group, LLC. Dragoneer Investment Group, LLC, a San Francisco-based growth-oriented investment firm, is an investment advisor registered with the Securities and Exchange Commission.
- (49) SC GGF III Holdco, Ltd. is an exempted company with limited liability incorporated under the laws of the Cayman Islands. Its sole shareholder is Sequoia Capital Global Growth Fund III — Endurance Partners, L.P., an investment fund whose primary purpose is to make equity investments in private companies. The general partner of Sequoia Capital Global Growth Fund III — Endurance Partners, L.P. is SCGGF III — Endurance Partners Management, L.P., whose general partner is SC US (TTGP), Ltd.
- (50) Ample Era Investments Limited is an indirect wholly-owned subsidiary of Charoen Pokphand Group Co., Ltd. which, through its subsidiaries, is engaged in a wide range of businesses covering all ASEAN countries, China, Europe and the United States of America, including agro-industrial, food, retail and distribution, telecommunications, information and communications technology, logistics, finance and pharmaceutical.
- (51) Fourmy Pte. Ltd is a private limited company incorporated, existing and managed in Singapore, wholly-owned by Austell Asia Pte Ltd., a private limited company incorporated existing and managed in Singapore which is ultimately owned by the members of the Mulliez family.
- (52) Mr. Shen Guojun (“Mr. Shen”) is the ultimate beneficiary of Intime International Holdings Limited. Mr. Shen is the founder of China Yintai Holdings Co., Ltd., which is a diversified industrial development and investment group, with a portfolio of key businesses including Yintai Retails, Yintai Land, Yintai Gold, Yintai Tourism, Yintai Investment and Finance, and Yintai Foundation.
- (53) Kofu International Limited is a private investment vehicle owned by Mr. Yin Chung-Yao.
- (54) Tahoe Ltd is a private company incorporated under the Mauritius Companies Act 2001 with a principal focus on private equity and venture capital investments. Tahoe is an investment vehicle wholly owned by “The Regents of the University of California”.
- (55) Credit Suisse AG, Singapore Branch is the Singapore branch of Credit Suisse AG which is an international financial services firm incorporated in Switzerland. Credit Suisse AG, Singapore Branch was registered in Singapore on March 8, 1973 and is a licensed wholesale bank regulated by the Monetary Authority of Singapore (MAS) and provides banking and financial services.

HISTORY AND DEVELOPMENT

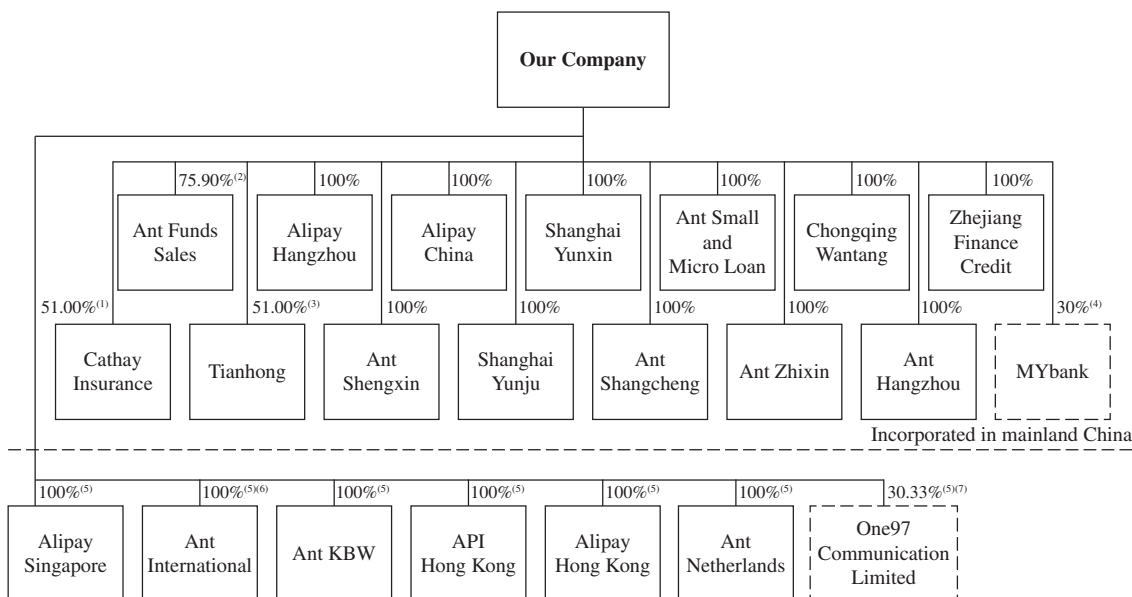
- (56) Active Noble Limited, which is incorporated in the British Virgin Islands, is an indirect wholly-owned subsidiary of CK Asset Holdings Limited (“CKA”). CKA, a company listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 1113), is a leading multinational corporation and has diverse capabilities with activities encompassing property development and investment, hotel and serviced suite operation, property and project management, aircraft leasing, pub operation and investment in infrastructure and utility asset operation.
- (57) Hutchison Whampoa Europe Investments S.à r.l. is an indirect wholly owned subsidiary of CK Hutchison Holdings Limited (“CK Hutchison”), a company listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 0001).
- (58) Falcon Edge Capital, LP is a diversified global alternative asset manager founded in 2012. They offer a variety of investment products that cover a number of asset classes, themes and geographies which include public equity, venture capital and private equity as well as a financial center joint venture with a leading sovereign entity. Falcon Edge Capital, LP is the investment manager to Moraine Master Fund, LP and Falcon CI V, LLC.
- (59) Athena Investment Limited (“AI Ltd”) is an investment vehicle which was incorporated during 2018 in the Cayman Islands. AI Ltd was formed for the purpose of acquiring and holding shares of Ant International. AI Ltd is wholly-owned by Athena Holdings Limited (“AH Ltd”) which in turn is wholly-owned by KKR Partners (Athena) LLC (“Athena”). Each of AH Ltd and Athena were also incorporated during 2018 in the Cayman Islands. The ultimate beneficial owners of Athena are various current and former executives of KKR & Co. Inc. Besides the composition of Athena investors, there is no affiliation between Athena and KKR & Co. Inc.
- (60) Sinovation Fortune Limited is 100% held by Sinovation Fund IV, L.P., which is an exempted limited partnership with its general partner being Sinovation Fund Management IV, L.P. and Sinovation Fund IV GP, Ltd. is the general partner of Sinovation Fund Management IV, L.P., Dr. Kai-Fu Lee is the sole shareholder of Sinovation Fund IV GP, Ltd. Sinovation Fund IV, L.P. is a USD Fund of Sinovation Ventures which is leading Chinese technology venture capital, started in 2009 by a team led by Dr. Kai-Fu Lee.
- (61) Domenick Limited is a private company engaged in the business of investing in public and private companies. The ultimate beneficial owners of Domenick Limited are Mrs. Slighton Tung Leih Yuan Audrey, Mr. Tung Lieh Cheung Andrew and Mr. Tung Lieh Sing Alan.
- (62) GGV Capital Holdings, L.L.C. is a limited liability company organized under the laws of Delaware. GGV Capital Holdings, L.L.C. is managed by GGV Capital LLC, which provides management services to certain venture capital investment funds focused on technology related investments in North America and Asia.
- (63) HS Investments AP10 Limited and HS Investments WT Limited are investment vehicles managed by Hedsophia Group Limited (“Hedsophia”). Hedsophia is an investment firm founded in 2012 with a particular focus on growth investments in Internet and technology companies.
- (64) Platinum Lotus B 2018 RSC Limited, a company organized under the laws of the Abu Dhabi Global Market, is wholly-owned by the Abu Dhabi Investment Authority (“ADIA”). ADIA is a public institution established by the Government of the Emirate of Abu Dhabi in 1976 as an independent investment institution. ADIA manages a global investment portfolio that is diversified across more than two dozen asset classes and sub categories.
- (65) The Public Investment Fund (“PIF”), wholly-owned by the Kingdom of Saudi Arabia, is a sovereign fund. PIF invests in long-term opportunities across diverse industries and asset classes locally and internationally.
- (66) The Offshore Pre-[REDACTED] Investors acquired Ant International Class C shares in June 2018. These Ant International Class C shares will be redeemed and the same number of H Shares will be subscribed for and issued to the Offshore Pre-[REDACTED] Investors upon completion of the H Share [REDACTED]. See “— Redemption and Subscription by Ant International Securities Holders” for further details.

HISTORY AND DEVELOPMENT

Group Structure, Major Subsidiaries and Key Associates

We conducted our business operations through our subsidiaries and associates in China and outside of China. Certain components of our businesses require licenses and regulatory approvals and/or strong local presences, and we have made strategic investments in minority stakes of companies whom we believe have strong growth potential or can supplement our existing primary businesses. Given our size and scale and the size and scale of the targets, we do not consider any of our historical acquisitions and investments to be material. Furthermore, not all our subsidiaries and associates are material to our business.

The chart below summarizes our corporate legal structure and identifies the subsidiaries and associates that are material to our business:



Notes:

- (1) The remaining 49.00% equity interest of Cathay Insurance was owned by Cathay Century Insurance Co., Ltd. (24.50%) and Cathay Life Insurance Co., Ltd. (24.50%), each an independent third party.
- (2) Including 68.83% owned by our Company and 7.07% owned by a wholly-owned subsidiary of our Company. The remaining 24.10% equity interest of Ant Funds Sales was owned by Hundsun Technologies Inc., an associate of ours.
- (3) The remaining 49.00% equity interest of Tianhong was owned by Tianjin Trust Co., Ltd. (16.80%), Inner Mongolia Junzheng Energy Chemical Group Co., Ltd. (15.60%), Wuhu High and New Technology Investment Co., Ltd. (5.60%), Xinjiang Tianju Chenxing Equity Investment Partnership (Limited Partnership)(3.50%), Xinjiang Tianrui Bofeng Equity Investment Partnership (Limited Partnership)(3.50%), Xinjiang Tianfu Hengji Equity Investment Partnership (Limited Partnership)(2.00%) and Xinjiang Tianhui Xinnmeng Equity Investment Partnership (Limited Partnership)(2.00%).
- (4) We are the largest shareholder of MYbank and the remaining 70.00% equity interest of MYbank was owned by five other shareholders, each an independent third party.
- (5) Held through intermediate holding companies that are wholly-owned by us.
- (6) Represents our voting rights. Ant International also issued Ant International Class B shares to support our offshore employee incentives and Ant International Class C shares to the Offshore Pre-[REDACTED] Investors and Taobao Holding Limited. Ant International Class B shares and Ant International Class C shares have no voting rights.
- (7) Calculated without considering the ungranted awards under the share-based compensation plans of One97 Communications Limited (“One97”). We are the largest shareholder of One97. Other shareholders of One97 include Alibaba, SoftBank Vision Fund and other independent third parties.

HISTORY AND DEVELOPMENT

The principal business activities and date of establishment of each of our major subsidiaries and key associates, are shown below:

Name of company	Principal Business Activities	Our Shareholding Percentage	Date and Jurisdiction of Establishment
Major Subsidiaries:			
Alipay China	Digital payment and related services to consumers and merchants	100.00%	December 8, 2004, PRC
Chongqing Ant Shangcheng Small Loan Co., Ltd. (“Ant Shangcheng”)	Micro loan and ancillary technical services through our digital finance technology platform	100.00%	June 1, 2011, PRC
Chongqing Ant Small and Micro Loan Co., Ltd. (“Ant Small and Micro Loan”)	Micro loan and ancillary technical services through our digital finance technology platform	100.00%	August 5, 2013, PRC
Ant Financial Services (Hangzhou) Network Technology Co., Ltd. (“Ant Hangzhou”)	Operations and research and development	100.00%	October 22, 2013, PRC
Shanghai Yunju Venture Capital Co., Ltd. (“Shanghai Yunju”)	Strategic investments and investment management	100.00%	December 30, 2013, PRC
Shanghai Yunxin Venture Capital Co., Ltd. (“Shanghai Yunxin”)	Strategic investments and investment management	100.00%	February 11, 2014, PRC
Ant Shengxin (Shanghai) Information Technology Co., Ltd. (“Ant Shengxin”)	Provision of insurance-related technical services as part of our InsureTech services	100.00%	April 2, 2015, PRC
Alipay (Hangzhou) Information Technology Co., Ltd. (“Alipay Hangzhou”)	Operations of mobile applications and Internet related businesses	100.00%	July 7, 2016, PRC

HISTORY AND DEVELOPMENT

Name of company	Principal Business Activities	Our Shareholding Percentage	Date and Jurisdiction of Establishment
Ant Zhixin (Hangzhou) Information Technology Co., Ltd. (“Ant Zhixin”)	Micro loan related technical services through our digital finance technology platform	100.00%	February 28, 2017, PRC
Chongqing Wantang Information Technology Co., Ltd. (“Chongqing Wantang”)	Micro loan related technical services through our digital finance technology platform	100.00%	April 19, 2017, PRC
Zhejiang Finance Credit Network Technology Co., Ltd. (“Zhejiang Finance Credit”)	Holds equity interests in our licensed financial services subsidiaries	100.00%	July 16, 2003, PRC
Tianhong Asset Management Co., Ltd. (“Tianhong”)	Asset management	51.00%	November 8, 2004, PRC
Ant (Hangzhou) Funds Sales Co., Ltd. (“Ant Funds Sales”)	Sales of fund products through our digital finance technology platform	75.90%	August 6, 2007, PRC
Cathay Insurance Company Limited (“Cathay Insurance”)	P&C insurance business, including the sales of P&C insurance products through our digital finance technology platform	51.00%	August 28, 2008, PRC
Alipay Singapore E-Commerce Private Limited (“Alipay Singapore”)	Cross-border digital payment and merchant services	100.00%	January 5, 2010, Singapore
Alipay (Hong Kong) Holding Limited. (“Alipay Hong Kong”)	Overseas business holding and equity investment platform	100.00%	February 24, 2014, Hong Kong, China
API (Hong Kong) Investment Limited (“API Hong Kong”)	Overseas equity investment platform	100.00%	July 23, 2014, Hong Kong, China
ANT KBW Investment Limited. (“Ant KBW”)	Overseas equity investment platform	100.00%	August 6, 2015, British Virgin Islands

HISTORY AND DEVELOPMENT

<u>Name of company</u>	<u>Principal Business Activities</u>	<u>Our Shareholding Percentage</u>	<u>Date and Jurisdiction of Establishment</u>
Ant International	Overseas financing and employee incentive platform	100.00% ⁽¹⁾	December 27, 2017, Cayman Islands
Antfin (Netherlands) Holding B.V. (“Ant Netherlands”)	Overseas equity investment platform	100.00%	October 25, 2019, the Netherlands
Key Associates:			
MYbank	Commercial banking	30.00%	May 28, 2015, PRC
One97	Payment and related services	30.33% ⁽²⁾	December 22, 2000, India

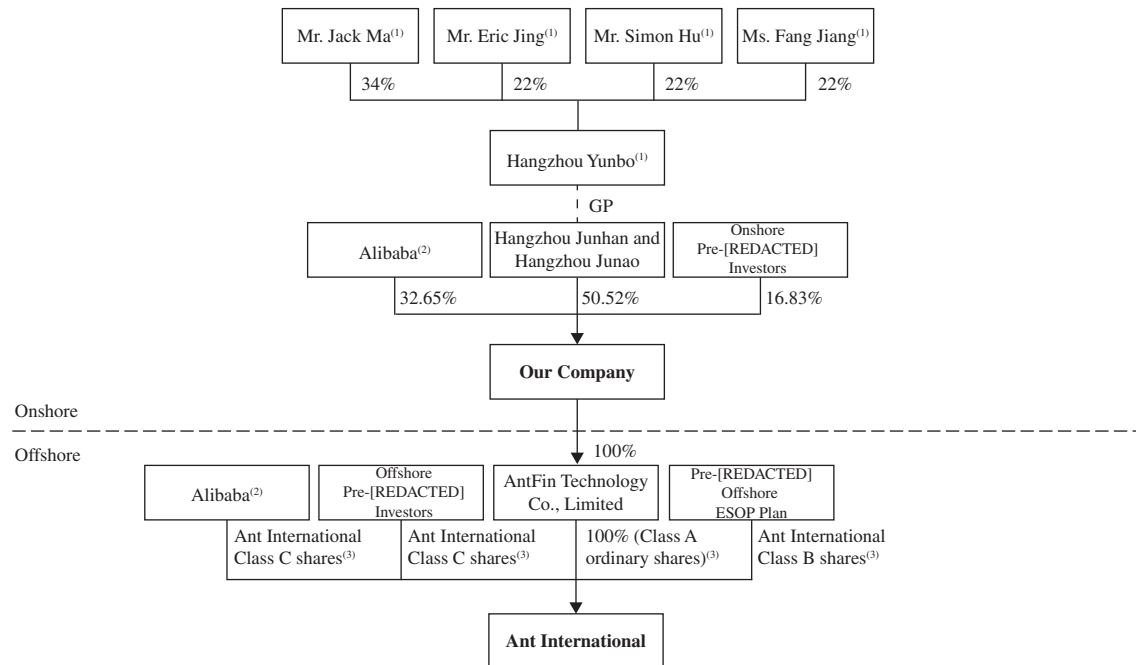
Note:

- (1) Represents our voting rights. Ant International also issued Ant International Class B shares as offshore employee incentives and Ant International Class C shares to the Offshore Pre-[REDACTED] Investors and Taobao Holding Limited. Ant International Class B shares and Ant International Class C shares have no voting rights.
- (2) Calculated without considering the ungranted awards under the share-based compensation plans of One97.

HISTORY AND DEVELOPMENT

Shareholding Structure

The following diagram illustrates the shareholding structure of our Group immediately prior to the completion of the H Share [REDACTED] and the A Share [REDACTED]:

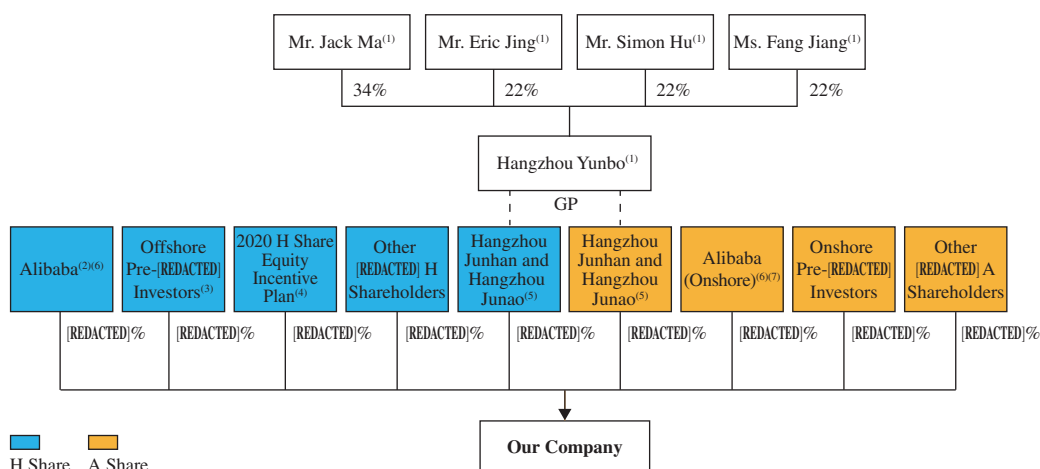


Notes:

- (1) Hangzhou Yunbo is the executive partner and general partner of both Hangzhou Junhan and Hangzhou Junao. Pursuant to the Concert Party Agreement dated August 21, 2020 and entered into among Mr. Jack Ma, Mr. Eric Jing, Mr. Simon Hu and Ms. Fang Jiang and the articles of association of Hangzhou Yunbo, Mr. Jack Ma can, through his control over resolutions passed at the general meetings of Hangzhou Yunbo which relate to the exercise of right by Hangzhou Junhan and Hangzhou Junao as Shareholders, effectively exercise control over the Shares held by Hangzhou Junhan and Hangzhou Junao and accordingly, has ultimate control over our Company. However, Mr. Jack Ma's indirect economic interest in our Company is limited to his interests as a limited partner of Hangzhou Junhan and the corresponding interests in the Shares held by Hangzhou Junhan.
- (2) As of the Latest Practicable Date, Alibaba, through Hangzhou Alibaba, its wholly-owned subsidiary, held 7,763,002,334 Shares and through Taobao Holding Limited, its wholly-owned subsidiary, held 1,171,508,767 Ant International Class C shares. Certain Ant International Class C shares held by Taobao Holding Limited will be surrendered and cancelled so that a total of 1,158,572,686 Ant International Class C shares will be redeemed and the same number of H Shares will be issued to Taobao Holding Limited. Assuming the redemption and subscription arrangement described in “— Redemption and Subscription by Ant International Securities Holders” had been completed as of the Latest Practicable Date such that all the Ant International Class B shares and the Ant International Class C shares, including the Ant International Class C shares held by Taobao Holding Limited, are redeemed and the same number of H Shares are issued, Alibaba's equity interest through Hangzhou Alibaba and Taobao Holding Limited in our Company would be 33%.
- (3) Ant International's Class A ordinary shares held by us are the only class of shares that have voting rights. Ant International also issued Ant International Class B shares to support our offshore employee incentives and Ant International Class C shares to the Offshore Pre-[REDACTED] Investors and Taobao Holding Limited. Ant International Class B shares and Ant International Class C shares have no voting rights.

HISTORY AND DEVELOPMENT

The following diagram illustrates the shareholding structure of our Group immediately upon the completion of the H Share [REDACTED] and the A Share [REDACTED] (assuming the [REDACTED] are not exercised)⁽⁸⁾:



Notes:

- (1) Hangzhou Yunbo is the executive partner and general partner of both Hangzhou Junhan and Hangzhou Junao. Pursuant to the Concert Party Agreement dated August 21, 2020 and entered into among Mr. Jack Ma, Mr. Eric Jing, Mr. Simon Hu and Ms. Fang Jiang and the articles of association of Hangzhou Yunbo, Mr. Jack Ma can, through his control over resolutions passed at the general meetings of Hangzhou Yunbo which relate to the exercise of right by Hangzhou Junhan and Hangzhou Junao as Shareholders, effectively exercise control over the Shares held by Hangzhou Junhan and Hangzhou Junao and accordingly, has ultimate control over our Company. However, Mr. Jack Ma's indirect economic interest in our Company is limited to his interests as a limited partner of Hangzhou Junhan and the corresponding interests in the Shares held by Hangzhou Junhan.
- (2) Represents (i) the 1,158,572,686 H Shares subscribed for and issued to Taobao Holding Limited, a wholly-owned subsidiary of Alibaba, as a result of the redemption of 1,158,572,686 Ant International Class C shares as described in “— Redemption and Subscription by Ant International Securities Holders”; and (ii) [REDACTED].
- (3) Represents the 1,838,517,798 H Shares subscribed for and issued to the Offshore Pre-[REDACTED] Investors as a result of the redemption of 1,838,517,798 Ant International Class C shares as described in “— Redemption and Subscription by Ant International Securities Holders”.
- (4) Represents the 259,335,840 H Shares subscribed for and issued to BOCI Trustee (Hong Kong) Limited as trustee or nominee as a result of the redemption of 259,335,840 Ant International Class B shares as described in “— Redemption and Subscription by Ant International Securities Holders”;
- (5) [REDACTED]
- (6) [REDACTED]. The shareholding percentages assume Alibaba does not exercise its anti-dilution right to subscribe for additional Shares in our [REDACTED].
- (7) Represents the [REDACTED] Shares held by Hangzhou Alibaba.
- (8) Upon completion of the H Share [REDACTED] and the A Share [REDACTED] (assuming the [REDACTED] are not exercised), the Pre-[REDACTED] Investors will collectively hold [REDACTED] A Shares and [REDACTED] H Shares, or approximately [REDACTED]% of the issued share capital of the Company, and such Shares will be counted towards the [REDACTED].

OUR BUSINESS

Our Mission, Vision and Values

Ant’s origins date to 2004 when Alipay was created in the nascent days of e-commerce to solve the trust issue between buyers and sellers in online transactions. Our innovative payment solution bridged the trust gap, facilitated online transactions and underpinned the development of e-commerce in China. Having pioneered digital payments in China, we have since expanded our service offerings through technology and innovation to enable digital finance for consumers and businesses.

Trust is the cornerstone of all commercial activities and is at the core of what we do. Our story is one of building trust through innovation and technology. We enable participants in commercial activities, including consumers, businesses and partners, to build and strengthen trust among each other. As each participant’s trusted status grows, doing business becomes easier for everyone, ultimately contributing to a vibrant economy. In the process, we have become a platform deeply trusted by consumers, businesses and partners. We believe our new technologies, including our blockchain solution that we call AntChain, will continue to strengthen the foundation of trust in this digital era.

Innovation is in our DNA. We believe our relentless focus on innovation is the only way to serve our customers’ evolving needs. Being at the forefront of innovation provides us with the means to enhance our leadership position.

In 2011 our predecessor company was spun off from Alibaba. This origin and continued affiliation with Alibaba is a source of strength as well as purpose. Hence, we and Alibaba share a common mission and a common set of values that are imbued in our operating philosophy.

Our Mission

Our mission is to make it easy to do business anywhere.

Our company was founded to champion the small and the underserved, in the belief that our open technology platforms could help service providers and institutions to reach customers that previously were not accessible. We believe that concentrating on customers’ needs and solving their problems ultimately will lead to the best outcome for our business. Our decisions are guided by how they serve our mission over the long term, not by the pursuit of short-term gains.

Our Vision

Our vision is to build the future digital infrastructure of services, and thereby bring about constant and incremental changes that are beneficial to the world. We do not believe bigger is better; our pursuit is sustainable development that lasts at least 102 years.

Our aim is:

- for everyone to enjoy inclusive, sustainable financial services;
- to provide every small business with a level playing field to develop and grow; and
- to make all aspects of digital life accessible — anytime, anywhere, through open collaboration with partners.

OUR BUSINESS

Our Values

Our values are fundamental to the way we operate and how we recruit, evaluate and compensate our people. Our six values are:

- **Customers first, employees second, shareholders third.** This reflects our choice of what’s important in the order of priority. Only by creating sustained customer value can employees grow and shareholders achieve long-term benefit.
- **Trust makes everything simple.** Trust is both the most precious and fragile thing in the world. The story of Ant is a story of building and cherishing trust. Complexity begets complexity, and simplicity breeds simplicity. We are straightforward — what you see is what you get. With trust, there is no second-guessing or suspicion, and the result is simplicity and efficiency.
- **Change is the only constant.** Whether you change or not, the world is changing, our customers are changing and the competitive landscape is changing. We must face change with respect and humility. Otherwise, we will fail to see it, fail to respect it, fail to understand it and fail to catch up with it. Whether you change yourself or create change, both are the best kinds of change. Embracing change is the most unique part of our DNA.
- **Today’s best performance is tomorrow’s baseline.** In the company’s most challenging times, this spirit has helped us overcome difficulties and survive. In bad times, we know how to motivate ourselves; in good times, we dare to set “dream targets” (stretch goals). Face the future, or we regress. We must shoot for the moon, challenge ourselves, motivate ourselves and exceed ourselves.
- **If not now, when? If not me, who?** This was a tagline in Alibaba’s first job advertisement and became our first proverb. It is not a question, but a call of duty. This proverb symbolizes the sense of ownership that each employee must possess.
- **Live seriously, work happily.** Work is now, life is forever. What you do in your job is up to you, but you have responsibility to the ones who love you. Enjoy work as you enjoy life; treat life seriously as you do work. If you live with purpose, you will find reward.

Who We Are

We are the parent company of China’s largest digital payment platform, Alipay, and the leader in the development of open platforms for technology-driven inclusive financial services. Through technology and innovation, we enable the digitalization of the modern service industry globally from financial services to services for everyday life. We are committed to working with partners in China and around the world to bring services to consumers and small businesses that are inclusive, green and sustainable. Our name is important to us. We call ourselves Ant because we believe that small is beautiful, small is powerful.

OUR BUSINESS

We are the leading digital payments provider and leading digital finance platform in China based on total payment volume and transaction volume, respectively, according to iResearch and Oliver Wyman. In the twelve months ended June 30, 2020, TPV transacted on our platform in mainland China reached RMB118 trillion. We primarily generate digital payment services revenues by charging merchants transaction fees based on a percentage of volume. We have also established international payment connections to meet the needs of an increasingly digitalized global economy. During the twelve months ended June 30, 2020, International TPV transacted on our platform reached RMB622 billion.

Through our mobile app Alipay’s reach of over one billion users and 80 million merchants, we provide digital finance technology, customer reach and risk management solutions to partner financial institutions, enabling them to provide services in consumer credit, SMB credit, investments and insurance. Our services bring significant value to consumers and small businesses whose financial needs are substantially underserved in China.

Through our ubiquitous super app Alipay, we provide value to our participants in many ways:

- Consumers can access the full array of services, including payments, digital finance, such as consumer credit, investment and insurance, as well as daily life services provided by third parties including food delivery, transportation, entertainment, and access to municipal resources for everyday citizens.
- Businesses can receive payments, access digital finance, for example SMB credit and investment products, and offer daily life services through the Alipay app and over two million mini programs, easily discoverable by consumers through the Alipay search function or customized icon placement.
- Financial institutions can access our platform to distribute credit, investment and insurance products, powered by our intelligent decisioning and dynamic risk management solutions as well as technology infrastructure. As a provider of technology, we collaborate with, rather than compete against, our partner financial institutions.

Consumers come to the Alipay app for digital payments and to access digital finance services and digital daily life services. Digital payments is the infrastructure that empowers nearly all consumer activities and digital finance use cases, which is important for broadening our customer reach online and offline. Easy access to a broad range of digital daily life services within the Alipay app plays an important role in user engagement and retention. Our digital finance services are highly innovative and attractive to users and highly synergistic with digital payments and digital daily life services. The interaction among payment, digital daily life services and digital finance creates a virtuous cycle that drives our growth.

OUR BUSINESS

We refer to this platform of comprehensive digital payment, digital finance and digital daily life services as our Alipay platform.

With China’s economy shifting towards domestic consumption and the growth of small businesses, the financial services needs of consumers and small businesses have expanded considerably and demand for credit, investment and insurance products is projected to increase substantially. These needs are underserved by brick and mortar channels of the financial system because of the lack of reach and customer insights in the process of underwriting risk, for example in the case of a micro-loan or small-claims insurance.

We are well positioned, by working with our partner financial institutions and leveraging our proprietary technology and high-quality customer insights, to accelerate the digitalization of the financial services industry. This digitalization is creating opportunities to more efficiently serve a broader customer base by anticipating and addressing their needs real time.

Through the massive reach of the Alipay platform to all levels of the economy, we have established the “capillaries” of the financial system to complement the “arteries” operated by major financial institutions. Our platform model whereby banks can tap into our customer reach and technology to provide financial services facilitates efficient allocation of capital while achieving societal goals of inclusiveness and sustainability.

We provide the following capabilities to partner financial institutions:

- Broad and targeted reach — through our unique customer insights, we empower partner financial institutions to reach our more than one billion Alipay app users and provide tailored financial products to meet their individual needs.
- Intelligent decisioning systems — we create intelligent real-time decisioning solutions to empower financial institutions to assess risks and match products with customers. We leverage unrivalled customer insights based on comprehensive consumer and small business data with various risk assessment algorithms, which we update in real time to increase access to credit, and to recommend appropriate investment and insurance products. For example, our solutions evaluate the likelihood of a borrower’s ability and willingness to repay, the likelihood of a customer accepting an offer, and the appropriateness of product features and pricing for a certain user.
- Dynamic risk management systems — we develop dynamic risk management solutions that enhance financial institutions’ decision-making. Our solutions and algorithms address key risk components faced by financial institutions, including risks relating to KYC, fraud, AML, credit, liquidity, operations, security and data privacy.
- Technology infrastructure — through our AI, computing, proprietary algorithms and other innovative technologies, such as AntChain, we empower our partner financial institutions to serve their customers securely, efficiently and at massive scale.

OUR BUSINESS

We apply these capabilities to the three major areas of digital finance in China:

- **CreditTech**, serving consumer credit and SMB credit needs. Our CreditTech services address the unmet credit demands of unserved and underserved consumers and small businesses in China. We openly collaborate with our partner financial institutions through our technology platform. We originate loans, which are then independently underwritten by our partner financial institutions. We generate technology service fees from our partner financial institutions that are based on the credit balance originated through our platform. Our approach is not to use our own balance sheet or provide guarantees. As of June 30, 2020, approximately 98% of credit balance originated through our platform was underwritten by our partner financial institutions or securitized.

We were the largest online consumer credit and SMB credit services provider in China in terms of total outstanding credit balance originated through our platform, which totaled RMB1,732 billion for consumers and RMB422 billion for small businesses, as of June 30, 2020, according to Oliver Wyman. As of the same date, we worked with approximately 100 partner banks, including all policy banks, large national state-owned banks, all national joint stock banks, leading city and rural commercial banks, international banks that operate in China, as well as trust companies.

- **InvestmentTech**, serving investment needs. Through our InvestmentTech services, we enable our partner asset managers to provide transparent, personalized and easy-to-understand investment options with low minimum investment amounts for a wide range of consumers. We leverage AI to provide intelligent matching of investment products with customers taking into account their risk tolerance. Our massive user base, technology, customer insights and the trust consumers place in our brand have helped our partner financial institutions to expand the reach of a broad range of innovative investment products to a wider customer segment. We generate technology service fees from our partner financial institutions that are based on the volume of investment products distributed through our platform.

We were the largest online investment services platform in China by AUM matched and distributed through us, which totaled RMB4,099 billion as of June 30, 2020, according to Oliver Wyman. As of the same date, we worked with approximately 170 asset managers, including the vast majority of mutual fund companies as well as leading insurers, banks and securities companies in China.

- **InsureTech**, serving insurance needs. Through our InsureTech services, we enable our partner insurers to offer a wide range of innovative, customized and accessible insurance products, covering life, health and P&C insurance areas. The ongoing digitalization of the economy presents transformative opportunities in the insurance sector, as any risk-bearing activity may be insured against where there is sufficient high-quality data. The massive scale and commercial nature of our platform and of the Alibaba ecosystem enable us to innovate and to develop new insurance products that address consumer and business needs. We receive technology service fees from our partner insurance institutions based on a percentage of the insurance premiums and contributions generated through our platform.

OUR BUSINESS

We were the largest online insurance services platform in China in terms of premiums generated through our platform in 2019, according to Oliver Wyman. We generated for our partner insurance institutions RMB52 billion insurance premiums and contributions during the twelve months ended June 30, 2020. As of June 30, 2020, we worked with approximately 90 partner insurance institutions in China.

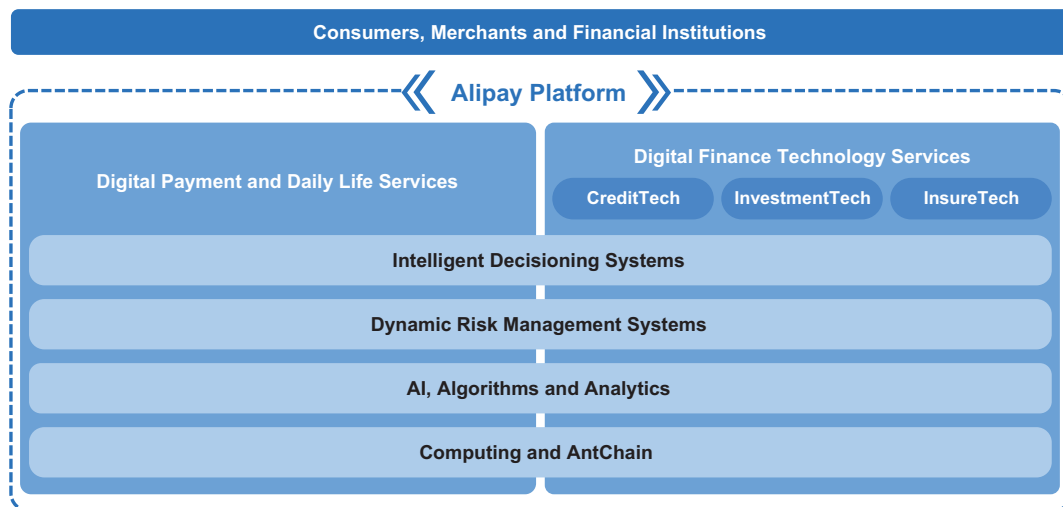
Our Ecosystem

We, together with Alibaba, are building the digital infrastructure for commerce and services. We have created an ecosystem around our platform that consists of consumers, merchants, financial institutions, third-party service providers, strategic alliance partners and other businesses.

We develop security and communications technologies that foster trust among participants; we provide tools that facilitate integration of financial institutions with our platform; we develop product and service offerings that attract users and increase usage; we implement rules that promote openness and transparency; we invest in digital technology infrastructure to achieve an unrivalled user experience for all participants. Much of our effort, time and energy is spent on initiatives that are for the greater good of the ecosystem and on balancing the interests of its participants. We feel a strong responsibility for the continued development of the ecosystem and we take ownership in this development.

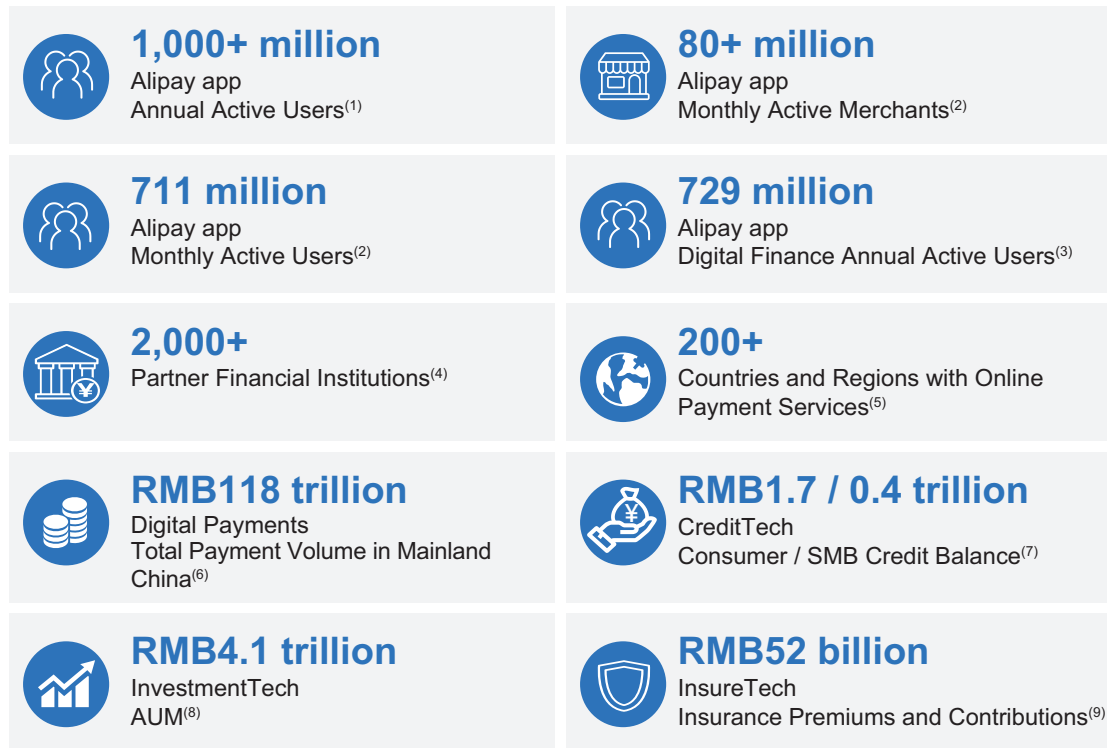
We collaborate with Alibaba in a number of areas including: (i) jointly serving consumers and merchants across consumption and daily life use cases; (ii) sharing insights derived from platform activity; and (iii) expanding cross-border activities.

Our Capabilities Stack



OUR BUSINESS

Our Size and Scale



Notes:

1. During the twelve months ended the Latest Practicable Date.
2. In the month ended June 30, 2020.
3. Users who transacted in one or more digital finance services in Alipay during the twelve months ended June 30, 2020.
4. Total number of partner financial institutions across our digital payments and digital finance services, including banks, asset managers, insurance institutions and other licensed financial institutions as of June 30, 2020.
5. Overseas countries and regions where we support online transactions through Alipay as of June 30, 2020.
6. During the twelve months ended June 30, 2020.
7. Balance of consumer and SMB credit enabled through our platform as of June 30, 2020, including balance of third-party partner financial institutions (including MYbank) and our licensed financial services subsidiaries, as well as balance securitized.
8. Balance of AUM enabled through our platform as of June 30, 2020, including AUM of third-party partner financial institutions and our licensed financial services subsidiary.
9. Insurance premiums enabled through our platform as well as contributions by Xianghubao participants during the twelve months ended June 30, 2020. Insurance premiums include premiums of third-party partner financial institutions and our licensed financial services subsidiary.

OUR BUSINESS

Our Strengths

Our Thriving Alipay Platform and Ant Ecosystem

Our integrated Alipay platform offers digital payment and digital finance services which create significant value for consumers, businesses and partners. Increasingly, users also come to the platform to access and complete a wide variety of daily life services. The combination of these services are highly synergistic and lead to greater user engagement. We deliver these services through our ubiquitous Alipay super app that draws together over one billion users, 80 million merchants and 2,000 partner financial institutions in China. We facilitate trillions of transactions among our ecosystem participants.

- TPV transacted on our platform in mainland China was RMB118 trillion in the twelve months ended June 30, 2020;
- consumer and SMB credit balances enabled through our platform were RMB1,732 billion and RMB422 billion, respectively, as of June 30, 2020;
- investment AUM enabled through our platform was RMB4,099 billion as of June 30, 2020; and
- insurance premiums and contributions enabled through our platform totaled RMB52 billion in the twelve months ended June 30, 2020.

As our ecosystem expands, it generates powerful self-reinforcing network effects: more services lead to greater customer engagement, which leads to better customer insights, which drives greater innovation with our partner financial institutions, which leads to greater user engagement. An increased number of services being used by users leads to lower average costs to reach and engage with our users and synergies across our businesses. Our digital payment business services have been critical to us in attracting a large number of users, while the high activity levels and engagement on our platform provide us with the consumer insights for us and our partner financial institutions to serve them in new ways. Our Alipay platform generates powerful and self-reinforcing network effects, providing us with strong competitive advantages.

Innovation to Serve Customers

We focus on financial services that are inclusive by identifying and solving customer needs. We believe this customer-centric approach differs from the product-centric approach.

Innovation is in our DNA. We believe we have been at the forefront of every major innovation in the development of inclusive financial services in China. We have leveraged our customer insights and domain expertise to consistently deliver relevant and innovative products and services that benefit consumers and small businesses as well as our partners. These innovations include:

- **Digital Payments.** We introduced Alipay, the first online escrow payment solution in China in 2004. Through the years, we continued to launch innovative payment methods such as Quick Pay (快捷支付) to optimize user experience.

OUR BUSINESS

- ***CreditTech.*** We were among the first in China to make unsecured credit available to consumers and small businesses online at scale. Our CreditTech solutions apply dynamic risk management solutions to transform consumer and SMB credit in China. In 2014, we introduced Huabei (花呗), which was among the first digital unsecured revolving credit products for daily expenditures offered to consumers in China.
- ***InvestmentTech.*** We designed Yu’eobao (餘額寶) with an innovative instant redemption feature, enabling consumers to shop with their Yu’eobao account instantaneously or redeem funds on the same day. Our InvestmentTech solutions apply intelligent selection technology to identify and match products that fit an investor’s individual risk tolerance and financial capabilities and lower the investment threshold for access to quality investment products, placing them within the reach of the average consumer, not just high net worth individuals.
- ***InsureTech.*** We design, and work closely with our partner insurers to co-design, innovative insurance products such as Haoyibao (好醫保) and Quanminbao (全民保) and our mutual aid program, Xianghubao (相互寶), which are affordable, easy-to-understand and user-friendly, raising awareness and adoption of health insurance and life insurance products at large scale.

Deep Domain Expertise, Unparalleled Customer Insights, and Leading Technology

We provide superior value to consumers, businesses and partner financial institutions on our platform through a combination of deep financial services expertise, differentiated customer insights, and leading technology.

- ***Deep Domain Expertise in Financial Services.*** We possess deep domain expertise in financial services and in the use of technology for innovation in financial services. Our payments specialists have expertise in areas including payment network architecture and security. Our banking experts have experience in areas such as product design, credit assessment, fraud protection, and monitoring. The areas of expertise of our investment services team include product design and suitability, asset allocation and risk management. Our insurance team has extensive experience in product design, insurance underwriting and claims management across the full spectrum of insurance products.
- ***Unrivalled Customer Insights and Intelligent Decisioning Systems.*** We have unparalleled customer insights and proprietary algorithms used in decision-making. The extensive range of services that we and the Alibaba ecosystem provide – payment, commerce, logistics, local services, merchant services, digital entertainment, offline store visits, map navigation, among others — collectively generate a wealth of high-quality, differentiated and commercially relevant insights into consumers and businesses that use our platform. Our intelligent decisioning systems take into account the constant streams of insights to give a real-time assessment of a customer’s credit quality, investment preferences or insurance needs. We also use our dynamic risk management system and technology to develop fraud detection approaches that have led to one of the lowest payment fraud loss rates.

OUR BUSINESS

- ***Superior Technology Infrastructure.*** We have developed leading technology capabilities, including AI, security and blockchain that provide speed, reliability, scalability and security that support the massive transaction volumes in our ecosystem. We are able to sustain high performance at scale, while maintaining the delivery of differentiated services and superior user experience. For example, during the 11.11 global shopping festival in 2019, the peak payment transactions per second was 459,000. Our technology infrastructure is critical in ensuring security, in allowing the digital delivery of financial services together with our partners, and in helping businesses manage risk and reduce cost. Encrypted data transmission, especially of customer data, using security protocols and algorithms ensures confidentiality and integrity and prevents intrusion and leakage.

Win-Win Partnership with Financial Institutions

We are a technology services company. We provide the platform and tools to allow partner financial institutions to serve underserved consumers and small businesses with inclusive financial services and empower them to better manage risk, efficiently handle underwriting and distribute their products. Our complementary partnership with financial institutions creates a sustainable win-win relationship based on trust.

In credit, we leverage our intelligent decisioning systems to originate loans which are then primarily underwritten by financial institutions. For these financial institutions, our technology and customer insights allow them to cost-effectively grow their loan book, while our dynamic risk management solutions maximize the efficiency and effectiveness of onboarding, underwriting and monitoring. Our approach is not to use our balance sheet or provide guarantees.

In investments, we operate the largest investment platform by AUM in China for consumers to shop for investment products, providing unparalleled reach to partner asset managers. This platform substantially lowers the cost of investment product distribution and ensures a superior user experience. Investment managers also value our AI capabilities on the platform, providing intelligent matching of investment products against investor’s risk tolerance, for it is critical to ensure product suitability and sustainable industry growth. We benefit from the product manufacturing capabilities of the investment companies who can provide a range of accessible products to our users, thereby strengthening users’ engagement on our Alipay app.

In insurance, we believe the industry is ripe for radical expansion in product offerings, because any activity with risk can be insured if sufficient data is available. Insurance companies benefit from our reach, unrivalled customer insights and product innovation capabilities, which have led to the creation of many scenario-based insurance products. We benefit from the underwriting capabilities of the insurance companies and the ability to work together in the development of innovative new products.

OUR BUSINESS

Synergy with Alibaba

Our relationship with Alibaba is strategic and highly synergistic. The growth in commerce depends upon high-quality financial services, including payments, and growth in digital finance is enhanced by the expansion of use cases and consumption on Alibaba’s platforms. Our relationship with Alibaba provides us with a number of competitive advantages including the following:

- ***Multiple use cases provide comprehensive quality customer insights.*** The wide range of e-commerce transactions and other commercial activity on Alibaba’s platforms present a rich environment for us to provide payment and connect other services. The vast number and breadth of use cases, online and offline — for example purchasing goods and services, food and merchandise delivery, offline store visits, entertainment, navigation, work collaboration — provide extensive customer insights. These insights and our technology services enable our partner financial institutions to provide credit, investment and insurance products to users.
- ***Shared company culture.*** We embrace and share Alibaba’s mission, culture and values and maintain close alignment on strategic initiatives that benefit both companies. Among our most important fundamental strengths is our common focus on customer needs and the innovative culture we share with Alibaba to address those needs. Our culture of innovation is exemplified, for example, by the digital finance products that have been organically developed by us in the CreditTech, InvestmentTech and InsureTech areas. We believe that our culture plays an important role in our ability to attract and retain talent and allows us to identify new talent that would be able to thrive within our organization.

Our Strategies

Drive User Engagement and Expand User Base

We intend to grow the number of consumers and businesses that are active on Alipay. Leveraging our customer insights, we intend to attract new users and drive engagement through a better user experience and tailored services that integrate with Alipay’s existing service offerings. We plan to continue to innovate and make available an expanding spectrum of digital finance products to further drive user engagement and grow their relationship balance with us. We will continue to expand the variety of daily life use cases and services available through the Alipay super app. By expanding the use cases for daily life needs — such as food and beverage, mobility, entertainment, healthcare and municipal services — that can be accessed conveniently through Alipay, we intend to further encourage greater user engagement and deliver more value for consumers and merchants.

OUR BUSINESS

Build Value with Partners

We plan to maintain an open platform and continue to foster a win-win relationship with our partner financial institutions through digital finance technology services and merchants through mini programs and other merchant services.

Using our platform model, we will continue to increase the breadth and depth of partnership with financial institutions, merchants and service providers, as well as continue to explore new ways to collaborate and co-innovate with new and existing partners so as to better anticipate and serve the needs of consumers and businesses.

Invest in Innovation and Technology

Our strategy is to continue to innovate, develop new services and technologies.

- ***Product innovation.*** Driven by our culture of innovation, we will continue to identify and anticipate the needs of consumers and businesses and deliver differentiated products and services.
- ***Technology innovation.*** We will continue to develop new technology such as blockchain to build the digital infrastructure for new services, upgrade our infrastructure, improve our understanding of our customers, and enable our partners. We believe that the development of blockchain technologies will revolutionize the way that the world interacts, transacts, and conducts business. We plan to expand the applications of AntChain, continue to enable the digitalization of assets on AntChain and enable the circulation of digitalized assets on a wider scale.

Expand Cross-Border Payment and Merchant Services

Many of our users in China increasingly engage in cross-border transactions. We aim to help them meet their cross-border payment and merchant services requirements, as well as help promote inclusive financial services within local communities. We will continue to seek out opportunities overseas to enable merchants and consumers to conveniently receive and make payments and remit globally.

- ***Serve more users.*** We strive to serve more consumers, including Alibaba’s cross-border e-commerce customers and those of e-wallet partners.
- ***Enable more merchants.*** We seek to enable merchants globally, especially small businesses, to better serve a massive number of consumers and grow their businesses. In particular, we aim to help merchants better reach, engage and transact with digitally-connected consumers, both online and offline.
- ***Broaden service offerings.*** We intend to work with our partners and develop more comprehensive digital payment, digital finance and daily life services for consumers and businesses beyond China.

OUR BUSINESS

Our Opportunities

Our market opportunities are primarily driven by the following factors:

- The disposable income, personal savings and consumption expenditure of Chinese households have been rising, driven by growing GDP and the shift towards a consumption economy. Personal consumption expenditure reached RMB30 trillion in 2019, according to iResearch. These trends are driving increasing demand for payments, credit, investments and insurance products.
- China has entered a new era of digitalization. China’s number of mobile Internet users reached 877 million in 2019 and will grow to 1,100 million in 2025, according to iResearch.
- Digital payments transaction volume in China reached RMB201 trillion in 2019, according to iResearch, and will continue to grow driven by preferences of both consumers and businesses for digital payments.
- The balance of consumer credit market in China reached RMB13 trillion in 2019, according to Oliver Wyman, and will continue to grow driven by rising consumption expenditure and consumers’ increasing willingness to use credit for consumption.
- The balance of SMB credit for loan sizes under RMB500,000 in China reached RMB6 trillion in 2019, according to Oliver Wyman, and will continue to grow, driven by the large unmet credit demand of small businesses.
- Personal investable assets in China reached RMB160 trillion in 2019, according to Oliver Wyman, and will continue to grow driven by the rising household wealth, and the increasing need for more sophisticated deployment of investable assets.
- The premiums of the insurance market in China reached RMB4.3 trillion in 2019, according to Oliver Wyman, and will continue to grow driven by increasing need for protection across life, health and property and casualty products.

Growth in China Personal Savings, Disposable Income and Consumption Expenditure

The rising savings and consumption expenditure of Chinese households are expected to be the major driving forces behind the increasing demand for more sophisticated financial services and the growth of the financial services market.

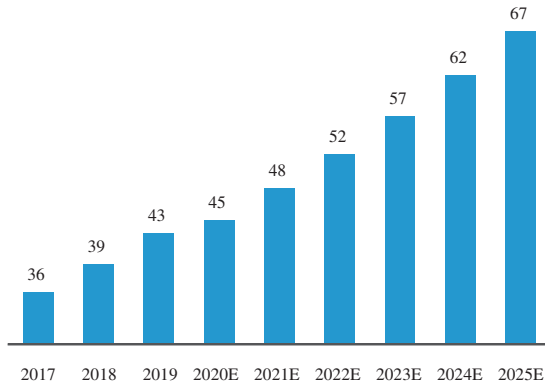
Personal disposable income in China is expected to reach RMB67 trillion in 2025, growing at a CAGR of 7.6% from 2019 to 2025, according to iResearch. Personal consumption expenditure is expected to reach RMB51 trillion in 2025, growing at a CAGR of 9.0% from 2019 to 2025, according to iResearch.

OUR BUSINESS

Annual personal savings were RMB13 trillion in 2019, representing 13.0% of GDP, a level which was significantly higher than 9.6% in the United States, 6.5% in Japan and 9.8% in Germany, and are expected to grow steadily to RMB16 trillion in 2025, according to iResearch.

China Personal Disposable Income

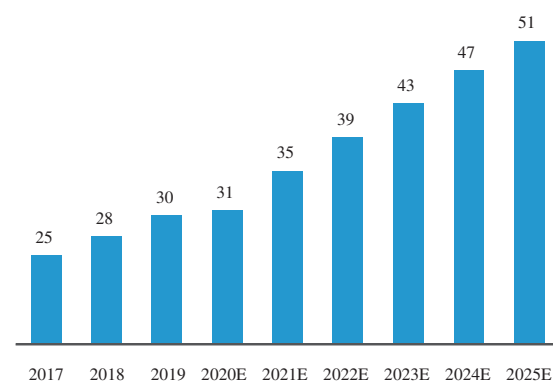
In RMB Trillions



Source: iResearch analysis

China Personal Consumption Expenditure

In RMB Trillions



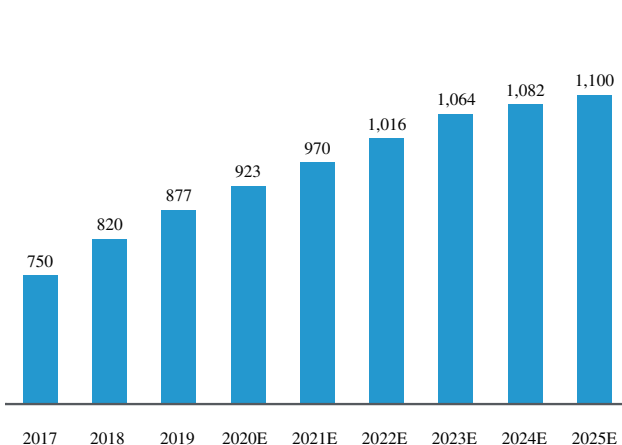
Source: iResearch analysis

Growth in China Mobile Internet Users

The increase in mobile Internet user activities will drive the growth of digital payments and digital finance in China, as well as the increasing need for businesses to digitalize. China has the world's largest mobile Internet population, reaching 877 million in 2019, which is expected to grow to approximately 1.1 billion by 2025, according to iResearch. China's mobile-savvy consumers are demanding more convenient and better payment, financial and daily life services.

China Mobile Internet User Population

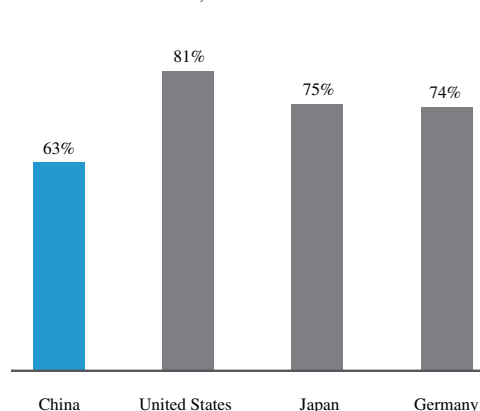
In Millions



Source: iResearch analysis

Mobile Internet User Penetration Rate Comparison

At the end of 2019, %



Source: iResearch analysis

OUR BUSINESS

Growth in Digital Payments in China

The convenience, efficiency and high penetration of digital and mobile technology are expected to drive the growth of digital payments in China.

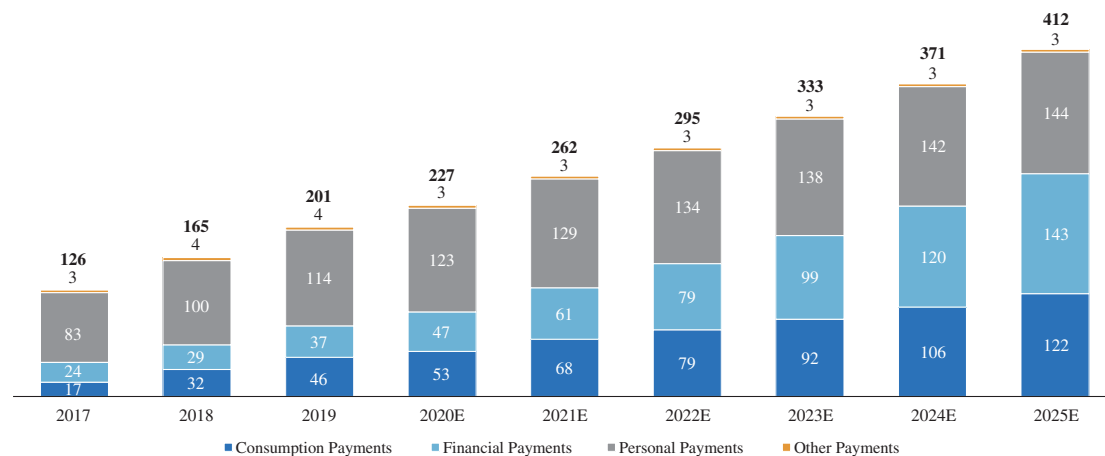
China’s digital payments transaction volume was RMB201 trillion in 2019, according to iResearch. Digital payments are defined as payment transactions through e-wallets, and consist of consumption payments, financial payments, personal payments and other payments. China’s mobile payments users reached 87.2% of the total mobile Internet population in China in 2019, according to iResearch. There are many factors in the payment industry that create significant opportunities for greater adoption of digital payments, including:

- **Consumers:** seeking convenient, fast, and secure payment experiences that can be used seamlessly during their day-to-day online and offline activities, and
- **Businesses:** seeking reduced payment costs, increased efficiency, greater payment method flexibility, and enhanced customer experience.

China’s digital payments transaction volume is expected to increase to RMB412 trillion in 2025, according to iResearch. Consumption payments, which we also refer to as commercial payments, primarily consist of e-commerce and online services payments, and offline consumption payments through e-wallets and others, are expected to grow at a CAGR of 17.5% from 2019 to 2025, primarily driven by the growth of e-commerce and digital payments made at offline businesses, according to iResearch. Financial payments, which primarily consist of online purchases of investment products and insurance policies, repayments of loans and others, are expected to grow at a CAGR of 25.0% from 2019 to 2025, primarily driven by the growth of online credit and investment activities, according to iResearch. Personal payments primarily consist of credit card repayments, money transfers, red packets and others.

China Digital Payments Transaction Volume

In RMB Trillions



Source: iResearch analysis

OUR BUSINESS

Increasing mobile Internet user penetration, rapid development of digital payments infrastructure and consumer and merchant preferences are driving China’s ongoing shift towards a cashless society. According to the PBOC, China’s non-cash payment transaction volume reached RMB3,779 trillion in 2019. Non-cash payment types primarily include debit cards, credit cards, credit transfers, non-electronic bills and electronic commercial draft. Major market participants include banks, payment networks, e-wallets and merchant acquirers.

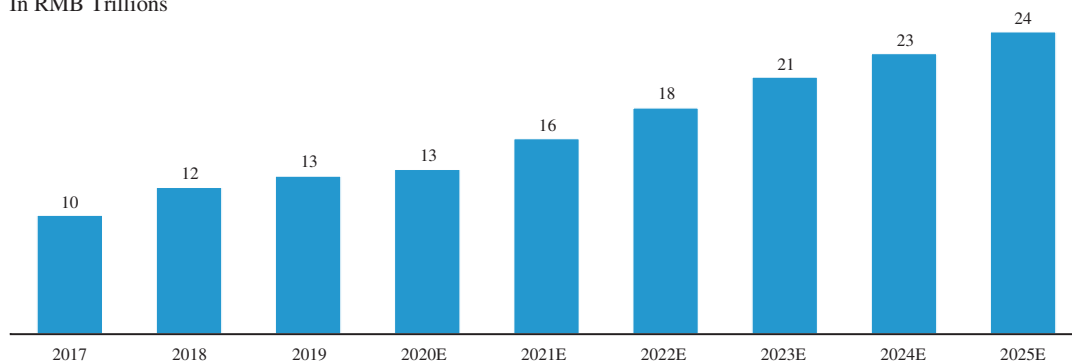
Growth in China Consumer Credit

Rising consumption expenditure and increasing willingness to use credit for consumption are expected to drive the growth of consumer credit in China.

China consumer credit primarily includes credit card balances, instalments and other unsecured credit products, excluding personal operating loans, auto loans and mortgages. The consumer credit market reached RMB13 trillion in 2019, and is estimated to grow to RMB24 trillion in 2025 at a CAGR of 11.4%, according to Oliver Wyman.

China Consumer Credit Balance

In RMB Trillions



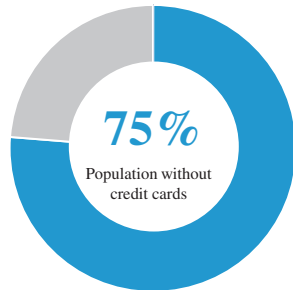
Source: Oliver Wyman analysis

According to Oliver Wyman, 75% of China’s population at age 18 or above did not own credit cards at the end of 2019. In China, the ratio of consumer credit balance to cash and deposits was 14%, compared to 33% in the United States in 2019.

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China’s Population That Does Not Own Credit Cards⁽¹⁾

At the end of 2019, %



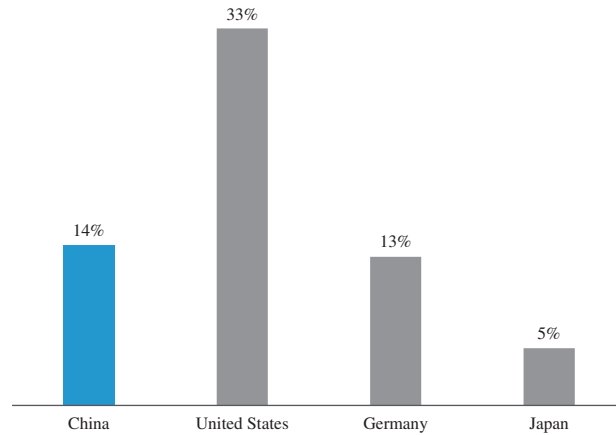
Source: Oliver Wyman analysis

Note:

1. China population age 18 or above

Consumer Credit Balance to Cash and Deposits Ratio

At the end of 2019, %



Source: Oliver Wyman analysis

Online consumer credit includes loans for which the full lending process is conducted through Internet or mobile applications. China’s online consumer credit market reached RMB6 trillion in 2019, and is estimated to grow to RMB19 trillion in 2025 at a CAGR of 20.4%, driven by wider adoption of data and technology, according to Oliver Wyman.

Growth in China SMB Credit

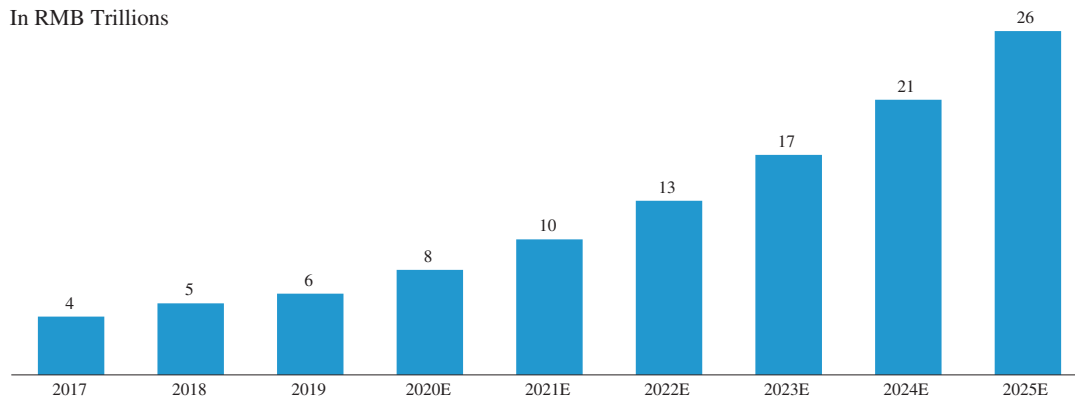
The growing importance of small businesses to the Chinese economy and their large unserved and underserved financing demands are expected to drive the growth of SMB credit in China. According to Oliver Wyman, small businesses contributed to 60% of total GDP in China in 2019, but the SMB credit balance only accounted for 32% of the total corporate loan balance.

Small businesses in China are underserved by financial institutions, especially smaller and micro businesses with limited credit history. The SMB credit balance for loan sizes below RMB500,000 in China is estimated to increase from RMB6 trillion in 2019 to RMB26 trillion in 2025, growing at a CAGR 27.2%, according to Oliver Wyman.

OUR BUSINESS

China SMB Credit Balance for Loan Sizes Below RMB500,000

In RMB Trillions



Source: Oliver Wyman analysis

Online SMB credit includes loans for which the full lending process is conducted online. The online SMB credit market for loan sizes below RMB500,000 reached RMB2 trillion in 2019, and is estimated to grow to RMB16 trillion in 2025 at a CAGR of 40.8% driven by wider adoption of data and technology and increasingly customized product offerings for small businesses, according to Oliver Wyman.

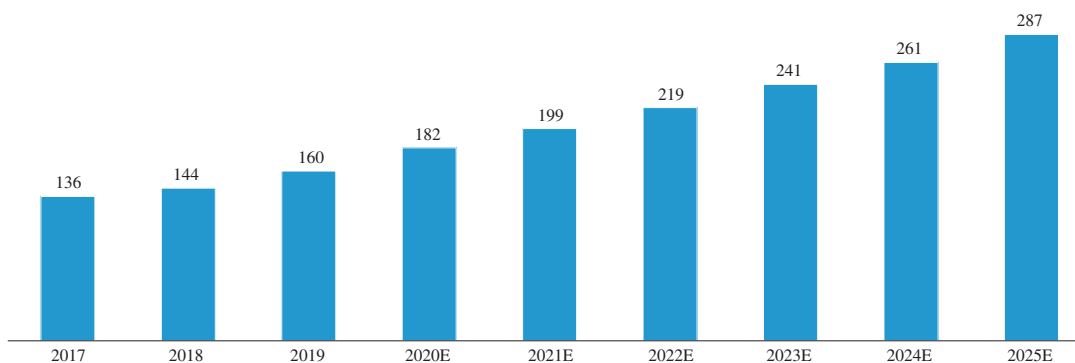
Growth in China Investment Products

The combination of the growth of personal investable assets, generational change, increasing investor sophistication, and the rise of attractive new digital investment offerings are expected to result in the shift of cash and current deposits into a wider variety of investment products in China.

Personal investable assets refer to all investable financial assets, excluding real estate investments. China’s personal investable assets reached RMB160 trillion in 2019, and are estimated to grow to RMB287 trillion at a CAGR of 10.3% by 2025, according to Oliver Wyman.

China Personal Investable Assets

In RMB Trillions



Source: Oliver Wyman analysis

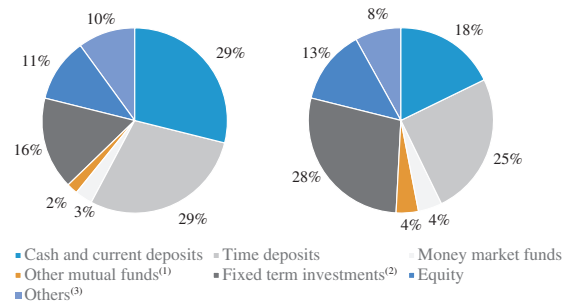
OUR BUSINESS

Among personal investable assets, fixed term investments, money market funds, other mutual funds, time deposits and equity together contributed to 61% of investable assets at the end of 2019, total AUM of these five product segments are estimated to grow at a CAGR of 13.9% from 2019 to 2025, according to Oliver Wyman. Personal investable assets other than cash and deposits represented 42% of personal investable assets at the end of 2019, compared to 88% in the United States, and this share is estimated to increase, according to Oliver Wyman.

China Personal Investable Assets Breakdown

At the end of 2019, %

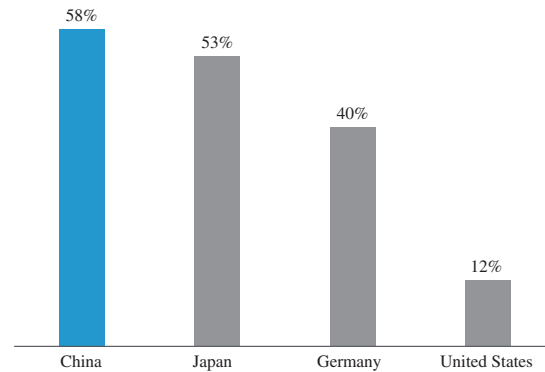
As the end of 2025, %



Source: Oliver Wyman analysis

Cash and Deposits as % of Personal Investable Assets

At the end of 2019, %



Source: Oliver Wyman analysis

Notes:

1. Other mutual funds include multi-asset class funds, bond funds, equity funds, ETF funds, and alternative investment funds
2. Fixed term investments include bank wealth management products, investment type insurance products and others
3. Others include private funds, trusts, overseas investments and others

China's personal investable assets distributed online reached RMB21 trillion in 2019, and are estimated to grow to RMB69 trillion in 2025 at a CAGR of 21.6%, driven by wider adoption of data and technology and increasing customer demand for a better investment experience, according to Oliver Wyman.

Growth in China Insurance

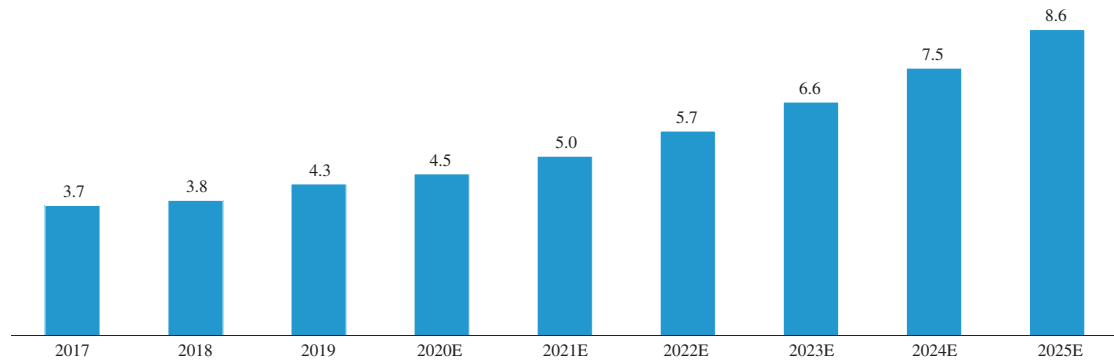
The continued accumulation of wealth, increasing awareness for the need for protection, and the aging population have contributed to the rapid growth of China's life and health insurance markets. In addition, the on-going digitalization of the economy presents substantial opportunities for innovative, scenario-based P&C insurance products.

China's insurance premiums (including life, health and accident, and P&C) reached RMB4.3 trillion in 2019, and are estimated to grow to RMB8.6 trillion in 2025 at a CAGR of 12.4%, according to Oliver Wyman.

OUR BUSINESS

China Insurance Premiums

In RMB Trillions



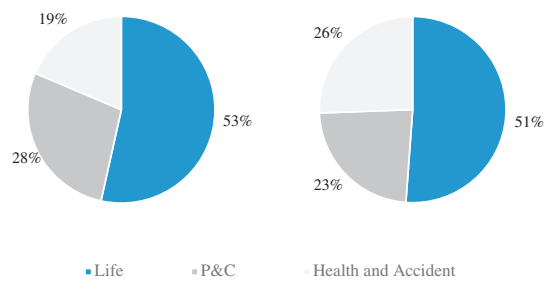
Source: Oliver Wyman analysis

China’s insurance penetration, which is defined as insurance premiums as percentage of GDP, was 4% in 2019, substantially lower than that of the United States, Japan and Germany, according to Oliver Wyman.

China Insurance Premiums Breakdown

2019, %

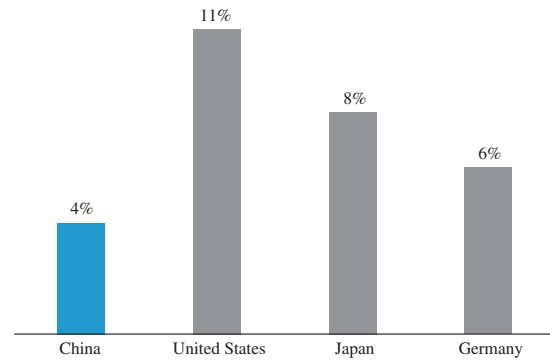
2025, %



Source: Oliver Wyman analysis

Insurance Penetration

2019, Total premiums⁽¹⁾ as % of GDP



Source: Oliver Wyman analysis

Note:

- Including life, health and accident, and P&C premiums

China’s online insurance premiums reached RMB0.3 trillion in 2019, and are estimated to grow to RMB1.9 trillion in 2025 at a CAGR of 38.1%, driven by wider adoption of technology and product innovation, according to Oliver Wyman.

OUR BUSINESS

Market and Industry Data

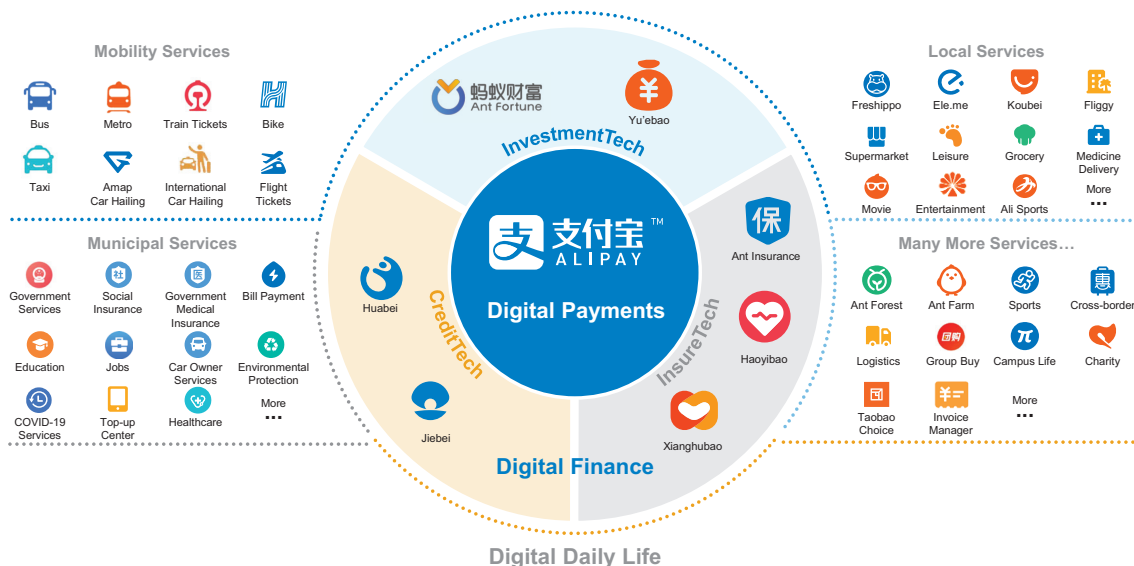
We have commissioned iResearch to conduct market research and prepare a report concerning digital payments industry (the “iResearch Report”). We have commissioned Oliver Wyman to conduct market research and prepare a report (the “Oliver Wyman Report”) on the digital financial services industry. For purposes of the subsection titled “— Our Opportunities,” China or PRC refers to mainland China. For additional details concerning the iResearch Report, the Oliver Wyman Report, our engagement of these industry consultants, the fees we paid to them and other details, see “Appendix VII — Statutory and General Information — E. Other Information — 6. Commissioned Industry Reports.”

Our Alipay Platform

Our mobile app Alipay is a ubiquitous super app that draws together over one billion users, 80 million merchants and over 2,000 partner financial institutions for digital payment and digital finance services in China. Alipay, the largest commercial app in 2019, according to iResearch, has become the destination of choice for consumers in China to access a broad range of financial and other services. We refer to our integrated offerings of digital payment, digital finance and digital daily life services as our Alipay platform. In the twelve months ended June 30, 2020, TPV transacted on our platform in mainland China reached RMB118 trillion. Merchants and partner financial institutions come to our Alipay platform and use it as the gateway to reach customers and drive revenues growth.

Consumers use Alipay as a one-stop shop for digital payment and digital finance services, including credit, investment and insurance. In addition, consumers access a broad range of daily life services through the Alipay app. There are over 1,000 daily life services and over two million mini programs that offer mobility services, local services and municipal services on, among others, Alipay.

The following illustrates the comprehensive use cases available via the Alipay app:



Note: For illustrative purpose only. English translation is for reference only. Chinese version shall prevail in case of inconsistency

OUR BUSINESS

We have made our Alipay app the destination of choice for consumers by:

Building trust. We launched the Alipay app, to create a trusted interface for exchanging payments between consumers and businesses in a reliable and secure manner. Since then, we have expanded our trusted app to address many different types of transactions and experiences for consumers, businesses and partner financial institutions. We also developed Zhima Credit, our proprietary trust score, to bridge the “trust gap” between consumers and businesses by assessing individuals’ willingness and ability to fulfill a commercial contract.

Enabling services anywhere, anytime. We aspire to provide a multitude of products and services to consumers and businesses at all levels of the economy. Leveraging our unparalleled customer insights derived from payments, e-commerce and other transactions, we have developed a broad range of scenario-based financial and daily life services that cater to these consumers and businesses.

Delivering intuitive user experience. We designed Alipay to be intuitive and easy-to-use, allowing users with strong commercial intent to discover services and complete complex credit, investment and insurance transactions with just a few taps on the screen. We centralize key services and features on the landing page of the app, creating an environment that allows us to efficiently engage with and recommend suitable offerings to our users. In addition, users can access the full suite of daily life services either through an extended menu or dynamic search function, based on our proprietary technology.

Driving engagement. We have made available an expanding spectrum of services on our Alipay app to drive sustained user engagement. We empower our merchants and partner financial institutions to create attractive and engaging products and services that deepen user engagement across our service offerings. In the twelve months ended June 30, 2020, over 60% of users came to the Alipay app for daily life services.

OUR BUSINESS

The below illustrates our one-stop, intuitive Alipay app with a centralized interface:

Location-based

City

Search...

Scan

Pay / Collect

Mobility

Wallet

Ele.me

Koubei

Hotel

Movies

Municipal Services

Transfer

Huabei

Jiebei

Yu'ebao

Credit Card Repayment

Utilities

Sports

Ant Forest

My Mini Program

More...

Your package just arrived...

To write a review for your last purchase...

Start to save your monthly salary

余额宝用户都在用

GO

Food Delivery

Arriving in 30 minutes

生煎

附近高回头客店

110减45

新疆菜

西北菜第6名

80减9

120减15

披萨

西湖区披萨第2名

30减9

Home

Digital Finance

Koubei

Message

Me

Trending, personalized recommendation and search

Frequently-used services

Personalized service dashboard

One-click access to services

Mini program curation

2 million+ mini programs

Notifications and promotions

Personalized content feed from merchants

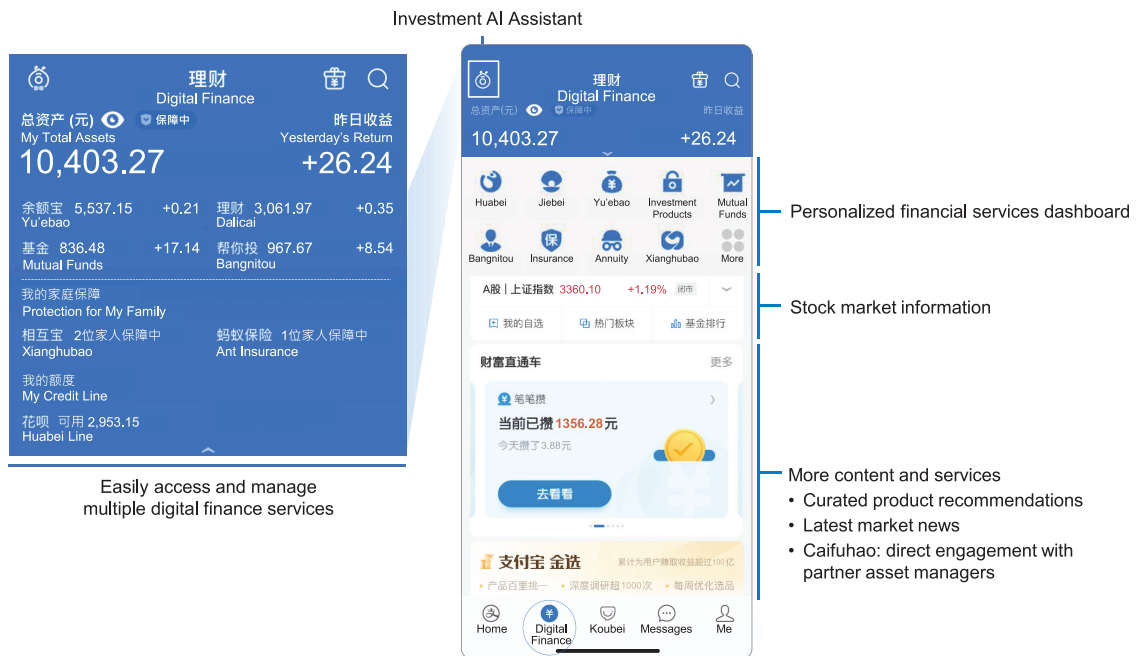
One-stop access to digital finance

Note: For illustrative purpose only. English translation is for reference only. Chinese version shall prevail in case of inconsistency

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OUR BUSINESS

The below illustrates the tab for digital finance services on the Alipay app:



Note: For illustrative purpose only. English translation is for reference only. Chinese version shall prevail in case of inconsistency

Digital Payments

We are the largest digital payments services provider as measured by TPV in China, according to iResearch, and we believe our Alipay app is synonymous with digital payments in China. In the twelve months ended June 30, 2020, TPV transacted on our platform in mainland China reached RMB118 trillion.

Our digital payment services enable merchants to transact with consumers in China in a convenient and secure way, across almost all online and offline payment use cases. We provide payment services for transactions on Alibaba’s platforms, including Taobao, Tmall and 1688.com. Alipay is the principal means by which buyers and sellers complete transactions on Alibaba’s platforms.

We offer our users a comprehensive e-wallet solution that combines advanced digital payments functionality with instant and seamless access to digital finance and daily life services. We believe the integration of payments functionality with an e-wallet provides us with a basis for a deeper relationship with consumers and merchants, particularly as they manage their increasingly-complex financial needs.

Our digital payment innovations have allowed us to deliver unrivalled value and convenience to our customers, which has led to wide acceptance and popularity of our e-wallet and massive transaction volumes. This in turn provides us with rich customer insights which allow us to tailor our services and develop additional innovative digital finance services.

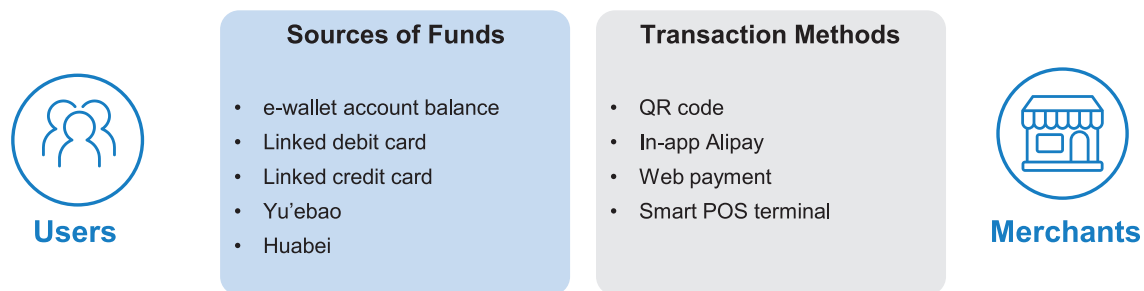
OUR BUSINESS

We primarily generate digital payment service revenues by charging merchants and transaction platforms transaction fees based on a percentage of transaction volume. We also charge users for personal transactions such as transfer to bank accounts and credit card repayments.

We have also established international payment connections to meet the needs of an increasingly-digitalized global economy. In the twelve months ended June 30, 2020, our International TPV was RMB622 billion. See “— Cross-Border Payment and Merchant Services” for further details.

Digital Payment Transaction Methods

Alipay allows consumers and merchants to transact where, when and how they want, across a multitude of transaction methods as highlighted below:



For consumers, we provide digital payment services through the easy-to-use Alipay e-wallet embedded in the Alipay app. Users can enjoy a seamless payment experience by funding payments for all major online and offline use cases through one of five categories: e-wallet account balance, debit and credit card accounts, Yu'eobao balance, and Huabei credit line. Users typically set a default payment funding source such as the e-wallet account balance which they can then modify for individual transactions. Typical payment use cases include commercial payments to merchants, personal transactions such as transfers to own accounts, credit card repayments and various other types of money transfers, and financial transactions related to borrowing and investment. For online commercial payment within the Alipay app or on transaction platforms' or merchants' apps or websites, a user can select the Alipay e-wallet as a payment method at checkout and complete the transaction instantly. For offline store visits, a user can use Alipay to scan a merchant's QR code or have his or her own Alipay e-wallet QR code scanned by a merchant to complete a transaction.

There are primarily four ways for a merchant to receive payments from consumers via our digital payment services, including (i) pay via payment code or Shouqianma (收錢碼), a merchant QR code that allows consumers to pay by scanning, (ii) pay via in-app Alipay, (iii) pay via web, and (iv) smart POS terminals with our IoT technology, which range from small tablets to full-screen self-service kiosks. These are all easy to set up and convenient to use for merchants.

OUR BUSINESS

Digital Payments Technology and Infrastructure

Our digital payment transaction infrastructure is at the heart of Alipay. Our proprietary technology ensures that we can sustain high performance at scale, while maintaining the delivery of differentiated services and a superior user experience. For example, during the 11.11 global shopping festival in 2019, the peak payment transactions per second was 459,000. We use our risk management system and technology to further develop best-in-class fraud detection. Our payment fraud loss rate was less than 0.0006 bps in the twelve months ended June 30, 2020, which was the lowest payment fraud loss rate among digital payments providers whose total payment volume exceeded US\$500 billion in 2019, according to iResearch.

Digital Daily Life Services

We continue to expand the use cases for digital payments, including increasing merchants who accept Alipay, and the provision of a large number of daily life services on the Alipay platform. As of June 30, 2020, the Alipay app had over two million mini programs which are available to consumers through search or customized icon placement. A mini program acts like an app within an app, enabling merchants to attract new consumers and offer services, all within the Alipay app, significantly enhancing the user experience. Through these mini programs, consumers have access to diverse daily life services at their fingertips. By integrating payment capabilities with almost any kind of daily life use case, Alipay has established broad coverage and connections between consumers and businesses.

Mobility services, local services and municipal services are among those listed at the top of Alipay’s main page, and many more daily life services are available from an extended menu or searchable via mini programs. Our digital daily life services aim to make consumers’ lives easier and better, driving engagement on our platform and in turn leads to more transactions. In the twelve months ended June 30, 2020, over 60% users came to the Alipay app for daily life services.

Digital Merchant Services

By leveraging Alipay app’s centralized interface, large customer base and user engagement, and unparalleled customer insights, we enable merchants to reach and acquire more consumers and deepen engagement with them. We provide a wide range of marketing tools, including mini programs, loyalty programs and the ability to organize mass marketing events.

We bring our merchants significant benefits by connecting them with several hundred million users who actively use mini programs embedded in the Alipay app. For example, in 2018, Starbucks launched a mini program in the Alipay app which allows consumers to order beverages, food and merchandise online and access its membership programs. Since then, a large number of Alipay users have signed up as members and made online orders through the mini program, broadening Starbucks’ reach to consumers across China. In addition, we also allow offline merchants to reach consumers through the Alipay home page and payment completion page, among others.

OUR BUSINESS

In July 2020, together with Alibaba, we launched the 7.17 Shopping Festival (7.17生活狂歡節), a nationwide marketing campaign for offline merchants of all sizes to distribute e-coupons. From July 1 to July 17, 2020, we distributed e-coupons to consumers daily via our Alipay app, and consumers were able to redeem the coupons when paying with Alipay at millions of merchants across the country. Approximately seven million merchants signed up for this marketing event. Using our merchant services, many offline merchants were able to access our massive customer base in a targeted way to achieve increased sales.

Through our trust score, Zhima Credit, our merchants can assess consumers’ trustworthiness and offer deposit-free services to those with eligible Zhima Credit across a variety of daily life use cases including hotel booking, ride sharing, shared power bank rentals, car rentals, and others to enhance user experience.

Cross-Border Payment and Merchant Services

Beyond our domestic business in China, we enable merchants and consumers to make and receive payment and remit around the world. Our philosophy is to use our technology and innovation to bring inclusive and sustainable financial services to unserved and underserved consumers and small businesses globally. We are doing so largely through partnerships with merchant acquirers, local e-wallets, banks and independent service vendors. We believe in an open ecosystem approach so that our partners can participate fully in the development of digital payments and finance. We seek to achieve win-win partnerships and adhere to local regulatory rules and corporate governance standards, with strict standards for consumer data and privacy protection.

We facilitate connections between consumers and merchants. During the twelve months ended June 30, 2020, International TPV transacted through our platform reached RMB622 billion. Beyond payment transactions, we provide digital solutions that enable consumers to enjoy real time offers and coupons and merchants to effectively engage with their customers. We work closely with partners to promote financial inclusion for consumers, especially those in emerging markets, and empower small businesses to be equipped with our digital payments technology.

Consumers. We facilitate digital connections to enable Alipay users to make online purchases of goods and services from over 200 countries and regions and offer convenient cross-border services to allow them to make offline payments. We are also starting to offer these cross-border payment solutions to international e-wallet partners. Beyond payments, we provide a breadth of inclusive daily life services such as currency exchange, duty free shopping, tax rebate, ride hailing, food delivery and other personalized recommendation services.

Merchants. We provide integrated and convenient payment solutions and digital marketing tools to millions of online and offline merchants globally. For example, we provide digital payment services to Alibaba’s global marketplaces including AliExpress and Lazada, enabling merchants to sell in a convenient, safe and low-cost fashion. We also enable overseas offline merchants to attract customers and enhance engagement. For example, offline merchants can engage with potential customers via Alipay even before their trips have started, and can continuously maintain the customer relationship online post-trip.

OUR BUSINESS

International Partners. We cooperate with a range of international partners, including e-wallets, merchant acquirers, banks and other third-party service providers. We have established partnerships with e-wallets across Asia, Europe and Africa. We bring our leading payment technology and risk management solutions to our e-wallet partners, enabling them to serve more merchants and consumers in an effective, secure and compliant way. We also partner with merchant acquirers, banks and other third-party service providers to extend our overseas coverage and bring our integrated payment and merchant service solutions to local markets.

Digital Finance Technology Platform

We are the leading digital finance technology platform in China. We seek to meet the full range of credit, investment and insurance needs of our customers during the different stages of their lives, enabling us to serve them repeatedly and increase customer lifetime value. During the twelve months ended June 30, 2020, our platform had 729 million users who transacted in one or more of our digital finance services. The digital finance activity volume of Alipay users who had been with us since 2015 grew more than 10 times from 2015 to the twelve months ended June 30, 2020.

We empower our partner financial institutions with unparalleled insights, reach and capabilities through our services: CreditTech, InvestmentTech and InsureTech.

Our Technology Services	Our Platform Scale	Our Partner Financial Institutions ⁽¹⁾	Our Market Position ⁽²⁾
CreditTech	Consumer credit: RMB1,732 billion ⁽³⁾ SMB credit: RMB422 billion ⁽³⁾	~100 banks ⁽⁴⁾	#1
InvestmentTech	AUM: RMB4,099 billion ⁽⁵⁾	~170 asset managers	#1
InsureTech	Insurance premiums and contributions: RMB52 billion ⁽⁶⁾	~90 insurance institutions	#1

Notes:

- As of June 30, 2020.
- Market position in China according to Oliver Wyman, as measured by (i) consumer or SMB credit balance enabled through our platform as of June 30, 2020 for CreditTech, (ii) AUM enabled through our platform as of June 30, 2020 for InvestmentTech, and (iii) insurance premiums enabled through our platform in 2019 for InsureTech.
- Consumer or SMB credit balance enabled through our platform as of June 30, 2020, including balance of partner financial institutions (including MYbank) and our licensed financial services subsidiaries, as well as balance securitized.
- In addition to banks, we also work with other partner financial institutions including trust companies.
- AUM enabled through our platform as of June 30, 2020, including AUM of partner financial institutions and our licensed financial services subsidiary.
- Insurance premiums enabled through our platform as well as contributions by Xianghubao participants during the twelve months ended June 30, 2020. Insurance premiums includes premiums of partner insurers and our licensed financial services subsidiary.

OUR BUSINESS

Our Approach

Our sustainable business model is based on the following:

Relentless Focus on Our Customers. We are relentlessly focused on understanding and addressing the financial needs of consumers and small businesses. We approach every day as a new opportunity to solve customer problems with technology to increase inclusion and enhance the experience of users on our platform. As part of our customer focus, we develop scenario-based digital finance products to fulfill unmet customer needs. Consumers and small businesses who could not be served in the past can now be reached and have their finance needs met rapidly and cost effectively by our partner financial institutions. During the twelve months ended June 30, 2020, we enabled credit balances for approximately 500 million users and over 20 million small businesses with our CreditTech services.

Constant Innovation. We have been at the forefront of innovation in digital finance. For example, we developed Huabei, which is now the largest digital consumer credit product by credit balance in China, according to Oliver Wyman. We designed Yu’eobao, which is the largest money market fund product by AUM. Yu’eobao provides consumers the ability to invest small amounts and generate yield on unutilized cash while still allowing the funds to be instantly available for everyday purchases. We also developed Haoyibao — Lifetime Cancer Protection, which is the first health insurance product in China that is guaranteed to be renewable for the lifetime of the policyholder, with an annual premium as low as RMB89. We strive to identify potential customer needs even before they are recognized by consumers and businesses, and to innovate and introduce new products and services.

Our Partnership with Financial Institutions. We provide our partner financial institutions with a range of technology services, including customer reach, intelligent decisioning and dynamic risk management solutions, innovative product development capabilities and technology infrastructure. Through these, our partner financial institutions efficiently provide credit, investment and insurance products to hundreds of millions of consumers and tens of millions of merchants on our platform. Our partner financial institutions utilize our technology services while leveraging their own capabilities such as product development and risk management and providing capital. As of June 30, 2020, we partnered with more than 350 financial institutions for digital finance services, including approximately 100 banks, 170 asset managers, and 90 insurance institutions.

Unparalleled Customer Insights. The extensive range of services that we and the Alibaba ecosystem provide — in payment, finance, commerce, logistics, local services, merchant services, digital entertainment, offline store visits, map navigation, among others — collectively generate a wealth of high-quality and commercially relevant insights into consumers and businesses that use our platform. We apply these customer insights throughout the digital finance value chain to improve the customer experience and enhance the value of our services to partner financial institutions.

OUR BUSINESS

Anticipating Needs through Intelligent Decisioning Systems. Our intelligent decisioning systems, including our proprietary algorithms, use our unrivalled customer insights to anticipate customer needs and preferences. For example, the intelligent decisioning systems allow us to assess the likelihood of a potential borrower’s ability and willingness to repay, to analyze the likelihood of a customer accepting a digital finance offer and to develop a user’s risk profile to identify appropriate product features and pricing. As a result, our partner financial institutions can acquire customers, underwrite risks and distribute products more efficiently, while consumers and businesses have access to new digital finance products that are most suitable to meet their needs.

Collaborative Risk Management with Financial Institutions. We develop risk management solutions and risk-detection algorithms that enhance financial institutions’ risk management decision-making. Our solutions and algorithms address the key risk components faced by financial institutions, including risks relating to KYC, fraud, AML, credit, liquidity, operations, security and data privacy. While leveraging our solutions, our partner financial institutions retain control over and responsibility for their risk management decisions.

CreditTech

Credit is the lifeblood of economic development, allowing consumers and businesses to achieve their consumption and growth aspirations. Our goal is to address the unmet credit demands in China, particularly unserved and underserved consumers and small businesses. We provide technology services to partner financial institutions and enable them to deploy credit at scale.

Our CreditTech comprises innovative product development, customer reach, intelligent decisioning and dynamic risk management solutions. We were the largest online consumer credit and SMB credit services provider in China in terms of total outstanding credit balance enabled through our platform as of June 30, 2020, according to Oliver Wyman.

As of June 30, 2020, we partnered with approximately 100 banks, including all policy banks, large national state-owned banks, all national joint stock banks, leading city and rural commercial banks, international banks that operate in China, as well as trust companies. The loans originated on our platform are primarily independently underwritten by our partner financial institutions. Approximately 98% of the consumer and SMB credit balances enabled through our platform as of June 30, 2020 were underwritten by our partner financial institutions or securitized. We generate technology service fees from our partner financial institutions as a percentage of the interest income they earn on credit balance enabled through our platform.

CreditTech for Consumer Credit



OUR BUSINESS

Product Design

We have and will continue to design and develop products that provide users with instant access to credit and are convenient, flexible and simple to use. These products have transformed the consumer credit market in China, making credit lines and consumer loans available to hundreds of millions of previously unserved or underserved consumers. Our Huabei (花呗) and Jiebei (借呗) products have become the most widely used consumer credit products in China. During the twelve months ended June 30, 2020, we enabled credit balances for approximately 500 million users with our consumer CreditTech services.

Huabei was among the first digital unsecured revolving credit products for daily expenditures offered to consumers in China. A Huabei credit line made available to qualified Alipay users is instantly usable at the point of sale. The credit line is based on our customer insights and credit assessment models. A typical Huabei customer is young and Internet savvy but has unmet consumption demand due to the lack of a credit card or insufficient credit limits. Through Huabei, we make credit services inclusive and allow consumers to enjoy a convenient user experience and build a credit history.

Many consumers select Huabei as their preferred funding option in Alipay for online and offline purchases due to its accessibility and convenience. As consumers establish a track record of usage and repayment, they can enjoy increases in their credit lines. Huabei offers consumers an interest-free period of up to 40 days after they make purchases. They are given the option to pay in monthly instalments over 3 to 12 months at purchase or after the interest-free period. In the twelve months ended June 30, 2020, the daily interest rate for the majority of Huabei users was approximately at or below 0.04%, and can be as low as 0.02%. As of June 30, 2020, the average Huabei outstanding balance was approximately RMB2,000.

Jiebei is a short-term digital unsecured consumer credit product. We created Jiebei, a product for larger consumption transactions, to meet the spending needs of users who either have already developed a credit history on our platform or those who are eligible for Huabei. Jiebei provides a streamlined and superior customer experience. Qualified customers identified by our intelligent decisioning systems are approved for a credit line for instantaneous use. For consumers who apply for a new credit line, we analyze their creditworthiness and provide them with our credit decisions within seconds. After a user makes a credit drawdown request, the user receives funds in his Alipay account instantly or in a debit card linked to the Alipay app. The daily interest rate for the majority of Jiebei users was approximately at or below 0.04%, for the twelve months ended June 30, 2020, and can be as low as 0.02%. For Jiebei, consumers can prepay outstanding balances at any time typically without penalty.

We offer an automated and convenient repayment process for Huabei and Jiebei. Under the default setting, the Alipay app automatically collects repayment amounts from consumers' accounts in the following order, depending on whether sufficient funds are available: (i) Alipay account balance; (ii) debit card linked to the Alipay account, and (iii) Yu'e bao balance. Consumers also have the flexibility to set the repayment order at any time based on their own preferences.

OUR BUSINESS

The table below summarizes key features of our Huabei and Jiebei products as of June 30, 2020:

	Huabei	Jiebei
Minimum Credit Line	RMB20	RMB1,000
Instalments/Tenor	3 to 12 months ⁽¹⁾	3 to 12 months
Interest-free Period	Up to 40 days	Not applicable

Note:

1. Certain merchants also allow monthly instalment payments over 24 months at purchase.

Intelligent Decisioning Systems

We use a constant stream of customer insights and our proprietary algorithms to analyze and dynamically update the assessment of a customer’s creditworthiness, the likelihood of a customer accepting a credit product and the best ways of marketing products. We also utilize our intelligent decisioning solutions to determine an appropriate credit line and other product parameters. Our track record of billions of loans on our platform enables us to continually develop and train our decisioning algorithms to improve our customer reach, engagement and assessment capabilities and match consumers with loans from our partner banks.

Dynamic Credit Risk Management

Based on customer insights and risk rating in terms of spending, assets, liabilities, occupation, and other parameters such as financial stability, we categorize all Alipay users into different risk categories. For each category, we design customized models as well as tailored strategies for credit line approval and pricing. For example, as consumers with a small initial Huabei credit line transact, repay and build credit histories, we assess their creditworthiness on an ongoing basis and dynamically adjust our credit approval process and limits.

By leveraging our dynamic risk management systems and extensive and real-time customer insights across different consumption scenarios, including those on Alibaba’s platforms, we have constructed comprehensive customer profiles, which feed into our dynamic credit risk assessment system. We currently have more than 100 credit assessment models, which allow us to achieve quantitative credit decisioning processes which are intelligent, automated and dynamic, covering the lifecycle of each loan before, during and after its origination.

We have efficient and dynamic anti-fraud capabilities. With over ten years of experience in defending against attempted hacking and fraud, we have accumulated proprietary know-how of fraudulent behavior that captures various dimensions including user identity, devices and bank cards, and we have developed real-time, automated online anti-fraud systems. Our anti-fraud capabilities are applied across various processes including credit risk management, credit drawdown and monitoring.

OUR BUSINESS

Our partner banks carry out independent credit assessments as part of their underwriting. After each consumer’s authorization, we provide to our partner banks information on the consumer’s identity and, after removing sensitive information, various credit assessment parameters derived from our own credit assessment models in different categories, including (i) online and offline consumption levels, (ii) wealth tier, (iii) online and offline transaction and credit history, and (iv) risk category. Our partner banks use these credit assessment parameters together with their own data, where available, to conduct their independent credit assessment. Following an independent credit assessment, each partner bank approves, rejects or modifies our suggested credit limit and other terms of the credit line.

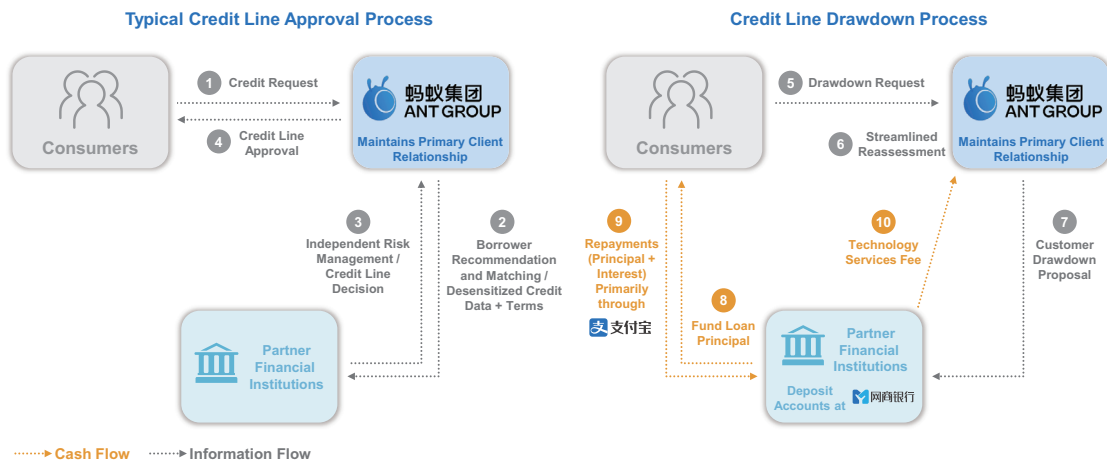
We have started working with select partner banks to utilize more advanced joint credit risk models. Based on customer insights from us and our partner banks, the joint credit risk models utilize machine learning technology to capture more customer insights and create more accurate borrower credit profiles. In order to protect consumer privacy, for joint risk assessment, both parties ensure that their respective credit profile information does not leave their systems and is encrypted for joint model use exclusively. As an example of our collaboration with one of our partner banks, our system contributes credit assessment parameters such as consumption level, wealth tier and risk category, while the partner bank contributes information such as income and tax information. These efforts improve the accuracy of credit assessment and deepen our partner relationship with banks, while maintaining strong data privacy protection.

Underwriting and Disbursement

Through seamless integration with our platform, our partner banks are able to achieve near-instantaneous underwriting and disbursement of funds to an Alipay user, which is crucial to the user experience. Once a Huabei or Jiebei user requests a credit drawdown, our credit assessment models conduct a real-time streamlined reassessment to confirm the consumer’s continued qualification for drawdown, and the credit line can then be drawn down and disbursed.

Credit Line Approval, Drawdown and Repayment Process

We leverage our technology to automate and streamline the credit process for consumers and partner financial institutions as illustrated below.



OUR BUSINESS

Composition of Partner Financial Institutions

Our technology services enable our partners to reach and serve new customers, grow their consumer credit business, improve credit performance of their loans and achieve superior economics. As a result, we have become the technology services partner of choice for banks in China. As of June 30, 2020, we partnered with a large number of leading banks in China which includes all policy banks, large national state-owned banks, all national joint stock banks, leading city and rural commercial banks, international banks that operate in China, as well as trust companies. Our partner banks contributed to the majority of the total consumer credit balance enabled through our platform as of the end of 2019 and the first half of 2020. We plan to continue to grow the number of our partner banks going forward.

We fund a small portion of the credit balance enabled through our platform through our small loan companies, Ant Shangcheng and Ant Small and Micro Loans, the substantial majority of which is sold through ABS. The majority of the ABS purchasers are banks and other licensed financial institutions. We choose to hold a small number of loans on our balance sheet primarily to innovate new products, expand into new categories of customers and in situations where we have a small co-lending arrangement with our partner banks. Consequently, the loans we hold on our balance sheet usually have higher credit costs than the loans we enable for partners.

As of June 30, 2020, total consumer credit balance enabled through our platform was RMB1,732 billion, 98% of which was underwritten by our partner financial institutions or securitized.

Credit Monitoring, Servicing and Collection

Once a loan is granted, we closely monitor the loan performance on a real-time basis.

We service loans enabled through our platform. The Alipay app sends out automatic repayment notifications to consumer borrowers. Most loans are set up for automated repayment from the borrower’s Alipay account. If a consumer fails to make a payment on a due date, we are contractually allowed to collect the principal and interest by directly deducting the amounts from the consumer’s Alipay or Yu’eobao account balance, or from their linked debit cards.

We determine the priorities of our loan collection and the collection process based on the length of delinquency and other factors. The majority of our collection activities are conducted through automated digital processes such as payment reminder notifications in the Alipay app, text messages, voice messages or AI-initiated collection calls. If a loan remains overdue for a certain period, we typically outsource collection to third-party service providers to optimize collection efficiency. We carefully select third-party service providers and closely supervise them to ensure their collection processes comply with our internal policies and applicable laws and regulations.

Through our credit monitoring, servicing and collection activities, we gain additional analytical insights about credit trends and customers which allow us to continuously improve our intelligent decisioning solutions, credit risk management, underwriting processes and product capabilities.

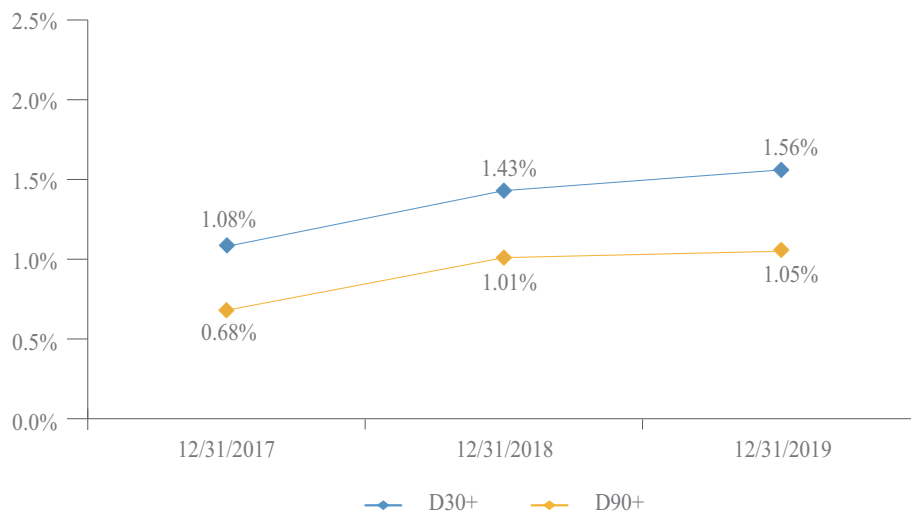
OUR BUSINESS

Consumer Credit Performance Metrics

Our approach is not to take credit risk ourselves. However, the asset quality of the loans enabled through our platform is an important metric for our partner financial institutions. Favorable asset quality of loans enabled through our platform and underwritten by our partner financial institutions demonstrate the strength of our decisioning, risk management, and monitoring solutions.

The following chart illustrates the delinquency rate by balance of consumer credit enabled through our platform as of December 31, 2017, 2018 and 2019.

Delinquency Rate by Balance (2017-2019)



Note: Delinquency rate by balance is defined as (i) outstanding principal balance of loans that were over 30 or 90 calendar days past due (excluding loans that are written-off) divided by (ii) total outstanding principal balance of the loans (excluding loans that are written-off) enabled through our platform as of a specific date.

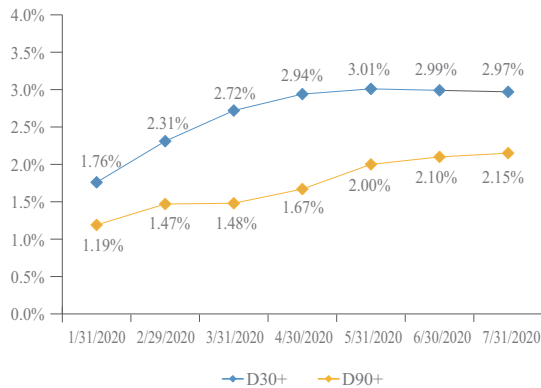
In addition to delinquency rate by balance, we also use delinquency rate by vintage to monitor the performance of consumer credit balance enabled through our platform. The M1+ delinquency rate by vintage of consumer credit balance enabled through our platform in each of 2017, 2018 and 2019 was less than 0.5%.

The creditworthiness of consumer borrowers and effectiveness of our intelligent decisioning and dynamic risk management systems are evidenced by the performance of consumer credit enabled through our platform during the COVID-19 pandemic. The following charts illustrate (i) delinquency rate by balance of consumer credit enabled through our platform as of the end of each of the first seven months of 2020, and (ii) M1+ delinquency rate by vintage of consumer credit enabled through our platform in each of the first five months of 2020.

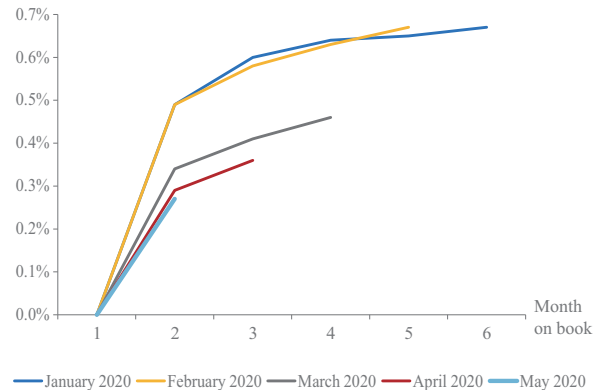
Despite the negative impact of the COVID-19 pandemic, the M1+ delinquency rate by vintage in each of the first five months of 2020 was less than 0.7% and has shown improvement since February 2020.

OUR BUSINESS

Delinquency Rate by Balance⁽¹⁾



M1+ Delinquency Rate by Vintage⁽²⁾



Notes:

1. Delinquency rate by balance is defined as (i) outstanding principal balance of loans that were over 30 or 90 calendar days past due (excluding loans that are written-off) divided by (ii) total outstanding principal balance of the loans (excluding loans that are written-off) enabled through our platform as of a specific date.
2. M1+ delinquency rate by vintage is defined as (i) the total amount of principal for all loans in a vintage that become over one month overdue, less the total amount of recovered past due principal for all loans in the same vintage, and divided by (ii) the total initial principal amount of loans in such vintage.

CreditTech for SMB Credit

Since 2010, our data-driven approach to identifying and meeting the financing needs of small businesses and small business owners has substantially expanded the availability of credit for these businesses.

We develop deep insights on small businesses based on online and offline payments transactions, business cash flows and other sources. We focus on meeting the financing needs of various customer segments, including Taobao and Tmall merchants, offline merchants who use Alipay, and rural micro-enterprises.

Small businesses have access to inclusive, flexible financing solutions on our platform which are unsecured and feature small amounts, flexible terms, affordable rates, and instantaneous drawdown. We enable these financing solutions together with our partner financial institutions through our dynamic assessment.

As of June 30, 2020, tenors for SMB credit enabled through our platform and our partner financial institutions are up to 12 months, and outstanding balances can be prepaid at any time without penalty. In the twelve months ended June 30, 2020, the daily interest rate for the majority of small businesses was approximately at or below 0.03%, and can be as low as 0.01%. During the same period, the average tenor of the SMB credit which has been repaid in full was less than three months. As such, the interest costs are relatively low. During the twelve months ended June 30, 2020, we enabled credit balances for over 20 million small businesses with our SMB CreditTech services.

OUR BUSINESS

Our rich customer insights allow us and our partner financial institutions to proactively adjust financing solutions for our small business customers to account for changes in the user profile and macroeconomic and industry conditions.

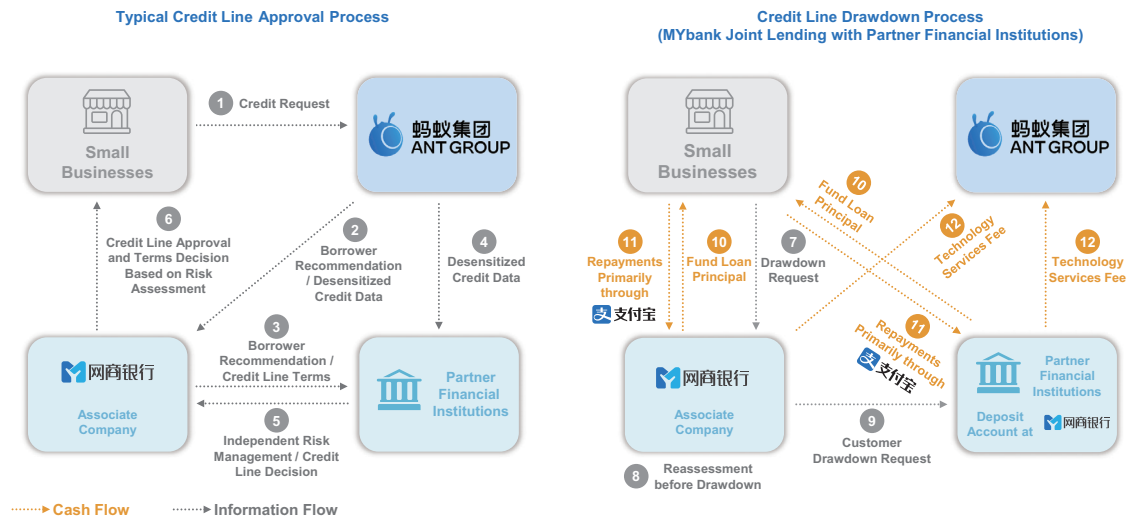
SMB Credit Risk Management

MYbank is our most important partner in serving small businesses. We are a key founding shareholder of MYbank in which we hold a 30% equity interest.

We serve small businesses on our platform together with MYbank. We provide MYbank with customer reach and insights as well as technology, which empowers MYbank to develop a risk management system to conduct its own independent credit and risk assessments. MYbank has accumulated deep expertise in the analysis, evaluation, approval and disbursement of SMB credit, which enables MYbank to effectively assess risk and price credit products for small businesses without human intervention.

Together with MYbank, we openly collaborate with third-party partner financial institutions by utilizing our technology, enabling them to build automated and streamlined credit decisioning processes with independent credit and risk assessments.

We leverage our technology to automate and streamline the credit process for small businesses and partner financial institutions as illustrated below.

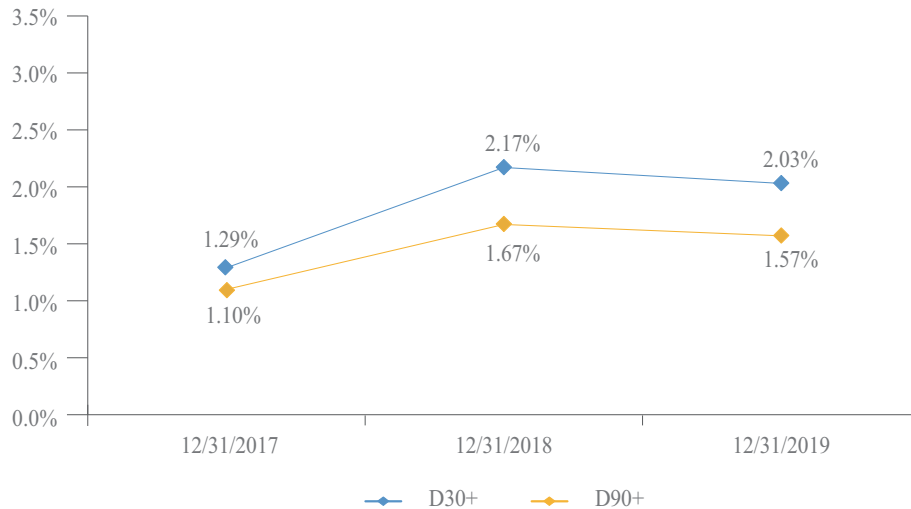


OUR BUSINESS

SMB Credit Performance Metrics

The following chart illustrates the delinquency rate by balance of SMB credit enabled through our platform as of December 31, 2017, 2018 and 2019.

Delinquency Rate by Balance (2017-2019)



Note: Delinquency rate by balance is defined as (i) outstanding principal balance of loans that were over 30 or 90 calendar days past due (excluding collateralized loans and loans that are written-off) divided by (ii) total outstanding principal balance of the loans (excluding collateralized loans and loans that are written-off) enabled through our platform as of a specific date.

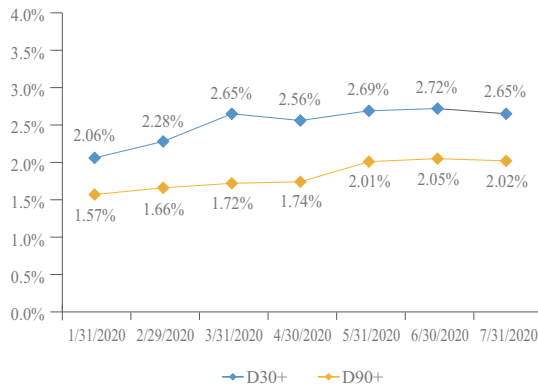
In addition to delinquency rate by balance, we also use delinquency rate by vintage to monitor the performance of SMB credit balance enabled through our platform. The M1+ delinquency rate by vintage of SMB credit balance enabled through our platform in each of 2017, 2018 and 2019 was less than 0.7%.

The creditworthiness of small business borrowers and effectiveness of our decisioning and risk management systems are evidenced by the performance of SMB credit enabled through our platform during the COVID-19 pandemic. The following charts illustrate (i) delinquency rate by balance of SMB credit enabled through our platform as of the end of each of the first seven months of 2020, and (ii) M1+ delinquency rate by vintage of SMB credit enabled through our platform in each of the first five months of 2020.

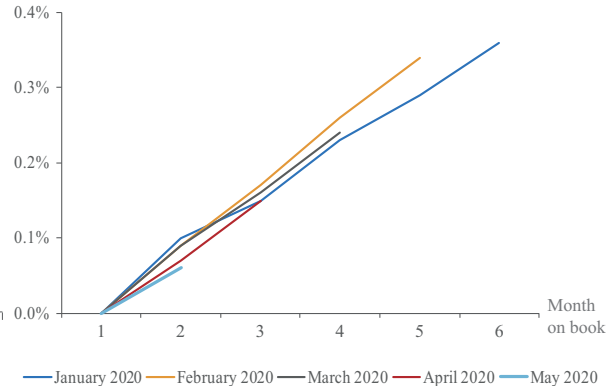
Despite the negative impact of the COVID-19 pandemic, the M1+ delinquency rate by vintage for SMB credit in each of the first five months of 2020 was less than 0.4%.

OUR BUSINESS

Delinquency Rate by Balance⁽¹⁾



M1+ Delinquency Rate by Vintage⁽²⁾



Notes:

1. Delinquency rate by balance is defined as (i) outstanding principal balance of loans that were over 30 or 90 calendar days past due (excluding collateralized loans and loans that are written-off) divided by (ii) total outstanding principal balance of the loans (excluding collateralized loans and loans that are written-off) enabled through our platform as of a specific date.
2. M1+ delinquency rate by vintage is defined as (i) the total amount of principal for loans in a vintage (excluding collateralized loans) that become over one month delinquent, less the total amount of recovered past due principal for all loans in the same vintage, and divided by (ii) the total initial principal amount of loans in such vintage (excluding collateralized loans).

InvestmentTech

Historically, Chinese households invested most of their household savings in bank deposits and property, and many families had limited allocation of wealth outside these two asset classes. In 2013, we identified an opportunity to allow consumers to generate yield on their Alipay account balances. We created Yu’eobao, an innovative product that offers a simple and easy way for consumers to earn a return while allowing the funds to be instantly available for everyday purchases. Today, Yu’eobao remains the first financial investment product for many consumers and is the largest money market fund product in China.

Chinese consumers are steadily growing their investible wealth and seeking more sophisticated investment options. Spurred by the development of the capital markets in China, a large and diverse range of investment products have become available. However, consumers often find it difficult to navigate product diversity and gain access to high quality opportunities. Consumers need education, product transparency and risk evaluation tools that are easily accessible. We address these unmet needs by providing customers access to a broad range of alternative options that have low investment thresholds, are easy-to-understand and are appropriately matched by our AI-powered selection engine. During the twelve month period ended June 30, 2020, over 500 million users invested through our InvestmentTech services.

We partnered with approximately 170 asset managers, including the vast majority of mutual fund companies as well as leading insurers, banks and securities companies in China, enabling them to offer more than 6,000 products through our platform, as of June 30, 2020. Our InvestmentTech comprise our customer reach, intelligent decisioning system, screening, suitability analysis and technology. Our partner asset managers pay us technology service fees linked to the AUM enabled through our platform.

OUR BUSINESS

According to Oliver Wyman, we were the largest online investment platform in China in terms of AUM enabled, which totaled RMB4,099 billion as of June 30, 2020.

Investment Products

Yu’ebao (餘額寶) and Yulibao (餘利寶)

In 2013, after operating our digital payments business for 10 years, we had accumulated a massive consumer base who used Alipay for consumption scenarios such as shopping on Taobao. We launched Yu’ebao, which allowed Alipay users, for the first time, to earn yield on their money in Alipay app through money market funds. We designed Yu’ebao with an innovative instant redemption feature, enabling consumers to pay with their Yu’ebao account instantaneously or redeem funds on the same day. The minimum investment threshold of RMB1.00 ensured the widest inclusion of users. Yu’ebao re-defined the standard for digital investment services: simple, convenient, accessible, transparent, anytime, anywhere, anyone.

We initially managed the money market fund via our licensed asset management subsidiary, Tianhong. As Yu’ebao grew, we started to allow third-party mutual fund companies to offer money market funds through Yu’ebao in May 2018. Today, Tianhong is the largest mutual fund company in China by AUM. As of June 30, 2020, 24 third-party mutual fund companies offered money market funds on Yu’ebao.

Yu’ebao has contributed to our deeper relationships with users, more engagement on the Alipay app and higher payments volume in the ecosystem.

We also provide Yulibao, a one-stop investment management product for small businesses, through our subsidiary Tianhong and through partnership with third-party mutual fund companies. Yulibao features a low investment threshold, as well as free fund transfer and speedy deposit and withdrawal process, enabling highly liquid real-time investment and redemption. Small businesses can automatically transfer balances into money market funds on a daily basis to earn a yield.

Dalicaï (大理財)

Dalicaï, meaning “broad investment management products” in Chinese, is a marketplace that meets increasing demands for diversified investment products with different risk and return profiles beyond money market funds. We partner with the vast majority of mutual fund companies as well as with leading insurers and banks in China to provide over 6,000 *Dalicaï* investment products across (i) fixed income, equity and balanced mutual funds; (ii) fixed term products, (iii) bank time deposits, and others. Our *Dalicaï* product providers include mutual fund companies, securities companies, insurance companies, banks and other licensed financial institutions.

The contribution of *Dalicaï* products to total AUM has been increasing as we educate our users and expand our product offerings.

OUR BUSINESS

Services for Partner Asset Managers

We leverage our customer insights and massive user base to enable our partner asset managers to distribute simple, low investment threshold and easy-to-understand investment products to our customers.



Investment Products Screening

We strive to ensure that our platform offers quality and suitable investment products. We use a set of criteria to evaluate our partner asset managers and their products before granting access to our platform. We then conduct regular assessments to ensure that products are compliant with our rules and standards. Criteria for investment fund assessment typically include (i) investment strategy, (ii) risk level, (iii) tenor, and (iv) performance track record. Additionally, our industry experts often conduct interviews with fund managers in order to better understand their investment style and product objectives.

Investment Products Suitability

In order to present suitable products that fit consumers’ risk profile and to maximize asset manager effectiveness on our platform, we evaluate each consumer’s risk preference at least on an annual basis. We construct a consumer’s risk profile based on transaction data on our platform as well as the consumer’s inputs. If a consumer is in the process of purchasing investment products where the risk level exceeds the consumer’s risk appetite, our platform would notify the consumer about the potential investment risks before the consumer is able to purchase such products.

Marketing and Communication

We help our partner asset managers to reach consumers efficiently. We provide a variety of technology solutions to our partner asset managers including marketing tools and investor communication services. In 2017, we launched Caifuhao (财富号), a cost-effective channel for our partner asset managers to directly engage with customers and provide value-added services such as investor education and customized investment services. A majority of our partner asset managers have set up Caifuhao corporate accounts on our platform. With the support of Caifuhao’s AI-powered services including operational optimization, content generation, compliance and risk management, our partner asset managers have been able to increase their operational efficiency while reducing their costs.

OUR BUSINESS

AI-Powered Investment Advisory Services

Understanding our users’ investment needs is critical to the success of the platform and partner asset managers who distribute products. To achieve this, we leverage our unparalleled customer insights as well as the information consumers provide us regarding their financial standing, objectives and risk tolerances. To facilitate the growth of investments through our platform, we have developed intelligent decisioning solutions to streamline and optimize the matching of products with investors. We leverage AI and data analytics to provide personalized investment advisory services through Investment AI Assistant (支小寶), which allows consumers to learn about investment topics, receive investment advice, investment products and market information from asset managers, and makes investment recommendations. We have also recently launched services in collaboration with leading financial institutions and investment advisors to provide financial education content and investment advisory services. As customers gain more experience in investing, we provide additional advisory services and more sophisticated offerings.

Once an investment decision has been made, customers are able to seamlessly purchase and redeem investment products from our partner asset managers with a tap on the screen using our Alipay app. Consumers can monitor the performance of their investment portfolio, and the virtual assistant may provide new recommendations on investment allocation and optimization of risk and return. Upon maturity of an investment product, the virtual assistant will send a reminder and recommend investment products that are suitable for the consumer.

In April 2020, we launched Bangnitou (幫你投), a discretionary investment advisory service, to consumers through our joint venture with Vanguard, one of the world’s largest investment management companies. Bangnitou provides customized advisory services for investors based on their investment objectives, time horizon, and risk preferences, with minimum investments as low as RMB800. Bangnitou applies AI-powered algorithms that invest and dynamically reallocate investment portfolios selected from over 6,000 mutual funds for a service fee, bringing investment solutions that are often only available to the high-net-worth investor segment to the massive investor base on our platform. In the first 100 days since launch, Bangnitou attracted approximately 200,000 new customers who collectively invested RMB2.2 billion.

InsureTech

We believe there is a significant opportunity in the insurance industry, which is underdeveloped in China. In 2019, insurance penetration in China was 4%, which is lower than the 11% in the United States in the same year, according to Oliver Wyman.

There is also an opportunity to use technology to innovate new products, including scenario-based products. As the needs of Chinese consumers continue to evolve with age and growing wealth, demand for life, health and P&C insurance products will grow rapidly. Moreover, the ongoing digitalization of the economy presents transformative opportunities in the insurance industry as any risk-bearing activity may be insured against provided there is sufficient high-quality data.

OUR BUSINESS

We typically educate consumers on our platform and raise their awareness of insurance needs before recommending relevant insurance products to them. Our InsureTech services enable our partner insurers to provide innovative insurance products characterized by convenient access, low minimum policy size, transparency, competitive pricing and superior user experience including claims processing. Through our platform, consumers can access more than 2,000 products encompassing life, health and P&C insurance as well as Xianghubao, our mutual aid program. In the twelve months ended June 30, 2020, over 570 million Alipay users purchased insurance or were insured on our platform, or participated in Xianghubao mutual aid program.

Our massive scale and customer insights have enabled us to develop, or co-develop with partner insurers, innovative insurance products and a mutual aid program that have been used by hundreds of millions of customers. For example, we have introduced scenario-based shipping return insurance to consumers and merchants for online transactions, Xianghubao, a mutual aid program, Haoyibao, a health insurance product, and Quanminbao, a pension annuity product. These innovations are designed as inclusive insurance products to meet the needs of a massive number of consumers and small businesses, many of whom have never been insured before.

As of June 30, 2020, we worked with approximately 90 partner insurance institutions in China. Our InsureTech consists of product innovation and design, customer education and acquisition, distribution, intelligent decisioning and risk management solutions. Our partners pay us a technology service fee based on a percentage of the insurance premiums enabled through our platform, or a percentage of the contribution paid by the participants, in the case of mutual aid program.

We were the largest online insurance services platform in China in terms of insurance premiums enabled through our platform in 2019, according to Oliver Wyman. We enabled RMB52 billion in insurance premiums and contributions through our platform for the twelve months ended June 30, 2020.

Insurance Products and Mutual Aid Program

Life Insurance

Life insurance products on our platform consist of term life, whole life, annuity and endowment insurance products.

In August 2018, we launched Quanminbao in collaboration with PICC Life, a leading life insurance company in China. Quanminbao is an inclusive, flexible and easy-to-understand pension annuity insurance product with premiums as low as RMB1. Quanminbao has brought affordable pension annuity insurance coverage to the mass population in China, particularly for those with low income. Compared to annuity insurance products which typically have fixed terms and higher minimum premiums, Quanminbao features a flexible investment schedule and premiums amount. Once policyholders have reached retirement, they can conveniently receive payments from the Alipay app on a monthly basis.

The Quanminbao product page displays the expected cash payout in real-time once a consumer has input the desired investment amount and frequency. Such features enable consumers to easily understand the characteristics of pension insurance products, which lowers the hurdle for decision-making and results in increased number of purchases, as well as a growing number of partners offering the product.

OUR BUSINESS

As Quanminbao grew in popularity, we have started to collaborate with additional partner insurers to offer this product.

Health Insurance and Mutual Aid Program

Through InsureTech, we offer a variety of short-term and long-term medical and critical illness insurance products and Xianghubao, our mutual aid program.

Given the relative complexity of health insurance, we strive to make products easy-to-understand. For example, we offer Alipay users free health protection of up to RMB20,000 through Jiankangjin (健康金), which can be used for outpatient reimbursement and other medical needs. Jiankangjin features a simple and intuitive claim process where consumers only need to scan a copy of their claim form into the Alipay app for reimbursement. This has served as an effective tool to educate customers about the benefits of insurance, and helps encourage them to explore more insurance coverage for different needs on our platform.

As consumers become more aware of their insurance needs, they may look for longer term health coverage. We designed Haoyibao — Long-Term Medical Insurance (好醫保 • 長期醫療) as an affordable and easily accessible health insurance product covering nearly 100 critical illnesses. The minimum premiums of Haoyibao — Long-Term Medical Insurance is lower than comparable products in the market. This incentivized younger generations to purchase health insurance, many for the first time in their lives.

In May 2020, our platform launched Haoyibao — Lifetime Cancer Protection (好醫保 • 終身防癌醫療) in collaboration with PICC Health and China Life Reinsurance. The product is available to consumers aged under 70, and is accessible to those with certain pre-existing conditions such as hypertension and diabetes. Haoyibao — Lifetime Cancer Protection is also the first health insurance product in China that is guaranteed to be renewable for the lifetime of the policyholder, even if policyholders have been diagnosed with cancer. The annual premiums for policyholders can be as low as RMB89, with maximum payouts of up to RMB4 million.

Xianghubao (相互寶)

Launched in October 2018, Xianghubao is a mutual aid program that provides its participants with health protection against over 100 types of critical illnesses. Xianghubao has lowered the threshold of critical illness protection, making it more accessible to consumers. Xianghubao offers a maximum one-time payout of RMB300,000 for each successful claim for participants in the one month old to 39 years old age group, and RMB100,000 for participants in the 40 to 59 years old age group. It covers critical illnesses such as lung, breast and thyroid cancer and brain injuries.

Xianghubao does not require any upfront payments for joining. When a participant makes a claim, supporting evidence is submitted via the Alipay app for investigation and review. If the claim is approved, the participant will receive a one-time payout, the cost of which is shared equally by all other participants. In 2019, the average annual contribution made by each Xianghubao participant to cover claims was RMB29.

OUR BUSINESS

Since its introduction, Xianghubao has quickly gained traction and had over 100 million active members as of June 30, 2020. In addition to extending health protection for its participants, Xianghubao has increased consumers’ insurance awareness and willingness to purchase health insurance products. Many Xianghubao participants have also purchased Haoyibao health insurance products.

P&C Insurance

P&C insurance products on our platform include auto insurance, accident insurance and other products as well as various innovative scenario-based insurance products.

We have innovated scenario-based insurance products, including those embedded in Alibaba’s e-commerce marketplaces. We have designed our scenario-based insurance products based on the unique characteristics of e-commerce transactions, i.e. low-ticket size with high frequency.

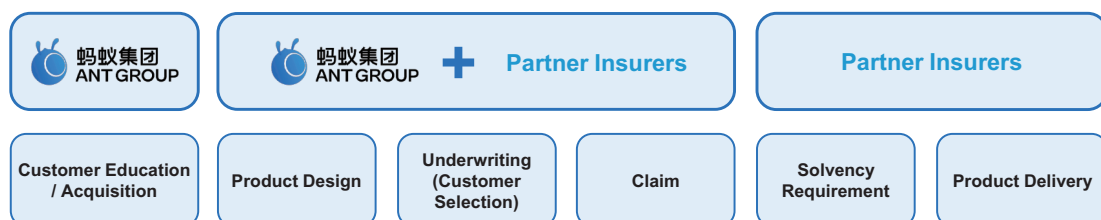
In 2010, we launched shipping return insurance on Taobao, which was the first scenario-based online insurance product in China. This innovative and low-cost insurance product covers the purchaser’s shipping cost for returning products purchased on Alibaba’s marketplaces. The premiums of shipping return insurance is typically less than RMB1 per policy, and we determine the premiums based on various factors including the nature of the merchant’s business. Shipping return insurance has alleviated consumers’ concerns about returning purchased items, which has led to a better shopping experience and ultimately increased transaction volume on Alibaba’s marketplaces.

Leveraging our strong technology capabilities, we are able to co-develop innovative insurance products together with our partner insurance institutions to address the needs of consumers and businesses under varying economic conditions. For example, during the COVID-19 outbreak, we offered business interruption insurance coverage at no cost, with a maximum daily payout of RMB800 for 14 consecutive days to offline merchants that employ no more than 20 people, under a policy duration of 60 days. Since launch, more than 50,000 small businesses have signed up for our business interruption insurance via the Alipay app. This offering helped to raise awareness among small business owners of the benefits of insurance.

Services for Partner Insurers

Leveraging our deep customer insights, risk management solutions and technology, we enable our partner insurers to (i) acquire customers at scale and at low cost, (ii) co-innovative products with us, (iii) improve underwriting capabilities through enhanced customer selection and pricing, and (iv) improve claims management through service automation and fraud detection systems.

A minority of P&C insurance products, based on premium amount, on our platform are underwritten by Cathay Insurance, our licensed P&C insurance subsidiary.



OUR BUSINESS

Technology Services

Customer Education and Acquisition

We provide our partner insurers with an effective and more cost-efficient customer acquisition channel, enabling them to meaningfully decrease expense ratio and serve customers whom they were not able to serve before. Leveraging our intelligent decisioning systems, we identify customer needs under different scenarios and create tailored insurance solutions together with our partner insurers.

We have made product education an important part of our platform in order to promote insurance products efficiently. We provide simple, easy-to-understand, and multi-media education tools so customers can make informed decisions. In addition, our popular Xianghubao mutual aid program and free Jiankangjin service have significantly enhanced insurance awareness and knowledge among our consumer user base.

Underwriting

We leverage our in-depth customer insights including demographic trends to enable our partner insurers to strengthen underwriting capabilities and serve more customers. Our intelligent underwriting tools enable partner insurers to achieve a better balance between customer selection and underwriting risks.

Claims

We offer innovative technology tools to help our partner insurers reduce claim expense. For example, for a health insurance policyholder who has made claims by scanning and uploading medical records, we leverage the insights gained from the vast number of claims and use Optical Character Recognition and Natural Language Processing technology, to assess the authenticity of the scanned medical records quickly and accurately. Our Natural Language Processing tools can help analyze and interpret textual information in medical records to detect fabricated information. Through these highly automated processes, we have enabled our partner insurers to effectively detect fraudulent claims and meaningfully lower their operating expenses given the reduced manual work required.

Innovation Initiatives

We provide innovative technology services to various businesses and partners, including blockchain and database services.

AntChain, our blockchain business, is a leader in blockchain technology. We ranked first in terms of the number of published blockchain-related patent applications from 2017 to the six months ended June 30, 2020, according to IPR Daily and patent database IncoPat. We are also a leader in the commercial application of blockchain. Since we launched AntChain in 2016, we have pioneered over 50 blockchain commercial applications and use cases including supply chain finance, cross-border remittances, charitable donations and product provenance.

OUR BUSINESS

Our BaaS supports diverse real-world applications on the blockchain. This service can be deployed quickly at low cost, and customizable based on customers’ needs. Our blockchain service features high performance, high reliability and fault tolerance. Through dynamic encryption/decryption authorization and zero-knowledge proof, our BaaS platform provides high privacy protection in the blockchain layer and enables enterprise identity and real-name authentication in the BaaS service layer, and intelligence risk management services.

Our AntChain platform consists of three layers including (i) the underlying Blockchain-as-a-Service open platform, (ii) digitalization of assets, and (iii) circulation of digitalized assets. By enabling businesses to digitalize their assets and transactions, we establish trust in multi-party collaborations. Our AntChain platform generated over 100 million daily active items such as patents, vouchers, and warehouse receipts, for the twelve months ended June 30, 2020.

Case Study 1: Blockchain-Powered Supply Chain Financing

We provide blockchain-powered supply chain financing solutions to small suppliers by collaborating with leading commercial banks in China. By creating digital records of accounts receivables through our blockchain platform, banks are able to easily trace the accounts receivables of small suppliers to verify the authenticity. This significantly improves the level of trust and transparency in the supply chain financing process, which enables small suppliers, especially those who supply large and reputable enterprises, to obtain loans from banks more easily. Meanwhile, banks who collaborate with us can reduce unnecessary administrative costs and effectively reduce credit risk.

Case study 2: Empowering Small IT Equipment Leasing Companies

We leverage our blockchain technology to make it easier and more cost-effective for small IT leasing companies in China to purchase and lease IT equipment, such as laptops and printers. Firstly, we help digitalize the leasing contracts through our AntChain platform with transparency and easy traceability. This significantly increases the level of trust among all participants in the leasing process, resulting in greater leasing volume as well as an improvement in repayment. Additionally, financial institutions such as banks are more willing to provide loans to these leasing companies due to increased transparency of the leasing processes and contracts, which has enabled them to access low-cost funding and further expand their operations and better serve their small business customers. Furthermore, we are able to aggregate IT equipment purchase orders across small IT leasing companies on our AntChain platform, allowing them to make group purchases at an attractive discount.

Our Technology

Technology is key to our success and underpins our inclusive ecosystem. We have established a robust and scalable digital infrastructure to better serve our consumers, businesses and partners. Our industry leading technology enables us to build trust in our platform, manage risks and innovate new products and services.

Our key technology capabilities include AI, risk management, security, blockchain, as well as computing and technology infrastructure. These capabilities allow us to serve billions of consumers and millions of small businesses, while empowering our partners to provide more efficient solutions.

OUR BUSINESS

Artificial Intelligence

We have been investing in key fields within AI, with a focus on machine learning, natural language processing, man-machine interaction, secure collaborative intelligence, and time-series graph intelligence. We integrate AI technology with various business processes to develop effective tools that allow us to continuously increase the value we bring to our ecosystem and to improve our operating efficiency.

By leveraging a wealth of consumer and merchant insights, we are able to develop accurate customer profiles by analyzing consumers’ traits as well as merchants’ characteristics. These customer profiles enable us to drive our intelligent decisioning systems, intelligent risk detection, intelligent investment advisory, scenario-based insurance innovations as well as provide them with tailored services.

Risk Management

Our risk management systems leverage advanced big data analytics, innovative proprietary algorithms, along with Alibaba Group’s risk management expertise, to enable us to effectively detect, manage, and control risks.

AlphaRisk is our AI-powered risk engine designed to promote a safe and trusted platform for consumers, merchants and financial institutions to conduct transactions. AlphaRisk is built on our advanced risk computing infrastructure, capable of managing complex risk scenarios in real-time through self-learning and model auto-refit.

With no human intervention, AlphaRisk automatically analyzes fraud attempts and makes quick decisions on countermeasures. Backed by AlphaRisk, we were able to keep our payment fraud loss rate under 0.0006 bps for the twelve months ended June 30, 2020, which was the lowest payment fraud loss rate among digital payments providers whose total payment volume exceeded US\$500 billion in 2019, according to iResearch.

Security

We are committed to maintaining a trusted platform for consumers and businesses. Our aspect-oriented security framework builds security capabilities into our technology infrastructure, products and services in a systematic way. This framework can support independent, efficient and accurate response to malicious attacks. Our security system also supports the deployment of cloud native applications in a cost-efficient manner.

Blockchain

We are dedicated to the development of blockchain technologies, in order to establish digital infrastructure for transactions with enhanced transparency and trust. Leveraging our blockchain technology, we aim to promote the connectivity and productivity of various industries through increasing on-chain assets circulation. We have patented and scaled up the use of consensus algorithm, smart contract, multi-party computing and other blockchain based technologies within different use cases. Leveraging these advanced technologies, we have built several blockchain based platforms such as our BaaS platform and supply chain collaboration network.

OUR BUSINESS

Computing and Technology Infrastructure

Our computing infrastructure is characterized by high levels of availability and disaster tolerance, high-concurrency transactions, real-time security control, and efficiency.

We developed a collection of middleware components called SOFAShield (Scalable Open Financial Architecture Stack) to build financial-grade distributed architecture with high performance and reliability. Its resilience is proven during periods of peak volumes, such as the 11.11 global shopping festival in previous years. SOFAShield provides multi-site high availability and supports a vast number of concurrent financial-grade transactions, while improving operating efficiency with our proprietary cloud native technology such as Service Mesh.

We developed a distributed relational database management system, OceanBase, to support the growing volume of transactions on the Alipay platform. OceanBase is highly reliable, scalable and cost-efficient. During the 11.11 global shopping festival in 2019, OceanBase handled a peak of more than 60 million processes per second.

Data Protection and Privacy

As our business depends on the trust in us and our platform, we are committed to protecting our customers’ personal data.

Our data protection and privacy policies are focused on ensuring that: (i) our collection of personal data is conducted in accordance with applicable laws and regulations, (ii) personal data we collect are reasonable for the purposes for which they are collected and (iii) our users are informed of the purposes for which their personal data are collected and used and their rights with respect to such data.

We maintain strict control over access to personal data and strict assessment and approval procedures to prohibit invalid or illegitimate uses. We limit any access based on necessity and maintain records of data access. Our policies require new products and services that involve access to or processing of personal data to be subject to assessment and approval procedures. We store personal data in accordance with applicable laws and regulations.

We collect, process and analyze data generated from activity of the participants in our ecosystem. We collect and use personal data for the stated purpose as authorized by the user, in connection with compliance and risk management and as otherwise required by applicable laws and regulations.

We use various encryption technologies at software and hardware levels to protect the transmission and storage of personal data. We conduct periodic testing and assessment to determine the efficiency of our data processing and management technologies. We also use anti-malware, endpoint protection, network protection, security monitoring and application and platform security tools to protect data privacy. To minimize the risk of data loss or leakage, we maintain contingency, redundancy and conduct regular data backup and data recovery tests. To further strengthen the protection of our data, we leverage our technology infrastructure, including our AntChain technologies, cybersecurity expertise and the OceanBase proprietary database technology. We use these proprietary technologies to enhance the reliability, stability and security of our database.

OUR BUSINESS

We have entered into a Data Sharing Agreement with Alibaba with a renewed term of a total of 50 years. The Data Sharing Agreement provides for a governance framework regulating the sharing, access to and use of the data and the data of Alibaba and Alibaba’s controlled and certain other affiliates, subject to compliance with applicable laws and regulations. See “Connected Transactions — Data Sharing Agreement.”

Sharing of data between us and Alibaba is subject to assessment and approval by our and Alibaba’s respective data protection and privacy teams, as well as relevant business and compliance teams. This assessment includes an evaluation of the purpose of the sharing, the legal basis for the sharing (such as the authorization of the user), the sensitivity of the data to be shared, the applicability of safeguards (such as data transfer agreements) and whether the sharing would otherwise be in accordance with applicable law and regulations.

We are subject to various laws and regulations relating to data protection and privacy, and the collection and use of personal and behavioral data in China and the other jurisdictions in which we operate. See “Regulation.”

As a result of our efforts, our PRC Legal Advisors are of the view that we are in compliance with the applicable PRC laws and regulations relating to the collection, use, disclosure or security of personal data in all material respects.

Risk Management and Internal Control

We have established comprehensive risk management and internal control systems consisting of policies and procedures that we consider to be appropriate for our business operations.

Risk Management Framework

Our overall risk management framework and strategies are set out by the Ant Group Risk Management Committee (“Ant Group RMC”), which is headed by our Executive Chairman and our CEO, and comprises other senior members of our management team across a range of functional departments, including enterprise risk management, finance, security, legal, compliance and human resources. The responsibilities of the Ant Group RMC include providing oversight of the risk management framework, allocating risk management responsibilities, approving risk management strategies, assessing our overall risk exposures and approving responses to major risk events.

The risk management framework defines our overall risk approach, identifies the principal risks we face as an organization and provides direction to our employees to manage these risks. The implementation of the risk management framework is delegated to our senior management, business units and functional departments, and involves multiple layers of monitoring and supervision. We refer to this implementation model as the “Three Lines of Defense”:

- ***First line of defense*** — Operational management of each of our business units and functional departments are responsible for directly assessing, controlling and mitigating risks in their respective business areas. The primary responsibility for designing and implementing internal control policies lies with the respective business units and functional departments;

OUR BUSINESS

- ***Second line of defense*** — Our enterprise risk management team is responsible for monitoring and inspecting risk management practices, and assisting with risk reporting to Ant Group RMC. The enterprise risk management team assists business units and functional departments in implementing internal control policies across our organization; and
- ***Third line of defense*** — Our internal audit department is responsible for independently assessing the effectiveness of our risk management protocols, internal control and corporate governance, and recommending remediation actions to any deficiencies identified. In addition, our independent anti-bribery and corruption team works together with internal control, internal audit and other risk management teams to provide training and ongoing integrity supervision pertaining to anti-bribery and corruption matters.

All of these measures are designed to ensure we effectively implement risk management policies with respect to various aspects of our business operations. The Ant Group RMC, our enterprise risk management team, internal audit department and senior management together monitor the implementation of our risk management on an ongoing basis to ensure our policies and implementation are effective and sufficient.

Information System Risk Management

We have established comprehensive systems and policies to ensure the integrity of our data and data systems. See “— Our Technology” and “— Data Protection and Privacy” for further details.

Partner Financial Institutions Risk Management

We have established comprehensive systems and policies to manage risks together with our partner financial institutions. Through a combination of automated systems and manual checks, our Financial Institutions Risk Management Team regularly monitors our collaboration with partner financial institutions to ensure our partners maintain effective service levels.

Prior to forming a business relationship, we thoroughly assess the financial institution’s suitability across a range of objective metrics. Once a business relationship is formed, we establish risk measures specific to the nature of each respective business relationship, which we then monitor on an ongoing basis. We further enhance our risk analysis by leveraging proprietary technology to evaluate the potential impact of external factors and events.

In addition to ongoing monitoring, we conduct annual reviews on all of our partner financial institutions and adjust our risk management policies based on external factors and market developments.

Anti-money Laundering and Counter-terrorism Financing Risk Management

To ensure our day-to-day operations comply with applicable AML regulations in jurisdictions where we operate, we have put in place comprehensive AML policies and procedures.

OUR BUSINESS

The AML policies define the roles of the enterprise risk management team, AML Team, internal audit team and business units and functional departments in managing risks related to AML, counter-terrorism financing, financial crimes and sanctions compliance. Based on these policies, specific AML procedures are put in place, such as “know your customer” procedures, transaction monitoring, reporting of suspicious transactions, and record retention. We also leverage technology to improve the efficiency of the operation of AML procedures. For example, we have developed an intelligent AML system to monitor and identify suspicious transactions, and we apply blockchain technology to AML information management.

To ensure our employees are kept up-to-date with regulatory updates and our AML policies and procedures, we provide regular training to our employees who have AML responsibilities.

Internal Control Risk Management

To ensure strict compliance of our business operations with applicable rules and regulations, we have designed and adopted a set of comprehensive internal control policies. The implementation of such policies is overseen by our Internal Control Team, which is also responsible for (i) performing group-level risk assessments, (ii) providing advice on risk management practice, and (iii) establishing authorization and approval protocols.

To reinforce the control environment and ensure the effectiveness of internal control across our organization, our Internal Control Team works closely with our business units and functional departments (such as legal and compliance, finance, procurement and security) to monitor and improve the implementation of internal control processes in our day-to-day business operations.

We continually review our risk management policies and measures to ensure our policies and implementation are effective and sufficient.

Investments and Acquisitions Risk Management

We invest in or acquire businesses that are strategically complementary to our business and aligned with our own growth strategies. In order to protect our interests as shareholders and control the potential risks associated with our investments, we generally request for customary investor protection rights, which may include: (i) right to appoint directors, (ii) information rights, (iii) pre-emptive rights, (iv) right of first refusal, (v) tag-along rights, (vi) anti-dilution rights, (vii) veto rights on significant matters, (viii) liquidation preference; and (ix) redemption rights.

We have established a dedicated team of professionals for our investments and acquisitions, comprising the investment team, portfolio management team, investment finance team and investment legal team. These teams collaborate on investment projects and perform their respective functions, including deal sourcing, negotiations, due diligence and identification of potential risks, valuation, making investment recommendations and carrying out post-investment management.

Final investment decisions are subject to approval from our Board and shareholders as necessary in accordance with our articles of association and internal policies.

OUR BUSINESS

Financial Reporting Risk Management

We have established a set of accounting policies in connection with our financial reporting risk management, which covers budget management, treasury management, financial statements preparation and staff management. We have procedures and IT systems in place to facilitate the implementation of our accounting policies and review of our management accounts. We also provide regular training to our finance department employees to ensure that they are kept up-to-date with our financial management and accounting policies.

Business Contingency

To ensure the continuity of our business, we have put in place contingency plans for detecting and responding to emergency incidents. Our technology and business monitoring functions are responsible for detecting emergency incidents such as any irregular activities and external complaints. In the event of an emergency incident, our contingency plans set out prescribed response protocols applicable to our various business units. In addition, our combined operations center would conduct a comprehensive assessment upon the occurrence of an emergency incident, and if necessary, formulate any additional responses.

We continually assess the effectiveness of our contingency plans, and would perform reviews after each emergency incident to identify potential areas for improvement. We also conduct regular emergency response drills to ensure our employees are familiar with our response protocols.

Customer Service and Consumer Protection

Customer experience and satisfaction have always been deeply rooted in our mission and we are committed to delivering an exceptional level of service to our customers. Our dedicated team of customer service associates and contracted customer service staff provide 24/7 support through email, telephone, chat and social media. We also offer self-service tools and AI-powered automated customer service which can solve our customers’ problems more efficiently.

We have adopted a philosophy we refer to as “New Customer Service,” through which we revolutionized more passive, responsive customer service models to a decisioning technology and customer-centric model based on our customer insights. We use our customer insights to analyze customer service needs and reach out to customers to proactively address issues. The constant and automatic updates to our customer service knowledge base allow us to assess potential issues users may encounter in real time and send them precise service information even before users have contacted us for help.

Sales and Marketing

As Alipay is the largest commercial app according to iResearch, we enjoy wide consumer recognition of our brand and significant organic traffic through word-of-mouth. We believe the reputation and ubiquitous awareness of our brand and platform in China provide us with the most cost-efficient marketing channel. In addition, we also use other marketing initiatives to promote our platform and service offerings, including joint promotion with merchants.

OUR BUSINESS

We design our sales and marketing activities to expand coverage of users and merchants and strengthen user mindshare, engagement, service expansion and customer lifetime value by promoting multiple services. We often launch joint promotion efforts with our partners and others in our ecosystem to help them effectively reach and engage with customers by leveraging our customer insights, leading technologies, innovative services and operating experiences. This attracts additional participants and increases engagement in our ecosystem, while creating mutual benefits and enhancing the efficiency of our own sales and marketing activities. Promotional activities include various types of coupons, rewards, membership points or other benefits and incentives.

Customers and Suppliers

Our customers primarily include Alibaba, commercial banks, asset management companies, insurance companies and various merchants. In 2017, 2018, 2019 and the six months ended June 30, 2020, revenues from our top five customers accounted for 14.4%, 20.0%, 23.7% and 22.6% of our total revenues for the respective periods. Alibaba was our largest customer in each of 2017, 2018, 2019 and the six months ended June 30, 2020 and contributed to 8.9%, 9.2%, 8.1% and 6.2% of our revenues for the respective periods. MYbank, our associate, was our second largest customer in each of 2017, 2018, 2019 and the six months ended June 30, 2020 and contributed to 2.7%, 5.2%, 5.3% and 6.2% of our revenues for the respective periods.

In addition to Alibaba, our major suppliers are primarily commercial banks who charge us transaction fees. In 2017, 2018, 2019 and the six months ended June 30, 2020, our top five suppliers accounted for 39.1%, 22.9%, 32.0% and 35.3% of our purchases for the respective periods. In 2017, 2018, 2019 and the six months ended June 30, 2020, our largest supplier accounted for 15.1%, 5.5%, 9.7% and 8.2% of our purchases for the respective periods. Alibaba was our largest supplier in each of 2017, 2019 and the six months ended June 30, 2020. See “Connected Transactions” for further details about our transactions with Alibaba.

During the Track Record Period and up to the Latest Practicable Date, to the knowledge of our Directors, other than (i) Mr. Jack Ma, who owned an equity interest of approximately 4.8% in Alibaba as of July 2, 2020, (ii) Mr. Joe Tsai, who owned an equity interest of approximately 1.6% in Alibaba as of July 2, 2020, (iii) each of our other executive Directors, non-executive Directors and Supervisors who owned an insignificant number of shares of Alibaba and (iv) Mr. Fred Hu, who had an insignificant interest in Alibaba, none of our Directors and their respective associates or any of our Shareholders who held more than 5% of our issued share capital had any interest in our top five customers or suppliers.

Due to our comprehensive business cooperation and strategic relationship, Alibaba is both our major customer and major supplier. See “Financial Information — Material Related Party Transactions” for our transactions with the Alibaba Group during the Track Record Period. See “Relationship with Controlling Shareholders — Relationship with Alibaba” for further details about our cooperation with Alibaba. See “Connected Transactions” for the continuing arrangement with the Alibaba going forward. Please also see “Risk Factors — Risks Related to Our Business and Industry — If we cannot resolve any potential conflict between us and Alibaba in our favor, our business, financial condition, results of operations and prospects may be materially and adversely affected.”

OUR BUSINESS

Socially Responsible Mindset

At Ant Group, we believe acting in a socially responsible way is an integral part of our business model. Since our company was established in 2004, we have been highly committed to supporting and participating in charitable and socially responsible projects that align with our core values and mission, and to establishing inclusive technology and innovations to extend the benefits of our technological capabilities to the community at large.

Our major corporate social responsibility initiatives include:

Providing Digital Solutions to Fight the COVID-19 Pandemic

As a direct response to the COVID-19 pandemic, we developed digital solutions designed to mitigate the negative impact on consumers and businesses and assist in resumption to normal life. These solutions are provided as part of our daily life services through the Alipay app, and include services such as convenient access to real-time COVID-19 information and certification of COVID-19 test results.

We also collaborated with Alibaba Health Information Technology Limited to digitalize specific healthcare and medical services to ease the stress points induced by the COVID-19 pandemic, including online healthcare consultation, psychological counseling, and prescription drug management and delivery.

In addition, we worked with local governments to issue e-coupons via our Alipay app to stimulate domestic consumption. Leveraging our massive user base and customer reach, we distributed over RMB7 billion worth of e-coupons to consumer across 170 cities in China through our Alipay platform. These e-coupons can be used at offline stores and online platforms such as Ele.me and Koubei, which accept Alipay. As of the Latest Practicable Date, over RMB3.5 billion worth of e-coupons have been redeemed to facilitate domestic consumption of RMB28 billion.

Digitalization of Charity

We aim to leverage our technology and innovation to resolve social issues and create more inclusive social opportunities. In 2019, we launched the Alipay Foundation that focuses on environmental sustainability.

Alipay Charity Donation

In 2008, we launched Alipay Charity Donation as an online fundraising channel for those affected by 2008 Sichuan earthquake. In 2016, the Alipay Charity Donation became one of the first Internet funding platforms approved by the Ministry of Civil Affairs for charitable organizations. The Alipay Charity Donation utilizes blockchain technology to deliver greater transparency and efficiency for donations.

Ant Forest

In 2016, we launched Ant Forest, a tree planting mini-program in our Alipay app where our users can earn green energy points on Ant Forest through opting for low carbon lifestyle choices, such as renting shared bikes, recycling paper and plastics, and holding video conference meetings. Green energy points earned by our users can be spent to instruct us or a nonprofit organization to plant trees, conserve a certain area of land for biodiversity conservation or support poverty-stricken farmers by purchasing local produce from them.

OUR BUSINESS

In 2019, Ant Forest was awarded “2019 Champions of the Earth” award, the United Nations’ highest environmental award, and “2019 UN Global Climate Action Award”, for using digital technologies to scale up climate action. Since 2016, the Ant Forest initiative has helped the planting of over 200 million trees.

Ant Farm

In 2017, we launched Ant Farm, a donation mini program in our Alipay app. By using our digital payment services to make donations, our users compete with each other to earn points and raise virtual chickens on Ant Farm, which eventually lay virtual eggs that can be used to support charitable initiatives for women and children, among others.

Creating Job Opportunities and Promoting Equality

Since our establishment, our Alipay app has curated many mini programs that have created a wide range of job opportunities for people from various demographics. Since the COVID-19 outbreak, we have focused on assisting college graduates and migrant workers to find employment through our platform, and ease the adverse impact of COVID-19.

We assist and empower women through technology and innovation, providing them with opportunities in education, employment, and entrepreneurship. In July 2020, together with Alibaba, we launched the Cyber Mulan program with a five-year plan to enable 50 million women to achieve their technology dreams. Cyber Mulan initiatives include training one million managers with digital skills, facilitating RMB50 billion interest-free loans, providing 100 entrepreneurship opportunities, launching 100 digital education programs and creating 100,000 new jobs for women in technology small businesses. Various initiatives have been launched as part of the Cyber Mulan program, which includes:

- *Wind Rider Project:* In July 2019, Alipay Foundation, China Children and Teenagers’ Fund and China Youth Development Foundation jointly announced the Wind Rider Project, an initiative dedicated to supporting the long-term development of women’s football in rural China by providing funding, equipment, and training support.
- *A-Idol Initiative:* In August 2019, Alipay Foundation, Alibaba AI Labs and China Women’s Development Foundation jointly announced the A-Idol Initiative, with the goal to bring jobs related to the artificial intelligence development to rural areas in China, with a focus on prioritizing opportunities for women. This initiative provides participants with training courses and professional qualifications.

Supporting Poverty Relief and Rural Development in China

We are committed to contributing to China’s poverty relief initiatives. We apply digital technology to help farmers and rural small businesses better manage their production and operations. We also work with partner financial institutions to deliver inclusive finance services to local communities in remote mountainous areas to support economic development and revitalization.

OUR BUSINESS

In collaboration with MYbank, we work with several hundred local governments, including some in poverty-stricken areas, to provide rural households and small business with access to inclusive, sustainable financial services.

Competition

Our Alipay platform and Ant ecosystem are unique. We strive to create value for consumers, business and partner financial institutions by delivering the capabilities and offerings of our Alipay platform and ecosystem as a whole. Our leadership as a digital payment services provider and digital finance platform is the result of our holistic platform approach to serving our customers at different stages of their lives and business development, instead of growing each of our services individually.

While we believe our business model and platform is highly differentiated and there are no other companies that operate their businesses in the same way, our offerings must stay competitive so we can maintain and grow the number and engagement of consumers and merchants:

- *Consumers* — We compete to attract, engage and retain consumers based on the variety and value of digital payment and digital finance products available on our platforms, the overall user experience of our products and services and the security of our Alipay app and other services offerings.
- *Merchants* — We compete to attract and retain merchants based on the scale and the engagement of consumers on our platforms. In addition, we compete on the basis of the convenience, quality and the innovative nature of our products and services to merchants, which include payment and merchant services, credit products, insurance and investment options.
- *Talent* — We compete for motivated and capable talent, including technology and financial services talent.

As we develop new businesses and expand into new sectors and regions, we face competition from major players in these sectors and regions. In addition, as we expand our businesses and operations into an increasing number of international markets, we increasingly face competition from domestic and international players operating in these markets. See “Risk Factors — Risks Related to Our Business and Industry — If we are unable to compete effectively, our business, prospects, financial condition, results of operations and prospects would be materially and adversely affected.”

OUR BUSINESS

Environmental and Work Safety

We are not subject to significant health, work safety or environmental risks. To ensure compliance with applicable laws and regulations, from time to time, our human resources department would, if necessary and after consultation with our legal advisors, adjust our human resources policies to accommodate material changes to relevant labor and safety laws and regulations. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any material fines or other penalties due to non-compliance with health, safety or environmental regulations.

Employees

We had a total of 9,273, 12,717, 15,169 and 16,660 full-time employees as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. The increase in our employees was primarily due to rapid expansion of our business and operations. A substantial majority of our employees are based in China. As of June 30, 2020, 63.9% of our employees are primarily engaged in technology related work, and many of them have contributed to our innovation and research and development efforts. We believe that we have a good working relationship with our employees, and we have not experienced any significant labor disputes.

The following table sets forth a breakdown of our employees by function as of June 30, 2020.

Function	Number of Employees	Percentage of Total Number of Employees (%)
Technology	10,646	63.9
Business operation	1,878	11.3
Sales and marketing	2,276	13.7
Administration	1,860	11.2
Total	16,660	100.0

We offer in-house and external training to employees at all levels in accordance with their functions, positions and responsibilities. The training curriculum is designed by our central functions, and covers both soft skills and technical skills. Additional training is provided locally to satisfy specific country needs.

None of our employees are represented by a union or collective bargaining agreements. During the Track Record Period, we did not experience any strikes, work stoppages, labor disputes or actions which had a material adverse effect on our business and operations.

In the PRC, we are required to register with the relevant governmental authorities and make contributions to certain social insurance and housing provident funds on behalf of our employees. During the Track Record Period, we complied with all material aspects of these requirements and were not subject to any material administrative fines or penalties.

OUR BUSINESS

Intellectual Property

Intellectual property rights are important to our business, and we devote significant time and resources to their development and protection. We rely on a combination of patent, trademark, copyright and domain name protection in China and other jurisdictions in which we operate, as well as confidentiality procedures and contractual provisions to protect our intellectual property.

In general, our employees must enter into a standard employment contract which includes a clause acknowledging that all inventions, trade secrets, developments and other processes generated by them during their employment with us are our properties, and assigning to us any ownership rights that they may claim in those works.

In September 2019, pursuant to the SAPA, we and Alibaba signed a series of intellectual property transfer agreements to transfer certain of the intellectual properties registered in the name of Alibaba in connection with an intellectual property license and software technology services agreement signed in 2011 and amended and restated in 2014 (the “2014 IPLA”). As of the Latest Practicable Date, Alibaba and its subsidiaries have transferred a portion of such intellectual property to us and are in the process of transferring the remaining portion of such intellectual property to us. In August 2020, pursuant to the SAPA, we and Alibaba signed another series of intellectual property transfer agreements to transfer the intellectual properties covered by the 2019 IPLA (which amended and restated the 2014 IPLA).

As of July 31, 2020, our patent portfolio included 26,279 patents and patent applications, of which 6,382 of them were granted, registered or pending for patent certificates. 40.2% of our patents and patent applications, or 10,555, were filed in mainland China and 59.8% of our patents and patent applications, or 15,724, were filed in other countries and regions, including Hong Kong, the United States, Taiwan, Singapore, Europe, India, Japan, South Korea and 31 other countries and regions including Thailand, Malaysia, Indonesia, the Philippines and Australia.

Specifically, as of July 31, 2020, we had 583 registered patents, 303 approved patent applications, and 5,317 pending patent applications worldwide relating to blockchain technologies. We ranked first in terms of the number of published blockchain-related patent applications from 2017 to the six months ended June 30, 2020, according to IPR Daily and the patent database IncoPat. We also ranked first in terms of the number of granted blockchain-related patents from 2016 through 2019, according to a 2020 survey conducted by the Patent Protection Association of China.

As of July 31, 2020, we owned 8,569 trademarks, including 6,332 trademarks in various classes and registered with the China Trademark Office and 2,237 trademarks in various other jurisdictions. In addition, we had 4,109 pending trademark applications, including 2,481 pending with the China Trademark Office and 1,628 pending trademark applications in various other jurisdictions. Among our trademarks, we owned 71 trademarks in various classes and registered with the China Trademark Office that we consider to be material to our business and 22 registered trademarks that we consider to be material to our business in various overseas jurisdictions.

As of July 31, 2020, we held 677 copyright registrations, including 490 software copyrights and 187 other copyrights. Among our copyright registrations, 29 software copyrights and five other copyrights registered with the National Copyright Administration of China as of July 31, 2020 were considered to be material to our business.

OUR BUSINESS

We owned 3,927 registered domain names, including nine registered domain names that we consider to be material to our business, as of July 31, 2020.

As of the same date, we had 148 registered non-patent design rights (including Registered Community Design in Europe), four approved applications for non-patent design rights pending registration and 221 pending applications for non-patent design rights.

See “Appendix VII — Statutory and General Information — B. Further Information About Our Business — 2. Material Intellectual Property Rights” and “— Intellectual Property” for details of our material intellectual property rights.

Despite our precautions, however, third parties may obtain and use intellectual property that we own or license without our consent. During the Track Record Period, we did not find any material disputes or any other pending material legal proceedings of intellectual property rights with third parties during the Track Record Period and up to the Latest Practicable Date. However, unauthorized use of our intellectual property by third parties and the expenses incurred in protecting our intellectual property rights from such unauthorized use may adversely affect our business and results of operations. See “Risk Factors — Risks Related to Our Business and Industry — We may not be able to fully protect our intellectual property rights; third parties may allege that we are infringing their intellectual property rights.

Insurance

We have obtained insurance to cover certain potential risks and liabilities, such as property damage, business interruption, loss of profit insurance and public liabilities for certain businesses we operate. We do not maintain key-man life insurance. During the Track Record Period, we did not make any material insurance claims in relation to our business. Our employee-related insurance consists of pension insurance, maternity insurance, unemployment insurance, work-related injury insurance, medical insurance and housing funds, as required by Chinese laws and regulations. We also purchase supplemental commercial medical insurance and accident insurance for our employees.

We consider our insurance coverage to be adequate as we have in place all the mandatory insurance policies required by Chinese laws and regulations and in accordance with the commercial practices in our industry. However, our insurance policies are subject to standard deductibles, exclusions and limitations. As a result, our insurance policies may not be able to cover all of our losses and we cannot provide any assurance that we will not incur losses or suffer claims beyond the limits of, or outside the relevant coverage of, our insurance policies. See the section headed “Risk Factors — Risks Related to Our Business and Industry — We may not have sufficient insurance coverage to cover our business risks” in this document.

OUR BUSINESS

Property

Owned Properties

We owned a parcel of land with a total area of 88,566 square meters in Hangzhou, Zhejiang Province as of June 30, 2020. We are in the process of constructing a campus to be used as our headquarters on the parcel of land. We have obtained all necessary licenses, permits and approvals for such construction.

We owned five units and 19 floors in an office building in Shanghai with an aggregate gross floor area of 49,035 square meters, for which we had not obtained the title certificates and the corresponding land use right certificates, as of June 30, 2020. In the PRC, title certificates for buildings and the corresponding land use right certificates are typically obtained a period of time after the owner take possession of the property. Our PRC Legal Advisors have advised us that there is no substantial legal impediment for us to obtain such title certificates.

We owned 11 floors in another office building in Shanghai with an aggregate gross floor area of 13,724 square meters in respect of which we had obtained the title certificates and the corresponding land use right certificates, as of June 30, 2020.

Leased Properties

We leased 25 properties with a gross floor area of more than 1,000 square meters in China (which, in aggregate, have a gross floor area of approximately 190,638 square meters) as of June 30, 2020. As of the same date, we also leased one property with a gross floor area of more than 1,000 square meters outside China, which has a gross floor area of 23,000 square feet in Kansas City, Missouri, USA as of June 30, 2020. These properties are principally used as office premises for our business operations. The terms of these lease agreements generally range from 24 to 36 months. In the event we are unable to renew any of the leases or continue to use any of these properties, the Directors believe that we could relocate our operations to new properties without undue cost or disruption to our business.

As of June 30, 2020, among the 25 properties in China with a gross floor area of more than 1,000 square meters, lessors of six leased properties with an aggregate gross floor area of approximately 12,176 square meters had not provided us with valid title certificates or relevant authorization documents evidencing their rights to lease the properties to us, and the current use of four leased properties with an aggregate gross floor area of approximately 60,099 square meters was inconsistent with the permitted use. As a result, these leases may not be valid, and there are risks that we may not be able to continue to use such properties. These properties are primarily used as office premises for our business operations, and our servers and network facilities used for providing services to our users are not kept in any of these leased properties. As such, our Directors believe that we could relocate our operations to new properties without undue cost or disruption to our business, and does not consider the property defect described above will have a material adverse effect on our business operations.

As none of our properties had a carrying amount of 15% or more of the consolidated total assets, we are not required to include a property valuation report in this document.

OUR BUSINESS

License and Permits

As of the Latest Practicable Date, we possessed all material licenses, permits and approvals necessary for the operation of our business in the jurisdictions in which we operate, and such licenses, permits and approvals are still valid and in force. We have not experienced any refusal of the renewal application of any material licenses, permits or approvals necessary for the operation of our business.

Our principal licenses include:

Country/Region	Supervisory Authority	License
Mainland China	MIIT	Value-added telecommunication operating license (Internet information services and e-commerce)
	PBOC	Payment service license
	CSRC	License for securities and futures business (fund distribution, managing publicly-offered securities investment funds and asset management)
	CBIRC	- Insurance company legal entity license - Sideline insurance agency license
	Chongqing Local Financial Regulatory Bureau, formerly known as “Financial Affairs Office of the Chongqing Municipality Government”	Approval for operating small loan business
	Chongqing Local Financial Regulatory Bureau	Registration approval for operating online credit platform and online small loan products
Hong Kong	Hong Kong Monetary Authority (HKMA)	- Stored Value Facility (SVF) license - Licensed Bank (virtual banking)
Macau	Money Authority of Macau	Banking license
Singapore	The Monetary Authority of Singapore (MAS)	Major payment institution license
Luxembourg	The Commission de Surveillance du Secteur Financier	Electronic money institution
United Kingdom	Financial Conduct Authority	Authorized Electronic Money institution

OUR BUSINESS

Legal Proceedings and Compliance

We are involved from time to time, and may in the future be involved in, litigation, claims or other disputes in the ordinary course of business regarding, among other things, recovery of delinquent payments from our customers. Taking into account our experience and track record in handling delinquent payments, we believe that legal proceedings initiated by us do not have any significant impact or pose any material risk to our business. We have also been, and may in the future be, involved in litigation, regulatory investigations or inquiries and administrative proceedings that may not necessarily arise from our ordinary course of business, such as securities class action lawsuits and investigations or inquiries by securities regulators.

During the Track Record Period and up to the Latest Practicable Date, we were not involved in any material litigation as a defendant. In addition, during the Track Record Period and up to the Latest Practicable Date, neither we nor any of the Directors was engaged in any litigation, claim or arbitration of material importance, nor, to the best of the Directors’ knowledge, is any litigation, claim or arbitration of material importance pending or threatened against us or the Directors in relation to the Group.

We primarily operate in China, but have been expanding into several other countries and regions where our business is regulated and supervised under different regulatory environments. In each country and region where we operate, we have obtained all licenses and qualifications necessary for our business and aim to keep our operation in compliance with applicable laws and regulatory requirements. We aim to have constructive relationships with regulators, monitor ever-changing regulatory environments and adopt adequate internal procedures and guidelines to manage our operations in order to avoid potential non-compliance or misconduct. AML, counter-terrorist financing and sanctions as well as data privacy policies and procedures of the Group companies are designed to comply with applicable local laws and regulations. Policies and procedures vary across the Group depending on business activities, products offered and the requirements of local laws and regulations.

During the Track Record Period, and up to the Latest Practicable Date, we had complied with the relevant laws and regulations in relation to our business in all material respects. During the Track Record Period, we and our major subsidiaries as listed in “History and Development — Group Structure, Major Subsidiaries and Key Associates” were subject to 22 incidents of minor fines for an aggregate of approximately RMB10.6 million from local counterparts of the PBOC, the SAFE, the CBIRC and the relevant tax authorities. In addition, our income of approximately RMB20,700 was confiscated due to a minor compliance violation. These fines and penalties did not have any material adverse effect on our business, results of operations, and were not due to any systemic issues.

CONNECTED TRANSACTIONS

Overview

We have entered into a number of continuing transactions with our connected persons in our ordinary and usual course of business. The transactions disclosed under this section will constitute continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules upon completion of our H Share [REDACTED].

Summary of Our Connected Persons

The table below sets forth certain parties who will become our connected persons upon completion of our H Share [REDACTED] and with whom we have entered into certain continuing transactions which will constitute continuing connected transactions following our H Share [REDACTED]:

Name	Connected Relationship
Hangzhou Yunbo	Hangzhou Yunbo is the executive partner and general partner of Hangzhou Junhan and Hangzhou Junao, our substantial Shareholders, and has the power to manage their businesses, including power to vote in respect of the Shares held by Hangzhou Junhan and Hangzhou Junao.
Alibaba, its subsidiaries and associates (the “Alibaba Entities”)	Alibaba is one of our substantial Shareholders

Our Continuing Connected Transactions with Alibaba

Restructuring under 2011 Framework Agreement

Alipay China was established in December 2004 by Alibaba to provide digital payment services to consumers and merchants on Alibaba’s platforms. In 2011, we took control of Alipay China and entered into a framework agreement in July 2011 with, among others, Alibaba, Alipay China, Mr. Jack Ma and Mr. Joe Tsai and certain of their respective affiliates (the “2011 Framework Agreement”), along with various implementation agreements that included a commercial agreement that governs our provision of payment services to Alibaba and certain of its subsidiaries (the “Payment Services Commercial Agreement”), an intellectual property license and software technology service agreement (the “2011 IPLA”), and the Shared Services Agreement, which together governed important financial and commercial relationships between us and Alibaba.

CONNECTED TRANSACTIONS

Restructuring under SAPA

In August 2014, we restructured our relationships with Alibaba and entered into the SAPA, which was subsequently amended, and entered into or amended certain ancillary agreements that included an amendment and restatement of the 2011 IPLA (the “2014 IPLA”), an amendment to the Payment Services Commercial Agreement, the Trademark Agreement, the SME Loan Cooperation Framework Agreement, the Data Sharing Agreement, the SME Loan Software System Use and Service Agreement, and an amendment of the Shared Services Agreement. Under the SAPA, Alibaba agreed, among other things, to acquire a 33% equity interest in our Company subject to the receipt of the necessary PRC regulatory approvals and the satisfaction of other conditions set forth in the SAPA; and we agreed to, among other things, purchase certain securities and assets primarily relating to the SME loan business and other related services, together with the related know-how and intellectual property. Our purchase of the SME loan business and related know-how and intellectual property was completed in February 2015.

In connection with Alibaba’s receipt of a 33% equity interest in us in September 2019 and becoming one of our substantial Shareholders, the 2014 IPLA was amended and restated (the “2019 IPLA”) and the royalty and software technology service payment arrangement under the 2014 IPLA was terminated. Additionally, we entered into the Cross License Agreement in relation to certain patents, trademarks, software and other technology, and various intellectual property transfer agreements. The 2019 IPLA will terminate upon the earlier of the completion of our H Share [REDACTED] and A Share [REDACTED], and hence is expected to terminate on [REDACTED].

The Payment Services Commercial Agreement, the Cross License Agreement, the Data Sharing Agreement, the Trademark Agreement, the Shared Services Agreement, the SME Loan Cooperation Framework Agreement and the SME Loan Software System Use and Service Agreement form the framework of our continuous strategic relationship with Alibaba. Furthermore, the Payment Services Commercial Agreement, the Cross License Agreement, the Data Sharing Agreement and the Trademark Agreement are part of the long-term arrangements between us and Alibaba as envisioned under the SAPA. These agreements and the transactions contemplated thereunder have been in place for a long time; and the arrangements have proven to be crucial to the continuous strategic relationship between us and Alibaba and strategic and synergistic to both of our and Alibaba’s businesses.

Other Continuing Connected Transactions

In addition, we cooperate with Alibaba in other areas as our respective businesses grow and expand:

- We extend payment processing and escrow services to Alibaba’s subsidiaries and associates pursuant to separate payment services agreements entered into with these subsidiaries and associates outside the scope of the Payment Services Commercial Agreement.
- We and Alibaba provide each other with certain marketplace software technology services as set forth in the Marketplace Software Technology Services Framework Agreement.
- We use Alibaba’s cloud services and purchase certain cloud related products from Alibaba, which are the subject of the Cloud Services Framework Agreement.

CONNECTED TRANSACTIONS

Summary of Our Continuing Connected Transactions

Transactions		Applicable Hong Kong Listing Rules	Waiver Sought	Proposed annual cap for the year ending December 31,		
				2020	2021	2022
(RMB in millions)						
Fully-exempt continuing connected transactions						
1.	Cross License Agreement	14A.34, 14A.52, 14A.53 and 14A.76	N/A	N/A	N/A	N/A
2.	Data Sharing Agreement	14A.34, 14A.52, 14A.53 and 14A.76	N/A	N/A	N/A	N/A
3.	Trademark Agreement	14A.34, 14A.52, 14A.53 and 14A.76	N/A	N/A	N/A	N/A
4.	SME Loan Cooperation Framework Agreement	14A.34, 14A.52, 14A.53 and 14A.76	N/A	N/A	N/A	N/A
5.	SME Loan Software System Use and Service Agreement	14A.34, 14A.53 and 14A.76	N/A	N/A	N/A	N/A
6.	Hangzhou Yunbo Shared Services Framework Agreement	14A.34, 14A.53 and 14A.76	N/A			
	Transaction amount to be paid by Hangzhou Yunbo to us			N/A	N/A	N/A
	Transaction amount to be paid by us to Hangzhou Yunbo			N/A	N/A	N/A

CONNECTED TRANSACTIONS

Transactions	Applicable Hong Kong Listing Rules	Waiver Sought	Proposed annual cap for the year ending December 31,		
			2020	2021	2022
			(RMB in millions)		
Partially-exempt continuing connected transactions					
1. Shared Services Agreement	14A.34, 14A.35 and 14A.76	Announcement requirement under Chapter 14A of the Hong Kong Listing Rules			
Transaction amount to be paid by Alibaba Entities to us			300.0	400.0	500.0
Transaction amount to be paid by us to Alibaba Entities			1,700.0	2,200.0	2,500.0
Non-exempt continuing connected transactions					
1. Payment Services Commercial Agreement	14A.34, 14A.35, 14A.36, 14A.49, 14A.52, 14A.53 to 59 and 14A.71	Requirements as to announcement, circular, independent shareholders' approval and non-monetary annual caps under Chapter 14A of the Hong Kong Listing Rules	N/A	N/A	N/A
2. Other Payment Services Agreements	14A.34, 14A.35, 14A.36, 14A.49, 14A.53 to 59 and 14A.71	Requirements as to announcement, circular and independent shareholders' approval under Chapter 14A of the Hong Kong Listing Rules	3,300.0	5,300.0	7,000.0
3. Marketplace Software Technology Services Framework Agreement	14A.34, 14A.35, 14A.36, 14A.49, 14A.53 to 59 and 14A.71	Requirements as to announcement, circular and independent shareholders' approval under Chapter 14A of the Hong Kong Listing Rules			

CONNECTED TRANSACTIONS

Transactions		Applicable Hong Kong Listing Rules	Waiver Sought	Proposed annual cap for the year ending December 31,		
				2020	2021	2022
				(RMB in millions)		
Transaction amount to be paid by Alibaba Entities to us				1,700.0	3,700.0	6,700.0
Transaction amount to be paid by us to Alibaba Entities				3,200.0	4,700.0	6,200.0
4.	Cloud Services Framework Agreement	14A.34, 14A.35, 14A.36, 14A.49, 14A.53 to 59 and 14A.71	Requirements as to announcement, circular and independent shareholders' approval under Chapter 14A of the Hong Kong Listing Rules	3,600.0	5,400.0	7,100.0

Fully-Exempt Continuing Connected Transactions

We set out below a summary of the continuing connected transactions for our Company which are exempt from all of the reporting, annual review, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules.

1. Cross License Agreement

Date: September 23, 2019

Parties: The Company; and
Alibaba

Principal Terms: Pursuant to the cross license agreement (the “Cross License Agreement”), each of Alibaba and us licenses to each other certain patents, trademarks, software and other technology (including but not limited to patents and software transferred to us from Alibaba) (the “IP Rights”).

The Cross License Agreement also contains provisions relating to cooperation and coordination between Alibaba and us on various intellectual property matters, including prosecution, enforcement, acquisition, and joint defense arrangements.

Term: The Cross License Agreement, which is ancillary to the SAPA, has a term of approximately 45 years and will remain in full force and effect until August 11, 2064, unless terminated earlier, which is similar to the term of other long-term agreements ancillary to the SAPA.

CONNECTED TRANSACTIONS

Pricing Policy:	Neither party is required to pay any fee under the Cross License Agreement.
Reasons for the Transaction:	The Cross License Agreement was entered into pursuant to the SAPA on an arm’s length basis. Some of the patents, trademarks, software and other technology owned by Alibaba are used in our business operations. The arrangement under the Cross License Agreement allows us to continue to use such patents, trademarks, software and other technology after completion of the transactions under the SAPA. On the other hand, some of the patents, trademarks, software and other technology transferred to us from Alibaba will continue to be used in Alibaba’s business operations and it is therefore mutually beneficial to enter into the Cross License Agreement. In addition, the arrangement helps pave the way for future cooperation between Alibaba and us in research and development.
Hong Kong Listing Rules implication:	As required by Rule 14A.52 of the Hong Kong Listing Rules, the period for continuing connected transactions must not exceed three years, except in cases where the nature of the transaction requires the contract to be of a duration longer than three years. Our Directors are of the view that the Cross License Agreement was entered into on normal commercial terms and believe it is normal business practice and in the interests of us and our Shareholders as a whole for the term of the Cross License Agreement to be longer than three years given (i) the nature of the IP Rights; (ii) the benefit of the IP Rights to the sustainable success of our business and our overall competitiveness; (iii) the term provides certainty for us to use the IP Rights without interruption in the long run. If the Cross License Agreement were to be renewed frequently, the uncertainty of the use of IP Rights may hinder our ability to plan efficiently in the longer term, thereby disrupting our business; (iv) the long-term nature of the arrangement provides comfort that we would not be required to spend unnecessary time, costs and resources to negotiate the terms of use of the IP Rights, which would be financially, operationally and administratively burdensome; and (v) the Cross License Agreement is part of the long-term arrangements between us and Alibaba as envisioned under the SAPA. Having considered the strategic nature and importance of the Cross License Agreement, the Joint Sponsors are of the view that it is commercially justifiable and normal business practice for agreements of the similar nature to be of a duration of around 45 years. As neither party is required to pay any fee, the Cross License Agreement will meet the <i>de minimis</i> transaction requirements under Rule 14A.76 of the Hong Kong Listing Rules and are exempt from all of the reporting, annual review, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules pursuant to Rule 14A.76(1) of the Hong Kong Listing Rules.

CONNECTED TRANSACTIONS

2. *Data Sharing Agreement*

Date:	August 12, 2014 (as amended)
Parties:	The Company; and Alibaba
Principal Terms:	Pursuant to the data sharing agreement, as amended (the “Data Sharing Agreement”), we and Alibaba can share certain data that are collected or generated as a result of the use by users of our respective products or services subject to applicable laws, regulations, industry standards and contractual requirements. The Data Sharing Agreement provides for (i) the initial scope of data sharing participants, participant requirements and participating mechanism; (ii) rights and obligations of data sharing participants when sharing data; and (iii) a governance framework for principles and procedures that should be followed in the process of data sharing. In practice, we and Alibaba make adjustments from time to time in response to changes to applicable laws, regulations and industry standards to ensure best practice in implementing the Data Sharing Agreement.
Term:	The Data Sharing Agreement will remain in full force and effect until the earlier of (i) August 11, 2064; and (ii) five years after the date when the number of Shares held by Alibaba falls below certain threshold, unless terminated earlier, which is similar to the term of other long-term agreements ancillary to the SAPA.
Pricing Policy:	We share the operational costs of the data sharing arrangement incurred by Alibaba in proportion to the amount of data used by us.
Reasons for the Transaction:	We, Alibaba and other partners on our respective platforms accumulate highly valuable customer insights for our business operations. The governance framework set out in the Data Sharing Agreement which ensures data sharing in compliance with applicable laws, regulations and industry standards is strategically important to our long-term development. The Data Sharing Agreement enables us to have significant customer insights to better serve our consumers, merchants and partners, and expand our service offerings.
Historical Amounts:	For each of the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, the amounts of expenses incurred by us under the Data Sharing Agreement were approximately RMB3.6 million, RMB3.6 million, RMB4.2 million and RMB0.09 million, respectively.

CONNECTED TRANSACTIONS

**Hong Kong
Listing Rules
implication:**

As required by Rule 14A.52 of the Hong Kong Listing Rules, the period for continuing connected transactions must not exceed three years, except in cases where the nature of the transaction requires the contract to be of a duration longer than three years.

Our Directors are of the view that the Data Sharing Agreement was entered into on normal commercial terms and believe it is normal business practice and in the interests of us and our Shareholders as a whole for the term of the Data Sharing Agreement to be longer than three years given that (i) long-term and stable data sharing and deep customer insights will enable us to better serve our consumers, merchants and partners, and expand our service offerings and is strategically important to our long-term development; (ii) the long-term nature of the data sharing arrangement provides comfort that we would not be required to spend significant time, costs and resources to obtain similar level of customer insights, which would be financially, operationally and administratively burdensome; and (iii) the Data Sharing Agreement is part of the long-term arrangements between us and Alibaba as envisioned under the SAPA.

Having considered the strategic nature and importance of the Data Sharing Agreement, the Joint Sponsors are of the view that it is commercially justifiable and normal business practice for agreements of the similar nature to be of a duration of around 50 years.

The transactions consummated under the Data Sharing Agreement are conducted in the ordinary and usual course of business on normal commercial terms, and we currently expect that the highest applicable percentage ratio in respect of the cost payable under the Data Sharing Agreement on an annual basis for the remaining term of the agreement will not exceed 0.1%. The transactions under the Data Sharing Agreement will therefore meet the *de minimis* transaction requirements under Rule 14A.76 of the Hong Kong Listing Rules and are exempt from all of the reporting, annual review, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules pursuant to Rule 14A.76(1) of the Hong Kong Listing Rules.

CONNECTED TRANSACTIONS

3. *Trademark Agreement*

Date: August 12, 2014

Parties: The Company; and
Alibaba

Principal Terms: Pursuant to the trademark agreement (the “Trademark Agreement”), Alibaba granted us:

- a non-transferable, non-assignable and non-sublicensable (except to our subsidiaries) license for us and our sublicensed subsidiaries to continue to use certain trademarks and domain names based on trademarks owned by Alibaba, in connection with our payment services business and the micro financing business transferred by Alibaba to us, and in the same manner of use as in August 2014; and
- a non-transferable, non-assignable and non-sublicensable (except to our subsidiaries) license to use other trademarks and domain names based on trademarks owned by Alibaba, and in that manner, as Alibaba may agree to allow in the future.

We and Alibaba further agreed to the rights and limitations that each would have to use the “Ali” name or prefix and the “ecommerce” (and its Chinese equivalent) name, prefix or logo as part of a trademark or domain name in each party’s and its subsidiaries’ respective businesses.

Term: The Trademark Agreement has a term of 50 years and will remain in full force and effect until August 11, 2064, unless terminated earlier, which is similar to the term of other long-term agreements ancillary to the SAPA.

Pricing Policy: We are not required to pay any fee under the Trademark Agreement.

Reasons for the Transaction: The Trademark Agreement was entered into in connection with the SAPA on an arm’s length’s basis. Before Alibaba’s transfer of control of Alipay and SME loan business to us, a portion of the trademarks and domain names based on trademarks used in these payment services business and SME loan business were owned by Alibaba. The arrangement under the Trademark Agreement allows us to continue to use such trademarks and domain names after the completion of the transfer.

Following Alibaba’s receipt of a 33% equity interest in us, Alibaba transferred to us ownership of major trademarks and domain names that were licensed by Alibaba to us and used in our business. Following such transfer, Alibaba continues to own certain trademarks that contain elements similar to the trademarks and domain names used in our business. The Trademark Agreement remains in effect in accordance with its terms to provide us a continued license of these trademarks.

CONNECTED TRANSACTIONS

**Hong Kong
Listing Rules
implication:**

As required by Rule 14A.52 of the Hong Kong Listing Rules, the period for continuing connected transactions must not exceed three years, except in cases where the nature of the transaction requires the contract to be of a duration longer than three years.

Our Directors are of the view that the Trademark Agreement was entered into on normal commercial terms and believe that it is normal business practice and in the interests of us and our Shareholders as a whole for the term of the Trademark Agreement to be longer than three years given (i) the above mentioned trademarks and the domain names are commercially important to our business operations; (ii) the fact that we have been using such trademarks and domain names in our business operations and will continue to use them in the foreseeable future; and the term provides certainty for us to use such trademarks and domain names without interruption in the long run. If the Trademark Agreement were to be renewed frequently, the uncertainty of the use of such trademarks and domain names may hinder our ability to plan efficiently in the longer term, thereby disrupting our business; (iii) the long-term nature of the arrangements provides comfort that we would not be required to spend unnecessary time, costs and resources to negotiate the terms of use of such trademarks and domain names, which would be financially, operationally and administratively burdensome; and (iv) the Trademark Agreement is part of the long-term arrangements between us and Alibaba as envisioned under the SAPA.

Having considered the strategic nature and importance of the Trademark Agreement, the Joint Sponsors are of the view that it is commercially justifiable and normal business practice for agreements of the similar nature to be of a duration of around 50 years.

As we are not required to pay any fee, the transactions under the Trademark Agreement will meet the *de minimis* transaction requirements under Rule 14A.76 of the Hong Kong Listing Rules and are exempt from all of the reporting, annual review, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules pursuant to Rule 14A.76(1) of the Hong Kong Listing Rules.

4. SME Loan Cooperation Framework Agreement

**Date of
agreement:**

August 12, 2014

Parties:

The Company; and

Alibaba

**Principal
Terms:**

Pursuant to the SME loan cooperative framework agreement (the “SME Loan Cooperative Framework Agreement”), each party agreed to cooperate with, and provide certain services with respect to, the other party’s enforcement of certain rights of the other party against users of its platforms and services and with respect to the provision of certain financial services to Alibaba’s customers and merchants. In particular:

CONNECTED TRANSACTIONS

- We agreed, upon Alibaba’s request, to make loans and/or extensions of credit and related financial services available to Alibaba’s users subject to certain conditions agreed between the parties, and to the extent authorized by the users in their user agreements, freeze and pay over to Alibaba funds in accounts of users violating Alibaba’s rules and regulations or agreements with Alibaba, accelerate loans and terminate credit facilities of these users, restrict marketing activities on its platforms by these users, and provide information regarding these users, in each case in a manner to be further agreed upon from time to time; and
- Alibaba agreed, upon our request, to close down or suspend online storefronts and restrict marketing activities on its platforms of persons defaulting on loans made by us and persons in violation of rules and regulations of Alipay and to publish notices on Alibaba’s platforms and provide information regarding these persons, in each case in a manner to be further agreed upon from time to time.

Term:	The SME Loan Cooperation Framework Agreement has an initial term of five years, with automatic renewals upon expiry for additional five-year periods unless either party gives a non-renewal notice at least one year prior to the renewal term.
Pricing Policy:	Neither party is required to pay any fee in consideration for the services provided by the other party, as the arrangement is mutually beneficial.
Reasons for the Transaction:	Some of the consumers and small businesses that borrow through our platform are also users of Alibaba’s platforms. Alibaba’s assistance in our loan enforcement efforts strengthens our risk management processes.
Hong Kong Listing Rules implication:	As required by Rule 14A.52 of the Hong Kong Listing Rules, the period for continuing connected transactions must not exceed three years, except in cases where the nature of the transaction requires the contract to be of a duration longer than three years.

Our Directors are of the view that the SME Loan Cooperation Framework Agreement was entered into on normal commercial terms and believe that it is normal business practice and in the interests of us and our Shareholders as a whole for the term of the SME Loan Cooperation Framework Agreement to be longer than three years given (i) the business opportunities and efficiency brought by the arrangement; and (ii) the expected cost savings that would result from Alibaba’s assistance in our loan enforcement efforts.

Having considered the strategic nature and importance of the SME Loan Cooperation Framework Agreement, the Joint Sponsors are of the view that it is commercially justifiable and normal business practice for agreements of the similar nature to be of such a duration.

CONNECTED TRANSACTIONS

The Company will re-comply with the applicable requirements under Chapter 14A of the Hong Kong Listing Rules when the SME Loan Cooperation Framework Agreement is renewed.

As neither party is required to pay any fee in consideration for the services provided by the other party, the transactions under the SME Loan Cooperation Framework Agreement will meet the *de minimis* transaction requirements under Rule 14A.76 of the Hong Kong Listing Rules and are exempt from all of the reporting, annual review, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules pursuant to Rule 14A.76(1) of the Hong Kong Listing Rules.

5. *SME Loan Software System Use and Service Agreement*

Date: August 12, 2014

Parties: Chongqing Ant Shangcheng Micro Loan Co., Ltd. (formerly known as Chongqing Alibaba Small Loan Co., Ltd.), a subsidiary of ours (“Chongqing Ant”); and

Alibaba (China) Co., Ltd. (“Alibaba China”), a subsidiary of Alibaba

Principal Terms: Pursuant to the software system use and service agreement (the “SME Loan Software System Use and Service Agreement”), Chongqing Ant agreed to pay annual fees for a term of seven years, commencing in 2015, to use the software systems (including credit information management system and cloud computing and storage-based system) of Alibaba China related to the micro financing business which we bought from Alibaba. Alibaba China also provides services including operation and solutions in relation to the software systems, daily management, maintenance and update of the software systems and technical advisory service and other services in relation to the software systems.

Term: The term of the SME Loan Software System Use and Service Agreement commences on August 12, 2014 and expires on December 31, 2021.

Pricing Policy: The fees are determined as follows: for calendar years 2015 to 2017, Chongqing Ant paid an annual fee equal to 2.5% of the average daily balance of the loans provided to SMEs by Chongqing Ant and its subsidiaries, and in calendar years 2018 to 2021, Chongqing Ant paid or will pay an annual fee equal to the amount of the fees paid in calendar year 2017, which was approximately RMB89.4 million. The fee rate is determined on an arm’s length basis with reference to Alibaba’s estimated costs and expenses relating to the provision of such systems and services during the term of this agreement. We switched to a flat-fee pricing model after 2017, as we accumulated an increasing level of customer insights, which helps build additional credit assessment capabilities and improve our risk management systems.

CONNECTED TRANSACTIONS

Reasons for the Transaction:	We purchased certain securities and assets primarily relating to the micro financing business and other related services, together with the know-how and related intellectual property from Alibaba pursuant to the SAPA as mentioned under “Our Continuing Connected Transactions with Alibaba.” As we need to continue using the software systems for such SME Loan business following our purchase, we purchased the software license from Alibaba China. We believe licensing is more cost-effective than self-developing or purchasing those software systems as such transitional arrangement can help minimize disruption to our operation of the micro financing business. We have since developed software systems and will be able to support our ongoing and future micro financing business when the SME Loan Software System Use and Service Agreement expires.
Historical Amounts:	For each of the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, the amounts of expenses incurred by us under the SME Loan Software System Use and Service Agreement were approximately RMB89.4 million, RMB89.4 million, RMB89.4 million and RMB44.7 million, respectively. The amounts of fees payable by us to Alibaba under the SME Loan Software System Use and Service Agreement are approximately RMB89.4 million and RMB89.4 million for the years ending December 31, 2020 and 2021, respectively.
Hong Kong Listing Rules implication:	The transactions consummated under the SME Loan Software System Use and Service Agreement are conducted in the ordinary and usual course of business on normal commercial terms, and we currently expect that the highest applicable percentage ratio in respect of the amounts of fees payable under the SME Loan Software System Use and Service Agreement on an annual basis for the remaining term of the agreement will not exceed 0.1%. The transactions under the SME Loan Software System Use and Service Agreement will therefore meet the <i>de minimis</i> transaction requirements under Rule 14A.76 of the Hong Kong Listing Rules and are exempt from all of the reporting, annual review, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules pursuant to Rule 14A.76(1) of the Hong Kong Listing Rules.

CONNECTED TRANSACTIONS

6. *Hangzhou Yunbo Shared Services Framework Agreement*

Date:	July 21, 2020
Parties:	The Company; and Hangzhou Yunbo
Principal Terms:	Pursuant to the shared services framework agreement (the “Hangzhou Yunbo Shared Services Framework Agreement”), we or our subsidiaries agreed to provide certain administrative and supporting services to Yunbo, the partnerships where it acts as the general partner or the subsidiaries (other than us and our subsidiaries) of such partnerships (together, “Hangzhou Yunbo Entities”), including: • payroll services and human resources; • software and technology maintenance; and • lease of offices and other facilities. Hangzhou Yunbo Entities agreed to provide certain services to us and our subsidiaries, including investment advisory services.
Term:	The term of the Hangzhou Yunbo Shared Services Framework Agreement commences on July 21, 2020 and expires on December 31, 2022, unless terminated earlier and can be renewed upon expiry for additional three-year periods by agreement between the parties.
Pricing Policy:	The fees payable for services provided by us or our subsidiaries to Hangzhou Yunbo Entities are determined based on the actual costs of us or our subsidiaries for the provision of such services plus a mark-up of up to 15% by reference to industry practice for comparable services, which will not in any event be below the market rates (if available) for similar services; and the rent payable to us or our subsidiaries by Hangzhou Yunbo Entities will be determined with reference to market rates for rental of similar properties in nearby locations, which will not in any event be below the market rates (if any). The fees payable for services provided by Hangzhou Yunbo Entities to us or our subsidiaries are determined based on the actual costs of Hangzhou Yunbo Entities for the provision of such services plus a mark-up of up to 15% by reference to industry practice for comparable services, which will not in any event be above the market rates (if available) for similar services.
Reasons for the Transaction:	Yunbo Entities may provide investment advisory services to us. On the other hand, Yunbo Entities may need our support and administrative services to satisfy their business and operational needs.
Historical Amounts:	There is no historical amount in respect of service fees paid or payable from us or Hangzhou Yunbo.

CONNECTED TRANSACTIONS

**Hong Kong
Listing Rules
implication:**

The transactions consummated under the Hangzhou Yunbo Shared Services Framework Agreement are conducted in the ordinary and usual course of business on normal commercial terms, and we currently expect that the highest applicable percentage ratio in respect of (i) the amounts of fees payable by Hangzhou Yunbo Entities to us and (ii) the amounts of fees payable by us to Hangzhou Yunbo Entities under the Hangzhou Yunbo Shared Services Framework Agreement on an annual basis for the term of the agreement will not exceed 0.1%. The transactions under the Hangzhou Yunbo Shared Services Framework Agreement will therefore meet the *de minimis* transaction requirements under Rule 14A.76 of the Hong Kong Listing Rules and are exempt from all of the reporting, annual review, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules pursuant to Rule 14A.76(1) of the Hong Kong Listing Rules.

Partially-Exempt Continuing Connected Transactions

Upon our H Share [REDACTED], the transactions set forth below will constitute partially-exempt continuing connected transactions of our Company that are subject to reporting, annual review and announcement requirements but exempt from circular and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules (the “Partially-exempt Continuing Connected Transactions”):

1. Shared Services Agreement

Date: July 29, 2011 (as restated and amended)

Parties: The Company; and
Alibaba

Principal Terms: Pursuant to the shared services agreement, as restated and amended (the “Shared Services Agreement”), we or our affiliates will provide certain administrative and supporting services to Alibaba or its affiliates, which as of the Latest Practicable Date included:

- ad hoc back-office and other corporate support services; and
- lease of offices and other facilities.

Alibaba will cause its affiliates to provide certain technical support and administrative and supporting services to us and our affiliates, which as of the Latest Practicable Date included:

- technical support, such as network infrastructure services, transmission network system and maintenance services and procurement services, administrative services such as intranet, software and telecommunication maintenance and support services, and human resources, corporate support and other back-office services; and
- lease of offices and other facilities.

CONNECTED TRANSACTIONS

Term:	The Shared Services Agreement expires on December 31, 2022 and is automatically renewable upon expiry for additional three-year periods, unless terminated by written notice by either party. The Company will re-comply with the applicable requirements under Chapter 14A of the Hong Kong Listing Rules when the Shared Services Agreement is renewed.
Pricing Policy:	The fees payable for services provided by us or our subsidiaries to Alibaba or its affiliates are determined based on the actual costs of us or our subsidiaries for the provision of such services plus a mark-up of up to 15% by reference to industry practice and market rates (if available) for similar and comparable services; and the rent payable to us or our subsidiaries by Alibaba or its affiliates will be determined with reference to market rates for rental of similar properties in nearby locations, and the rent payable shall be adjusted every 12 months to reflect such market rates. The fees payable for services provided by Alibaba or its associates to us or our subsidiaries are determined based on the actual costs of Alibaba or its affiliates for the provision of such services plus a mark-up of up to 5% to 15% by reference to industry practice and market rates (if available) for similar and comparable services; and the rent payable by us or our subsidiaries to Alibaba or its affiliates will be determined with reference to market rates for rental of similar properties in nearby locations, and the rent payable shall be adjusted every 12 months to reflect such market rates.
Reasons for the Transaction:	We have been sharing a variety of administrative and supporting services with Alibaba to satisfy our business and operational needs. We benefit from obtaining various services from one single service provider that is capable of fulfilling our demands efficiently and reliably with a stable and high quality supply of services. We believe it is more cost-effective for us to outsource than to maintain our own headcounts for such supporting and administrative services that we need in our ordinary course of business.
Historical Amounts:	For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, the revenues from Alibaba Entities under the Shared Services Agreement were approximately RMB70.5 million, RMB208.4 million, RMB130.1 million and RMB66.6 million, respectively. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, the amounts of expenses incurred by us and our subsidiaries under the Shared Services Agreement were approximately RMB590.4 million, RMB919.6 million, RMB1,203.7 million and RMB582.1 million, respectively.

CONNECTED TRANSACTIONS

Basis of Annual Caps: The annual caps for the aggregate transaction amounts of the services to be provided to Alibaba Entities by us or our subsidiaries under the Shared Services Agreement for the years ending December 31, 2020, 2021 and 2022, are RMB300.0 million, RMB400.0 million and RMB500.0 million, respectively.

In determining the above annual caps, we have taken into account of the following factors that are considered to be reasonable and fair in the relevant circumstances:

- (i) the historical transaction amounts during the Track Record Period;
- (ii) our expected costs and expenses relating to the provision of various services; and
- (iii) the potential demands from Alibaba Entities for our administrative and supporting services and rental of additional office space.

The annual caps for the aggregate transaction amounts of the services to be provided by Alibaba Entities to us and our subsidiaries under the Shared Services Agreement for the years ending December 31, 2020, 2021 and 2022, are RMB1,700.0 million, RMB2,200.0 million and RMB2,500.0 million, respectively.

In determining the above annual caps, we have taken into account of the following factors that are considered to be reasonable and fair in the relevant circumstances:

- (i) the historical transaction amounts and the growth trend during the Track Record Period;
- (ii) the expected increase in demands for Alibaba’s technical support services for improved operational efficiency and cost efficiency, which primarily consists of bandwidth and rental of Internet data center for server hosting and maintenance services; and
- (iii) the expected increase in demands for rental of additional office space from Alibaba Entities to support our expansion in locations where we do not own properties for improved efficiency and flexibility.

CONNECTED TRANSACTIONS

Hong Kong Listing Rules implication: The highest applicable percentage ratio in respect of (i) the aggregate transaction amount of the services provided by us to Alibaba Entities; and (ii) the aggregate transaction amount of the services provided by Alibaba Entities to us under the Shared Services Agreement, calculated based on the highest annual cap for the years ending December 31, 2020, 2021 and 2022, is expected to be more than 0.1%, but less than 5%. Such transactions, therefore, will be exempt from the circular and the independent shareholders’ approval requirements, but are subject to the announcement requirements under Rule 14A.35 of the Hong Kong Listing Rules and the annual reporting requirements under Rules 14A.49 and 14A.71 of the Hong Kong Listing Rules. As the transactions under the Shared Services Agreement are expected to continue on a recurring and continuing basis and are fully disclosed in this document, the Directors consider that strict compliance with the announcement requirement would be impracticable, unduly burdensome and would impose unnecessary administrative cost upon the Company.

Non-Exempt Continuing Connected Transactions

Upon our H Share [REDACTED], the transactions set forth below will constitute non-exempt continuing connected transactions of our Company that are subject to reporting, annual review, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules (the “Non-exempt Continuing Connected Transactions”):

1. Payment Services Commercial Agreement

Date: July 29, 2011 (as amended)

Parties: The Company and Alipay; and
Alibaba

Principal Terms: Pursuant to the Payment Services Commercial Agreement, Alipay and our subsidiaries provide payment processing and escrow services to Alibaba and its subsidiaries (exclusive of any subsidiaries that are acquired after January 1, 2012 (the “Acquired Businesses”). These services enable settlement of transactions on Alibaba’s and its subsidiaries’ platforms through a secure payment platform and escrow process.

CONNECTED TRANSACTIONS

The Payment Services Commercial Agreement is a framework agreement that sets out the general terms and conditions applicable to the payment processing and escrow services we provide to Alibaba and its subsidiaries. We enter into implementation agreements with Alibaba and its subsidiaries to specify the precise scope of our services, our fee rate mechanism and fee calculation and other details of the service arrangement. The Payment Services Commercial Agreement does not cover the payment processing and escrow services we provided to any Acquired Businesses or any associates of Alibaba, for which we enter into separate agreements. See “— Other Payment Services Agreements” for further details on these agreements.

Term: The Payment Services Commercial Agreement has an initial term of 50 years commencing on January 1, 2012 and expiring on December 31, 2061, and is automatically renewable for further periods of 50 years. Alibaba may give at least one year’s notice of non-renewal. Alibaba may terminate the Payment Services Commercial Agreement at any time upon one year’s prior written notice. We are entitled to terminate the Payment Services Commercial Agreement if Alibaba or its subsidiaries fail to pay. The initial term of the Payment Services Commercial Agreement is similar to the term of other long-term agreements ancillary to the SAPA. The Company will re-comply with the applicable requirements under Chapter 14A of the Hong Kong Listing Rules when the Payment Services Commercial Agreement is renewed.

Pricing Policy: The fees that Alibaba pays us are determined by applying agreed fee rates to actual TPV and International TPV processed on the platforms of Alibaba or its subsidiaries during the period.

The fee rates are determined based on the bank processing costs and operating costs attributable to the services provided to Alibaba and its subsidiaries, and other applicable factors which include (i) market benchmark rates applicable to services provided by other providers that are similar to the services provided to Alibaba; (ii) rates that we offer to third-party customers; and (iii) appropriate discounts applicable to large volume customers. The fee rates are reviewed and are subject to adjustment on an annual basis to the extent the costs increased or declined.

Reasons for the Transaction: The Payment Services Commercial Agreement is part of our strategic cooperation with Alibaba envisioned under the SAPA. Alibaba is the largest retail commerce business in the world with an extensive ecosystem. The wide range of activities on Alibaba’s platforms presents a rich commercial environment for us to provide payment processing and escrow services. Long-term cooperation with Alibaba can help us secure our existing application scenarios, including e-commerce, continuously improve user stickiness and merchant service offerings, while at the same time satisfy the needs of merchants and users of Alibaba’s platforms for high concurrency, low risk and high user experience payment processing and escrow services in various transaction scenarios.

CONNECTED TRANSACTIONS

In addition, the vast number and breadth of use cases and online and offline points for transactions in Alibaba’s ecosystem that we access through provision of payment services provide us with extensive customer insights. We continue to benefit from these insights to improve our services and commercial opportunities, including those in CreditTech services, InvestmentTech services and InsureTech services.

**Historical
Amounts:**

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, the revenues from Alibaba and its subsidiaries under the Payment Services Commercial Agreement were approximately RMB5,200.9 million, RMB6,371.6 million, RMB7,032.7 million and RMB3,075.7 million, respectively.

Annual Cap:

For payment transactions through PRC bank channels, the annual cap is 0.6% of TPV processed on the platforms of Alibaba or its subsidiaries that are governed under the Payment Services Commercial Agreement during each financial year.

For payment transactions through non-PRC bank channels, the annual cap is 3.0% of International TPV processed on the platforms of Alibaba or its subsidiaries that are governed under the Payment Services Commercial Agreement during each financial year.

**Basis of Annual
Caps:**

The fee rates proposed in the annual caps are determined with reference to the rates we offer to third-party customers as published by us on our websites from time to time, the market rates offered by similar and comparable payment service providers, specifically:

- (i) the fee rates proposed in the annual caps are in line with the digital payment fee rates that we offer to third-party customers. For payment transactions through PRC bank channels, the fee rate that we offer to third-party customers, is generally 0.6% of the payment amount per transaction; and for payment transactions through non-PRC bank channels, the fee rate that we offer to third-party customers is generally 3.0% of the payment amount per transaction. The fee rates we offer to third-party customers are published and updated on our official websites from time to time; and
- (ii) the fee rates proposed in the annual caps are generally in line with the prevailing market rates offered by comparable payment services providers.

**Basis for not
setting
Monetary
Annual Caps:**

It would be inappropriate to adopt monetary annual caps for the transactions contemplated under the Payment Services Commercial Agreement for the following reasons:

- (i) it would be impracticable to estimate with any degree of certainty the amount of fees which we may receive under the Payment Services Commercial Agreement as it will depend on TPV and International TPV of the various platforms of Alibaba and its subsidiaries, which are beyond our control;

CONNECTED TRANSACTIONS

- (ii) it is impracticable and extremely difficult to set meaningful annual caps considering the long-term nature (i.e. 50 years) of the Payment Services Commercial Agreement as it would involve making assumptions on future TPV and International TPV of the various platforms of Alibaba and its subsidiaries over such long period;
- (iii) TPV and International TPV have grown significantly in recent years. We expect TPV and International TPV to continue to grow after our [REDACTED] and the adoption of fixed monetary annual caps will impose an arbitrary ceiling on the revenues that we could derive under the Payment Services Commercial Agreement, which will hinder our development and will not be in the interests of our Company and our Shareholders, including the minority Shareholders;
- (iv) adoption of annual caps with fixed monetary annual caps will render it unduly burdensome for us to comply with the reporting, announcement, circular and/or independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules whenever the fees paid under the Payment Services Commercial Agreement exceed the annual caps;
- (v) the proposed annual cap using a formula based on TPV and International TPV in any year is consistent with the pricing mechanism under the Payment Services Commercial Agreement and is the only practical solution; and
- (vi) any material change to the terms of the Payment Services Commercial Agreement, including the basis of calculating the fees under the Payment Services Commercial Agreement, would be subject to the announcement and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules.

We have applied for, and the Hong Kong Stock Exchange [has granted us,] a waiver from strict compliance with the requirements of Rule 14A.53(1) of the Hong Kong Listing Rules to express annual cap for the Payment Services Commercial Agreement in monetary terms.

**Hong Kong
Listing Rules
implication:**

As required by Rule 14A.52 of the Hong Kong Listing Rules, the period for continuing connected transactions must not exceed three years, except in cases where the nature of the transaction requires the contract to be of a duration longer than three years. Our Directors are of the view that the Payment Services Commercial Agreement was entered into on normal commercial terms and believe that it is normal business practice for the term of the Payment Services Commercial Agreement to be longer than three years in order to protect the interests of us and our Shareholders as a whole. In particular:

CONNECTED TRANSACTIONS

- (i) Alibaba is the largest retail commerce business in the world with an extensive ecosystem and is our single largest customer. It is strategically important for us to secure the Payment Services Commercial Agreement from our largest customer for as long a term as we can negotiate to ensure stable revenues generated from payment processing and escrow services;
- (ii) we and Alibaba are crucial strategic and synergistic partners for each other and the Payment Services Commercial Agreement is part of the long-term arrangements between us. A long-term agreement provides certainty, stability and protection to us that we can continue to leverage Alibaba’s leading position in retail commerce industry worldwide to expand to different markets, enabling us to access Alibaba’s large base of customers and partners, technology and infrastructure and to plan and invest over the longer term more effectively;
- (iii) approving the Payment Services Commercial Agreement or a monetary cap every three years will introduce uncertainty and instability to our business, which is detrimental to interests of us and our Shareholders as a whole;
- (iv) the long-term nature of the Payment Services Commercial Agreement provides comfort that we would not be required to spend unnecessary time, costs and resources to negotiate the terms of the transactions thereunder, which would be financially, operationally and administratively burdensome; and
- (v) the Payment Services Commercial Agreement is part of the long-term arrangements between us and Alibaba as envisioned under the SAPA.

Having considered the strategic nature and importance of the Payment Services Commercial Agreement, the Joint Sponsors are of the view that it is commercially justifiable and normal business practice for agreements of the similar nature to be of such a duration.

Since the highest applicable percentage ratio in respect of the Payment Services Commercial Agreement, calculated based on the highest historical amounts of the revenues from Alibaba and its subsidiaries for the years ended December 31, 2017, 2018 and 2019, is above 5%, the transactions contemplated under the Payment Services Commercial Agreement will be subject to compliance with the reporting, annual review, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules. We have applied for, and the Hong Kong Stock Exchange [has granted,] waivers from compliance with announcement, circular and independent shareholders’ approval requirements.

CONNECTED TRANSACTIONS

2. *Other Payment Services Agreements*

Parties:	Alipay and other subsidiaries of us (“Alipay Entities”) (as service providers); and certain Acquired Businesses and associates of Alibaba (“Alibaba Group Entities”) (as service recipients)
Principal Terms:	Pursuant to the various payment services agreements between the Alipay Entities and the Alibaba Group Entities (“Other Payment Services Agreements”), Alipay Entities provide digital payment services to Alibaba Group Entities across different payments scenarios, which as of the Latest Practicable Date included: • digital payment services across online payment scenarios, within Alipay app or on apps and websites of Alibaba Group Entities; and • digital payment services across offline payment scenarios, via QR or Bar codes in the Alipay app or in printed versions, smart POS terminals or smart devices. These services enable payments across online and offline scenarios to be conducted in a convenient, transparent and secure way. In connection with the services described above, Alipay Entities also provide ancillary services, including transfer and settlement services between users or accounts within the Alipay app, to Alibaba Group Entities free of charge in line with industry practice.
Term:	The majority of the Other Payment Services Agreements have a one-year term, with automatic renewal of additional one-year periods upon mutual agreement of the parties.
Pricing Policy:	The fee rates were negotiated between us and each Alibaba Group Entity separately on an arm’s length basis and are reviewed annually. The fee rates for online payment scenarios are generally higher than offline payment scenarios. The service fees for online and offline payment scenarios are determined by applying the agreed fee rates over TPV and International TPV of digital payment transactions carried out (i) on the platforms of the Alibaba Group Entities with the respect to online payment scenarios; or (ii) using digital payment services provided by Alipay Entities with respect to offline payment scenarios, during a period.

CONNECTED TRANSACTIONS

The fee rates are determined with reference to factors including (i) the types of digital payment services and the costs for the types of digital payment services rendered (including bank processing fees and operating costs); (ii) pricing strategies to account for the level of market competition from other payment service providers and rates offered by such payment service providers for comparable services; (iii) rates that we offer to third-party customers for the same types of digital payment and merchant services; (iv) the appropriate discount for large transaction volume or the benefit derived from the contribution of such Alibaba Group Entity to our platform weighing its business and its market position.

Reasons for the Transaction:

Alibaba Group Entities are part of the Alibaba ecosystem and have growing demands for digital payment services for consumers and merchants. Provision of digital payment services is a major part of our principal business. We, therefore, intend to continue to provide these digital payment services and seek to enter into similar payment services agreements with newly acquired subsidiaries and associates of Alibaba.

Historical Amounts:

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, the revenues relating to the digital payment services from Alibaba Group Entities under the Other Payment Services Agreements, were RMB429.3 million, RMB1,194.2 million, RMB2,203.8 million and RMB968.8 million, respectively.

Basis of Annual Caps:

The annual caps for the aggregate transaction amounts under the Other Payment Services Agreements (including renewal agreements), and any agreements with the newly acquired subsidiaries and associates of Alibaba and their renewal, for the years ending December 31, 2020, 2021 and 2022, are RMB3,300.0 million, RMB5,300.0 million and RMB7,000.0 million, respectively.

In determining the above annual caps, we have taken into account the following factors that are considered to be reasonable and fair in the relevant circumstances:

- (i) the historical transaction amounts and the growth trend of TPV and International TPV during the Track Record Period;
- (ii) the expected increase in demands for our online digital payment services from the Alibaba Group Entities due to the rapid growth of their businesses. In particular, as Alibaba continued to invest in cross-border and global e-commerce businesses in recent years, we expect the growth of these businesses will continue due to efforts to grow customer base or develop new business models in the future, which will in turn drive the demands for our digital payment services;

CONNECTED TRANSACTIONS

- (iii) the expected increase in demands for our offline digital payment services from the Alibaba Group Entities, as we expect the domestic platforms of the Alibaba Group Entities, such as Ele.me and Koubei, will continue to penetrate the offline consumer services market and have a significant upside potential, which will in turn drive the demands for our digital payment services; and
- (iv) the expected costs and expenses of Alipay Entities relating to the provision of various digital payment services.

**Hong Kong
Listing Rules
implication:**

It would be impracticable to aggregate the transactions contemplated under these agreements with those contemplated under the Payment Services Commercial Agreement when calculating the applicable percentage ratios, although the transactions are of a similar nature for the following reasons:

- (i) we adopt monetary annual caps for the transactions contemplated under these agreements and non-monetary annual caps for the transactions contemplated under the Payment Services Commercial Agreement; and
- (ii) these agreements are of a much shorter term than the Payment Services Commercial Agreement.

Since the highest applicable percentage ratio in respect of Other Payment Services Agreements, calculated based on the highest annual cap for the years ending December 31, 2020, 2021 and 2022, will be 5% or more, the transactions contemplated under Other Payment Services Agreements will be subject to compliance with the reporting, annual review, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules. We have applied for, and the Hong Kong Stock Exchange [has granted,] waivers from compliance with announcement, circular and independent shareholders’ approval requirements.

3. Marketplace Software Technology Services Framework Agreement

Date: August 24, 2020

Parties: The Company; and
Alibaba

Principal Terms: Pursuant to the marketplace software technology services framework agreement (the “Marketplace Software Technology Services Framework Agreement”), Alibaba or its associates can provide their customers with software technology services on our platform supported by our platform technology as well as integrated software technology services that incorporate our innovative technology services, such as:

- software technology services related to marketing and support services; and
- financial cloud and blockchain related software technology services.

CONNECTED TRANSACTIONS

We or our subsidiaries can provide various merchant services and digital finance technology services on Alibaba’s platforms supported by Alibaba’s platform technology and other services, such as:

- software technology services related to scenario-based services (including, without limitation, marketing and transaction services supporting our InsureTech services, CreditTech services and other services); and
- foreign exchange software technology services (including, without limitation, transaction services related to supporting and facilitating the collection and aggregation and/or conversion of settlement funds on behalf of the merchants).

Certain service or product purchase agreements with Alibaba or its associates are assimilated to the Marketplace Software Technology Services Framework Agreement as an implementation agreement thereunder. It is also envisaged that from time to time, and as required, we will enter into implementation agreements for a specified service or product with Alibaba or its associates. Each implementation agreement will set out the relevant service or product to be provided, the precise scope of service or product specification, service fees or purchase price calculation, method of payment and other details of the service or product purchase arrangement in accordance with the principles set out in the Marketplace Software Technology Services Framework Agreement.

Term: The Marketplace Software Technology Services Framework Agreement has a term commencing on August 24, 2020 and expiring on December 31, 2022 and is automatically renewable upon expiry for additional three-year periods (which will be subject to compliance with the requirements under Chapter 14A of the Hong Kong Listing Rules) unless terminated by written agreement among the parties thereto.

Pricing Policy: The fees payable for services provided by us or our subsidiaries to Alibaba or its associates are determined by applying the agreed fee rates over (i) the total transaction amounts generated by Alibaba or its associates that are supported by our or our subsidiaries’ technology services during a period; or (ii) the total sales volume of our services that are integrated with the services of Alibaba or its associates during a period.

The fee rates are determined with reference to factors including (i) the types of services and products and the costs, support and resources allocated by us or our subsidiaries to the provision of such services or products; (ii) the support and resources allocated by Alibaba or its associates facilitating the sales; (iii) the rates that we or our subsidiaries offer to similarly situated third-party customers for the same type of services; (iv) the appropriate discount for volume; and (v) the market rates that any third-party providers offer to their customers for comparable services.

CONNECTED TRANSACTIONS

The fees payable for services provided by Alibaba or its associates to us or our subsidiaries are determined by applying the agreed fee rates over (i) the total transaction amounts or profits generated by us or our subsidiaries using service of Alibaba or its associates during a period; or (ii) the service or transaction volumes for services or products provided by Alibaba or its associates to us or our subsidiaries.

The fee rates are determined with reference to factors including (i) the types of services and products and the costs, support and resources allocated by Alibaba or its associates to support our provision of such services or products; (ii) the rates that Alibaba or its associates offers to similarly situated third-party customers for the same type of services; (iii) the appropriate discount for volume; and (iv) the market rates that any third-party providers offer to their customers for comparable services.

Reasons for the Transaction:

We and Alibaba each has distinct expertise and capabilities and both of us and Alibaba generate extensive customer insights through our different yet complementary commercial activities, allowing us to address the different needs of consumers and businesses. Together with Alibaba, we have created a larger ecosystem that covers a substantial majority of Internet users and a massive number of merchants in China. We collaborate with Alibaba in a number of areas including, jointly serving consumers and merchants in many e-commerce, consumption and daily life scenarios and jointly developing leading technologies, such as blockchain and cloud computing, and their applications. Alibaba provides its customers with software technology services on our platform and integrated services that incorporate our innovative technology services. We provide various merchant services and digital finance technology services on Alibaba’s platforms. We expect our continued cooperation with Alibaba in these areas will enable us to better serve our customers.

Historical Amounts:

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, the revenues from Alibaba or its associates relating to the marketplace software technology services were approximately RMB115.3 million, RMB75.3 million, RMB406.4 million and RMB360.0 million, respectively.

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, the aggregate expenses of the marketplace software technology services incurred by us were approximately RMB754.1 million, RMB1,258.3 million, RMB2,054.3 million and RMB1,051.0 million, respectively.

Basis of Annual Caps:

The annual caps for the transaction amounts of the services to be provided to Alibaba or its associates under the Marketplace Software Technology Services Framework Agreement (including the agreements assimilated thereto and the implementation agreements entered into thereunder) for the years ending December 31, 2020, 2021 and 2022, are RMB1,700.0 million, RMB3,700.0 million and RMB6,700.0 million, respectively.

CONNECTED TRANSACTIONS

In determining the above annual caps, we have taken into account the following factors that are considered to be reasonable and fair in the relevant circumstances:

- (i) the historical transaction amounts and the growth trend during the Track Record Period;
- (ii) the expected increase in demands from Alibaba to provide its customers with marketing and support services, financial cloud and blockchain related software technology services. We are in an early stage of developing and monetizing these services and we expect the demands for these services to increase significantly in the future; and
- (iii) the expected increase in costs and expenses relating to the provision of various services.

The annual caps for the transaction amounts of the services to be provided by Alibaba or its associates under the Marketplace Software Technology Services Framework Agreement for the years ending December 31, 2020, 2021 and 2022, are RMB3,200.0 million, RMB4,700.0 million and RMB6,200.0 million, respectively.

In determining the above annual caps, we have taken into account of the following factors that are considered to be reasonable and fair in the relevant circumstances:

- (i) the historical transaction amounts and annual growth rates during the Track Record Period;
- (ii) the expected increase in demands from customers on Alibaba’s platforms for our innovative services, such as software technology services related to InsureTech services, CreditTech services and foreign exchange services; our services are based on e-commerce scenarios on Alibaba’s platforms. We expect the demand for our services will increase as the transaction volume increases on Alibaba’s platforms, which will in turn drive our demand for supporting technology services from Alibaba; and
- (iii) the expected increase in costs and expenses relating to the provision of various services.

CONNECTED TRANSACTIONS

Hong Kong Listing Rules implication: Since the highest applicable percentage ratio in respect of each of (i) the aggregate transaction amount of the services provided by us and our subsidiaries to Alibaba or its associates; and (ii) the aggregate transaction amount of the services provided by Alibaba or its associates to us and our subsidiaries under the Marketplace Software Technology Services Framework Agreement, calculated based on the highest annual cap for the years ending December 31, 2020, 2021 and 2022, will be 5% or more, such transactions will be subject to compliance with the reporting, annual review, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules. We have applied for, and the Hong Kong Stock Exchange [has granted,] waivers from compliance with announcement, circular and independent shareholders’ approval requirements.

4. Cloud Services Framework Agreement

Date: August 24, 2020

Parties: The Company; and

Alibaba Cloud Computing Ltd., an affiliated consolidated entity of Alibaba (“Alibaba Cloud Computing”) and Alibaba Cloud (Singapore) Private Limited, a subsidiary of Alibaba (“Alibaba Cloud Singapore”)

Principal Terms: Pursuant to the cloud services framework agreement (the “Cloud Services Framework Agreement”), Alibaba Cloud Computing and Alibaba Cloud Singapore agreed to provide or cause their associates to provide cloud computing services (including public cloud services, elastic compute service (ECS), object storage service (OSS), content delivery network (CDN), open data processing service (ODPS) and other professional services), certain cloud related products (including cloud software and servers), technical services (including Internet data center services and network services) and message channeling services, to us and our subsidiaries. The scope of products and services may be adjusted from time to time between the parties in writing to suit our business needs.

It is envisaged that from time to time, and as required, we will enter into implementation agreements for a particular type of cloud service or product with Alibaba Cloud Computing, Alibaba Cloud Singapore and their associates. Each implementation agreement will set out the relevant service or product to be provided, the precise scope of service or product specification, service fees or purchase price calculation, method of payment and other details of the service or product purchase arrangement in accordance with the principles set out in the Cloud Services Framework Agreement.

CONNECTED TRANSACTIONS

Term:	The Cloud Services Framework Agreement took effect retrospectively from January 1, 2020 and expires on December 31, 2022 and is automatically renewable upon expiry for additional three-year periods (which will be subject to compliance with the requirements under Chapter 14A of the Hong Kong Listing Rules) unless either party gives a non-renewal notice prior to the renewal term.
Pricing Policy:	The fees payable for services or the purchase prices for products provided by Alibaba Cloud Computing, Alibaba Cloud Singapore or their associates to us or our subsidiaries are determined by applying the agreed fee rates or per unit purchase prices over the transaction volumes for services or products provided by Alibaba Cloud Computing, Alibaba Cloud Singapore or their associates to us or our subsidiaries. The fee rates or per unit purchase prices are determined with reference to market rates for similar and comparable services or products, including the rates and purchase prices for products and services provided by Alibaba Cloud Computing and Alibaba Cloud Singapore to independent third parties and the rates and purchase prices charged by other cloud services providers.
Reasons for the Transaction:	The use of cloud computing services from Alibaba facilitates the business and technology cooperation between us and Alibaba. We leverage Alibaba’s cloud computing technology to maximize effectiveness and efficiency of our technology investment and to maintain compatibility and consistency of our various IT applications. In addition, we leverage Alibaba’s cloud computing technology to support our transaction processing requirements. There are limited choices of cloud service providers in the PRC. Alibaba is China’s largest provider of public cloud services, including IaaS and PaaS and the world’s third largest IaaS and Asia Pacific’s largest IaaS provider, providing a wide range of cloud services and is able to provide reliable and cost-efficient services. Taking into account the wide spectrum and the amount of cloud services required for our operation, we believe that obtaining such services from one single integrated service provider, namely Alibaba, is our best available option as we will be able to reduce unnecessary additional costs incurred in seeking such services from different service providers.
Historical Amounts:	For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, the expenses incurred by us with respect to the cloud products and services were approximately RMB346.4 million, RMB481.0 million, RMB1,329.9 million and RMB1,009.9 million, respectively.
Basis of Annual Caps:	The annual caps for the aggregate transaction amounts of the services and products to be provided by Alibaba Cloud Computing, Alibaba Cloud Singapore and their associates under the Cloud Services Framework Agreement for the years ending December 31, 2020, 2021 and 2022, are RMB3,600.0 million, RMB5,400.0 million and RMB7,100.0 million, respectively.

CONNECTED TRANSACTIONS

In determining the above annual caps, we have taken into account of the following factors that are considered to be reasonable and fair in the relevant circumstances:

- (i) the historical transaction amounts during the Track Record Period;
- (ii) the expected increase in demands for cloud products and services due to the potential rapid growth in the our customer base and the transaction volume on our platform;
- (iii) the expected increase in demands for cloud products and services due to our plan to increase the adoption of cloud technology in our operations; and
- (iv) a potential plan to shift to a more integrated procurement strategy by centralizing our IT related hardware facilities and message channeling service purchase through Alibaba for improved efficiency and stronger bargaining power.

**Hong Kong
Listing Rules
implication:**

Since the highest applicable percentage ratio in respect of transactions under the Cloud Services Framework Agreement, calculated based on the highest annual cap for the years ending December 31, 2020, 2021 and 2022, will be 5% or more, such transactions will be subject to compliance with the reporting, annual review, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules. We have applied for, and the Hong Kong Stock Exchange [has granted,] waivers from compliance with announcement, circular and independent shareholders’ approval requirements.

Our Directors’ Views

Our Directors (including our independent non-executive Directors) are of the view that the Partially-exempt Continuing Connected Transactions and the Non-exempt Continuing Connected Transactions described above have been and will be entered into in or incidental to the ordinary and usual course of business of our Company, are based on normal commercial terms or better and are fair and reasonable and in the interests of our Company and the Shareholders as a whole, and the proposed monetary annual caps or alternative caps (as applicable) for the Partially-exempt Continuing Connected Transactions and the Non-exempt Continuing Connected Transactions described above are fair and reasonable and in the interests of our Company and the Shareholders as a whole. Our Directors (including our independent non-executive Directors) are also of the view it is normal business practice and in the interests of our Company and the Shareholders as a whole for the term of each of the Payment Services Commercial Agreement, the Cross License Agreement, the Data Sharing Agreement, the Trademark Agreement, the SME Loan Cooperation Framework Agreement to be longer than three years.

CONNECTED TRANSACTIONS

Confirmation from the Joint Sponsors

Having taken into account the information above, the Joint Sponsors are of the view that the Partially-exempt Continuing Connected Transactions and the Non-exempt Continuing Connected Transactions described above have been and will be entered into in or incidental to the ordinary and usual course of business of our Company, are based on normal commercial terms or better, are fair and reasonable and in the interests of our Company and the Shareholders as a whole, and that the proposed annual caps or alternative caps (as applicable) are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

Having considered the strategic nature and importance of the Cross License Agreement, the Data Sharing Agreement, the Trademark Agreement, the SME Loan Cooperation Agreement and the Payment Services Commercial Agreements, the Joint Sponsors are of the view that it is commercially justifiable and normal business practice for agreements of the similar natures to be of their respective duration.

Applications for Waiver for the Partially-Exempt Continuing Connected Transactions and the Non-Exempt Continuing Connected Transactions

In respect of the Partially-exempt Continuing Connected Transactions, as one or more applicable percentage ratios (other than the profits ratio) calculated for the purpose of Chapter 14A of the Hong Kong Listing Rules are, on an annual basis, expected to be more than 0.1%, but less than 5%, such transactions are exempt from the circular and independent shareholders’ approval requirement but subject to the annual reporting and announcement requirements as set out in Rules 14A.49 and 14A.35 of the Hong Kong Listing Rules and the annual review requirements as set out in Rules 14A.55 to 14A.59 and 14A.71(6) of the Hong Kong Listing Rules.

In respect of the Non-exempt Continuing Connected Transactions, as one or more applicable percentage ratios (other than the profits ratio) calculated for the purpose of Chapter 14A of the Hong Kong Listing Rules are, on an annual basis, expected to 5% or more, such transactions are subject to the annual reporting and announcement requirements as set out in Rules 14A.49 and 14A.35 of the Hong Kong Listing Rules, the annual review requirements as set out in Rules 14A.55 to 14A.59 and 14A.71(6) of the Hong Kong Listing Rules and independent shareholders’ approval and circular requirements as set out in Rules 14A.36, 14A.46 and 14A.53(3) of the Hong Kong Listing Rules.

As described above, we expect the Partially-exempt Continuing Connected Transactions and the Non-exempt Continuing Connected Transactions to be carried out on a continuing basis and to extend over a period of time. Our Directors therefore consider that strict compliance with the announcement, circular and independent shareholders’ approval requirements under the Hong Kong Listing Rules would be impractical and unduly burdensome and would impose unnecessary administrative costs upon us each time when such transactions arise.

Accordingly, we have applied for[, and the Stock Exchange has granted to us,] a waiver from strict compliance with the announcement requirements relating to continuing connected transactions under Rule 14A.35 of the Hong Kong Listing Rules in respect of the Partially-exempt Continuing Connected Transactions and from strict compliance with the announcement, circular and independent shareholders’ approval requirements relating to the Non-exempt Continuing Connected Transactions.

CONNECTED TRANSACTIONS

We will, however, comply at all times with the applicable provisions under 14A.34, 14A.49, 14A.51 to 14A.59 and 14A.71 of the Hong Kong Listing Rules in respect of the Partially-exempt Continuing Connected Transactions and the Non-exempt Continuing Connected Transactions.

Corporate Governance Measures to Safeguard the Interest of Shareholders

We have adopted the following corporate governance measures to safeguard the interests of our Shareholders:

- the conflicted Director(s) will be required to abstain from voting in the Board meetings for the relevant resolutions concerning continuing connected transactions;
- the continuing connected transactions in place during each financial period will be disclosed in our annual report and accounts pursuant to the Hong Kong Listing Rules;
- our independent non-executive Directors will review the continuing connected transactions, approve any material change to the terms of the transactions, and confirm in our annual report and accounts for the relevant year that (i) the continuing connected transactions carried out during such year have been entered into in accordance with the relevant agreements; and (ii) any new agreements entered into, renewed or reproduced between our Group and the connected persons during the relevant financial period are fair and reasonable, or advantageous to our Shareholders, so far as our Group is concerned and in the interests of our Company and our Shareholders as a whole; and
- our auditor will carry out review procedures annually on the transactions carried out pursuant to the continuing connected transactions and will provide a letter to our Directors that the transactions have received the approval of our Directors and have been entered into in accordance with the relevant agreements.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

Our Board currently consists of nine Directors, including three executive Directors, three non-executive Directors and three independent non-executive Directors. The Directors are appointed for a term of three years and are eligible for re-election upon expiry of their term of office. The following table sets out information in respect of our Directors:

Name	Age	Date of joining our Group	Date of first appointment as Director	Position(s)	Responsibilities
Mr. Eric Xiandong JING (井賢棟)	47	September 2009	October 2013	Executive Chairman	Presiding over the Board, giving strategic advice and formulating development plans of our Group
Mr. Simon Xiaoming HU (胡曉明)	50	January 2006	September 2019	Executive Director	Participating in the formulation of business plans, strategies and major decisions of our Group
				Chief Executive Officer	Taking charge of overall management and operation of our Group
Mr. Xingjun NI (倪行軍)	43	December 2004	July 2020	Executive Director	Participating in the formulation of business plans, strategies and major decisions of our Group
				Chief Technology Officer	Taking charge of the research, development and innovation of the products and technologies of our Group
Mr. Joseph C. TSAI (蔡崇信)	56	September 2019	September 2019	Non-executive Director	Providing professional advice and judgment to the Board
Mr. Li CHENG (程立)	45	February 2005	June 2018 ⁽¹⁾	Non-executive Director	Providing professional advice and judgment to the Board
Ms. Fang JIANG (蔣芳)	46	August 2020	August 2020	Non-executive Director	Providing professional advice and judgment to the Board
Ms. Quan HAO (郝荃)	62	August 2020	August 2020	Independent non-executive Director	Giving independent strategic advice and guidance on the business and operations of our Group

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Date of joining our Group	Date of first appointment as Director	Position(s)	Responsibilities
Mr. Fred Zulu HU (胡祖六)	57	August 2020	August 2020	Independent non-executive Director	Giving independent strategic advice and guidance on the business and operations of our Group
Mr. Yiping HUANG (黃益平)	56	August 2020	August 2020	Independent non-executive Director	Giving independent strategic advice and guidance on the business and operations of our Group

Note:

- (1) Mr. Li Cheng served as our Director from June 2018 to December 2019 and was reappointed as our non-executive Director in August 2020.

Executive Directors

Mr. Eric Xiandong JING (井賢棟), aged 47, has been our executive Chairman since April 2018 and our executive Director since October 2013. Mr. Jing joined Alipay China in September 2009 and successively served as senior vice president and chief financial officer of Alipay China, our Chief Operating Officer, our President and our Chief Executive Officer. Prior to joining us, he was a senior finance director and vice president in charge of finance at Alibaba.com Limited (阿里巴巴(中國)網絡技術有限公司) from January 2007 to August 2009. Mr. Jing has also been a director of Alibaba since September 2016. Previously, Mr. Jing was the chief financial officer of Guangzhou Pepsi Cola Beverage Co. Ltd. (廣州百事可樂飲料有限公司) from 2004 to 2006. Mr. Jing also held management positions in several Coca-Cola bottling companies across China. Mr. Jing has been a non-independent director of Hundsun Technologies Inc. (恒生電子股份有限公司), a company listed on the Shanghai Stock Exchange under the stock code 600570 and an associate of our Company, since October 2014. He is a member of the External Advisory Group on Digital Technology of the International Monetary Fund, a member of the High-Level Advisory Council for the Identification for Development (ID4D) initiative of the World Bank’s Identification for Development, a director of the Forum of Young Global Leaders initiative of the World Economic Forum, as well as a member of the UN Secretary-General’s Task Force on Digital Financing of the Sustainable Development Goals. Mr. Jing obtained a bachelor’s degree with a major in technology and economics from Shanghai Jiao Tong University (上海交通大學) in July 1994 and an MBA degree from the Carlson School of Management at the University of Minnesota in July 2005.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Simon Xiaoming HU (胡曉明), aged 50, has been our executive Director since September 2019 and our Chief Executive Officer since December 2019. Mr. Hu also served as our President from November 2018 to December 2019. Mr. Hu joined Alipay China in January 2006 and held various positions including senior manager, director, senior director and assistant to the president until October 2008. Mr. Hu worked at Alibaba as senior director from October 2008 to May 2009. Subsequently, Mr. Hu founded AliFinance in June 2009 and served as its president. In addition, Mr. Hu served as our Chief Risk Officer from November 2013 to November 2014 and president of Alibaba Cloud from November 2014 to November 2018. Prior to joining us, Mr. Hu worked at the Huzhou Branch of China Construction Bank Corporation (中國建設銀行) and successively served as the head of the promotions department, the deputy general manager of the personal finance department and the e-banking department, and the deputy general manager of the corporate business department and the general manager of the marketing department, from October 1988 to August 2004 and served as the general manager of the banking card department of the Hangzhou Branch of China Everbright Bank Co., Ltd. (中國光大銀行股份有限公司) from August 2004 to June 2005. Mr. Hu has been a non-executive director of ZhongAn Online P&C Insurance Co. Ltd. (眾安在線財產保險股份有限公司), a company listed on the Main Board of the Hong Kong Stock Exchange under the stock code 06060, since November 2013. Mr. Hu was an independent director of Zhejiang Daily Digital Culture Group Co., Ltd. (浙報數字文化集團股份有限公司), a company listed on the Shanghai Stock Exchange under the stock code 600633, between April 2016 to March 2017, a non-independent director of China United Network Communications Limited (中國聯合網絡通信股份有限公司), a company listed on the Shanghai Stock Exchange under the stock code 600050, between February 2018 and July 2019 and a non-independent director of Wasu Media Holding Co., Ltd. (華數傳媒控股股份有限公司), a company listed on the Shenzhen Stock Exchange under the stock code 000156, between June 2017 and April 2019. Mr. Hu obtained an EMBA degree from China Europe International Business School (中歐國際工商學院) in September 2010.

Mr. Xingjun NI (倪行軍), aged 43, has been our executive Director since July 2020 and our Chief Technology Officer since August 2020. Mr. Ni joined Alipay China in December 2004 and is a core founding member of Alipay who, together with other core members, laid the foundations for successive versions of the technical framework of Alipay and developed the early versions of Alipay. From December 2004 to June 2020, he served as developer, product architect, head of platform product, head of product technology of the business group of Alipay China, president of the business group of Alipay China and president of technology platform of the business group of Alipay China. He has been a non-independent director of Longshine Technology Group Co., Ltd. (朗新科技集團股份有限公司), a company listed on the Shenzhen Stock Exchange in August 2017 under the stock code 300682, since April 2015. Mr. Ni obtained a college diploma in accounting from Zhejiang Institute of Finance and Economics (浙江財經學院), currently known as Zhejiang University of Finance and Economics (浙江財經大學) in July 2000 and an EMBA degree from China Europe International Business School (中歐國際工商學院) in November 2016.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Non-executive Directors

Mr. Joseph C. TSAI (蔡崇信), aged 56, has been our non-executive Director since September 2019. Mr. Tsai joined Alibaba in 1999 as one of the founding members and has served on Alibaba’s board of directors since its inception. He was Alibaba’s chief financial officer until 2013, has served as executive vice chairman of Alibaba and is a founding member of Alibaba Partnership. From 1995 to 1999, he was a private equity investor based in Asia with Investor AB, the main investment vehicle of Sweden’s Wallenberg family. Prior to that, he was general counsel of Rosecliff, Inc., a management buyout firm based in New York. From 1990 to 1993, Mr. Tsai was an associate attorney in the tax group of Sullivan & Cromwell LLP, a New York-based international law firm. Mr. Tsai was a non-executive director of Alibaba Health Information Technology Limited (阿里健康信息技術有限公司), a company listed on the Main Board of the Hong Kong Stock Exchange under the stock code 00241, between September 2015 and December 2017 and a director of Momo Inc., a company listed on Nasdaq under the ticker symbol MOMO, between February 2016 and November 2017. Mr. Tsai is qualified to practice law in the State of New York. He obtained a bachelor’s degree in Economics and East Asian Studies from Yale College in May 1986 and a juris doctor degree from Yale Law School in June 1990.

Mr. Li CHENG (程立), aged 45, has been our non-executive Director since August 2020. Mr. Cheng joined Alipay China in February 2005 and has successively served as developer and chief architect of Alipay China, our Chief Technology Officer and chief operating officer of our international business group until December 2019. In addition, he has been chief technology officer of Alibaba since December 2019. Mr. Cheng obtained a bachelor’s degree in computer software and a master’s degree in computer applications from Shanghai University (上海大學) in July 1997 and April 2000, respectively.

Ms. Fang JIANG (蔣芳), aged 46, has been our non-executive Director since August 2020. Ms. Jiang joined Alibaba in 1999 as one of the founding members. Since 1999, Ms. Jiang has served various positions in Alibaba, including strategic planning for the Chengxintong initiative, international website business analysis, global operations coordination, website operations, international marketing, integrity system development and served as an international business special assistant and deputy chief people officer. Ms. Jiang obtained a bachelor’s degree in industrial trade from Hangzhou Institute of Electronic Engineering (杭州電子工業學院), currently known as Hangzhou Dianzi University (杭州電子科技大學) in July 1996.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Ms. Quan HAO (郝荃), aged 62, has been our independent non-executive Director since August 2020. She joined KPMG (USA) in 1993 and became a partner of KPMG Huazhen LLP (Special General Partnership) and its predecessor from October 2001 to March 2015. Prior to this, Ms. Hao worked at the Renmin University of China (中國人民大學) from August 1982 to November 1989 and became a lecturer since August 1987. Ms. Hao has been an independent non-executive director of BEST Inc., a company listed on the New York Stock Exchange under the ticker symbol BEST, since September 2017, an independent non-executive director of Legend Holdings Corporation (聯想控股股份有限公司), a company listed on the Main Board of the Hong Kong Stock Exchange under the stock code 03396, since June 2015 and an independent non-executive director of HSBC Bank (China) Company Limited (滙豐銀行(中國)有限公司) since August 2018. Ms. Hao became a certified public accountant in California, the United States and in the PRC in July 1995 and May 2002, respectively. Ms. Hao obtained a bachelor's degree in accounting and finance from the Renmin University of China (中國人民大學) in December 1982 and an MBA degree from Temple University in the United States in January 1993.

Mr. Fred Zulu HU (胡祖六), aged 57, has been our independent non-executive Director since August 2020. Mr. Hu has been the founder and chairman of Primavera Capital Group since 2011. Mr. Hu previously worked at Goldman Sachs Group Inc. from 1997 to 2010, and has served as managing director, partner and the chairman for Greater China. Mr. Hu was an economist at the International Monetary Fund from 1991 to 1996. He has also been the co-director of the National Center for Economic Research and a professor at Tsinghua University (清華大學) since 1996. Mr. Hu has been an independent non-executive director of Industrial and Commercial Bank of China Limited (中國工商銀行股份有限公司), a company listed on the Shanghai Stock Exchange under the stock code 601398 and the Main Board of the Hong Kong Stock Exchange under the stock code 01398, since April 2019, a director of UBS Group AG, a company listed on the New York Stock Exchange under the ticker symbol UBS and the SIX Swiss Exchange under the ticker symbol UBSG, since 2018, a non-executive chairman of Yum China Holdings Inc., a company listed on the New York Stock Exchange under the ticker symbol YUMC, since 2016 and an independent non-executive director of Hong Kong Exchanges and Clearing Limited (香港交易及結算所有限公司), a company listed on the Main Board of the Hong Kong Stock Exchange under the stock code 00388, since November 2014. Mr. Hu was an independent non-executive director of Hang Seng Bank Limited (恒生銀行有限公司), a company listed on the Main Board of the Hong Kong Stock Exchange under the stock code 00011 from May 2011 to May 2018. Mr. Hu obtained a master's degree in engineering science from Tsinghua University (清華大學) and a Ph.D. in economics from Harvard University.

Mr. Yiping HUANG (黃益平), aged 56, has been our independent non-executive Director since August 2020. Mr. Huang has been the director at the Institute of Digital Finance at Peking University (北京大學數字金融研究中心) since October 2015, a professor of economics at the National School of Development at Peking University (北京大學國家發展研究院) since June 2009 and its deputy dean since October 2013. Prior to this, from May 2000 to February 2009, he held various positions at Citigroup Global Markets Asia Limited including the vice president and economist of the Greater China Region, as well as the managing director and chief economist of the Asia Pacific Region. From August 1993 to April 2000, Mr. Huang held various positions including researcher and senior lecturer of the Asia-Pacific Economics and Management College and director of the China Economy Program at the Australian National University. Mr. Huang obtained a doctorate degree in economics from the Australian National University in April 1994.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Supervisors

The Supervisory Committee currently consists of three Supervisors, including two non-employee representative Supervisors and one employee representative Supervisor. The Supervisory Committee shall have one chairperson. The non-employee representative Supervisors are elected at the shareholders’ general meetings. The employee representative Supervisor is elected by our employee representatives’ general meeting. The Supervisors are appointed for a term of three years and are eligible for re-election upon expiry of their term of office. The following table sets out information in respect of our Supervisors:

Name	Age	Date of joining our Group	Date of first appointment as Supervisor	Position(s)	Responsibilities
Mr. Hang JIA (郝航)	48	May 2015	December 2016	Chairperson of the Supervisory Committee Supervisor representing employees	Supervising the Board and management
Mr. Hong XU (徐宏)	47	January 2020	January 2020	Supervisor	Supervising the Board and management
Ms. Quan YU (余泉)	50	January 2016	January 2020	Supervisor	Supervising the Board and management

Mr. Hang JIA (郝航), aged 48, has been our Supervisor since December 2016 and the Chairperson of the Supervisory Committee since August 2020. Mr. Jia joined us in May 2015 and has since served as senior director and our vice president. Prior to joining us, from December 2006 to May 2015, Mr. Jia worked at China UnionPay Co., Ltd. and successively served as the chief representative for its American representative office and the general manager of the operations division of UnionPay International Co., Ltd., a subsidiary of China UnionPay Co., Ltd.. Mr. Jia obtained a master’s degree in computer applications and a double degree in computer science and mechanical engineering from Tsinghua University (清華大學) in July 1996 and in July 1994, respectively.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Hong XU (徐宏), aged 47, has been our Supervisor since January 2020. Mr. Xu joined Alibaba in July 2018 and has been the deputy chief financial officer of Alibaba since July 2020. Prior to joining Alibaba, Mr. Xu worked at PricewaterhouseCoopers from August 1996 to June 2018 and became a partner since July 2007. Mr. Xu has been a non-executive director of Red Star Macalline Group Corporation Ltd. (紅星美凱龍家居集團股份有限公司), a company listed on both the Main Board of the Hong Kong Stock Exchange under the stock code 01528 and the Shanghai Stock Exchange under the stock code 601828, since October 2019, a non-independent director of Meinian Onehealth Healthcare Holdings Co., Ltd. (美年大健康產業控股股份有限公司), a company listed on the Shenzhen Stock Exchange under stock code 002044, since December 2019, a non-independent director of Suning.com Co., Ltd. (蘇寧易購集團股份有限公司), a company listed on the Shenzhen Stock Exchange under the stock code 002024, since May 2019, a non-executive director of Lianhua Supermarket Holdings Co., Ltd. (聯華超市股份有限公司), a company listed on the Main Board of the Hong Kong Stock Exchange under the stock code 00980, since August 2018, a non-executive director of Alibaba Health Information Technology Limited (阿里健康信息技術有限公司), a company listed on the Main Board of the Hong Kong Stock Exchange under the stock code 00241, since June 2019, a non-executive director of Alibaba Pictures Group Limited (阿里巴巴影業集團有限公司), a company listed on both the Main Board of the Hong Kong Stock Exchange under stock code 01060 and the Singapore Stock Exchange under the stock code S91, since January 2020. Mr. Xu obtained a bachelor’s degree in science in July 1996 from Fudan University (復旦大學) and he is a member of the Chinese Institute of Certified Public Accountants since April 1999.

Ms. Quan YU (余泉), aged 50, has been our Supervisor since January 2020. Ms. Yu joined us in January 2016 and served as a senior director. Prior to joining us, Ms. Yu was a senior director at Capital One Financial Corporation, an American bank holding company, from June 2002 to January 2016. In June 2020, Ms. Yu was selected into the list of 50 Top Women in Tech by Forbes China. Ms. Yu obtained a bachelor’s degree in industrial trade from Xi’an Jiaotong University (西安交通大學) in July 1992 and a master’s degree in international trade from the University of International Business and Economics (對外經濟貿易大學) in June 1995.

Senior Management

The following table sets out information in respect of members of our senior management:

Name	Age	Date of joining our Group	Position(s)	Responsibilities
Mr. Songbai ZENG (曾松柏)	53	February 2012	Chief People Officer	Overseeing the overall management of the human resources of our Group
Mr. Cyril Xinyi HAN (韓歆毅)	43	May 2014	Chief Financial Officer	Overseeing corporate finance and accounting matters and financial reporting of our Group
Mr. Zhifeng ZHOU (周志峰)	50	June 2020	General Counsel and Board Secretary	Overseeing and managing overall legal matters of our Group

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Songbai ZENG (曾松柏), aged 53, has been our Chief People Officer since August 2020. Mr. Zeng joined us in February 2012 and has since successively served as our vice president of human resources and our senior vice president of human resources. Prior to this, Mr. Zeng served as the vice president of human resources of McDonald’s Corporation in the PRC between January 2010 and November 2011 and the human resources director of AB InBev SA/NV in the PRC between December 2003 and December 2009. Mr. Zeng has been a non-independent director of Meinian Onehealth Healthcare Holdings Co., Ltd. (美年大健康產業控股股份有限公司), a company listed on the Shenzhen Stock Exchange under the stock code 002044, since December 2019. Mr. Zeng obtained a bachelor’s degree in engineering from Hangzhou Institute of Commerce (杭州商學院), currently known as Zhejiang Gongshang University (浙江工商大學) in July 1988 and a master’s degree in engineering from Wuxi Institute of Light Industry (無錫輕工業學院), currently known as Jiangnan University (江南大學) in December 1993.

Mr. Cyril Xinyi HAN (韓歆毅), aged 43, has been our Chief Financial Officer since April 2020. Mr. Han joined us in May 2014 and has served as our senior director and vice president. Prior to this, Mr. Han joined Alibaba in September 2011 as a senior director of corporate finance department of Alibaba. Prior to joining Alibaba, Mr. Han worked at the investment banking division of China International Capital Corporation (中國國際金融有限公司) from July 2001 to September 2011. Mr. Han has been a non-executive director of Hundsun Technologies Inc. (恒生電子股份有限公司), a company listed on the Shanghai Stock Exchange under the stock code 600570 and an associate of our Company, since February 2016, a non-executive director of ZhongAn Online P&C Insurance Co. Ltd. (眾安在線財產保險股份有限公司), a company listed on the Main Board of the Hong Kong Stock Exchange under the stock code 06060, since October 2013 and a director of Yum China Holdings Inc., a company listed on the New York Stock Exchange under the ticker symbol YUMC, since May 2019. Mr. Han obtained a bachelor’s degree in economics and a master’s degree in economics from Tsinghua University (清華大學) in July 1999 and June 2001, respectively.

Mr. Zhifeng ZHOU (周志峰), aged 50, has been our Board Secretary since August 2020. Mr. Zhou joined us as our General Counsel in June 2020. Prior to joining us, Mr. Zhou was a partner at Fangda Partners between January 1995 and May 2020. He is currently the vice chairman of the Shanghai International Equity Investment Fund Association, a director of the Shanghai Special-Care Foundation and a distinguished professor at the East China University of Political Science and Law Lawyers Institute. Mr. Zhou obtained a bachelor’s degree in law from Fudan University (復旦大學) in July 1993.

Save as disclosed above, none of the Directors, Supervisors and members of senior management holds or has held any other directorships in any other public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this document. Please refer to the section headed “Statutory and General Information” in Appendix VII for further information about our Directors and Supervisors, including the particulars of their service contracts and remuneration, and details of the interests of our Directors and Supervisors in the Shares (within the meaning of Part XV of the SFO).

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As of the Latest Practicable Date, save as disclosed in this document:

- none of the Directors had any interests in any business, which competes or is likely to compete, either directly or indirectly with our business;
- none of the Directors, Supervisors or members of senior management is related to any other Directors, Supervisors and members of senior management;
- none of the Directors or Supervisors holds any interest in the Shares which would be required to be disclosed pursuant to Part XV of the Securities and Futures Ordinance; and
- there is no additional matters with respect to each of the Directors or Supervisors that needs to be brought to the attention of the Shareholders, and there is no additional information relating to the Directors or Supervisors that is required to be disclosed pursuant to Rule 13.51(2) of the Hong Kong Listing Rules.

Other Key Management

Apart from our senior management, our Company is also supported by other key management members who provide direction and guidance to our various business groups and functions. The biographies of our other key management members are set out below.

Mr. Hao HUANG (黃浩) has been the president of our digital finance business group since March 2019. Mr. Huang joined us in December 2015, and has served as our vice president from December 2015 to December 2016 and the general manager and executive director of MYbank from December 2016 to March 2019. Prior to joining us, Mr. Huang successively served as the deputy general manager of the financial planning department at the headquarters of China Construction Bank (中國建設銀行), the governor of Sino-German Bausparkasse Co., Ltd. (中德住房儲蓄銀行有限責任公司), the chairman of the supervisory committee of CCB Principal Asset Management Co., Ltd. (建信基金管理有限責任公司) and the general manager in charge of e-banking and Internet finance at the headquarters of China Construction Bank (中國建設銀行) between September 1996 to December 2015. Mr. Huang obtained a bachelor's degree in economics from Wuhan University (武漢大學) in July 1996.

Ms. Ying ZHAO (趙穎) has been the president of our international business group since January 2020. From June 2017 to January 2020, Ms. Zhao worked at Alibaba and served as the president of global business group and has subsequently served as the president of Fliggy since March 2018. Ms. Zhao joined us in May 2013 and successively served as our vice president of finance and chief operating officer of our international business group until June 2017. Prior to that, Ms. Zhao served as the vice president of finance for Taobao, Tmall and Alimama from October 2009 to April 2013. Ms. Zhao became a certified public accountant since April 1998. Ms. Zhao obtained a master's degree in accounting from Tianjin Institute of Finance and Economics (天津財經學院), currently known as Tianjin University of Finance and Economics (天津財經大學) in June 1999 and an EMBA degree from China Europe International Business School (中歐國際工商學院) in October 2011.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Guofei JIANG (蔣國飛) has been the president of our advanced technology business group since September 2019. Prior to joining us in February 2017 as our vice president, Mr. Jiang studied and worked in the United States for nearly 20 years. From June 2004 to February 2017, he worked at NEC Laboratories America and successively served as senior researcher, department head and vice president and developed myriad innovative tech products and solutions in fields such as IoT, big data analytics, artificial intelligence, cloud computing, computer security and software-defined networking, earning him many industrial innovation awards. Mr. Jiang has published over 160 top-level theses at international conferences or on international journals, winning a “Best Thesis Award” at a top conference. Mr. Jiang obtained a bachelor’s degree and a doctorate degree from Beijing Institute of Technology (北京理工大學) in July 1993 and June 1998, respectively. He was also a post doctorate fellow at Dartmouth College in the United States from August 1998 to August 2001.

Mr. Leiming CHEN (陳磊明) has been our senior vice president since March 2016. Mr. Chen joined us in March 2016 and served as our general counsel from March 2016 to May 2020. In his day-to-day responsibilities, Mr. Chen undertakes a broad range of regulatory engagement in connection with our Group’s international business activities. Prior to joining us, Mr. Chen was a partner and head of China practice at Simpson Thacher & Bartlett LLP, a New York-based international law firm, where he worked on a variety of equity and debt offerings and mergers and acquisitions involving primarily PRC companies, including his lead role in advising Alibaba in its initial public offering on the New York Stock Exchange in 2014. Mr. Chen has extensive experience in corporate governance and regulatory matters. Mr. Chen has been qualified to practice law in the State of New York since October 2001 and has been a solicitor of the High Court of Hong Kong since July 2011. Mr. Chen obtained a juris doctor degree from Osgoode Hall Law School, York University in Toronto, Canada in June 1994.

Mr. Douglas FEAGIN has been our senior vice president since June 2016. Prior to joining us in June 2016, from August 1994 to May 2016, Mr. Feagin worked at Goldman, Sachs & Co., where he last served as a managing director from 2004 to 2016, with a broad set of client relationships in the US, Latin America and Asia across sectors including banking, technology and insurance. He graduated from the University of Virginia in 1988, and received his MBA from Harvard Business School in 1994.

Mr. Liang CHEN (陳亮) has been our vice president since August 2017. Mr. Chen joined Alipay China in March 2008 and has been responsible for our branding and customers communications, focused on building our corporate image and engaging communications through innovative approaches. Prior to joining us, Mr. Chen has extensive experience in media, and from July 2002 to March 2008, he held editorial responsibilities at Nanfang Daily (南方日報). Mr. Chen obtained a bachelor’s degree in Chinese language and literature from Nanjing University in July 2002.

Mr. Xiongwen RUI (芮雄文) has been our vice president since February 2017. Mr. Rui has more than 20 years of risk management experience. Prior to joining us, he worked at American Express Company from 1995 to 2017 where he last served as senior vice president and was responsible for its fraud risk management. Mr. Rui obtained a bachelor’s degree from Peking University (北京大學) in July 1987 and a doctorate degree from Ohio State University in the United States in August 1995.

Mr. Ming YIN (尹銘) has been our vice president since September 2015. Prior to joining us in September 2015, Mr. Yin worked at China Life Property and Casualty Insurance Company Limited (中國人壽財產保險股份有限公司) and successively served as general manager of the Shanghai branch, assistant to the president and vice president from June 2007 to August 2015. Previously, Mr. Yin was the general manager of the Jiangsu branch of Taiping Insurance Co., Ltd. (太平保險有限公司) from July 2003 to June 2007. Mr. Yin obtained an EMBA degree from China Europe International Business School (中歐國際工商學院) in September 2010.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Gang JI (紀綱) has been our vice president since January 2016. Prior to joining us in January 2016, Mr. Ji served as the vice president of Alibaba from December 2008 to December 2015. Mr. Ji obtained a bachelor’s degree in international business management and economics from University of International Business and Economics (對外經濟貿易大學) in July 1997.

Ms. Yijie PENG (彭翼捷) has been our vice president since November 2012. Ms. Peng joined Alipay China in November 2012 and successively served as its vice president and general manager of its international business group, where she laid the foundations of the international businesses of Alipay China. Prior to joining us, Ms. Peng joined Alibaba in May 2000 and served as the vice president of Alibaba from January 2008 to February 2012 and was responsible for Alibaba’s divisions for the PRC and international B2B marketplaces. In addition, Ms. Peng was the product founder of AliExpress, a global retail marketplace. Ms. Peng obtained a double degree in technical English and international trade from Xi’an Jiaotong University (西安交通大學) in July 2000 and an EMBA degree from China Europe International Business School (中歐國際工商學院) in September 2010.

Ms. Yu ZHANG (張彥) has been our vice president since September 2019. Ms. Zhang joined Alibaba in November 2015 and has served as vice president of finance from November 2015 to August 2019. Previously, Ms. Zhang served as the director of the audit department at Siemens (China) Co., Ltd. (西門子(中國)有限公司) from October 2010 to October 2015, and was a partner at KPMG Huazhen LLP (Special General Partnership) from July 1996 to September 2010. Ms. Zhang became a certified public accountant in Colorado, the United States and in the PRC in May 2001 and May 1999, respectively. Ms. Zhang obtained a bachelor’s degree in economics from the Renmin University of China (中國人民大學) in July 1996 and a master’s degree in accounting from University of Denver in the United States in March 2001.

Ms. Wenlan SHAO (邵文瀾) has been our vice president since August 2020. Ms. Shao joined us in August 2015 and successively served as the general manager of our Huabei business group and the general manager of the consumer finance business group. She has been the chairperson of Zhima Credit since June 2019. Prior to joining us, Ms. Shao joined Alibaba in July 2002 and was successively responsible for the operations of Alibaba’s Chinese website and Taobao consumer goods industry until August 2015. Ms. Shao has worked in the tech industry for 18 years and has extensive work and management experience in tech and consumer financial products, operations, and innovation. Ms. Shao obtained a bachelor’s degree from Zhejiang Institute of Finance and Economics (浙江財經學院), now known as Zhejiang University of Finance and Economics (浙江財經大學) in June 2002.

Mr. Yi DING (丁翌) has been the general manager of our customer rights protection department since April 2020. Mr. Ding joined us in February 2015 and has successively served as a senior expert and researcher in our intelligent operations center until March 2020. Prior to joining us, Mr. Ding worked at Microsoft Corporation for 15 years and has extensive service management experience. Mr. Ding obtained a bachelor’s degree in engineering from Shanghai Jiaotong University (上海交通大學) in July 1999 and an MBA degree from BI Norwegian Business School and School of Management, Fudan University (復旦大學管理學院) in December 2010.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Company Secretary

Mr. Roy Leong Hung CHUNG (鍾亮雄), aged 37, has been our Company Secretary, Legal Director and head of international corporate governance since August 2020. Mr. Chung joined Alibaba in February 2016 as senior legal counsel in the legal department responsible for Alibaba’s strategic investments. Prior to joining Alibaba, Mr. Chung was an associate with Cleary Gottlieb Steen & Hamilton from November 2011 to January 2016, and an associate and trainee solicitor at Baker & McKenzie from September 2006 to October 2011. Mr. Chung has been a solicitor of the High Court of Hong Kong since November 2008 and a solicitor of the Senior Courts of England and Wales since May 2012. Mr. Chung obtained a bachelor’s degree in law from the London School of Economics and Political Science in July 2005 and a postgraduate certificate in law from the University of Hong Kong in June 2006.

Compensation

Compensation of Directors, Supervisors and Senior Management Members

The cash remuneration of employee Directors, Supervisors and senior management members consists of fixed salary, bonuses, various subsidies and other benefits such as social insurance and housing provident fund. Independent non-executive Directors shall receive fixed cash salary, allowances and other benefits. Our remuneration package is determined based on market standards, supply and demand of labor, business performance of our Company, individual performance of the employees and the positions they hold. Adjustments are made in accordance with changes to the market standards every year to ensure the competitiveness of our remuneration package.

For the financial years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, the total remuneration, consisting of salaries, allowances and benefits, pension scheme contributions and other social welfare and share-based payment compensation, paid to our Directors amounted to approximately RMB219 million, RMB269 million, RMB186 million and RMB87 million, respectively.

For the financial years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, the total remuneration, consisting of salaries, allowances and benefits, pension scheme contributions and other social welfare and share-based payment compensation, paid to our Supervisors amounted to approximately RMB15 million, RMB10 million, RMB8 million and RMB7 million, respectively.

For the financial years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, among our five highest paid individuals, there were three, four, three and three Directors, respectively. For the financial years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, the total remuneration, consisting of salaries, allowances and benefits, pension scheme contributions and other social welfare and share-based payment compensation, paid to our five highest paid individuals amounted to approximately RMB303 million, RMB278 million, RMB249 million and RMB126 million, respectively.

It is estimated that remuneration and benefits in kind equivalent to approximately RMB162 million and RMB14 million will be paid and granted to our Directors and Supervisors, respectively, by us in respect of the financial year ending December 31, 2020 under arrangements in force as at the date of this document.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

No remuneration was paid by us to our Directors or Supervisors as an inducement to join or upon joining us or as a compensation for loss of office in respect of the financial years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020. Further, none of our Directors or Supervisors had waived any remuneration during the same period.

Our Company has established a nomination and remuneration committee in accordance with the Articles of Association and is responsible for, among other things, studying and reviewing the remuneration policies applicable to Directors and senior management and making recommendations to the Board with respect to adopting appropriate and transparent procedures to formulate remuneration policies.

Services Contracts and Employment Agreements

We have entered into a service contract with each of the Directors and Supervisors and an employment agreement with each member of our senior management. The employment agreements set out certain confidentiality and non-compete obligations, which our senior management agreed to be bound by during their employment.

Equity Incentive Plans

We have adopted the Share Economic Rights Plan, pursuant to which Hangzhou Junhan may provide incentives with reference to the economic rights of our Shares. We have also adopted the 2020 H Share Equity Incentive Plan, the Restricted A Shares Incentive Plan and the Post-[REDACTED] H Share Equity Incentive Plan to provide either equity incentives or incentives which are determined with reference to the economic rights of our Shares. Our Directors, Supervisors and senior management members are entitled to these incentives. See “Appendix VII — Statutory and General Information — D. Employees Equity Incentive Plans” for further information.

Corporate Governance

The Company is committed to achieving high standards of corporate governance with a view to safeguarding the interests of our Shareholders. To accomplish this, the Company will comply with the corporate governance requirements under the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Hong Kong Listing Rules after the [REDACTED] of our H Shares. Additionally, the Company is in compliance with the corporate governance requirements under the PRC Company Law, PRC Securities Law and related laws, regulations and rules.

Board Committees

Our Company has established an audit committee and a nomination and remuneration committee.

Audit Committee

Our Company has established an audit committee with written terms of reference in compliance with Rule 3.21 of the Hong Kong Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules. The audit committee currently consists of Ms. Quan Hao, our independent non-executive Director, Mr. Joe Tsai, our non-executive Director and Mr. Fred Hu, our independent non-executive Director. Ms. Quan Hao is the chairperson of our audit committee.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The audit committee oversees our accounting and financial reporting processes and the audits of our financial statements. Our audit committee is responsible for, among other things:

- (1) monitoring and evaluating the performance of the external auditor;
- (2) monitoring and evaluating our internal audit, and coordinating the communication between the internal auditor and the external auditor;
- (3) reviewing financial information, financial statements and reports and their disclosure;
- (4) monitoring and considering the adequacy of our internal controls; and
- (5) other responsibilities authorized by the Board or required under the relevant laws and regulations.

Nomination and Remuneration Committee

Our Company has established a nomination and remuneration committee with written terms of reference in compliance with Rule 3.25 of the Hong Kong Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules. Our nomination and remuneration committee currently consists of Mr. Fred Hu, our independent non-executive Director, Mr. Yiping Huang, our independent non-executive Director and Ms. Fang Jiang, our non-executive Director. Mr. Fred Hu is the chairperson of our nomination and remuneration committee.

Our nomination and remuneration committee is responsible for, among other things:

- (1) examining and formulating the selection standards and procedures for electing Directors and senior management;
- (2) selecting the candidates for the Directors and senior management members;
- (3) reviewing the candidates for the Directors and senior management members and making recommendations to the Board;
- (4) examining structure, number of members and composition of the Board (including skills, knowledge and experience) at least annually, and making recommendations on the proposed changes to the Board in relation to the strategic development of the Company;
- (5) examining and evaluating the independence of the independent non-executive Directors;
- (6) making recommendations to the Board with respect to Director appointment, reappointment and Director succession plan;
- (7) considering and reviewing the remuneration policies and structure of Directors and senior management and making recommendations to the Board with respect to adopting appropriate and transparent procedures to formulate remuneration policies;

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

- (8) considering and managing matters relating to share incentives and making recommendations to the Board;
- (9) reviewing and approving management’s proposals with respect to remuneration packages in accordance with the business goals or targets set by the Board;
- (10) determining remuneration packages for individual executive Directors and senior management member as authorized by the Board, or making recommendations to the Board with respect to remuneration packages for individual executive Directors and senior management members;
- (11) making recommendations to the Board with respect to remuneration packages for non-executive Directors;
- (12) determining recruitment criteria based on remuneration packages for similar positions of a peer group, time to be devoted and responsibilities;
- (13) reviewing and approving compensation payable to non-independent Directors and senior management members who are terminated before the end of their terms in accordance with the applicable contractual terms, or making fair and reasonable compensation if not in accordance with the applicable contractual terms;
- (14) reviewing and approving compensation payable to Directors who are terminated for cause in accordance with the applicable contractual terms, or making reasonable and proper compensation if not in accordance with the applicable contractual terms;
- (15) ensuring no Directors or any of their affiliates can determine their own remuneration packages;
- (16) reviewing the implementation of the board diversity policy and considering various factors in connection with the formation of the Board (including but not limited to gender, age, culture and education background, ethnicity, expertise, knowledge and term served); and
- (17) other matters authorized by the Board.

Board Diversity

We have adopted a board diversity policy which sets out the approach to achieve and maintain diversity in our Board. Pursuant to our board diversity policy, selection of Board candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical capabilities, professional qualifications and skills, knowledge, length of service and other related factors. We will also consider our own business model and special needs. The ultimate selection of Director candidates will be based on merits of the candidates and contribution that the candidates will bring to our Board.

Our nomination and remuneration committee is responsible for the implementation of our board diversity policy. After our H Share [REDACTED], our nomination and remuneration committee will review our board diversity policy from time to time to ensure its continued effectiveness and we will disclose the implementation of our board diversity policy in our corporate governance report on an annual basis.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Compliance Advisor

We have appointed Citigroup Global Markets Asia Limited as our compliance advisor (the “Compliance Advisor”) pursuant to Rule 3A.19 of the Hong Kong Listing Rules. Our Compliance Advisor will provide us with guidance and advice as to compliance with the Hong Kong Listing Rules and applicable Hong Kong laws. Pursuant to Rules 3A.23 and 19A.06 of the Hong Kong Listing Rules, our Compliance Advisor will advise our Company in certain circumstances including:

- before the publication of any regulatory announcement, circular, or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- where we propose to use the [REDACTED] of the H Share [REDACTED] in a manner different from that detailed in this Document or where the business activities, development or results of our Group deviate from any forecast, estimate or other information in this Document;
- where the Hong Kong Stock Exchange makes an inquiry to our Company regarding unusual movements in the price or [REDACTED] volume of the Shares securities, the possible development of a false market in the Shares, or any other matters in accordance with Rule 13.10 of the Hong Kong Listing Rules; and
- where there is any amendment or supplement to the Hong Kong Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to us.

The term of appointment of our Compliance Advisor shall commence on the H Share [REDACTED] and is expected to end on the date on which we comply with Rule 13.46 of the Hong Kong Listing Rules in respect of our financial results for the first full financial year commencing after the H Share [REDACTED].

SHARE CAPITAL

Share Capital

Immediately before the H Share [REDACTED] and the A Share [REDACTED]

As of the Latest Practicable Date, the registered share capital of our Company was RMB23,778,629,496, comprising 23,778,629,496 Domestic Shares with a nominal value of RMB1.00 each.

Upon the completion of the H Share [REDACTED] and the A Share [REDACTED]

Immediately after completion of the H Share [REDACTED] and the A Share [REDACTED] and assuming that the [REDACTED] are not exercised, the share capital of our Company will be as follows:

Description of Shares	Number of Shares	Approximately% of the enlarged issued share capital after the H Share [REDACTED] and the A Share [REDACTED]
[REDACTED]	up to [REDACTED]	[REDACTED]%
H Shares issued as a result of the Redemption and Subscription	3,256,446,324	[REDACTED]%
H Shares issued pursuant to the H Share [REDACTED]	[REDACTED]	[REDACTED]%
Domestic Shares [REDACTED] upon A Share [REDACTED]	[REDACTED]	[REDACTED]%
A Shares issued pursuant to the A Share [REDACTED]	[REDACTED]	[REDACTED]%
Total	[REDACTED]	100%

Immediately after completion of the H Share [REDACTED] and the A Share [REDACTED] and assuming that the [REDACTED] are fully exercised, the share capital of our Company will be as follows:

Description of Shares	Number of Shares	Approximately% of the enlarged issued share capital after the H Share [REDACTED] and the A Share [REDACTED]
[REDACTED]	up to [REDACTED]	[REDACTED]%
H Shares issued as a result of the Redemption and Subscription	3,256,446,324	[REDACTED]%
H Shares issued pursuant to the H Share [REDACTED]	[REDACTED]	[REDACTED]%
Domestic Shares [REDACTED] upon A Share [REDACTED]	[REDACTED]	[REDACTED]%
A Shares issued pursuant to the A Share [REDACTED]	[REDACTED]	[REDACTED]%
Total	[REDACTED]	100%

(1) [REDACTED]

SHARE CAPITAL

Class of Shares

Upon the completion of the H Share [REDACTED] and the A Share [REDACTED], we have two classes of Shares, H Shares and A Shares. H Shares and A Shares are both ordinary Shares in the share capital of our Company. Apart from certain qualified domestic institutional investors in mainland China, the qualified mainland China investors under the Shanghai-Hong Kong Stock Connect and other persons who are entitled to hold our H Shares pursuant to relevant laws and regulations in mainland China or upon approvals of any competent authorities, H Shares generally cannot be subscribed for by or [REDACTED] between legal or natural mainland China persons. A Shares, on the other hand, can only be subscribed for by and [REDACTED] between legal or natural mainland China persons, qualified foreign institutional investors, foreign strategic investors or the Hong Kong and overseas investors under the Shanghai-Hong Kong Stock Connect and must be subscribed for and [REDACTED] in Renminbi.

H Shares and A Shares are regarded as different classes of Shares. The differences between the two classes of Shares, provisions on class rights, dispatch of notices and financial reports to Shareholders, dispute resolution, registration of Shares on different registers of Shareholders, the procedure of conversion and transfer of Shares and appointment of dividend receiving agents as contained in the Articles of Association are summarized in “Appendix VI — Summary of Articles of Association.”

Furthermore, any change or abrogation of the rights of class Shareholders shall be approved by way of a special resolution of the general meeting of Shareholders and by a separate class shareholders meeting convened by the affected class of Shareholders. The circumstances under which a general meeting and/or a class meeting is required are summarized in “Appendix VI — Summary of Articles of Association.” However, the approval of separate classes of Shareholders is not required under the following circumstances:

- (i) issue of A Shares or H Shares of not more than 20% of existing A Shares or H Shares, respectively, either separately or concurrently in a period of 12 months, pursuant to an approval by a special resolution of a general meeting;
- (ii) proposal to issue A Shares and H Shares of our Company upon the establishment of our Company pursuant to approval of the securities regulatory authority under the State Council, provided that such proposal is carried out within 15 months after such approval; or
- (iii) conversion and transfer of A Shares for listing and trading on the Hong Kong Stock Exchange as H Shares pursuant to and approved by the securities regulatory authority under the State Council; or
- (iv) repurchase of A Shares by our Company for the purposes of employees incentive scheme(s), for the conversion of convertible bonds issued by the Company and where considered essential to maintain the value of the Company and rights of the Shareholders.

Save as described in this document, A Shares and H Shares shall rank *pari passu* with each other in all other respects and, in particular, will rank equally for dividends or distributions declared, paid or made. All dividends for H Shares will be paid in Hong Kong dollars or in the form of additional H Shares whereas all dividends for A Shares will be paid in Renminbi.

SHARE CAPITAL

[REDACTED]

Redemption and Subscription for Our H Shares

Pursuant to the arrangements with the Ant International Class C shareholders and the arrangement in respect of the Pre-[REDACTED] Offshore ESOP Plan, all the Ant International Class C Shares and Ant International Class B Shares in issue will be redeemed and 3,256,446,324 H Shares will be subscribed for and issued. See “History — Redemption and Subscription by Ant International Security Holders” and “Appendix VII — Statutory and General Information — D. Employees Equity Incentive Plans — 1. Pre-[REDACTED] Employee Equity Incentives” for details. An application has been made to the Listing Committee for such H Shares to be [REDACTED] on the Hong Kong Stock Exchange.

[REDACTED]

SHARE CAPITAL

[REDACTED]

Lock-up Undertakings

The following lock-up undertakings have been given by our existing Shareholders pursuant to applicable laws and regulations.

Lock-up Undertakings pursuant to applicable PRC laws and regulations

Hangzhou Junhan and Hangzhou Junao

- Pursuant to applicable PRC laws and regulations, each of Hangzhou Junhan and Hangzhou Junao has undertaken, (a) [REDACTED] and (b) not to transfer, or entrust to others, or propose any repurchase by our Company of, any Domestic Shares held by it immediately prior to completion of the A Share [REDACTED] (excluding the Domestic Shares to be sold at the time of the A Share [REDACTED]) during the period of 36 months from the A Share [REDACTED]. If the closing price of our A Shares is lower than our A Share [REDACTED] for 20 consecutive trading days within a period of 6 months from the A Share [REDACTED], or if the closing price of our A Shares on the date of expiry of the 6-month period from the A Share [REDACTED] is lower than our A Share [REDACTED], the lock-up period stipulated in (b) will be extended to 42 months.

SHARE CAPITAL

Hangzhou Alibaba

- Pursuant to the PRC Company Laws, Hangzhou Alibaba has undertaken (a) [REDACTED] and (b) not to transfer any Domestic Shares held by it immediately prior to completion of the A Share [REDACTED] during the period of 12 months from the A Share [REDACTED].

Other existing Shareholders

- Pursuant to the PRC Company Law, each existing holder of Domestic Shares other than Hangzhou Junhan, Hangzhou Junao and Hangzhou Alibaba has undertaken not to transfer any Shares in issue prior to completion of the [REDACTED] and [REDACTED] of our Company held by it during the period of 12 months from the date of [REDACTED] on a stock exchange.

Lock-up Undertakings pursuant to the Hong Kong Listing Rules

Controlling Shareholders

- Pursuant to the Hong Kong Listing Rules, each of our Controlling Shareholders [has undertaken] that he/she/it shall not, and procures that any other registered holder (if any) of the Shares in which he/she/it has a beneficial interest shall not (i) dispose of or agree to dispose of any of the Shares in respect of which he/she/it is shown by this document to be the beneficial owner for a period of six months from the H Share [REDACTED]; and (ii) during a period of six months thereafter, dispose of or agree to dispose of any of such Shares if, immediately after such disposal, he/she/it would cease to be our controlling shareholder. See “Underwriting — [REDACTED]” for details of the lock-up undertaking given by the Controlling Shareholders pursuant to Rule 10.07 of the Hong Kong Listing Rules.

General Mandate to Issue Shares

Our Directors have been granted a general unconditional mandate to allot, issue and deal with A Shares and/or H Shares or securities convertible into A Shares and/or H Shares or options, warrants or similar rights to subscribe for A Shares and/or H Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the total number of A Shares and/or H Shares allotted or agreed to be allotted by the Directors other than pursuant to:

- (a) a rights issue;
- (b) any scrip dividend scheme or similar arrangement providing for the allotment of A Shares and/or H Shares in lieu of the whole or part of a dividend on A Shares and/or H Shares in accordance with the Articles; or
- (c) a specific authority granted by the Shareholders in general meeting,

SHARE CAPITAL

shall not exceed 20% of the respective amount of A Shares and/or H Shares in issue immediately following the completion of the H Share [REDACTED] and the A Share [REDACTED] (but excluding any Shares which may be issued pursuant to the exercise of the [REDACTED]).

This general mandate to issue A Shares and/or H Shares will expire:

- (i) at the conclusion of our next annual general meeting;
- (ii) at the expiration of the period within which we are required by any applicable law or the Articles to hold our next annual general meeting; or
- (iii) when varied or revoked by a special resolution of the Shareholders in general meeting,

whichever is the earliest.

For more details of this general mandate, see “Appendix VII — Statutory and General Information — A. Further Information About Our Group — 4. Resolutions Passed by the Shareholders of the Company on August 21, 2020.”

SUBSTANTIAL SHAREHOLDERS

Substantial Shareholders

So far as our Directors are aware, immediately following completion of the H Share [REDACTED] (including Redemption and Subscription) and the A Share [REDACTED] and assuming the [REDACTED] are not exercised, the following persons will have interests and/or short positions in the Shares or underlying Shares of our Company which (i) would fall to be disclosed pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or (ii) will be, directly or indirectly, interested in 10% or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group:

Name of Shareholder	Nature of interest	Number and class of Shares held	Approximate percentage of shareholding in the relevant class of Shares immediately after the completion of the H Share [REDACTED] and the A Share [REDACTED] (assuming the [REDACTED] are not exercised)	Approximate percentage of shareholding in the total share capital of our Company immediately after the completion of the H Share [REDACTED] and the A Share [REDACTED] (assuming the [REDACTED] are not exercised)
Mr. Jack Ma ^{(1) (2) (3)}	Interest in controlled corporation	up to [REDACTED] Shares ⁽⁴⁾	[REDACTED]% ⁽⁴⁾	[REDACTED]%
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Mr. Eric Jing ⁽²⁾	Interest of a party to an agreement	up to [REDACTED] Shares ⁽⁴⁾	[REDACTED]% ⁽⁴⁾	[REDACTED]%
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Mr. Simon Hu ⁽²⁾	Interest of a party to an agreement	up to [REDACTED] Shares ⁽⁴⁾	[REDACTED]% ⁽⁴⁾	[REDACTED]%
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Ms. Fang Jiang ⁽²⁾	Interest of a party to an agreement	up to [REDACTED] Shares ⁽⁴⁾	[REDACTED]% ⁽⁴⁾	[REDACTED]%
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

SUBSTANTIAL SHAREHOLDERS

Name of Shareholder	Nature of interest	Number and class of Shares held	Approximate percentage of shareholding in the relevant class of Shares immediately after the completion of the H Share [REDACTED] and the A Share [REDACTED] (assuming the [REDACTED] are not exercised)	Approximate percentage of shareholding in the total share capital of our Company immediately after the completion of the H Share [REDACTED] and the A Share [REDACTED] (assuming the [REDACTED] are not exercised)
Hangzhou Yunbo ⁽¹⁾	Interest in controlled corporation	up to [REDACTED] Shares ⁽⁴⁾	[REDACTED]% ⁽⁴⁾	[REDACTED]% ⁽⁴⁾
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Hangzhou Junhan ⁽¹⁾	Beneficial owner	[REDACTED] Shares	[REDACTED]%	[REDACTED]%
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Hangzhou Junao ⁽¹⁾	Beneficial owner	[REDACTED] Shares	[REDACTED]%	[REDACTED]%
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Alibaba ⁽⁵⁾	Interest in controlled corporation	up to [REDACTED] Shares ⁽⁵⁾	[REDACTED]% ⁽⁵⁾	[REDACTED]% ⁽⁵⁾
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Taobao Holding Limited ⁽⁵⁾	Beneficial owner	[REDACTED] Shares	[REDACTED]%	[REDACTED]%
	Interest in controlled corporation	up to [REDACTED] Shares ⁽⁵⁾	[REDACTED]% ⁽⁵⁾	[REDACTED]% ⁽⁵⁾
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Taobao China Holding Limited ⁽⁴⁾	Interest in controlled corporation	up to [REDACTED] Shares ⁽⁵⁾	[REDACTED]% ⁽⁵⁾	[REDACTED]% ⁽⁵⁾
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

SUBSTANTIAL SHAREHOLDERS

Name of Shareholder	Nature of interest	Number and class of Shares held	Approximate percentage of shareholding in the relevant class of Shares immediately after the completion of the H Share [REDACTED] and the A Share [REDACTED] (assuming the [REDACTED] are not exercised)	Approximate percentage of shareholding in the total share capital of our Company immediately after the completion of the H Share [REDACTED] and the A Share [REDACTED] (assuming the [REDACTED] are not exercised)
Taobao (China) Software Co, Ltd. (淘寶(中國)軟件有限公司) ⁽⁴⁾	Interest in controlled corporation [REDACTED]	up to [REDACTED] Shares ⁽⁵⁾ [REDACTED]	[REDACTED]% ⁽⁵⁾ [REDACTED]	[REDACTED]% ⁽⁵⁾ [REDACTED]
Hangzhou Tongxin Network Technology Co., Ltd. (杭州同欣網絡技術有限公司) ⁽⁴⁾	Interest in controlled corporation [REDACTED]	up to [REDACTED] Shares ⁽⁴⁾ [REDACTED]	[REDACTED]% ⁽⁴⁾ [REDACTED]	[REDACTED]% ⁽⁴⁾ [REDACTED]
Hangzhou Alibaba ⁽³⁾	Beneficial owner [REDACTED]	up to [REDACTED] Shares ⁽⁵⁾ [REDACTED]	[REDACTED]% ⁽⁵⁾ [REDACTED]	[REDACTED]% ⁽⁵⁾ [REDACTED]

Notes:

- (1) Hangzhou Junhan and Hangzhou Junao are two limited partnerships established under the laws of the PRC. They are controlled by Hangzhou Yunbo as their executive partner and general partner.

The direct and indirect limited partners of Hangzhou Junhan and Hangzhou Junao are certain existing and former senior management and employees of our Group and Alibaba. These direct or indirect limited partners of Hangzhou Junhan and Hangzhou Junao have no control or voting power over the Shares held by Hangzhou Junhan or Hangzhou Junao. None of them has any interests in the Shares that would fall to be disclosed pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO.

SUBSTANTIAL SHAREHOLDERS

The table below sets out the cumulative contribution by the partners of Hangzhou Junhan and Hangzhou Junao and the economic interests of the direct and indirect limited partners of Hangzhou Junhan and/or Hangzhou Junao as represented by the corresponding number of Shares:

Name of partner	Subscribed capital contribution (in RMB million) ^(Note b)	Economic interests represented by number of Shares (in million) ^(Note c)
General partner		
Hangzhou Yunbo ^(Note a)	20	4,981
Limited partners		
Jack Yun MA (馬雲)	20	2,677
Lucy Lei PENG (彭蕾)	2,077	504
Eric Xiandong JING (井賢棟)	2,184	303
Zhaoxi LU (陸兆禧)	52	230
Xiaofeng SHAO (邵曉鋒)	51	228
Trudy Shan DAI (戴珊)	48	189
Eddie Yongming WU (吳泳銘)	48	189
Judy Wenhong TONG (童文紅)	45	180
Daniel Yong ZHANG (張勇)	44	175
Shuai WANG (王帥)	42	167
Yijie PENG (彭翼捷)	33	164
Simon Xiaoming HU (胡曉明)	2,145	161
Jian WANG (王堅)	40	157
Luyuan FAN (樊路遠)	584	147
Sara Siying YU (俞思瑛)	35	140
Maggie Wei WU (武衛)	35	137
Jianhang JIN (金建杭)	33	131
Li CHENG (程立)	233	127
Ming ZENG (曾鳴)	29	115
Fang JIANG (蔣芳)	25	97
Zhenfei LIU (劉振飛)	25	97
Yu ZHANG (張宇)	24	94
Sophie Minzhi WU (吳敏芝)	23	92
Peng JIANG (姜鵬)	22	86
Jeff Jianfeng ZHANG (張建鋒)	20	80
Xingjun NI (倪行軍)	563	44
Ying ZHAO (趙穎)	563	44
Songbai ZENG (曾松柏)	522	33
Jingxian CAI (蔡景現)	352	28
Yongxin FANG (方永新)	352	28
Lijun SUN (孫利軍)	352	28
Jessie Junfang ZHENG (鄭俊芳)	352	28
Yongfu YU (俞永福)	352	28
Winnie Jia WEN (聞佳)	382	22
Zeming WU (吳澤明)	382	22
Simon Shihuang XIE (謝世煌)	5	20
Lei WANG (王磊)	243	14
Jiangwei JIANG (蔣江偉)	388	11
Jie SONG (宋潔)	388	11
Cyril Xinyi HAN (韓歆毅)	70	6
Total	13,204	12,012

SUBSTANTIAL SHAREHOLDERS

Notes:

- a. Hangzhou Yunbo is not entitled to any economic interests derived from the Shares held by Hangzhou Junhan and Hangzhou Junao. As general partner and executive partner of Hangzhou Junhan and Hangzhou Junao, Hangzhou Yunbo has the right to direct the allocation of economic interests derived from the Shares held by Hangzhou Junhan and Hangzhou Junao. Such allocation includes economic interests to be donated in the future to charitable organizations designated by Mr. Jack Ma (representing 611,337,334 underlying Shares), economic interests attached to share economic rights, economic interests for future limited partners of Hangzhou Junhan and Hangzhou Junao and economic interests that may be used for other future charitable donations.
 - b. Refers to the cumulative amounts of capital subscribed by direct and indirect partners of Hangzhou Junhan and Hangzhou Junao as registered with the local counterparts of the State Administration for Market Regulation (“SAMR”). The subscribed capital of limited partners was determined with reference to the fair value of the Shares and such partners’ entitlement to the economic interests that are represented by the number of Shares when they joined as partners. The fair value of the Shares varied over time; and partners’ entitlement varies as to the economic interests that are represented by the number of Shares. As such, the amount of capital subscribed by a partner as registered with SAMR does not directly correlate to such partner’s economic interests derived from the Shares; and such amount of subscribed capital as a percentage of the total amounts of subscribed capital by all partners does not directly correlate to such partner’s economic interests as a percentage of the total economic interests derived from the Shares held by Hangzhou Junhan and Hangzhou Junao.
 - c. Refers to economic interests of direct and indirect limited partners as determined by limited partner interests that are represented by number of Shares. According to the Law of the People’s Republic of China on Partnerships, the economic interests of partners in a partnership shall be determined by agreement among the partners. The economic interests of the direct and indirect partners of Hangzhou Junhan and Hangzhou Junao derived from the Shares held by Hangzhou Junhan and Hangzhou Junao are determined by their limited partner interests that are represented by specified numbers of Shares.
- (2) Hangzhou Yunbo is held as to 34%, 22%, 22% and 22% by Mr. Jack Ma, Mr. Eric Jing, Mr. Simon Hu and Ms. Fang Jiang, respectively. Mr. Jack Ma, Mr. Eric Jing, Mr. Simon Hu and Ms. Fang Jiang entered into the Concert Party Agreement on August 21, 2020. Pursuant to such agreement and the articles of association of Hangzhou Yunbo, Mr. Jack Ma can, through his control over resolutions passed at the general meetings of Hangzhou Yunbo which relate to the exercise of right by Hangzhou Junhan and Hangzhou Junao as Shareholders, effectively exercise control over the Shares held by Hangzhou Junhan and Hangzhou Junao and accordingly, has ultimate control over our Company. However, although Mr. Jack Ma has control over the Shares held by Hangzhou Junhan and Hangzhou Junao, Mr. Jack Ma’s indirect economic interests in our Company is limited to his interests as a limited partner of Hangzhou Junhan and the corresponding interests in the Shares held by Hangzhou Junhan. As such, each of Mr. Jack Ma, Mr. Eric Jing, Mr. Simon Hu and Ms. Fang Jiang is deemed to be interested in the [REDACTED] Shares in which Hangzhou Junhan and Hangzhou Junao are interested. See “Relationship with Controlling Shareholders — Our Controlling Shareholders” of this document for details.
- (3) Hangzhou Alibaba is wholly-owned by Hangzhou Tongxin Network Technology Co., Ltd. (杭州同欣網絡技術有限公司), a wholly-owned subsidiary of Taobao (China) Software Co, Ltd. (淘寶(中國)軟件有限公司). Taobao (China) Software Co, Ltd. (淘寶(中國)軟件有限公司) is in turn wholly-owned by Taobao China Holding Limited, a wholly-owned subsidiary by Taobao Holding Limited. Alibaba owns the entire issued share capital of Taobao Holding Limited. As a result, each of Alibaba, Taobao Holding Limited, Taobao China Holding Limited, Taobao (China) Software Co, Ltd. (淘寶(中國)軟件有限公司) and Hangzhou Tongxin Network Technology Co., Ltd. (杭州同欣網絡技術有限公司) is deemed to be interested in the same number of [REDACTED] Shares held by Hangzhou Alibaba, and Alibaba is deemed to be interested in the same number of H Shares held by Taobao Holding Limited.
- (4) [REDACTED]

SUBSTANTIAL SHAREHOLDERS

- (5) [REDACTED]. The share numbers assume Alibaba does not exercise its anti-dilution right to subscribe for additional Shares in our [REDACTED].

Save as disclosed in this document, our Directors are not aware of any person who will, immediately following the completion of the H Share [REDACTED] and the A Share [REDACTED] (and the [REDACTED] of any additional Shares pursuant to the [REDACTED]), have an interest or short position in the Shares or underlying shares of our Company which would be required to be disclosed to our Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO or will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at any general meeting of our Company.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Our Controlling Shareholders

Hangzhou Junhan, Hangzhou Junao and Hangzhou Yunbo

As of the Latest Practicable Date, Hangzhou Junhan and Hangzhou Junao held approximately 29.86% and 20.66% (together approximately 50.52%) of our total issued Shares, respectively. Both Hangzhou Junhan and Hangzhou Junao are limited partnerships established in China, with Hangzhou Yunbo being their executive partner and general partner that has the power to manage their businesses, including the power to vote in respect of the Shares held by Hangzhou Junhan and Hangzhou Junao.

We are incorporated in the PRC and pursuant to PRC laws and regulations, Hangzhou Junhan and Hangzhou Junao, which together are our largest shareholders, are considered our controlling shareholders.

Mr. Jack Ma and other shareholders of Hangzhou Yunbo

Mr. Jack Ma held a 34% equity interest in Hangzhou Yunbo and each of Mr. Eric Jing, Mr. Simon Hu and Ms. Fang Jiang held a 22% equity interest in Hangzhou Yunbo. Pursuant to the articles of association of Hangzhou Yunbo and a concert party agreement entered into among Mr. Jack Ma, Mr. Eric Jing, Mr. Simon Hu and Ms. Fang Jiang on August 21, 2020, all matters relating to our Company including the exercise of the voting power in respect of the Shares held by Hangzhou Junhan and Hangzhou Junao, the nomination of directors and supervisors to our Company by them and the increase or decrease of their interests in our Company shall be decided by the general meetings of Hangzhou Yunbo, with a majority of more than two-thirds of the votes by the shareholders. As such, Mr. Jack Ma has veto right over all such matters, and if any resolution relating to any such matter proposed at a general meeting of Hangzhou Yunbo is not carried, the other shareholders of Hangzhou Yunbo shall cast their votes in accordance with the decision of Mr. Jack Ma and pass and sign the relevant resolution. Therefore, Mr. Jack Ma can, through his control over resolutions passed at the general meetings of Hangzhou Yunbo which relate to the exercise of right by Hangzhou Junhan and Hangzhou Junao as Shareholders, effectively exercise control over the Shares held by Hangzhou Junhan and Hangzhou Junao and accordingly, has ultimate control over our Company. However, although Mr. Jack Ma has control over the Shares held by Hangzhou Junhan and Hangzhou Junao, Mr. Jack Ma’s indirect economic interests in our Company is limited to his interests as a limited partner of Hangzhou Junhan and not the interests in all the Shares held by Hangzhou Junhan and Hangzhou Junao.

No changes were made to our Board and our core management team as a result of the transfer of Hangzhou Yunbo’s equity interest by Mr. Jack Ma and it has not caused material changes in the management of our daily operations. In addition, the concert party agreement imposes certain restrictions on the disposal of equity interest in Hangzhou Yunbo held by its shareholders.

Alibaba

As of the Latest Practicable Date, Alibaba, through its subsidiaries Hangzhou Alibaba and Taobao Holding Limited, owned 33% equity interest in our Company, assuming the redemption and subscription arrangement described in “History and Development-Redemption and Subscription by Ant International securities holders” had been completed as of the Latest Practicable Date such that the Ant International Class C shares held by Taobao Holding Limited, are redeemed and the same number of H Shares are issued.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Strictly in accordance with the definition under the Hong Kong Listing Rules only, each of Alibaba and Hangzhou Alibaba is considered to be a Controlling Shareholder of our Company, despite we are not controlled by them. This is because the term “controlling shareholder” is defined under the Hong Kong Listing Rules to include any person who is entitled to exercise or control the exercise of 30% or more of the voting power at general meetings of a listed company.

Each of Mr. Jack Ma, Mr. Eric Jing, Mr. Simon Hu, Ms. Fang Jiang, Hangzhou Yunbo, Hangzhou Junhan and Hangzhou Junao is also considered as our Controlling Shareholder in accordance with the definition under the Hong Kong Listing Rules.

However, only Hangzhou Junhan and Hangzhou Junao (which together held approximately 50.52% of our total issued Shares as of the Latest Practicable Date), but not Alibaba, are considered to be our controlling shareholders pursuant to relevant PRC laws and regulations.

Pursuant to the SAPA and related documents, Alibaba has an anti-dilution right to subscribe for additional Shares in our [REDACTED] so that it may hold an equity interest not exceeding 33% in our Company upon completion of the H Share [REDACTED] and the A Share [REDACTED].

Relationship with Hangzhou Junhan and Hangzhou Junao

Both Hangzhou Junhan and Hangzhou Junao are investment holding limited liability partnerships with no substantive business operations. As such, there will not be any competition between us and Hangzhou Junhan or Hangzhou Junao. Also, a portion of our Shares held by Hangzhou Junhan is reserved for the purpose of supporting our Share Economic Rights Plan, which is a form of equity-based incentive to our senior management and employees. As such, we believe the interests of ours and Hangzhou Junhan’s are highly aligned.

The direct and indirect limited partners of Hangzhou Junhan and Hangzhou Junao are certain existing and former senior management and employees of our Group and Alibaba. These direct or indirect limited partners of Hangzhou Junhan and Hangzhou Junao have no voting power over the Shares held by Hangzhou Junhan or Hangzhou Junao.

Relationship with Alibaba

Alipay China, one of our major operating subsidiaries, was established in 2004 by Alibaba to provide digital payment services to consumers and merchants on Alibaba’s platforms. In 2011 our predecessors company was spun off from Alibaba. This origin and continued affiliation with Alibaba is a source of strength as well as purpose. We began our business from digital payment, and we have expanded our business to provide a comprehensive range of digital finance technology services, including CreditTech, InvestmentTech and InsureTech, that create value for customers transacting on Alibaba’s platforms and beyond.

Together with Alibaba, we have created a larger ecosystem that covers and serves a substantial majority of Internet users and a massive number of merchants in China and provide a platform for consumers, businesses and partners to access the full range of solutions and resources offered by Alibaba and us.

Alibaba has contributed to and participated in our success long before it received a 33% equity interest in our Company in September 2019 through Hangzhou Alibaba, a wholly-owned subsidiary of Alibaba. Our long-term, stable and highly synergistic relationship is

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

built upon and maintained by an established framework of transaction arrangements covering various business areas which have grown over the years since 2011. The agreements governing these transaction arrangements were designed to provide certainty and stability of the business arrangements as well as ensuring fair, reasonable and mutually beneficial dealings between the two groups.

Alibaba’s Shareholding in Our Company

In September 2019, pursuant to the SAPA, we issued certain number of Shares to Hangzhou Alibaba Network Technology Co., Ltd (杭州阿里巴巴網絡科技有限公司), a wholly-owned subsidiary of Alibaba. Our subsidiary, Ant International, also issued certain number of Ant International Class C shares to Taobao Holding Limited, a wholly-owned subsidiary of Alibaba. As of the Latest Practicable Date, assuming the redemption and subscription arrangement described in “History and Development” had been completed as of the Latest Practicable Date, Alibaba’s interest in our Company through its wholly-owned subsidiaries would be 33%.

Given Alibaba’s shareholding in us, we believe the interests of ours and Alibaba’s are highly aligned as Alibaba is able to share in our long term growth and success. Such close alignment of interests also underpin a fair dealing in negotiating our various commercial arrangements with Alibaba.

Overall Business Cooperation

Our partnership with Alibaba is highly synergistic. We provide digital payment and merchant services and operate a digital finance technology platform. Alibaba is the largest retail commerce business in the world with an extensive ecosystem. We, together with Alibaba, are building the digital infrastructure for commerce and services. We believe that our synergistic relationship allows us to best serve the diversified needs of consumers and businesses. The growth in retail commerce depends upon high quality financial services, including digital payment services, whereas growth in digital finance services is driven by the expansion of use cases and consumption on e-commerce platforms.

Our digital payment business began with serving consumers and merchants on Alibaba’s platforms, and we have since expanded our use cases and customer base beyond Alibaba’s platforms. Our Alipay app currently serves more than one billion users in China and we have developed relationships with over 80 million online and offline businesses across different verticals. A vibrant ecosystem has developed around Alibaba’s platforms and businesses that consists of consumers, merchants, brands, retailers, third-party service providers, strategic alliance partners and other businesses. As we and Alibaba have each grown our platforms covering a substantial majority of Internet users and a massive number of businesses in China, it is natural that there is overlap between our customer bases. We and Alibaba each have distinct expertise and capabilities — both of us generate extensive customer insights through our different yet complementary commercial activities, allowing us to address the different needs of consumers and businesses. As such, we are able to maintain direct access to a diverse customer base.

The wide range of e-commerce transactions and other commercial activities on the Alibaba’s platforms present a rich commercial environment for us to provide payment and connect other services. Our digital payment services provide the payment infrastructure for Alibaba’s platforms. Our digital finance technology services also facilitate the growth of Alibaba’s retail commerce platforms. For example, our CreditTech services help finance

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consumption on Alibaba’s retail commerce platforms and provides credit to merchants to help them expand their business, while our InsureTech services originate various scenario-based insurance products that help improve the user experience on Alibaba’s retail commerce platforms.

Furthermore, our digital daily life services strategy also brings opportunities for Alibaba’s consumer services business. For example, for the twelve months ended March 31, 2020, more than 40% of new transacting users on Ele.me were from our Alipay app.

The extensive range of services that we and the Alibaba ecosystem provide — in payment, commerce, logistics, local services, merchant services, digital entertainment, offline stores, map navigation, among others — collectively generate a wealth of high-quality, differentiated and commercially relevant insights into consumers and businesses that use our platforms.

Although we and Alibaba have distinct expertise and capabilities in serving different needs of a naturally-overlapping base of consumers and businesses, we share the same vision and value to serve our customers. The synergistic relationship between us and Alibaba has been designed with longevity in mind as evidenced in the long duration of a series of commercial and cooperation agreements that cemented this long term synergistic relationship. See “Transactional Arrangements with Alibaba” and “Connected Transactions” for further details about these arrangements.

Competing Interests

Each of the Controlling Shareholders and the Directors confirms that he/she/it does not have any interest in a business which competes or is likely to compete in any substantial respect, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Hong Kong Listing Rules.

Furthermore, under the SAPA, subject to certain limitations and unless both we and Alibaba agree, Alibaba is restricted from engaging in specified business activities within our scope of business, and we are restricted from engaging in business activities within the scope of business of Alibaba or logical extensions thereof. Each party may, however, make passive investments in competing businesses below specified thresholds, in some cases after offering the investment opportunity to the other party.

In connection with the A Share [REDACTED], each of Mr. Jack Ma, Hangzhou Junhan and Hangzhou Junao has undertaken that, for so long as he/it remains the ultimate controller or controlling shareholders of our Company, as defined under relevant PRC laws and regulations:

- he/it and any enterprises controlled by him/it, apart from the business of our Group, will not engage in any business which competes or is likely to compete, directly or indirectly, with our main business; and
- if he/it encounters any investment or commercial opportunity in business which competes or is likely to compete, directly or indirectly, with our main business, he/it shall promptly notify us and first offer such investment or commercial opportunity to us on fair and reasonable terms, subject to compliance with applicable laws and regulations.

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Independence from the Controlling Shareholders

Having considered the following factors, our Directors are satisfied that we are capable of carrying on our business independently from the Controlling Shareholders after our H Share [REDACTED].

Management Independence

Our Board comprises nine Directors, including three executive Directors, three non-executive Directors and three independent non-executive Directors. Our Executive Chairman Mr. Eric Jing, our Chief Executive Officer, Mr. Simon Hu, and our non-executive Directors, namely Mr. Joe Tsai, Mr. Li Cheng and Ms. Fang Jiang also hold offices as directors and/or senior management with Alibaba. Mr. Eric Jing is a director of Alibaba, Mr. Simon Hu is the chairman of Local Services Holding Limited, a subsidiary of Alibaba, Mr. Joe Tsai is the executive vice chairman of Alibaba, Ms. Fang Jiang is the deputy chief people officer of Alibaba and Mr. Li Cheng is the chief technology officer of Alibaba. Other than as disclosed above, there is no overlapping director or senior management between us and Alibaba. Our non-executive directors are not involved in the day-to-day management and operations of our businesses and their primary roles are to provide professional advice and guidance to our Company.

The three executive Directors and the members of our senior management and other key management are responsible for the day-to-day management and operations of our business. They are able to devote substantially all of their time to our management and operation. All of our independent non-executive Directors are professionals having extensive experience in their respective fields of expertise. They have been appointed to ensure that the decisions of our Board are made only after due consideration of independent and impartial opinions. None of our independent non-executive Directors are directors of Alibaba or otherwise connected with Alibaba in any manner that may affect their independent judgment or independence. See “Directors, Supervisors and Senior Management — Independent Non-executive Directors” for details of experience of our independent non-executive Directors.

Each of the Directors and each member of the senior management is aware of his/her fiduciary duties as a Director and/or senior management of our Company which require, among other things, that he/she acts for the benefit and in the best interests of our Company and avoids any conflict between his duties as a Director and/or senior management and his personal interest. In the event that there is any potential conflict of interest, the interested Director(s) will abstain from voting at the relevant Board meetings of the Company in respect of such matter and shall not be counted towards the quorum.

We have our own management team and separate functional departments including accounting, administration, legal, risk management and human resources and board secretarial departments. Although we share certain administrative and back office support services with Alibaba, all essential administration and daily operations of our Company are carried out by a team of staff employed by our Company. Save as disclosed above, none of our executive Directors or senior management member holds any office in or is employed by Alibaba.

We have established internal control mechanisms to identify connected transactions. Any connected transactions between our Group and Alibaba will be and are identified in advance and any interested Director must abstain from voting on the relevant resolutions approving such connected transactions. Furthermore, we will engage a third-party professional advisor to advise our Company and the Board in respect of such connected transactions when necessary.

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We have appointed Citigroup Global Markets Asia Limited as our compliance advisor to provide advice and guidance to us in respect of compliance with Hong Kong applicable laws and regulations, as well as the Hong Kong Listing Rules, including various requirements relating to corporate governance.

Based on the above, we consider that our Board, our senior management and other key management are capable of operating our businesses and managing all actual or potential conflicts of interest independently of Alibaba and are capable of properly discharging their duties and acting in the best interests of our Shareholders as a whole. We are also satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interests that may arise between us and Alibaba, and to protect our Shareholders’ interests after [REDACTED].

Operational Independence

We hold all relevant licenses and qualifications required by relevant laws and regulations and own all relevant research and development facilities necessary to carry on our business. Our Group owns (or is otherwise licensed to use) all relevant intellectual properties necessary for our business operations. We have sufficient capital, facilities and employees to operate our business independently from Alibaba. We have established our own business development, sales and marketing, finance, technology, legal and other administrative functions which operate independently from Alibaba.

We have a synergistic and mutually beneficial relationship with Alibaba as detailed in “— Relationship with Alibaba” and have entered into comprehensive transactional arrangements with Alibaba as detailed in “— Transactional Arrangements with Alibaba.” We believe that we are able to operate independently of Alibaba on the basis that (i) we have the capability to serve our customers, primarily the provision of digital payment and digital finance technology services, independently of Alibaba, (ii) we have diverse revenues sources from digital payment and merchant services and digital finance technology services, and revenues directly generated from Alibaba contributed less than 10% of our total revenues throughout the Track Record Period; (iii) we have access to our customers independent of and beyond Alibaba’s platforms as evidenced by over one billion users of our Alipay app, and our relationship with online and offline merchants across different verticals, beyond retail commerce; and (iv) we have established a strong brand and reputation independent of and distinct from Alibaba and developed a portfolio of proprietary trademarks.

Financial Independence

We have an independent financial system and make financial decisions according to our own business needs. We have an independent internal control and accounting system. We also have an independent finance department responsible for discharging the treasury function. Our business has been primarily funded by our operating cash flow and the proceeds from various rounds of debt and equity financings. We are capable of obtaining financing from third parties without reliance on any of the Controlling Shareholders. Our outstanding interest-bearing bank borrowings balances amounted to RMB29,611 million and we had an unutilized syndicated credit facility of approximately US\$5.5 billion as of June 30, 2020. In addition, there were no loans, guarantees, or other forms of financial assistance provided by, or granted to, any of the Controlling Shareholders outstanding as of the Latest Practicable Date. Based on the above, our Directors believe that we do not have any financial dependence on our Controlling Shareholders.

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Transactional Arrangements with Alibaba

We have entered into a number of transactions with Alibaba and its subsidiaries which constitute the framework of our business cooperation. In particular, we have entered into (i) the Payment Services Commercial Agreement and various other payment services agreements for the provision of payment processing and escrow services for Alibaba and its various subsidiaries and associates (“Payment Services Transactions”); (ii) agreements relating to mutual provision of marketplace software technology services (“Marketplace Technology Services Transactions”); (iii) a framework agreement for the provision of cloud computing services by Alibaba to us (“Cloud Services Transactions”); (iv) agreements relating to our use of certain trademarks owned by Alibaba and mutual licensing to use each other’s trademarks, patents, software and technologies (“IP Licensing”); and (v) a data sharing agreement that provides a stringent data privacy governance framework regulating the access to data shared on a common platform in compliance with applicable laws and regulations (“Data Sharing Arrangement”).

Payment Services Transactions

Alibaba operates the largest retail commerce business worldwide and generates tremendous and stable demands for our digital payment services. Historically, Alibaba has been our single largest customer due to its leading market position and wide customer base, and the aggregate revenues in connection with the Payment Services Transactions amounted to RMB5,630 million, RMB7,566 million, RMB9,236 million and RMB4,044 million, respectively, in 2017, 2018, 2019 and the six months ended June 30, 2020, representing approximately 9%, 9%, 8% and 6% of our total revenues for the respective periods.

We are of the view that the Payment Services Transactions do not affect our operational independence on the grounds that:

- (i) The cooperation is mutually beneficial and complementary as explained in “— Relationship with Alibaba — Overall Business Cooperation.”
- (ii) Our revenues directly generated from Alibaba from the Payment Services Transactions contributed less than 10% of our total revenues throughout the Track Record Period.
- (iii) Given we are the market leader in both digital payment service and digital finance technology services in China, it is inevitable that consumers and merchants that conduct transactions on Alibaba’s platforms primarily use our digital payment and other services. Many of these consumers and merchants are also our customers as our Alipay app currently serves more than one billion users and 80 million businesses in China. Hence, we consider the revenues derived from the transactions that these consumers and merchants carried out on Alibaba’s platforms to be revenues independently derived by us.
- (iv) We have diverse revenues sources for our digital payment services including through over 80 million online and offline businesses in and outside of China. Our revenues generated from merchants and customers independent of Alibaba and its platforms contributed the majority of our digital payment services revenues during the Track Record Period.

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Marketplace Technology Services Transactions

Under the Marketplace Technology Services Transactions we provide marketplace software technology services to Alibaba on our platform (including, without limitation, promotion and technology services for Alibaba’s products and services on our platform) and Alibaba provides us with marketplace software technology services, including use cases related services offered on its marketplaces and apps. The cooperation under the Marketplace Technology Services Transactions is a natural extension of our collaboration with Alibaba in other areas. We generate incremental revenues and cash flows through the services provided to Alibaba or its associates and grow our market share and gain market insights through making our technology services available on Alibaba’s platforms. In 2017, 2018 and 2019 and the six months ended June 30, 2020, the aggregate revenues under the Marketplace Technology Services Transactions were approximately RMB115 million, RMB75 million, RMB406 million and RMB360 million, respectively, and expense under the Marketplace Technology Services Transactions were approximately RMB754 million, RMB1,258 million, RMB2,054 million and RMB1,051 million, respectively.

We are of the view that the Marketplace Technology Services Transactions do not affect our operational independence on the ground that (i) the cooperation is mutually beneficial as explained in “— Relationship with Alibaba — Overall Business Cooperation” and (ii) we have access to our customers independent of and beyond Alibaba’s platforms as evidenced by our Alipay app’s AAUs of over one billion, and our relationship with online and offline merchants across different verticals.

Cloud Services Transactions

Under the Cloud Services Transactions, Alibaba Cloud Computing and Alibaba Cloud Singapore agreed to provide cloud computing services, certain cloud related products and services such as cloud software and hardware, Internet data center server services and message channeling services to us. We consider Alibaba to be our best available option for cloud computing services because (i) Alibaba is China’s largest provider of public cloud services, including IaaS and PaaS and the world’s third largest and Asia Pacific’s largest IaaS provider; and (ii) these arrangements facilitate the business and technology cooperation between us. In 2017, 2018 and 2019 and the six months ended June 30, 2020, the aggregate expense we incurred under the Cloud Services Transactions were approximately RMB346 million, RMB481 million, RMB1,330 million and RMB1,010 million, respectively.

We are of the view that the Cloud Services Transactions do not affect our operational independence on the ground that despite Alibaba being China’s largest provider of public cloud services, there are alternative cloud computing services providers in the market. However, in light of the leading position of Alibaba and taking into account the wide spectrum and the volume of cloud services required for our operation, and the fact that the use of cloud computing services from Alibaba facilitated the business and technology cooperation between us, it is in our best interests to source cloud computing services from one single integrated service provider, namely Alibaba, in order to maintain compatibility and consistency of our various IT applications and optimize cost effectiveness.

IP Licensing

Pursuant to the IP Licensing arrangements, each of Alibaba and us licenses to each other certain trademarks, patents, software and other technologies owned by the other party, which helps ensure our respective long term and stable business operations and benefits our

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cooperation in technological innovation. In addition, Alibaba granted us a license to continue to use certain trademarks and domain names which we use in connection with our payment services business and the micro financing business transferred to us by Alibaba. Neither we nor Alibaba is required to make monetary payment in connection with the IP Licensing.

We are of the view that the IP Licensing does not affect our operational independence on the ground that (i) we have established strong brand and reputation independent of Alibaba and developed a portfolio of proprietary trademarks, and we believe that we will be able to leverage our existing trademarks or develop new trademarks that are distinct from the ones licensed from Alibaba; and (ii) part of the IP Licensing arrangement is mutual.

Data Sharing Arrangement

The data sharing agreement provides for a governance framework, under which we and Alibaba can share certain data that are collected or generated as a result of the use by users of our respective products or services subject to applicable laws, regulations, industry standards and contractual requirements. We believe that long term and stable data sharing between us and Alibaba enables us to have significant customer insights to better serve our consumers, merchants and partners, and expand our service offerings. We share the operational costs of the data sharing arrangement incurred by Alibaba in proportion to the amount of data used by us, and the historical amounts of expenses incurred by us were minimal.

We are of the view that the existence of the data sharing agreement does not affect our operational independence. With our leading position in digital payment and digital finance, we have accumulated and continue to accumulate highly valuable customer insights from our business operations, which allows us to provide highly relevant products and services to address customer needs.

We have designed and adopted comprehensive internal control and compliance standards with respect to data protection and data privacy pursuant to relevant laws and regulations. Please see “Business — Data Protection and Privacy” for further details.

Other Transactions

In addition to the transactions described above, we also have other transactional arrangements with Alibaba, including the shared services arrangement by which we and Alibaba share certain technology, administrative and supportive services, which we believe help enhance operational efficiency.

See “Connected Transactions” for further details and the reasons for entering into the above transactions.

Our Directors believe that under the transactions between our Company and Alibaba, the roles of our Company and those of Alibaba are complementary and beneficial to each other. Furthermore, given the transaction volume generated by and the broad customer base of Alibaba’s various platforms, it is natural and in the best interests of us and our Shareholders for us to cooperate with Alibaba. All the transactions are carried out in our ordinary course of business and the terms of the transactions were negotiated on an arm’s length basis and are fair and reasonable. Our Directors therefore do not believe that these transactions will cause any business dependence or reliance issue between our Company and Alibaba.

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The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included in the Accountant’s Report in Appendix I to this document and in particular, “Our Business.”

This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under “Risk Factors” and elsewhere in this document.

We have prepared our consolidated financial statements in accordance with IFRS. Our financial year ends on December 31 and for the purpose of this section, unless the context otherwise requires, references to 2017, 2018 and 2019 refer to our financial years ended December 31 of such years. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

Overview

Ant’s origins date to 2004 when Alipay was created in the nascent days of e-commerce to solve the trust issue between buyers and sellers in online transactions. Our innovative payment solution bridged the trust gap, facilitated online transactions and underpinned the development of e-commerce in China. Having pioneered digital payments in China, we have since expanded our service offerings through technology and innovation to enable digital finance for consumers and businesses. Through our mobile app Alipay’s reach of over one billion users and 80 million merchants, we provide the digital finance technology, customer reach and risk management solutions to partner financial institutions, enabling them to provide services in consumer credit, SMB credit, investments and insurance to the users and businesses on our platform. Our services bring significant value to consumers and small businesses whose financial needs are substantially underserved in China. We have also established international payment connections to meet the needs of an increasingly digitalized global economy.

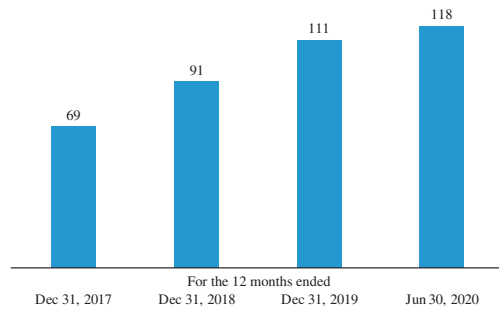
We have a large and growing user base and the activities on our platform grew rapidly during the Track Record Period as shown below:

	The month ended			
	Dec 31, 2017	Dec 31, 2018	Dec 31, 2019	Jun 30, 2020
	(in millions)			
Alipay app MAUs	499	618	659	711

FINANCIAL INFORMATION

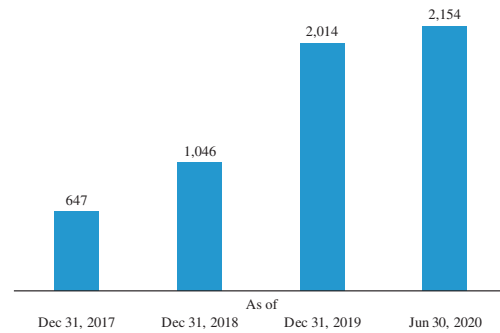
Digital Payments – TPV

In RMB trillions



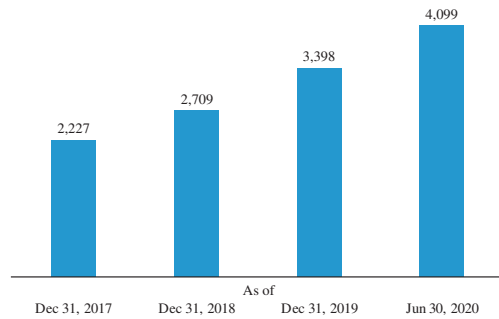
CreditTech – Consumer and SMB Credit Balance Enabled through Our Platform⁽¹⁾

In RMB billions



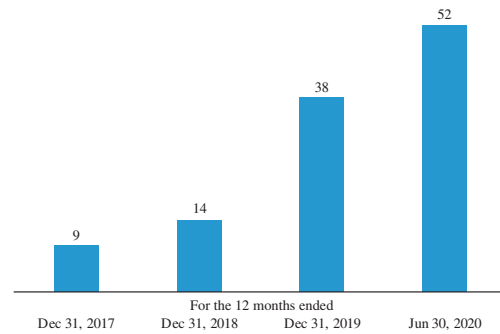
InvestmentTech – Balance of AUM Enabled through Our Platform⁽²⁾

In RMB billions



InsureTech – Insurance Premiums and Contributions Enabled through Our Platform⁽³⁾

In RMB billions



Notes:

- (1) Including consumer and SMB credit balances of third-party partner financial institutions (including MYbank) and our licensed financial services subsidiaries, as well as balance securitized.
- (2) Including AUM balances of third-party partner financial institutions and our licensed financial services subsidiary.
- (3) Including insurance premiums of third-party partner financial institutions and our licensed financial services subsidiary and contributions of our mutual aid program.

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We have achieved significant scale and robust financial performance as detailed below:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB	RMB	RMB	RMB	RMB
	(in millions)				
Revenues	65,396	85,722	120,618	52,540	72,528
Operating profit	13,182	4,502	24,071	4,273	24,903
Profit for the year/period	8,205	2,156	18,072	1,892	21,923
Non-IFRS operating profit/(loss) (unaudited) ⁽¹⁾	21,129	(14,379)	32,088	7,119	27,612
Non-IFRS profit/(loss) attributable to owners of the parent (unaudited) ⁽¹⁾	14,119	(18,333)	24,160	3,980	23,912

Note:

- (1) See “— Non-IFRS Measures: Non-IFRS Operating Profit and Non-IFRS Profit Attributable to Owners of the Parent” for the definitions and reconciliation of these non-IFRS measures and the nearest IFRS performance measures.

Our Revenue Model

We generate revenues from digital payment and merchant services, digital finance technology platform, including CreditTech, InvestmentTech and InsureTech, and innovation initiatives and others.

	Year ended December 31,						Six months ended June 30,			
	2017	2018	2019	2019	2020		2019	2020		
	RMB	% of Revenues	RMB	% of Revenues	RMB	% of Revenues	RMB	% of Revenues	RMB	% of Revenues
	(in millions, except for percentages)									
Revenues										
Digital payment and merchant services	35,890	54.9%	44,361	51.8%	51,905	43.0%	22,994	43.7%	26,011	35.9%
Digital finance technology platform ...	28,993	44.3%	40,616	47.4%	67,784	56.2%	29,291	55.7%	45,972	63.4%
Innovation initiatives and others	514	0.8%	745	0.9%	930	0.8%	256	0.5%	544	0.8%
Total	65,396	100.0%	85,722	100.0%	120,618	100.0%	52,540	100.0%	72,528	100.0%

Digital Payment and Merchant Services

We provide digital payment services to consumers and merchants in China and internationally for commercial transactions, financial transactions and personal transactions. For commercial transactions, we provide seamless and cost-efficient services for merchants to accept payments from consumers. We also provide services for financial transactions and personal transactions such as money transfers and credit card repayments. In addition, we provide digital merchant services, offering our merchants a wide range of services to enhance their customer reach and user engagement.

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A substantial majority of our digital payment service revenues comes from transaction fees we generate from merchants and transaction platforms based on a percentage of transaction volume from commercial transactions in China and, to a lesser extent, from cross-border transactions. To a significantly lesser extent, we generate revenues from personal transactions. In addition, we have begun to generate revenues from merchant services, and we expect revenues from merchant services to grow.

The growth of digital payment and merchant services revenues is primarily driven by the growing number and breadth of transactions between more consumers, merchants and partners in our ecosystem, which results in the growth of transaction volume and increased usage of merchant services.

Digital Finance Technology Platform

We provide digital finance technology, customer reach and risk management solutions to partner financial institutions, enabling them to effectively reach a wide customer base and provide services in consumer and SMB credit, investments and insurance. We refer to these services as CreditTech, InvestmentTech and InsureTech, respectively. Our partner financial institutions include commercial banks, mutual fund managers, insurance companies, trust companies, securities firms and other licensed financial institutions.

We generate revenues primarily from technology service fees, which are generally linked to the balances and volumes of our partner financial institutions enabled through our platform as detailed below:

- For CreditTech, we charge technology service fees primarily as a percentage of the interest income generated by our partner financial institutions, which is linked to the balance of consumer and SMB credit enabled through our platform.
- For InvestmentTech, we charge technology service fees primarily as a percentage of AUM of our partner financial institutions enabled through our platform.
- For InsureTech, we charge technology service fees primarily as a percentage of the insurance premiums of our partner financial institutions enabled through our platform or, in the case of our mutual aid program, a percentage of the contributions paid by the participants.

For the volume enabled for our partner financial institutions through our platform, we do not bear financial product risks such as credit risk on consumer and SMB credit, redemption risk on investment products or underwriting risk for insurance products. Technology service fee rates typically vary by products offered by our partner financial institutions. We also generate revenues from our licensed subsidiaries that engage in consumer and SMB credit, asset management and insurance.

The following table sets forth a breakdown of our revenues from digital finance technology platform for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	RMB	% of Revenues	RMB	% of Revenues	RMB	% of Revenues	RMB	% of Revenues	RMB	% of Revenues
(in RMB millions, except for percentages)										
Digital finance technology platform revenues										
CreditTech	16,187	24.8%	22,421	26.2%	41,885	34.7%	17,925	34.1%	28,586	39.4%
InvestmentTech	10,490	16.0%	13,882	16.2%	16,952	14.1%	7,221	13.7%	11,283	15.6%
InsureTech	2,315	3.5%	4,313	5.0%	8,947	7.4%	4,145	7.9%	6,104	8.4%
Total	28,993	44.3%	40,616	47.4%	67,784	56.2%	29,291	55.7%	45,972	63.4%

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Innovation Initiatives and Others

Our revenues from innovation initiatives and others are primarily from various innovative technology as well as other administrative and support services. We began to generate revenues from AntChain in 2019.

Factors Affecting Our Results of Operations

In addition to general factors including economic and regulatory environment in China, our results of operations are affected by the following specific factors:

Number and Engagement of Consumers and Businesses

Consumers and businesses are attracted to our platform by the convenience of payment services and the breadth of digital finance and digital daily life services offered on our platform. Alipay MAUs grew from 499 million in December 2017 to 711 million in June 2020. Revenues are driven by the number of consumers and businesses who use our platform, the number of digital finance services each user adopts, and the volume per user across the range of digital payment and digital finance services.

User engagement has increased as evidenced by the increasing variety of services adopted and the number of transactions conducted on our platform. In particular, 729 million Alipay app AAUs accessed credit, investment or insurance products and mutual aid program for the twelve months ended June 30, 2020. The digital finance activity volume of Alipay users who had been with us in 2015 grew more than 10 times from 2015 to the twelve months ended June 30, 2020. The depth of engagement of our users has also been increasing. The growth of our business is also driven by the engagement and activities of our merchants. We continue to enhance digital merchant services and digital finance services for merchants to grow their engagement and to attract additional merchants to our platform.

Value Created with Financial Institutions and Other Partners

We collaborate with partner financial institutions which create value for consumers and businesses on our platforms. Our broad reach gives our partner financial institutions the ability to provide financial services to underserved consumers and businesses at scale. Our deep domain expertise in financial services, risk management and technology empowers our partner financial institutions to cost-effectively distribute innovative financial services in a targeted manner. Our ability to continuously generate value with our partners helps us maintain the vitality of our ecosystem and drives our growth and results of operations.

Development of Innovative Services Offerings

Our ability to continuously innovate has underpinned our ability to create differentiated service offerings and enabled our growth to date. We leverage our unrivalled customer insights, deep financial services expertise and leading technology capabilities to identify unmet needs of customers and partners and to develop and launch new businesses and services that anticipate and adapt to evolving industry trends. These new businesses and services in turn enhance our ability to attract, engage and serve consumers and empower businesses and partners in our ecosystem. Continuous innovation allows us to achieve leading market positions, enhanced user loyalty and growth.

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Operating Leverage of our Business Model

Our business model has significant operating leverage. We realize network effects across consumers and businesses, the breadth of services, our partnership with financial institutions and our large user base, including:

- Our broad suite of digital payment and digital finance services attract to our Alipay platform a large number of consumers and businesses. As more consumers and merchants engage with one another on our platform, the more consumers and businesses come to our platform, driving more transactions. This network effect also lowers the customer acquisition cost across our services.
- Digital finance services are provided by our partner financial institutions to consumers and businesses through our platform. This partnership approach enables us to minimize the risk exposure, capital requirements and costs associated with financial services.
- Our large user base is important in attracting financial institutions to partner with us, which in turn results in a broader range of service and product offerings on our platform.

By sustaining the operating leverage of our business, we enhance our ability to address customer needs, empower our partner financial institutions and continue to grow our business.

Our Investment in Technologies, People and Infrastructure

We have made, and will continue to make, significant investments in our platform and ecosystem to better serve consumers, businesses and partners, enhance user experience, and expand the capabilities and scope of our platform. Our success and business growth depend upon our ability to continue to strengthen our data, technology and innovation leadership and attract, retain and incentivize our talent base while maintaining our culture. Our operating leverage allows us to invest in our people who are key to further developing improvements in our technology capabilities and infrastructure that enhance customer experience. In order to further enlarge our thriving ecosystem, strengthen our relationship with partners, supplement our technology portfolio and expand internationally, we have invested and intend to continue to invest in our platform, which may also include selected strategic investments and acquisitions.

Expansion Internationally and Capturing Emerging Opportunities

The global economy is rapidly digitalizing and there is a pervasive need for financial inclusion. Beyond our domestic business in China, we will continue to extend our international payment capabilities to enable merchants and consumers to receive and make payments and remit globally. We provide payment services for cross-border e-commerce, travel and remittance needs, primarily for consumers and merchants based in China as well as in international markets. We are focused on serving more consumers and merchants globally with more comprehensive services, through collaborating with our partners to develop more comprehensive services for consumers and merchants beyond China. In addition, we are pursuing other emerging opportunities, including AntChain platform which enables the digitalization of assets using blockchain technology.

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Impact of COVID-19 on Our Results of Operations

The substantial majority of our revenues are generated from digital payment and merchant services and digital finance technology platform, which are affected by consumption and business activities in China. Our cross-border payment services are exposed to cross-border e-commerce and overseas travel by Chinese consumers. The responses and measures taken in China and elsewhere by the governments and society as a whole in response to the COVID-19 pandemic impacted our results of operations, including the following:

- Measures to contain the spread of COVID-19 such as lock-down and mandatory or voluntary social distancing have led to lower levels of consumption and business activities in the world, particularly offline consumption and travel.
- General concerns and uncertainty about the pandemic and the economy and the reduction in income also weighed on consumption.
- While social distancing measures were implemented, consumers and businesses sought additional digital services, which accelerated the digitalization of transactions.

The foregoing factors affected our results of operations in the six months ended June 30, 2020 in the following ways:

- Lower levels of consumption negatively impacted the use of our digital payment services, particularly for offline consumer and business activities, and negatively affected the growth of the balance of consumer and SMB credit.

In digital payments, this negatively affected the growth of our TPV and revenues from digital payment and merchant services in the six months ended June 30, 2020. In digital finance technology platform, this negatively affected the growth of revenues from CreditTech in the six months ended June 30, 2020.

- A lower number of Chinese consumers traveling abroad negatively impacted the use of our cross-border payment services, which in turn limited the growth of our revenues from cross-border payment services in the six months ended June 30, 2020.
- As a result of the foregoing, the transaction fees we incurred in absolute terms increased at a slower pace from the six months ended June 30, 2019 to the six months ended June 30, 2020, primarily due to lower rates of growth of TPV. Also, the growth rate of our revenues outpaced those of transaction fees partially due to a stronger growth in revenues from our digital finance technology platform as compared with revenues from digital payment and merchant services. This led to an increase in our gross margin during the period.
- In view of the impact of COVID-19, we decided to reduce promotion and advertising campaign spending in the six months ended June 30, 2020, which contributed to a decrease in our selling and marketing expenses compared to that in the six months ended June 30, 2019.

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Notwithstanding the impact of COVID-19, we were able to continue to grow our business. Our MAUs increased from 659 million in December 2019 to 711 million in June 2020, and our revenues increased by 38% from RMB52,540 million in the six months ended June 30, 2019 to RMB72,528 million in the six months ended June 30, 2020, and our gross margin and operating margin increased from 46.4% and 8.1% in the six months ended June 30, 2019, respectively, to 58.6% and 34.3% in the six months ended June 30, 2020, respectively.

Assuming consumption and business activities in China continue to normalize, we expect that overall activities on our platform to increase, and we may increase our spending on promotion and marketing campaign. As a result, we expect increases in our transaction fees and selling and marketing expenses, which could in turn have a negative impact on our gross and operating margins.

COVID-19 may continue to impact our business, financial condition and results of operations, and we are unable to anticipate the extent of its impact. See “Risk Factors — Risks Related to Our Business and Industry — Our business operations and financial position may be materially and adversely affected by any economic slowdown in China as well as globally,” “— an occurrence of widespread health epidemic or other outbreaks, adverse weather conditions or natural disasters could have a material adverse effect on our business, financial condition and results of operations” for further details.

Basis of Preparation

Our financial information during the Track Record Period has been prepared in accordance with IFRS, which comprise all standards and interpretations approved by the International Accounting Standards Board. All IFRS effective for the accounting period commencing from January 1, 2020, together with the relevant transitional provisions, have been early adopted by us in the preparation of our financial information throughout the Track Record Period. Our financial information during the Track Record Period has been prepared under the historical cost convention, except for certain financial instruments which have been measured at fair value.

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Consolidated Income Statement

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	RMB	% of Revenues	RMB	% of Revenues	RMB	% of Revenues	RMB	% of Revenues	RMB	% of Revenues
(in millions, except for percentages)										
Revenues	65,396	100.0%	85,722	100.0%	120,618	100.0%	52,540	100.0%	72,528	100.0%
Cost of services	(23,726)	(36.3%)	(40,909)	(47.7%)	(60,515)	(50.2%)	(28,136)	(53.6%)	(30,044)	(41.4%)
Gross profit	41,670	63.7%	44,813	52.3%	60,103	49.8%	24,404	46.4%	42,484	58.6%
Selling and marketing expenses	(15,325)	(23.4%)	(47,345)	(55.2%)	(18,050)	(15.0%)	(10,426)	(19.8%)	(6,066)	(8.4%)
General and administrative expenses	(8,293)	(12.7%)	(5,017)	(5.9%)	(9,979)	(8.3%)	(4,135)	(7.9%)	(3,679)	(5.1%)
Research and development expenses	(4,789)	(7.3%)	(6,903)	(8.1%)	(10,605)	(8.8%)	(4,659)	(8.9%)	(5,720)	(7.9%)
Gains on disposal of financial investments measured at amortized cost	–	–	–	–	156	0.1%	–	–	–	–
Credit impairment losses	148	0.2%	(29)	–	(297)	(0.2%)	(123)	(0.2%)	(45)	(0.1%)
Other income and gains, net	(17)	–	19,623	22.9%	4,499	3.7%	733	1.4%	(1,545)	(2.1%)
Other expenses	(212)	(0.3%)	(638)	(0.7%)	(1,756)	(1.5%)	(1,522)	(2.9%)	(525)	(0.7%)
Operating profit	13,182	20.2%	4,502	5.3%	24,071	20.0%	4,273	8.1%	24,903	34.3%
Finance income, net	(140)	(0.2%)	138	0.2%	91	0.1%	(10)	–	544	0.7%
Share of profits and losses of associates and joint ventures, net	(2,094)	(3.2%)	(1,526)	(1.8%)	(3,110)	(2.6%)	(1,245)	(2.4%)	(1,027)	(1.4%)
Profit before tax	10,948	16.7%	3,114	3.6%	21,052	17.5%	3,017	5.7%	24,419	33.7%
Income tax expense	(2,743)	(4.2%)	(958)	(1.1%)	(2,980)	(2.5%)	(1,125)	(2.1%)	(2,496)	(3.4%)
Profit for the year/period	8,205	12.5%	2,156	2.5%	18,072	15.0%	1,892	3.6%	21,923	30.2%
Attributable to:										
Owners of the parent	6,951	10.6%	667	0.8%	16,957	14.1%	1,361	2.6%	21,234	29.3%
Non-controlling interests	1,253	1.9%	1,489	1.7%	1,115	0.9%	531	1.0%	689	0.9%
Non-IFRS operating profit/(loss) (unaudited) ⁽¹⁾	21,129	32.3%	(14,379)	(16.8%)	32,088	26.6%	7,119	13.5%	27,612	38.1%
Non-IFRS profit/(loss) attributable to owners of the parent (unaudited) ⁽²⁾	14,119	21.6%	(18,333)	(21.4%)	24,160	20.0%	3,980	7.6%	23,912	33.0%

Notes:

- (1) Non-IFRS operating profit/(loss) represents operating profit before (i) Royalty and Service Payment (as defined in “— Description of Major Components of Our Results of Operations — General and Administrative Expenses”), (ii) Equity settled share-based compensation, (iii) Gain on disposal or deemed disposal of subsidiaries, associates and joint ventures, (iv) Impairment of investments in associates and joint ventures. The use of Non-IFRS operating profit has limitations as an analytical tool, and you should

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not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under IFRS. See “— Non-IFRS Measures: Non-IFRS Operating Profit and Non-IFRS Profit Attributable to Owners of the Parent” for details.

- (2) Non-IFRS profit/(loss) attributable to owners of the parent represents profit for the year/period before (i) Royalty and Service Payment (as defined in “— Description of Major Components of Our Results of Operations — General and Administrative Expenses”), (ii) Equity settled share-based compensation, (iii) Gain on disposal or deemed disposal of subsidiaries, associates and joint ventures and (iv) Impairment of associates and joint ventures as well as adjustment for tax effects and non-controlling interest effects on these items. Non-IFRS profit attributable to owners of the parent is not a measure required by, or presented in accordance with IFRS. The use of Non-IFRS profit attributable to owners of the parent has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under IFRS. See “— Non-IFRS Measures: Non-IFRS Operating Profit and Non-IFRS Profit Attributable to Owners of the Parent” for details.

Description of Major Components of Our Results of Operations

Revenues

The following table sets forth a breakdown of our revenues by services for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	% of		% of		% of		% of		% of	
	RMB	Revenues	RMB	Revenues	RMB	Revenues	RMB	Revenues	RMB	Revenues
(in millions, except for percentages)										
Revenues										
Digital payment and merchant services	35,890	54.9%	44,361	51.8%	51,905	43.0%	22,994	43.7%	26,011	35.9%
Digital finance technology platform	28,993	44.3%	40,616	47.4%	67,784	56.2%	29,291	55.7%	45,972	63.4%
CreditTech	16,187	24.8%	22,421	26.2%	41,885	34.7%	17,925	34.1%	28,586	39.4%
InvestmentTech	10,490	16.0%	13,882	16.2%	16,952	14.1%	7,221	13.7%	11,283	15.6%
InsureTech	2,315	3.5%	4,313	5.0%	8,947	7.4%	4,145	7.9%	6,104	8.4%
Innovation initiatives and others ..	514	0.8%	745	0.9%	930	0.8%	256	0.5%	544	0.8%
Total	65,396	100.0%	85,722	100.0%	120,618	100.0%	52,540	100.0%	72,528	100.0%

During the Track Record Period, we generated substantially all of our revenues from digital payment and merchant services and the digital finance technology platform. Substantially all of our revenues are attributable to our businesses in China. See “— Our Revenue Model” for additional information regarding our revenues.

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Cost of Services

The following table sets forth a breakdown of our costs of services for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB	RMB	RMB	RMB	RMB
	(in millions, except for percentages)				
Cost of services					
Transaction fees	19,356	33,243	46,710	21,841	22,691
Service fees	1,419	3,838	8,329	3,751	4,452
Operation costs	1,952	2,489	3,195	1,450	1,640
Payroll and welfare benefits	367	473	916	467	471
Share-based compensation	235	214	361	157	148
Depreciation and amortization	386	599	977	457	625
Others	11	53	28	14	17
Total	23,726	40,909	60,515	28,136	30,044
Percentage of revenues	36.3%	47.7%	50.2%	53.6%	41.4%

Our cost of services mainly include transaction fees, service fees, and operation costs that are shared across our services covering users, merchants and partners, and are primarily driven by transaction volume. Transaction fees primarily include fees paid to financial institutions for funds drawn to facilitate transactions on the Alipay platform, which are shared by digital payment and merchant services and digital finance technology platform. Service fees include costs paid to independent service vendors and other partner service providers to facilitate and support a variety of transactions. Operation costs mainly include bandwidth and customer service costs.

Alipay app users may use many different services including digital payment services and digital finance services, which share these costs. Therefore, our costs of services are not allocable to specific services as these costs are incurred and shared across all transaction types.

Selling and Marketing Expenses

The following table sets forth a breakdown of our selling and marketing expenses for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB	RMB	RMB	RMB	RMB
	(in millions, except for percentages)				
Selling and marketing expenses					
Promotion and advertising expenses	13,937	45,694	16,166	9,602	4,867
Payroll and welfare benefits	701	872	903	394	609
Share-based compensation	584	617	625	262	389
Others	103	163	357	168	201
Total	15,325	47,345	18,050	10,426	6,066
Percentage of revenues	23.4%	55.2%	15.0%	19.8%	8.4%

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Our selling and marketing expenses are primarily comprised of promotion and advertising expenses, payroll and welfare benefits and share-based compensation for our sales and marketing personnel and others. Our promotion activities to drive user acquisition and engagement include coupons, rewards and other benefits and incentives.

General and Administrative Expenses

The following table sets forth a breakdown of our general and administrative expenses for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB	RMB	RMB	RMB	RMB
	(in millions, except for percentages)				
General and administrative expenses					
Payroll and welfare benefits	1,250	1,583	2,118	931	1,156
Depreciation and amortization	317	464	916	375	586
Share-based compensation	592	914	937	468	541
Tax surcharge expenses	377	435	632	218	431
Professional fees	360	459	675	382	393
Royalty and Service Payment	4,812	251	3,481	1,273	–
Software System Use and Service Payment	89	89	89	45	45
Others	495	821	1,132	442	527
Total	8,293	5,017	9,979	4,135	3,679
Percentage of revenues	12.7%	5.9%	8.3%	7.9%	5.1%

Our general and administrative expenses consist of payroll and welfare benefits, depreciation and amortization, share-based compensation, tax surcharge expenses, professional fees, the royalties and software technology services fees paid to Alibaba (the “Royalty and Service Payment”) under an intellectual property license and software technology services agreement signed in 2011 and amended and restated in 2014 (the “2014 IPLA”), certain fees paid to Alibaba under an SME loan software system use and service agreement signed in August 2014 (the “Software System Use and Service Payment”), and others. Starting in September 2019, upon the issuance of our Shares to Alibaba and our acquisition of certain IP from Alibaba, our obligation to make the Royalty and Service Payment ceased. The Software System Use and Service Payment is fixed at approximately RMB89.4 million per annum during the Track Record Period. Our obligation to make the Software System Use and Service Payment will cease on December 31, 2021. See “Connected Transactions — Fully-Exempt Continuing Connected Transactions — 5. SME Loan Software System Use and Service Agreement” for further details.

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Research and Development Expenses

The following table sets forth a breakdown of our research and development expenses for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB	RMB	RMB	RMB	RMB
	(in millions, except for percentages)				
Research and development expenses					
Payroll and welfare benefits	2,352	3,828	5,765	2,690	3,295
Share-based compensation	1,771	2,171	3,213	1,275	1,619
Others	666	904	1,627	694	806
Total	4,789	6,903	10,605	4,659	5,720
Percentage of revenues	7.3%	8.1%	8.8%	8.9%	7.9%

Our research and development expenses are primarily comprised of payroll and welfare benefits and share-based compensation for our research and development personnel, and other expenses, which include depreciation and amortization, travel and other research and development expenses. We expense all of our research and development costs as they are incurred.

Other Income and Gains, Net

The following table sets forth a breakdown of the major components of our other income and gains, net, for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB	RMB	RMB	RMB	RMB
	(in millions, except for percentages)				
Other income and gains, net					
Fair value changes on:					
Financial assets at fair value through profit or loss	(950)	(5,722)	1,074	(760)	(2,913)
Financial liabilities at fair value through profit or loss	–	(21)	(126)	(72)	(3)
Derivative financial instruments	(133)	154	165	93	(112)
Investment income from financial investments measured at amortized cost	61	255	858	339	778
Investment income from financial investments at fair value through profit or loss	345	1,380	796	453	357
Additional deduction of value-added tax ..	–	–	306	18	165
Government grants	730	780	901	192	102

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	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB	RMB	RMB	RMB	RMB
	(in millions, except for percentages)				
Gains on disposal of subsidiaries, associates and joint ventures	11	75	503	503	13
Foreign exchange (losses)/ gains	(40)	21	(46)	(62)	5
Gains on disposal of items of property, plant and equipment	1	13	21	9	3
Remeasurement from losing significant influence in an associate or joint control in a joint venture	–	22,868	–	–	–
(Losses)/gains arising from derivative financial instruments	(88)	(236)	(18)	4	(9)
Others	47	55	67	17	71
Total	(17)	19,623	4,499	733	(1,545)
Percentage of revenues	–	22.9%	3.7%	1.4%	(2.1%)

We recorded various gains or losses, including gains or losses on fair value changes that are mainly related to our strategic investments and loan receivables representing the outstanding balances of consumer credit enabled through our platform and retained by our licensed subsidiaries. See “— Strategic Investments and Acquisitions” “— Discussion of Certain Key Balance Sheet Items” for further details. Government grants primarily relate to grants by central and local governments in connection with our contributions to technology development. We also recorded a gain from remeasurement from losing significant influence in an associate or joint control in a joint venture of RMB22,868 million in 2018. See “— Period-to-Period Comparison of Results of Operations — Year Ended December 31, 2019 Compared to Year Ended December 31, 2018 — Other income and gains, net” for further details.

Share of Profits and Losses of Associates and Joint Ventures, Net

We have made investments in associates and joint ventures that are accounted for using the equity method. We make strategic investments in companies from time to time. Some of these investee companies are at an early stage of their development and are therefore loss-making. As a result, we share these losses in proportion to our equity interests in these associates and joint ventures.

Finance Income, Net

Our finance income, net is primarily derived from interest income from bank deposits. Our finance costs include interest on bank loans, lease liabilities and others, which are partially offset by capitalized interest.

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Income Tax Expense

Our income tax expense is comprised primarily of current tax expense, mainly attributable to our profitable subsidiaries in China, and deferred tax expense. We had income tax expense of RMB2,743 million, RMB958 million, RMB2,980 million, RMB1,125 million and RMB2,496 million in 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, respectively, and our effective tax rate was 25%, 31%, 14%, 37% and 10% for the respective periods. During the Track Record Period, certain of our subsidiaries are subject to preferential income tax treatment of (i) 15% income tax rate for subsidiaries recognized as high-tech enterprises, (ii) income tax exemption for the first two profit making years and 50% reduction from the statutory rate for the following three years for certain subsidiaries; (iii) 10% income tax rate for subsidiaries that meet the requirements of key software enterprises; and (iv) 15% income tax rate for subsidiaries established in the Western region of China from January 1, 2011 to December 31, 2020 and engaged in encouraged industries. See Note 11 to the Accountant’s Report set forth in Appendix I to this document for further details on the tax rates applicable to us and our subsidiaries and a reconciliation of the tax expense applicable to profit before tax using the statutory EIT rate of 25% to the tax expense at the effective tax rate.

Share-Based Compensation

Since March 2014, Hangzhou Junhan has granted certain share-based awards in the form of share economic rights linked to the valuation of our Company to our employees. Ant International, one of our subsidiaries, implemented the Pre-[REDACTED] Offshore ESOP Plan in 2018 under which awards in the form of RSUs and share appreciation rights have been granted. We believe share-based awards are vital to attract, motivate and retain our employees. In addition to on-hire grants for new recruits above a specific job level, we also make performance grants and promotion grants on an annual basis to our top performing employees. The share economic rights granted by Hangzhou Junhan will be settled in cash generally by Hangzhou Junhan, and an insignificant portion of share economic rights to overseas employees may be settled by Ant International. The awards granted by Ant International may be settled in equity or cash by Ant International upon vesting of the awards. These awards are generally subject to a four-year vesting schedule as determined by the administrator of the plan. Depending on the nature and the purpose of the grant, these awards generally vest 25% upon the first anniversary of the vesting commencement date or 50% upon the second anniversary of the vesting commencement date, and thereafter 25% every year.

Alibaba also granted RSUs or options to acquire its ordinary shares to certain of our employees. RSUs and options granted by Alibaba are generally subject to a four-year vesting schedule. Depending on the nature and the purpose of the grant, RSUs and options generally vest 25% upon the first anniversary of the vesting commencement date or 50% upon the second anniversary of the vesting commencement date, and thereafter 25% every year. We compensated Alibaba for its granted RSUs or options to our employees before March 2014 and recorded such compensation as expenses based on the vesting schedule. For the RSUs or options granted by Alibaba to our employees between April 2014 and March 2020, we had no obligation to compensate Alibaba for the cost associated with the awards. Despite the non-compensation arrangement, after we issued Shares to Alibaba in September 2019, we accounted for such grants as equity-settled share-based compensation and recorded expenses with reference to share-based payment transactions among group entities. In June 2020, we, Hangzhou Junhan and Alibaba entered into equity-based awards

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grant and settlement agreements pursuant to which the parties would settle with each other the cost associated with the awards that would be granted to each other’s employees after April 1, 2020. The agreement will be terminated upon completion of the [REDACTED].

We recognized share-based compensation of RMB3,182 million, RMB3,917 million, RMB5,136 million, RMB2,163 million and RMB2,697 million in 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, respectively, representing 4.9%, 4.6%, 4.3%, 4.1% and 3.7% of our revenues in those respective periods. In the second half of 2020, we expect to incur a substantial increase in share-based compensation in connection with the completion of the [REDACTED].

The following table sets forth an analysis of share-based compensation by function for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB	RMB	RMB	RMB	RMB
	(in RMB millions, except for percentages)				
Share-based compensation					
Cost of services	235	214	361	157	148
Selling and marketing expenses	584	617	625	262	389
Research and development expenses	1,771	2,171	3,213	1,275	1,619
General and administrative expenses	592	914	937	468	541
Total	3,182	3,917	5,136	2,163	2,697
Percentage of revenues	4.9%	4.6%	4.3%	4.1%	3.7%

Non-IFRS Measures: Non-IFRS Operating Profit and Non-IFRS Profit Attributable to Owners of the Parent

To supplement our consolidated results which are prepared and presented in accordance with IFRS, we also use non-IFRS operating profit and non-IFRS profit attributable to owners of the parent as additional financial measures, which are not required by, or presented in accordance with IFRS. We believe that these non-IFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating the potential impact of items that our management does not consider indicative of our operating performance such as certain non-cash items, items that will not be incurred in future and certain impact of investment transactions. The use of these non-IFRS measures have limitations as an analytical tool, and you should not consider them in isolation from, or as a substitute for analysis of, our results of operations or financial conditions as reported under IFRS. In addition, these non-IFRS financial measures may be defined differently from similar measures used by other companies.

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The following tables set forth the reconciliations of our non-IFRS financial measures for the periods indicated to the nearest measures prepared in accordance with IFRS:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB	RMB	RMB	RMB	RMB
	(in millions, except for percentages)				
Non-IFRS Measures – Non-IFRS operating profit/(loss)					
Operating profit	13,182	4,502	24,071	4,273	24,903
Add: Royalty and Service Payment ⁽¹⁾	4,812	251	3,481	1,273	–
Add: Equity settled share-based compensation	3,146	3,769	4,985	2,076	2,612
Less: Gains on disposal of subsidiaries, associates and joint ventures and remeasurement from losing significant influence in an associate or joint control in a joint venture	(11)	(22,943)	(503)	(503)	(13)
Add: Impairment of investments in associates and joint ventures	–	42	54	–	110
Non-IFRS operating profit/(loss)	<u>21,129</u>	<u>(14,379)</u>	<u>32,088</u>	<u>7,119</u>	<u>27,612</u>
Percentage of revenues	32.3%	(16.8%)	26.6%	13.5%	38.1%

Notes:

(1) See “— General and Administrative Expenses” for details concerning the Royalty and Service Payment.

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	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB	RMB	RMB	RMB	RMB
	(in millions)				
Non-IFRS Measures – Non-IFRS					
profit/(loss) attributable to owners of the parent					
Profit attributable to owners of the parent . .	6,951	667	16,957	1,361	21,234
Add: Royalty and Service Payment ⁽¹⁾	4,812	251	3,481	1,273	–
Add: Equity settled share-based compensation	3,146	3,769	4,985	2,076	2,612
Less: Gains on disposal of subsidiaries, associates and joint ventures and remeasurement from losing significant influence in an associate or joint control in a joint venture	(11)	(22,943)	(503)	(503)	(13)
Add: Impairment of investments in associates and joint ventures	–	42	54	–	110
Less: Tax effect	(769)	(112)	(806)	(223)	(28)
Less: Non-controlling interest effect	(10)	(7)	(8)	(4)	(3)
Non-IFRS profit/(loss) attributable to owners of the parent	14,119	(18,333)	24,160	3,980	23,912
Percentage of revenues	21.6%	(21.4%)	20.0%	7.6%	33.0%

Note:

(1) See “— General and Administrative Expenses” for details concerning the Royalty and Services Payment.

Period-to-Period Comparison of Results of Operations

Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019

Revenues

	Six months ended June 30,		
	2019	2020	
	RMB	RMB	% Change
	(in millions, except for percentages)		
Revenues			
Digital payment and merchant services	22,994	26,011	13%
Digital finance technology platform . .	29,291	45,972	57%
Innovation initiatives and others	256	544	113%
Total	52,540	72,528	38%

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Revenues increased by 38% from RMB52,540 million in the six months ended June 30, 2019 to RMB72,528 million in the six months ended June 30, 2020, primarily due to the growth in revenues from our digital finance technology platform and, to a lesser extent, digital payment and merchant services.

Digital payment and merchant services

	Six months ended June 30,		% Change
	2019	2020	
	RMB	RMB	
	(in millions, except for percentages)		
Digital payment and merchant services			
revenues	22,994	26,011	13%
Percentage of revenues	43.7%	35.9%	

Revenues from digital payment and merchant services increased by 13% from RMB22,994 million in the six months ended June 30, 2019 to RMB26,011 million in the six months ended June 30, 2020, primarily due to continued growth in the number of users. In addition, we commercially launched our merchant services and generated more revenues in the six months ended June 30, 2020. Growth of revenues from digital payment and merchant services in the six months ended June 30, 2020 was affected by the impact of COVID-19.

Digital finance technology platform

	Six months ended June 30,		% Change
	2019	2020	
	RMB	RMB	
	(in millions, except for percentages)		
Digital finance technology platform			
revenues	29,291	45,972	57%
Percentage of revenues	55.7%	63.4%	

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Revenues from digital finance technology platform increased by 57% from RMB29,291 million in the six months ended June 30, 2019 to RMB45,972 million in the six months ended June 30, 2020, primarily due to the growth in business volume enabled through our platform.

CreditTech

	Six months ended June 30,		% Change
	2019	2020	
	RMB	RMB	
	(in millions, except for percentages)		
CreditTech	17,925	28,586	59%
Percentage of revenues	34.1%	39.4%	

	As of June 30,		% Change
	2019	2020	
	RMB	RMB	
	(in billions, except for percentages)		
CreditTech – Consumer and SMB credit balance ⁽¹⁾	1,394	2,154	55%

Note:

- (1) Includes consumer and SMB credit balances of third-party partner financial institutions (including MYbank) and our licensed financial services subsidiaries, as well as balance securitized.

Revenues from CreditTech services increased by 59% from RMB17,925 million in the six months ended June 30, 2019 to RMB28,586 million in the six months ended June 30, 2020, primarily due to an increase in the balances of consumer and SMB credit enabled through our platform. The growth in balances was primarily driven by an increase in the balance of consumer credit products, which in turn was primarily driven by higher balance per user and growth in the number of users. An increase in the balance of SMB credit due to a larger number of users also contributed to the growth. Growth of revenues from CreditTech services in the six months ended June 30, 2020 was affected by the impact of COVID-19.

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InvestmentTech

	Six months ended June 30,		% Change
	2019	2020	
	RMB	RMB	
	(in millions, except for percentages)		
InvestmentTech	7,221	11,283	56%
Percentage of revenues	13.7%	15.6%	

	As of June 30,		% Change
	2019	2020	
	RMB	RMB	
	(in billions, except for percentages)		
InvestmentTech – AUM ⁽¹⁾	3,016	4,099	36%

Note:

- (1) Includes AUM balances of third-party partner financial institutions and our licensed financial services subsidiary.

Revenues from InvestmentTech services increased by 56% from RMB7,221 million in the six months ended June 30, 2019 to RMB11,283 million in the six months ended June 30, 2020, primarily due to an increase in AUM enabled through our platform, as well as a strong growth in the balance of mutual funds enabled through our platform, which generates higher technology services fees as a percentage of AUM. The increase in AUM was primarily due to an increase in the balance of Dalicai and to a lesser extent, the increase in the balance of Yu’ebao. For Dalicai, the increase in balance was primarily due to an increase in the number of users as well as a higher balance per user. For Yu’ebao, the increase in balance was due to an increase in the number of users.

InsureTech

	Six months ended June 30,		% Change
	2019	2020	
	RMB	RMB	
	(in millions, except for percentages)		
InsureTech	4,145	6,104	47%
Percentage of revenues	7.9%	8.4%	

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	Six months ended June 30,		% Change
	2019	2020	
	RMB	RMB	
	(in billions, except for percentages)		
InsureTech – Insurance premiums and contributions ⁽¹⁾	14	29	99%

Note:

- (1) Includes insurance premiums of third-party partner financial institutions and our licensed financial services subsidiary and contributions of our mutual aid program.

Revenues from InsureTech services increased by 47% from RMB4,145 million in the six months ended June 30, 2019 to RMB6,104 million in the six months ended June 30, 2020, primarily driven by the increase in the insurance premiums and contributions enabled through our platform. The volume of our insurance premiums and contributions outgrew the revenues from InsureTech services, primarily as a result of the higher volume contribution from our third-party partner insurance institutions. The growth in the insurance premiums was primarily due to substantial increases in both life insurance and health insurance premiums.

Innovation initiatives and others

Our revenues from innovation initiatives and others increased by 113% from RMB256 million in the six months ended June 30, 2019 to RMB544 million in the six months ended June 30, 2020, primarily due to an increase in other administrative and support services and a significant increase in innovative technology services, particularly AntChain that we began to generate revenues from in 2019.

Cost of services

	Six months ended June 30,		% Change
	2019	2020	
	RMB	RMB	
	(in millions, except for percentages)		
Cost of services	28,136	30,044	7%
Percentage of revenues	53.6%	41.4%	
Share-based compensation included in cost of services	157	148	(6%)
Percentage of revenues	0.3%	0.2%	
Cost of services excluding share-based compensation	27,979	29,896	7%
Percentage of revenues	53.3%	41.2%	

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Cost of services increased by 7% from RMB28,136 million in the six months ended June 30, 2019 to RMB30,044 million in the six months ended June 30, 2020, primarily due to an increase in transaction fees, which in turn was the result of larger transaction volume on our platform. As a percentage of our revenues, cost of services decreased from 53.6% in the six months ended June 30, 2019 to 41.4% in the six months ended June 30, 2020. Without the effect of share-based compensation, cost of services as a percentage of revenues would have decreased from 53.3% in the six months ended June 30, 2019 to 41.2% in the six months ended June 30, 2020. Transaction fees increased at a slower pace than revenues, primarily due to lower rates of growth of TPV. In addition, our revenues outgrew transaction fees partially due to stronger growth in revenues from our digital finance technology platform, as users used more digital finance services on our platform, which enabled more funds to be retained in our platform and enhanced our operational efficiency.

Gross profit

	Six months ended June 30,		% Change
	2019	2020	
	RMB	RMB	
	(in millions, except for percentages)		
Gross profit	24,404	42,484	74%
Percentage of revenues	46.4%	58.6%	

As a result of the foregoing, our gross profit increased by 74% from RMB24,404 million in the six months ended June 30, 2019 to RMB42,484 million in the six months ended June 30, 2020, and our gross margin increased from 46.4% in the six months ended June 30, 2019 to 58.6% in the six months ended June 30, 2020.

Selling and marketing expenses

	Six months ended June 30,		% Change
	2019	2020	
	RMB	RMB	
	(in millions, except for percentages)		
Selling and marketing expenses	10,426	6,066	(42%)
Percentage of revenues	19.8%	8.4%	
Share-based compensation included in			
selling and marketing expenses	262	389	48%
Percentage of revenues	0.5%	0.5%	
Selling and marketing expenses			
excluding share-based compensation	10,164	5,677	(44%)
Percentage of revenues	19.3%	7.8%	

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Our selling and marketing expenses decreased by 42% from RMB10,426 million in the six months ended June 30, 2019 to RMB6,066 million in the six months ended June 30, 2020. As a percentage of our revenues, our selling and marketing expenses decreased from 19.8% in the six months ended June 30, 2019 to 8.4% in the six months ended June 30, 2020. Without the effect of share-based compensation, selling and marketing expenses as a percentage of revenues would have decreased from 19.3% in the six months ended June 30, 2019 to 7.8% in the six months ended June 30, 2020. We made significant investments for user and merchant acquisition and to drive user engagement in 2018, which continued in the six months ended June 30, 2019. Also, we decided to decrease promotion and advertising campaign spending in the six months ended June 30, 2020 in view of the impact of COVID-19.

General and administrative expenses

	Six months ended June 30,		% Change
	2019	2020	
	RMB	RMB	
	(in millions, except for percentages)		
General and administrative expenses . . .	4,135	3,679	(11%)
Percentage of revenues	7.9%	5.1%	
Shared-based compensation included in general and administrative expenses .	468	541	15%
Percentage of revenues	0.9%	0.7%	
General and administrative expenses excluding shared-based compensation	3,667	3,138	(14%)
Percentage of revenues	7.0%	4.3%	
Royalty and Service Payment	1,273	—	(100%)
Percentage of revenues	2.4%	—	
General and administrative expenses excluding share-based compensation and Royalty and Service Payment . . .	2,394	3,138	31%
Percentage of revenues	4.6%	4.3%	

Our general and administrative expenses decreased by 11% from RMB4,135 million in the six months ended June 30, 2019 to RMB3,679 million in the six months ended June 30, 2020. As a percentage of revenues, our general and administrative expenses decreased from 7.9% in the six months ended June 30, 2019 to 5.1% in the six months ended June 30, 2020. Such decreases were primarily due to the cessation of the Royalty and Service Payment upon the issuance of our shares to Alibaba in September 2019. Without the effect of share-based compensation and Royalty and Service Payment, our general and administrative expenses as a percentage of revenues would have decreased from 4.6% in the six months ended June 30, 2019 to 4.3% in the six months ended June 30, 2020.

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Research and development expenses

	Six months ended June 30,		% Change
	2019	2020	
	RMB	RMB	
	(in millions, except for percentages)		
Research and development expenses . . .	4,659	5,720	23%
Percentage of revenues	8.9%	7.9%	
Share-based compensation included in research and development expenses . .	1,275	1,619	27%
Percentage of revenues	2.4%	2.2%	
Research and development expenses excluding share-based compensation .	3,384	4,101	21%
Percentage of revenues	6.4%	5.7%	

Our research and development expenses increased by 23% from RMB4,659 million in the six months ended June 30, 2019 to RMB5,720 million in the six months ended June 30, 2020, primarily due to increases in payroll and welfare benefits and share-based compensation, as we employed a larger number of research and development personnel in the six months ended June 30, 2020 as compared with the six months ended June 30, 2019. As a percentage of our revenues, our research and development expenses decreased from 8.9% in the six months ended June 30, 2019 to 7.9% in the six months ended June 30, 2020. Without the effect of share-based compensation, research and development expenses as a percentage of revenues would have decreased from 6.4% in the six months ended June 30, 2019 to 5.7% in the six months ended June 30, 2020.

Other income and gains, net

We recorded other income and gains, net, of RMB733 million in the six months ended June 30, 2019 while we recorded other expenses and losses, net, of RMB1,545 million in the six months ended June 30, 2020, primarily due to the fair value losses of financial assets measured at fair value through profit or loss of RMB2,913 million we recorded in the six months ended June 30, 2020 which was due to fair value changes of certain our strategic investments and the outstanding balances of consumer credit of our licensed subsidiaries, as well as a gain on disposal of subsidiaries, associates and joint ventures of RMB503 million we recorded in the six months ended June 30, 2019.

Finance income, net

We recorded finance loss, net, of RMB10 million in the six months ended June 30, 2019 and finance income, net, of RMB544 million in the six months ended June 30, 2020. This was primarily due to an increase in the average balance of our bank deposits and a decrease in the average outstanding balance of bank borrowings from the six months ended June 30, 2019 to the six months ended June 30, 2020.

Income tax expense

Our income tax expenses increased by 122% from RMB1,125 million in the six months ended June 30, 2019 to RMB2,496 million in the six months ended June 30, 2020 driven by an increase in profit before tax during the six months ended June 30, 2020.

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Profit for the period

As a result of the foregoing, our profit for the period increased significantly from RMB1,892 million in the six months ended June 30, 2019 to RMB21,923 million in the six months ended June 30, 2020, and our net margin increased significantly from 3.6% in the six months ended June 30, 2019 to 30.2% in the six months ended June 30, 2020.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Revenues

	Year ended December 31,		% Change
	2018	2019	
	RMB	RMB	
	(in millions, except for percentages)		
Revenues			
Digital payment and merchant services	44,361	51,905	17%
Digital finance technology platform ..	40,616	67,784	67%
Innovation initiatives and others	745	930	25%
Total	85,722	120,618	41%

Revenues increased by 41% from RMB85,722 million in 2018 to RMB120,618 million in 2019, primarily due to the growth in revenues from our digital finance technology platform and digital payment and merchant services.

Digital payment and merchant services

	Year ended December 31,		% Change
	2018	2019	
	RMB	RMB	
	(in millions, except for percentages)		
Digital payment and merchant services revenues	44,361	51,905	17%
Percentage of revenues	51.8%	43.0%	

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Revenues from digital payment and merchant services increased by 17% from RMB44,361 million in 2018 to RMB51,905 million in 2019, primarily due to continued growth in the number of users using digital payment services both online and offline, continued increase in user engagement and transaction volume, as well as a significant increase in our revenues from cross-border payment services due to larger transaction volume. These increases were partially offset by a decrease in interest income on settlement reserve funds.

Digital finance technology platform

	Year ended December 31,		% Change
	2018	2019	
	RMB	RMB	
	(in millions, except for percentages)		
Digital finance technology platform			
revenues	40,616	67,784	67%
Percentage of revenues	47.4%	56.2%	

Revenues from digital finance technology platform increased by 67% from RMB40,616 million in 2018 to RMB67,784 million in 2019, primarily due to the growth in business volume enabled through our platform.

CreditTech

	Year ended December 31,		% Change
	2018	2019	
	RMB	RMB	
	(in millions, except for percentages)		
CreditTech	22,421	41,885	87%
Percentage of revenues	26.2%	34.7%	

	As of December 31,		% Change
	2018	2019	
	RMB	RMB	
	(in billions, except for percentages)		
CreditTech – Consumer and SMB credit balance ⁽¹⁾	1,046	2,014	93%

Note:

- (1) Includes consumer and SMB credit balances of third-party partner financial institutions (including MYbank) and our licensed financial services subsidiaries, as well as balance securitized.

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Revenues from CreditTech services increased by 87% from RMB22,421 million in 2018 to RMB41,885 million in 2019, primarily due to an increase in the balance of consumer and SMB credit enabled through our platform. The rapid growth in balance was primarily driven by an increase in the balance of consumer credit products, which in turn was primarily driven by increased usage of consumer credit services that led to a higher balance per user and, to a lesser extent, growth in the number of users. The increase in balance of consumer credit was supported by the expansion of our partnerships with banks and other financial institutions to fund these credit products. An increase in the balance of SMB credit due to a larger number of users also contributed to the increase from 2018 to 2019.

InvestmentTech

	Year ended December 31,		% Change
	2018	2019	
	RMB	RMB	
	(in millions, except for percentages)		
InvestmentTech	13,882	16,952	22%
Percentage of revenues	16.2%	14.1%	

	As of December 31,		% Change
	2018	2019	
	RMB	RMB	
	(in billions, except for percentages)		
InvestmentTech – AUM ⁽¹⁾	2,709	3,398	25%

Note:

- (1) Includes AUM balances of third-party partner financial institutions and our licensed financial services subsidiary.

Revenues from InvestmentTech services increased by 22% from RMB13,882 million in 2018 to RMB16,952 million in 2019, primarily due to an increase in AUM enabled through our platform. For Dalicai, the increase in balance was primarily due to an increase in the number of users, while for Yu’ebao, the increase in balance was due to an increase in the number of users and a higher average balance per user.

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InsureTech

	<u>Year ended December 31,</u>		
	<u>2018</u>	<u>2019</u>	
	<u>RMB</u>	<u>RMB</u>	<u>% Change</u>
	<u>(in millions, except for percentages)</u>		
InsureTech	4,313	8,947	107%
Percentage of revenues	5.0%	7.4%	

	<u>Year ended December 31,</u>		
	<u>2018</u>	<u>2019</u>	
	<u>RMB</u>	<u>RMB</u>	<u>% Change</u>
	<u>(in billions, except for percentages)</u>		
InsureTech – Insurance premiums and contributions ⁽¹⁾	14	38	159%

Note:

- (1) Includes insurance premiums of third-party partner financial institutions and our licensed financial services subsidiary and contributions of our mutual aid program.

Revenues from InsureTech services increased by 107% from RMB4,313 million in 2018 to RMB8,947 million in 2019, primarily driven by an increase in the insurance premiums and contributions enabled through our platform. The volume of our insurance premiums and contributions outgrew the revenues from InsureTech services, as a result of the rapid growth of life insurance premiums and the higher premium contribution from third-party partner insurers. The growth in the insurance premium was primarily due to substantial increases in both life insurance and health insurance volume, and to a lesser extent, an increase in scenario-based insurance volume. Xianghubao, our popular innovative mutual aid program introduced in December 2018, increased awareness of insurance and contributed to the stronger demand of insurance products on our platform.

Innovation initiatives and others

Our revenues from innovation initiatives and others increased by 25% from RMB745 million in 2018 to RMB930 million in 2019, primarily due to an increase in revenues from other administrative and support services. Also, we started to monetize and generate revenues from AntChain in 2019.

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Cost of services

	Year ended December 31,		% Change
	2018	2019	
	RMB	RMB	
	(in millions, except for percentages)		
Cost of services	40,909	60,515	48%
Percentage of revenues	47.7%	50.2%	
Share-based compensation included in cost of services	214	361	69%
Percentage of revenues	0.2%	0.3%	
Cost of services excluding share-based compensation	40,695	60,154	48%
Percentage of revenues	47.5%	49.9%	

Cost of services increased by 48% from RMB40,909 million in 2018 to RMB60,515 million in 2019, primarily due to an increase in transaction fees, and to a lesser extent, an increase in service fees, both associated with higher transaction volume. Our cost of services as a percentage of revenues increased from 47.7% in 2018 to 50.2% in 2019 as a result of an increase in service fees paid to independent service providers and other service partners to further diversify use cases and increase engagement. Without the effect of share-based compensation, cost of services as a percentage of revenues would have increased from 47.5% in 2018 to 49.9% in 2019.

Gross profit

	Year ended December 31,		% Change
	2018	2019	
	RMB	RMB	
	(in millions, except for percentages)		
Gross profit	44,813	60,103	34%
Percentage of revenues	52.3%	49.8%	

As a result of the foregoing, our gross profit increased by 34% from RMB44,813 million in 2018 to RMB60,103 million in 2019, and our gross margin decreased from 52.3% in 2018 to 49.8% in 2019.

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Selling and marketing expenses

	Year ended December 31,		% Change
	2018	2019	
	RMB	RMB	
	(in millions, except for percentages)		
Selling and marketing expenses	47,345	18,050	(62%)
Percentage of revenues	55.2%	15.0%	
Share-based compensation included in			
selling and marketing expenses	617	625	1%
Percentage of revenues	0.7%	0.5%	
Selling and marketing expenses			
excluding share-based compensation	46,728	17,425	(63%)
Percentage of revenues	54.5%	14.4%	

Our selling and marketing expenses decreased by 62% from RMB47,345 million in 2018 to RMB18,050 million in 2019. As a percentage of our revenues, our selling and marketing expenses decreased from 55.2% in 2018 to 15.0% in 2019. Without the effect of share-based compensation, selling and marketing expenses as a percentage of revenues would have decreased from 54.5% in 2018 to 14.4% in 2019. These decreases were primarily the result of a decrease in promotion and advertising expenses in 2019, as we made significant investments for user and merchant acquisition in 2018 and the six months ended June 30, 2019.

Such significant investments in promotion and advertising were made to achieve our strategic objective to cover most of China’s Internet users and merchants and increase their engagement on our platform, which has created significant benefits for our ecosystem and our businesses. As a result, we acquired more users and merchants. In 2019, we realized the benefits from the stronger engagement and loyalty of our user base as well as the efficiency of our promotional activities brought about by our investments in 2018. During 2018, we grew the number of Alipay app users, and achieved higher engagement and transaction activities from our user base. As a result, our selling and marketing expenses decreased significantly both in absolute terms and as a percentage of our revenues in the following year.

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General and administrative expenses

	Year ended December 31,		% Change
	2018	2019	
	RMB	RMB	
	(in millions, except for percentages)		
General and administrative expenses . . .	5,017	9,979	99%
Percentage of revenues	5.9%	8.3%	
Share-based compensation included in general and administrative expenses .	914	937	2%
Percentage of revenues	1.1%	0.8%	
General and administrative expenses excluding share-based compensation .	4,103	9,042	120%
Percentage of revenues	4.8%	7.5%	
Royalty and Service Payment	251	3,481	1,285%
Percentage of revenues	0.3%	2.9%	
General and administrative expenses excluding share-based compensation and Royalty and Service Payment . .	3,852	5,562	44%
Percentage of revenues	4.5%	4.6%	

Our general and administrative expenses increased by 99% from RMB5,017 million in 2018 to RMB9,979 million in 2019. As a percentage of revenues, our general and administrative expenses increased from 5.9% in 2018 to 8.3% in 2019. Such increases were primarily due to the increase in Royalties and Service Payment from RMB251 million in 2018 to RMB3,481 million in 2019. Our obligation to make the Royalty and Service Payment ceased upon the issuance of our shares to Alibaba in September 2019. Without the effect of share-based compensation and Royalty and Service Payment, general and administrative expenses as a percentage of revenues would have increased from 4.5% in 2018 to 4.6% in 2019.

Research and development expenses

	Year ended December 31,		% Change
	2018	2019	
	RMB	RMB	
	(in millions, except for percentages)		
Research and development expenses . . .	6,903	10,605	54%
Percentage of revenues	8.1%	8.8%	
Share-based compensation included in research and development expenses . .	2,171	3,213	48%
Percentage of revenues	2.5%	2.7%	
Research and development expenses excluding share-based compensation .	4,732	7,392	56%
Percentage of revenues	5.5%	6.1%	

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Our research and development expenses increased by 54% from RMB6,903 million in 2018 to RMB10,605 million in 2019, primarily due to increases in payroll and welfare benefits and share-based compensation, because we employed a larger number of research and development personnel in 2019 compared with 2018 as we continued to invest in the development of technology and innovation. As a percentage of our revenues, our research and development expenses increased from 8.1% in 2018 to 8.8% in 2019. Without the effect of share-based compensation, research and development expenses as a percentage of revenues would have increased from 5.5% in 2018 to 6.1% in 2019.

Other income and gains, net

Our other income and gains, net decreased by 77% from RMB19,623 million in 2018 to RMB4,499 million in 2019, primarily due to the fact that we recorded a one-time gain on deemed disposal of our interest in Koubei Holding Limited (“Koubei”) of RMB22,485 million. In the period, we also recorded a gain of RMB1,074 million in 2019 from change in fair value on financial assets measured at fair value through profit or loss, as compared with a loss of RMB5,722 million we recorded in 2018 from change in fair value on financial assets measured at fair value through profit or loss, which was primarily due to fair value changes of certain of our strategic investments.

In December 2018, Alibaba set up Local Services Holding Limited, or Local Services, and completed the integration of Rajax Holding (“Ele.me”) and Koubei. Our equity interests in Koubei, a joint venture, and Ele.me were exchanged for equity interest in Local Services. As we ceased having joint control over Koubei, the exchange was deemed to be a disposal of our interest in Koubei. Our equity interest in Local Services was designated as financial investments at fair value through other comprehensive income. The difference of RMB22,485 million between the fair value of our equity interests in Local Services at initial recognition in December 2018 and the carrying value of our equity interest in Koubei and Ele.me immediately before the exchange was recorded as our net gains on deemed disposal from losing joint control in a joint venture.

Finance income, net

Our finance income, net decreased by 34% from RMB138 million in 2018 to RMB91 million in 2019, primarily due to an increase in our finance cost as a result of higher average outstanding balance of bank borrowings in 2019, partially offset by increased finance income due to an increase in average balance of our bank deposits.

Income tax expense

Our income tax expenses increased by 211% from RMB958 million in 2018 to RMB2,980 million in 2019 driven by significant increase in profit before tax during the year.

Profit for the year

As a result of the foregoing, our profit for the year increased significantly from RMB2,156 million in 2018 to RMB18,072 million in 2019, and our net margin increased from 2.5% in 2018 to 15.0% in 2019.

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Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Revenues

	Year ended December 31,		% Change
	2017	2018	
	RMB	RMB	
	(in millions, except for percentages)		
Revenues			
Digital payment and merchant services	35,890	44,361	24%
Digital finance technology platform . .	28,993	40,616	40%
Innovation initiatives and others	514	745	45%
Total	65,396	85,722	31%

Revenues increased by 31% from RMB65,396 million in 2017 to RMB85,722 million in 2018, primarily due to the rapid growth of revenues from digital finance technology platform as well as the growth in revenues from digital payment and merchant services.

Digital payment and merchant services

	Year ended December 31,		% Change
	2017	2018	
	RMB	RMB	
	(in millions, except for percentages)		
Digital payment and merchant services revenues	35,890	44,361	24%
Percentage of revenues	54.9%	51.8%	

Revenues from digital payment and merchant services increased by 24% from RMB35,890 million in 2017 to RMB44,361 million in 2018, primarily due to a significant growth in the number of users and merchants using digital payment services both online and offline.

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Digital finance technology platform

	Year ended December 31,		% Change
	2017	2018	
	RMB	RMB	
	(in millions, except for percentages)		
Digital finance technology platform			
revenues	28,993	40,616	40%
Percentage of revenues	44.3%	47.4%	

Revenues from digital finance technology platform increased by 40% from RMB28,993 million in 2017 to RMB40,616 million in 2018, primarily due to the growth in business volume enabled through our platform.

CreditTech

	Year ended December 31,		% Change
	2017	2018	
	RMB	RMB	
	(in millions, except for percentages)		
CreditTech	16,187	22,421	39%
Percentage of revenues	24.8%	26.2%	

	As of December 31,		% Change
	2017	2018	
	RMB	RMB	
	(in billions, except for percentages)		
CreditTech – Consumer and SMB credit balance ⁽¹⁾	647	1,046	62%

Note:

- (1) Includes consumer and SMB credit balances of third-party partner financial institutions (including MYbank) and our licensed financial services subsidiaries, as well as balance securitized.

Revenues from CreditTech services increased by 39% from RMB16,187 million in 2017 to RMB22,421 million in 2018, primarily due to an increase in the balances of consumer and SMB credit enabled through our platform. The growth in balances was primarily driven by an increase in the balance of consumer credit products, which in turn was primarily driven by growth in the number of users. The growth in the consumer and SMB credit balance was significantly higher than that of revenues during the period as the majority of the

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increase in the balance of credit occurred during the second half of the year, and the period for which we charged technology service fees on these balances was shorter. To a lesser extent, an increase in the balance of SMB credit due to larger number of users also contributed to the increase.

InvestmentTech

	Year ended December 31,		
	2017	2018	
	RMB	RMB	% Change
	(in millions, except for percentages)		
InvestmentTech	10,490	13,882	32%
Percentage of revenues	16.0%	16.2%	

	As of December 31,		
	2017	2018	
	RMB	RMB	% Change
	(in billions, except for percentages)		
InvestmentTech – AUM ⁽¹⁾	2,227	2,709	22%

Note:

- (1) Includes AUM balances of third-party partner financial institutions and our licensed financial services subsidiary.

Revenues from InvestmentTech services increased by 32% from RMB10,490 million in 2017 to RMB13,882 million in 2018, primarily due to an increase in AUM enabled through our platform over these periods. The growth in balance was driven by increases in the volume of investment products. For Yu’ebao and Dalicai, the increase was due to an increase in the number of users, partially offset by a lower balance per user. The growth of revenues during 2018 exceeded the growth of AUM from December 31, 2017 to December 31, 2018 due to the timing of the increase in AUM in the course of the year.

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InsureTech

	<u>Year ended December 31,</u>		
	<u>2017</u>	<u>2018</u>	
	<u>RMB</u>	<u>RMB</u>	<u>% Change</u>
	<u>(in millions, except for percentages)</u>		
InsureTech	2,315	4,313	86%
Percentage of revenues	3.5%	5.0%	

	<u>As of December 31,</u>		
	<u>2017</u>	<u>2018</u>	
	<u>RMB</u>	<u>RMB</u>	<u>% Change</u>
	<u>(in billions, except for percentages)</u>		
InsureTech – Insurance premiums and contributions ⁽¹⁾	9	14	58%

Note:

- (1) Includes insurance premiums of third-party partner financial institutions and our licensed financial services subsidiary and contributions of our mutual aid program.

Revenues from InsureTech services increased by 86% from RMB2,315 million in 2017 to RMB4,313 million in 2018, primarily driven by an increase in the insurance premiums and contributions enabled through our platform and a lower proportion of premium from our third-party partner insurers as well as a change in mix of insurance premiums. The increase in the insurance premiums was primarily due to a substantial increase in scenario-based insurance volume, and to a lesser extent, an increase in health insurance volume.

Innovation initiatives and others

Revenues from innovation initiatives and others increased by 45% from RMB514 million in 2017 to RMB745 million in 2018, primarily due to an increase in revenues from other administrative and support services.

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Cost of services

	Year ended December 31,		% Change
	2017	2018	
	RMB	RMB	
	(in millions, except for percentages)		
Cost of services	23,726	40,909	72%
Percentage of revenues	36.3%	47.7%	
Share-based compensation included in cost of services	235	214	(9%)
Percentage of revenues	0.4%	0.2%	
Cost of services excluding share-based compensation	23,491	40,695	73%
Percentage of revenues	35.9%	47.5%	

Cost of services increased by 72% from RMB23,726 million in 2017 to RMB40,909 million in 2018, primarily due to increases in transaction fees associated with higher transaction volume, as well as higher transaction fee rates. Costs of services as a percentage of revenues increased from 36.3% in 2017 to 47.7% in 2018, primarily due to an increase in the overall fee rate charged by financial institutions as a result of a renewal of agreements to reflect prevailing market rates. Without the effect of share-based compensation, cost of services as a percentage of revenues would have increased from 35.9% in 2017 to 47.5% in 2018.

Gross profit

	Year ended December 31,		% Change
	2017	2018	
	RMB	RMB	
	(in millions, except for percentages)		
Gross profit	41,670	44,813	8%
Percentage of revenues	63.7%	52.3%	

As a result of the foregoing, our gross profit increased by 8% from RMB41,670 million in 2017 to RMB44,813 million in 2018, and our gross margin decreased from 63.7% in 2017 to 52.3% in 2018.

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Selling and marketing expenses

	Year ended December 31,		% Change
	2017	2018	
	RMB	RMB	
	(in millions, except for percentages)		
Selling and marketing expenses	15,325	47,345	209%
Percentage of revenues	23.4%	55.2%	
Share-based compensation included in selling and marketing expenses	584	617	6%
Percentage of revenues	0.9%	0.7%	
Selling and marketing expenses excluding share-based compensation	14,741	46,728	217%
Percentage of revenues	22.5%	54.5%	

Our selling and marketing expenses increased by 209% from RMB15,325 million in 2017 to RMB47,345 million in 2018. As a percentage of our revenues, our selling and marketing expenses increased from 23.4% in 2017 to 55.2% in 2018. Without the effect of share-based compensation, selling and marketing expenses as a percentage of revenues would have increased from 22.5% in 2017 to 54.5% in 2018. Such increases were primarily due to a 227.9% increase in promotion and advertising expenses, which increased from RMB13,937 million in 2017 to RMB45,694 million in 2018 as part of our strategic initiative for user acquisition and to drive user engagement. As a result, our Alipay app MAUs increased by 119 million from December 2017 to December 2018.

General and administrative expenses

	Year ended December 31,		% Change
	2017	2018	
	RMB	RMB	
	(in millions, except for percentages)		
General and administrative expenses	8,293	5,017	(39%)
Percentage of revenues	12.7%	5.9%	
Share-based compensation included in general and administrative expenses	592	914	54%
Percentage of revenues	0.9%	1.1%	
General and administrative expenses excluding share-based compensation	7,701	4,103	(47%)
Percentage of revenues	11.8%	4.8%	
Royalty and Service Payment	4,812	251	(95%)
Percentage of revenues	7.4%	0.3%	
General and administrative expenses excluding share-based compensation and Royalty and Service Payment	2,889	3,852	33%
Percentage of revenues	4.4%	4.5%	

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Our general and administrative expenses decreased by 39% from RMB8,293 million in 2017 to RMB5,017 million in 2018, primarily due to the decrease in Royalty and Service Payment from RMB4,812 million in 2017 to RMB251 million in 2018 as a result of a decrease in our profit in 2018, which was partially offset by an increase in the headcount of our administrative personnel. For the same reasons, our general and administrative expenses as a percentage of our revenues decreased from 12.7% in 2017 to 5.9% in 2018. Without the effect of share-based compensation and Royalty and Service Payment, general and administrative expenses as a percentage of revenues would have increased from 4.4% in 2017 to 4.5% in 2018.

Research and development expenses

	Year ended December 31,		% Change
	2017	2018	
	RMB	RMB	
	(in millions, except for percentages)		
Research and development expenses . . .	4,789	6,903	44%
Percentage of revenues	7.3%	8.1%	
Share-based compensation included in research and development expenses . .	1,771	2,171	23%
Percentage of revenues	2.7%	2.5%	
Research and development expenses excluding share-based compensation .	3,018	4,732	57%
Percentage of revenues	4.6%	5.5%	

Our research and development expenses increased by 44% from RMB4,789 million in 2017 to RMB6,903 million in 2018, primarily due to the increase in payroll and welfare benefits and share-based compensation, as we employed a larger number of research and development personnel in 2018 as compared with 2017. As a percentage of revenues, research and development expenses increased from 7.3% to 8.1%. Without the effect of share-based compensation, research and development expenses as a percentage of revenues would have increased from 4.6% in 2017 to 5.5% in 2018.

Other income and gains, net

We recorded other expense and losses, net of RMB17 million in 2017 and other income and gains, net of RMB19,623 million in 2018, primarily due to a one-time gain on deemed disposal of our equity interest in Koubei of RMB22,485 million in relation to the Local Services restructuring that was completed in December 2018. This was partially offset by a loss on fair value change on financial assets measured at fair value through profit or loss of RMB5,722 million in 2018, which was due to fair value changes of certain of our strategic investments and the outstanding balances of consumer credit of our licensed subsidiaries.

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Finance income, net

We recorded finance cost, net, of RMB140 million in 2017, compared to finance income, net, of RMB138 million in 2018, primarily due to increased finance income resulting from an increase in the average balance of our bank deposits, partially offset by an increase in finance cost as a result of an increase in the average outstanding balance of our bank borrowings in 2018.

Income tax expense

Our income tax expenses decreased by 65% from RMB2,743 million in 2017 to RMB958 million in 2018 due to lower profit before tax.

Profit for the year

As a result of the foregoing, our profit for the year decreased significantly from RMB8,205 million in 2017 to RMB2,156 million in 2018, and our net margin decreased from 12.5% in 2017 to 2.5% in 2018.

Discussion of Certain Key Balance Sheet Items

The table below sets forth information on current assets and current liabilities from our consolidated statements of financial position as of the dates indicated, which have been extracted from our audited consolidated financial statements included in Appendix I to this document.

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	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB	RMB	RMB	RMB
	(in millions)			
Current Assets:				
Trade receivables	4,091	7,705	13,120	14,613
Loan receivables	25,634	32,746	37,511	36,242
Financial investments at fair value through profit or loss	11,991	11,356	9,041	6,964
Derivative financial instruments ...	–	–	89	106
Financial investments at amortized cost	2,011	2,136	2,340	1,167
Prepayments, other receivables and other assets	15,012	7,584	9,281	9,886
Restricted cash	12,078	23,316	27,092	34,029
Time deposits and other bank balances	350	564	997	88
Cash and cash equivalents	20,378	46,000	39,767	71,413
Total current assets	91,545	131,409	139,239	174,509
Current Liabilities:				
Trade payables	11,680	16,167	18,376	18,585
Interest-bearing bank borrowings ..	22,294	40,890	14,600	21,845
Derivative financial instruments ...	255	114	320	167
Financial liabilities at fair value through profit or loss	192	121	388	310
Income tax payables	1,365	464	1,038	2,023
Contract liabilities	1,179	1,526	2,488	3,047
Other payables, accruals and other liabilities	23,197	23,703	33,786	45,141
Total current liabilities	60,161	82,985	70,997	91,117
Net current assets	31,384	48,424	68,242	83,392

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We had net current assets of RMB31,384 million, RMB48,424 million, RMB68,242 million and RMB83,392 million, as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. Our net current assets position as of each of these dates was primarily attributable to our cash and bank balances, financial assets at fair value through profit or loss, which mainly consist of short-term investments, loan receivables and trade receivables, partially offset by other payables, accruals and other liabilities, trade payables, and interest-bearing bank borrowings. Cash and cash equivalents account for a substantial part of our current assets. As of December 31, 2017, 2018, 2019 and June 30, 2020, we had cash and cash equivalents of RMB20,378 million, RMB46,000 million, RMB39,767 million and RMB71,413 million. See “— Liquidity and Capital Resources” for further details on change of the balance of our cash and cash equivalents. We had restricted cash of RMB12,078 million, RMB23,316 million, RMB27,092 million and RMB34,029 million, as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. Restricted cash consists primarily of restricted deposits for overseas client money, general reserve deposits and deposit in the process of clearance and settlement.

Trade Receivables

Trade receivables mainly represent service fees due from merchants who accept Alipay and partner financial institutions for our digital finance technology services. Trade receivables increased both in absolute terms and as a percentage of our current assets during the Track Record Period as our revenues from digital finance technology platform grew rapidly. We typically grant our customers a credit period of one month to three months from the invoice date, and therefore all our trade receivables are classified as current assets. Our trade receivables are non-interest-bearing and we do not hold any collateral or other credit enhancements over our trade receivables. As of December 31, 2017, 2018 and 2019 and June 30, 2020, allowance for impairment for trade receivables amounted to RMB11 million, RMB22 million, RMB47 million and RMB41 million, and the substantial majority of our trade receivables are within three months of their respective invoice date. See Note 22 to the Accountant’s Report set forth in Appendix I to this document for further details on allowance and aging analysis for our trade receivables. The following table sets forth our trade receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB	RMB	RMB	RMB
	(in millions)			
Trade receivables	4,102	7,727	13,167	14,654
Less: allowance for impairment . . .	(11)	(22)	(47)	(41)
	<u>4,091</u>	<u>7,705</u>	<u>13,120</u>	<u>14,613</u>

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Loan Receivables

Loan receivables represent balances of consumer and SMB credit enabled through our platform and retained by our licensed subsidiaries. In addition, it includes receivables arising from factoring services we provided to certain merchants. As of December 31, 2017, 2018 and 2019 and June 30, 2020, our loan receivables amounted to RMB25,634 million, RMB32,746 million, RMB37,511 million and RMB36,242 million.

During the Track Record Period, we continued to broaden our ecosystem by partnering with more financial institutions. As a result, the loan receivables retained by our licensed financial services subsidiaries increased at a much slower rate than the growth of the balance of consumers and SMB credit enabled through our platform and our revenues from CreditTech services. As of June 30, 2020, approximately 98% of total credit balance enabled through our platform was underwritten by our partner financial institutions or sold as ABS.

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB	RMB	RMB	RMB
	(in millions)			
Measured at amortized cost				
Loan receivables of SMB				
credit	2,201	1,602	570	338
Factoring receivables	494	1,505	6,007	4,233
Allowance for impairment	(205)	(160)	(256)	(173)
	<u>2,490</u>	<u>2,947</u>	<u>6,321</u>	<u>4,397</u>
Measured at fair value through				
profit or loss				
Loan receivables of consumer				
credit	<u>23,144</u>	<u>29,800</u>	<u>31,190</u>	<u>31,845</u>
	<u>25,634</u>	<u>32,746</u>	<u>37,511</u>	<u>36,242</u>

Trade Payables

Our trade payables primarily consist of transaction fees paid to financial institutions within our cost of services, promotion and advertising expenses and Royalty and Service Payment, among others. Our trade payables are non-interest-bearing and are normally settled in one- to three-month terms, except for Royalty and Service Payment which are settled at least annually according to related agreements.

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The following table sets forth our trade payables as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB	RMB	RMB	RMB
	(in millions)			
Transaction and maintenance costs	6,154	13,389	15,845	16,439
Promotion and advertising expenses	791	1,372	1,600	907
Royalty and Service Payment	4,318	817	—	—
Others	417	589	932	1,239
	<u>11,680</u>	<u>16,167</u>	<u>18,376</u>	<u>18,585</u>

Our trade payables increased by 38.4% from RMB11,680 million as of December 31, 2017 to RMB16,167 million as of December 31, 2018, and further increased by 13.7% to RMB18,376 million as of December 31, 2019, and further increased by 1.1% to RMB18,585 million as of June 30, 2020. The higher balance of trade payables is primarily due to the growth of our cost and expenses along with our business expansion. We were no longer liable for the Royalty and Service Payment upon the issuance of our Shares to Alibaba in September 2019. Excluding the Royalty and Service Payment, the growth of trade payables were largely in-line with the overall trend of costs and expenses.

Other Payables, Accruals and Other Liabilities

Other payables, accruals and other liabilities primarily consist of client money payable by our overseas subsidiaries, items in the process of clearance and settlement, salaries and welfares payable and others. Our overseas subsidiaries that operate the payment services deposit money received from clients in certain specific accounts. The overseas subsidiaries recognize the related assets and liabilities of client money correspondingly.

A portion of the consumer credit enabled through our platform are sold as ABS, and we retain a small portion of the subordinated tranches of these ABS. We are exposed to risks from our involvement in such arrangements due to the holding of the subordinated tranches and the associated liabilities of our continuing involvement were accounted for as our other liabilities.

Our current other payables, accruals and other liabilities increased slightly from 2017 to 2018, further increased from RMB23,703 million as of December 31, 2018 to RMB33,786 million as of December 31, 2019, and further increased to RMB45,141 million as of June 30, 2020, primarily due to increases in our overseas client money payable from RMB6,869 million as of December 31, 2018, to RMB14,622 million as of December 31, 2019 and further to RMB18,198 million as of June 30, 2020 under our overseas subsidiaries as a result of the growth of our cross-border payment services. In addition, the increase in the six months ended June 30, 2020 was also due to that items in the process of clearance and settlement increased from RMB3,449 million as of December 31, 2019 to RMB12,280 million as of June 30, 2020 as a result of the growth of fund distribution services provided in InvestmentTech services.

FINANCIAL INFORMATION

Strategic Investments and Acquisitions

In order to further enlarge our thriving ecosystem, strengthen our relationship with partners, supplement our technology portfolio and expand internationally, we have made and intend to continue to make selected strategic investments and acquisitions. Our strategic investments and acquisitions form a significant part of our cash outflow used in investing activities, and may affect our future financial results, including our net income.

Historically, most of our strategic investments were for non-controlling stakes. Accounting treatment for these investments can result in various gains or losses, including share of profits and losses of associates and joint ventures and gains or losses on fair value changes or disposals.

Investments in Associates and Joint Ventures

Entities over which we have significant influence or joint control are classified as associates or joint ventures. Our major associates include One97 Communications Limited that operates PayTM, our e-wallet partner in India, in which we held a 30.33% equity interest and MYbank, in which we held a 30.00% equity interest as of June 30, 2020.

Our investments in associates and joint ventures in the form of ordinary shares are accounted for using the equity method. See “— Critical Accounting Policies and Estimates — Investments in Associates and Joint Ventures” for further details, and we share the profits and losses of these associates and joint ventures. As of December 31, 2017, 2018 and 2019 and June 30, 2020, we had RMB24,157 million, RMB23,796 million, RMB26,797 million and RMB26,549 million of long-term investments in associates and joint ventures that were accounted for using the equity method, including our equity interests in One97 Communications Limited and MYbank. Our share of losses in these associates and joint ventures, net amounted to RMB2,094 million, RMB1,526 million, RMB3,110 million and RMB1,027 million in 2017, 2018 and 2019 and the six months ended June 30, 2020.

Investments in associates in the form of convertible redeemable preferred shares or ordinary shares with preferential rights, along with other equity investments over which we do not have significant influence, are measured as financial investments at fair value through profit or loss. As of December 31, 2017, 2018 and 2019 and June 30, 2020, the carrying value of these equity investments were RMB7,376 million, RMB23,636 million, RMB33,880 million and RMB35,877 million.

Certain minority equity investments in entities where we do not have significant influence are measured as financial investments at fair value through other comprehensive income, primarily our equity interest in Local Services. Our equity interest in Local Services was the result of an exchange of our equity interest in Ele.me and Koubei in December 2018 in connection with the restructuring. As of December 31, 2018 and 2019 and June 30, 2020, our equity investment in Local Services amounted to RMB31,368 million, RMB31,834 million and RMB32,230 million, respectively.

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Business Combination

On February 13, 2019, we acquired the entire equity interest in World First UK Limited. This allowed us to further strengthen our cross-border services. The total consideration of the transaction was RMB3,956 million in cash and RMB361 million by means of other equity instruments. The goodwill of approximately RMB3,202 million arising from the acquisition is primarily attributable to business cooperation expected to be derived from combining the acquired business with our business.

Liquidity and Capital Resources

During the Track Record Period and up to the Latest Practicable Date, we have funded our cash requirements principally from cash generated from operating activities, funds raised through private placement and bank borrowings. We had cash and cash equivalents of RMB20,378 million, RMB46,000 million, RMB39,767 million and RMB71,413 million as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. Going forward, we believe that our liquidity requirements will be satisfied by using a combination of cash generated from operating activities, other funds raised from the capital markets and bank borrowings from time to time and the [REDACTED] received from the [REDACTED]. We are not subject to any material financial covenants or other significant operating covenants under our existing indebtedness, except that we are required to maintain a certain net debt to equity ratio under a syndicated loan agreement. During the Track Record Period and up to the Latest Practicable Date, we were in compliance with this covenant.

The following table sets forth our cash flows for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB	RMB	RMB	RMB	RMB
	(in millions)				
Net cash generated from/(used in) operating activities	16,141	(19,050)	17,260	1,273	27,013
Net cash used in investing activities	(17,228)	(28,551)	(27,507)	(2,550)	(1,069)
Net cash generated from/(used in) financing activities	10,345	72,845	3,873	(5,257)	5,579
Net increase/(decrease) in cash and cash equivalents	9,258	25,243	(6,374)	(6,534)	31,523
Cash and cash equivalents at the beginning of the year/period . .	11,157	20,378	46,000	46,000	39,767
Effect of foreign exchange rate changes, net	(38)	379	141	24	123
Cash and cash equivalents at the end of the year/period	20,378	46,000	39,767	39,490	71,413

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Cash Flows from Operating Activities

Net cash generated from operating activities primarily consists of our profit before tax for the period, adjusted to (i) exclude the effect of non-cash items, such as equity settled share-based compensation, share of profits and losses of associates and joint ventures, fair value changes of financial investments, deemed disposal gain from losing significant influence in an associate and joint control in a joint venture, and (ii) include changes in working capital.

For the six months ended June 30, 2020, net cash from operating activities was RMB27,013 million, which was primarily attributable to profit before tax of RMB24,419 million, as adjusted for (i) non-cash items, which primarily comprised fair value changes of financial investments of RMB3,028 million, equity-settled share-based payment compensation of RMB2,612 million, shares of losses of associates and joint ventures of RMB1,027 million and depreciation and amortization of RMB1,409 million; and (ii) changes in working capital, which primarily comprised an increase of trade receivables of RMB1,496 million, an increase in prepayments, other receivables and other assets of RMB9,789 million, and an increase in other payables, accruals and other liabilities of RMB8,045 million.

In 2019, net cash from operating activities was RMB17,260 million, which was primarily attributable to profit before tax of RMB21,052 million, as adjusted by (i) non-cash items, which primarily comprised equity settled share-based compensation of RMB4,985 million, shares of losses of associates and joint ventures of RMB3,110 million and depreciation and amortization of RMB2,306 million; and (ii) changes in working capital, which primarily comprised an increase in loan receivables of RMB6,325 million, an increase of trade receivables of RMB5,053 million, an increase in prepayments, other receivables and other assets of RMB5,038 million, an increase in other payables, accruals and other liabilities of RMB3,461 million, and an increase in trade payables of RMB1,744 million.

In 2018, net cash used in operating activities was RMB19,050 million, which was primarily attributable to profit before tax of RMB3,114 million, as adjusted by (i) non-cash items, which primarily comprised a deemed disposal gain from losing significant influence in an associate and joint control in a joint venture of RMB22,868 million, fair value change of financial assets of RMB5,589 million and equity settled share-based compensation of RMB3,769 million; and (ii) changes in working capital, which primarily comprised an increase in loan receivables of RMB9,533 million, an increase in other payables, accruals and other liabilities of RMB5,264 million, an increase in prepayments, other receivables and other assets of RMB4,843 million, an increase in trade payables of RMB4,355 million, and an increase in trade receivables of RMB3,601 million. We incurred net operating cash outflow in 2018 as we made substantial investments in customer acquisition.

In 2017, net cash from operating activities was RMB16,141 million, which was attributable to our profit before income tax of RMB10,948 million, as adjusted by (i) non-cash items, which primarily comprised equity-settled share-based compensation of RMB3,146 million and share of losses of associates and joint ventures of RMB2,094 million; and (ii) changes in working capital, which primarily comprised an increase in prepayments, other receivables and other assets of RMB6,145 million, an increase in other payables, accruals and other liabilities of RMB3,642 million and an increase in trade payables of RMB3,105 million.

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Cash Flows from Investing Activities

For the six months ended June 30, 2020, net cash used in investing activities was RMB1,069 million, which was mainly attributable to (i) net purchase of financial instruments of RMB1,120 million; and (ii) purchase of investments accounted for using the equity method RMB1,094 million, partially offset by investment income from financial investments of RMB1,295 million.

In 2019, net cash used in investing activities was RMB27,507 million, which was mainly attributable to (i) purchase of certain intellectual properties and assets of RMB12,859 million mainly from Alibaba pursuant to the SAPA; (ii) net purchase of RMB7,351 million of financial instruments; and (iii) purchase of investments accounted for using the equity method of RMB5,818 million.

In 2018, net cash used in investing activities was RMB28,551 million, which was mainly attributable to (i) net purchase of RMB19,387 million of financial instruments, and (ii) purchase of investments accounted for using the equity method of RMB5,713 million.

In 2017, net cash used in investing activities was RMB17,228 million, which was mainly attributable to (i) net purchase of RMB9,148 million of financial instruments, and (ii) purchase of investments accounted for using the equity method of RMB6,393 million.

Cash Flows from Financing Activities

For the six months ended June 30, 2020, net cash generated from financing activities was RMB5,579 million, which was primarily attributable to proceeds from borrowings of RMB20,234 million, partially offset by the repayments of borrowings of RMB13,508 million.

In 2019, net cash generated from financing activities was RMB3,873 million, which was primarily attributable to (i) proceeds from borrowings of RMB22,883 million, (ii) proceeds from issuance of Shares of RMB12,217 million, including the issuance of Shares to Alibaba under the SAPA in September 2019, and (iii) decrease in pledged deposits of RMB11,902 million partially offset by the repayments of borrowings of RMB41,042 million.

In 2018, net cash generated from financing activities was RMB72,845 million, which was primarily attributable to (i) proceeds from issuance of shares of RMB76,573 million relating to our equity financing and Ant International’s issuance of shares as detailed in the section titled “History,” and (ii) proceeds from borrowings of RMB66,960 million, partially offset by the repayments of borrowings of RMB56,923 million and outflow from increase of pledged deposits of RMB11,625 million.

In 2017, net cash generated from financing activities was RMB10,345 million, which was primarily attributable to proceeds from borrowings of RMB34,964 million, partially offset by the repayments of borrowings of RMB22,802 million.

FINANCIAL INFORMATION

Working Capital Sufficiency

Taking into account our cash and cash equivalents, our operating cash flows, available bank facilities and the estimated [REDACTED] available to us from the [REDACTED], our Directors believe that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this document.

Indebtedness

Borrowings

The table below sets forth the detail of our outstanding borrowings as of the respective dates:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB	RMB	RMB	RMB
(in millions, except for percentages)				
Current:				
Bank loans – unsecured	22,294	30,090	14,600	21,845
Bank loans – secured	–	10,800	–	–
	22,294	40,890	14,600	21,845
Non-current:				
Bank loans – unsecured	7,883	–	8,040	7,766
	30,176	40,890	22,640	29,611
Analyzed into:				
Within one year or on demand . .	22,294	40,890	14,600	21,845
In the second year	–	–	360	7,766
In the third to fifth years, inclusive	7,883	–	7,680	–
	30,176	40,890	22,640	29,611
Unsecured				
Current	22,294	30,090	14,600	21,845
Effective interest rate (%) . .	2.10~5.13%	3.70~5.10%	3.70~4.22%	2.50~3.92%
Maturity	2018	2019	2020	2020~2021
Non-current	7,883	–	8,040	7,766
Effective interest rate (%) . .	2.78~2.90%	–	2.86~4.66%	1.34~3.90%
Maturity	2020	–	2021~2022	2022
Secured				
Current	–	10,800	–	–
Effective interest rate (%) . .	–	3.70~3.92%	–	–
Maturity	–	2019	–	–

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As of June 30, 2020, we had unrestricted and unutilized credit facility of approximately US\$5.5 billion from a syndicated credit facility granted in 2019.

As of June 30, 2020, we had outstanding financial guarantees of RMB23 million arising from our ordinary course of business.

Except for our indebtedness as disclosed above, we did not have outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptance (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other contingent liabilities as of June 30, 2020, being the latest practicable date for our indebtedness statement.

Capital Expenditures

Our capital expenditures are primarily purchase of plant, equipment and property to support our ordinary operation and purchase of intangible assets. The table below sets forth our capital expenditures for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2017	2018	2019	2020
	RMB	RMB	RMB	RMB
	(in millions)			
Purchase of property, plant and equipment and construction in progress	(1,187)	(2,814)	(2,086)	(221)
Proceeds from disposals of property, plant and equipment . .	18	14	34	5
Purchase of intangible assets and other non-current assets	(187)	(131)	(12,859) ⁽¹⁾	(54)
Proceeds from disposals of intangible assets and other non-current assets	—	—	12	—
	<u>(1,355)</u>	<u>(2,930)</u>	<u>(14,899)</u>	<u>(270)</u>

Note:

- (1) Primarily the amount paid to Alibaba pursuant to the SAPA for the transfer of certain intellectual properties and assets.

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Capital Commitments

The table below sets forth our capital commitments as of the respective dates:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB	RMB	RMB	RMB
	(in millions)			
Capital investment in investees . . .	3,864	3,776	1,264	3,789
Purchase of property, plant and equipment	1,453	1,049	329	608
	<u>5,317</u>	<u>4,824</u>	<u>1,593</u>	<u>4,397</u>

Off Balance Sheet Arrangement and Contingent Liabilities

We do not have material contingent liabilities, or off-balance sheet arrangements or exposures. We have not entered into, nor do we expect to enter into, any material off-balance sheet arrangements, nor have we entered into any material financial guarantees or other commitments to guarantee the payment obligations of third parties.

Material Related Party Transactions

Alibaba is a related party of ours. We have maintained a strategic and mutually beneficial relationship with Alibaba. We cooperate with Alibaba in various areas, including primarily our provision of payment services to Alibaba and its various subsidiaries and associates, licenses of trademarks from Alibaba to us, Alibaba’s provision of cloud computing services to us and the mutual license of certain patents, software and technologies between us and Alibaba. See “Connected Transactions — Relationship with Alibaba” for further details.

In 2017, 2018, 2019 and the six months ended June 30, 2020, we generated revenues of RMB5,816 million, RMB7,849 million, RMB9,773 million and RMB4,470 million, representing approximately 8.9%, 9.2%, 8.1% and 6.2% of our revenues for the respective periods, including revenues from the provision of payment services of RMB5,630 million, RMB7,566 million, RMB9,236 million and RMB4,044 million.

In 2017, 2018, 2019 and the six months ended June 30, 2020, payment we made to Alibaba, which were accounted for our cost of services and operating expenses, amounted to RMB6,707 million, RMB3,003 million, RMB7,937 million and RMB2,392 million. In particular, under the 2014 IPLA, we were required to pay Royalty and Service Payment to Alibaba. In 2017, 2018, 2019 and the six months ended June 30, 2020, such payments amounted to RMB4,812 million, RMB251 million, RMB3,481 million and nil, representing approximately 58.0%, 5.0%, 34.9% and nil of our general and administrative expenses for the respective periods. Upon our issuance of Shares to Alibaba under the SAPA in September 2019, we are no longer liable for such payment.

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Going forward, we will continue to engage in various types of transactions with Alibaba, a related party and also a connected person. See “Connected Transactions” for further details about the arrangement with Alibaba. For a discussion details of other related party transactions, see Note 41 to the Accountant’s Report set forth in Appendix I to this document.

Our Directors believe that the related party transactions were carried out on an arm’s length basis and will not distort our results during the Track Record Period or make such results not reflective of our future performance.

Financial Risk Disclosure

We are exposed to a variety of financial risks, including interest rate risk, foreign currency risk, credit risk, liquidity risk and other price risk.

Interest Rate Risk

Our exposure to the risk of changes in market interest rates relates primarily to our interest-bearing financial instruments. Those carried at fixed rates expose us to fair value interest rate risk whereas those carried at floating rates expose us to cash flow interest rate risk. We manage our interest rate risk by keeping a balanced portfolio of fixed and floating interest rates.

For financial instruments with fixed interest rates, the rates are determined at initial recognition and remain unchanged during the holding period. For those measured at amortized cost, the changes in market interest rates will not impact on the profits or losses or equity. For most of those measured at fair value including loan receivables, debt investments, the maturity are relatively short, so there’s no significant risk on related fair value interest risk.

Foreign Currency Risk

We conduct our businesses mainly in RMB, with certain transactions denominated in USD, and, to a lesser extent, other currencies. Our exposure to treasury operations mainly arises from its transactions in currencies other than functional currencies. We seek to limit our exposure to foreign currency risk by minimizing its net foreign currency position. For example, we set limits on various currency positions, regularly monitors the size of currency positions and uses hedging strategies to keep our foreign currency position within the limits set.

Credit Risk

Credit risk is the risk of financial loss to us if the customer or counterparty of a financial instrument fails to meet its obligations, which arises principally from loan receivables, trade receivables, cash and bank balances, debt investments, derivative financial instruments and other receivables. The credit risk of these financial assets comes from the default of the counterparty, and the maximum exposure to credit risk of our financial assets is equal to the carrying amounts.

The main counterparties of cash and bank balances are banks with good reputation and high credit ratings, and therefore come with low credit risks.

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We are also exposed to credit risk from accounts receivable and other receivables during client services providing. In respect with the related credit risk, we establish credit policies as appropriate and determines the client’s credit facility accordingly. Credit evaluation is based on the client’s historical credit standing, ongoing risk monitoring and the client’s credit records.

Our fund investments are mainly money market funds invested for cash management purpose with low credit risks. Besides these investments, we restrict investments to defined target market and sets approval procedures to ensure that the management fully understand the credit risks involved so as to select counterparty with caution, fully conducts the credit evaluation strategy, enhance the dynamic tracking capability and continue evaluating counterparty’s fulfilment capability so as to take timely measures to prevent and defuse risks.

In respect with the credit risk of loan receivables, we perform standardized credit management procedures. As for pre-issuance due diligence, we systematically approve the loan facility by credit modelling and strategy setting, combined with comprehensive information including the borrower’s transaction scenario, business behavior and repayment ability, using big data analytics. Once a loan is issued, we would manage the loan by category and monitor risk using automation. Based on the algorithms and rules set for the business, the smart automated risk control module employed by us dynamically assesses and monitors capital flow, issues risk early-warning for risks identified and impose access limits and lower the credit line to control credit risk.

Liquidity Risk

Liquidity risk is the risk that funds will not be available to meet the liabilities as they fall due. This may arise from mismatches in amounts or duration with regard to the maturity of financial assets and liabilities.

We hold an appropriate amount of liquid assets to ensure our liquidity needs, while we hold sufficient funds to meet unpredictable payment requirements in its daily operations. Due to the changing nature of the business, it is our policy to regularly monitor liquidity risks, maintain sufficient cash and cash equivalents or adjust financing arrangements to meet our liquidity needs.

Certain of our subsidiaries engaging in cross-border digital payment services shall deposit the client money received for handling the payment business into specific accounts. The overseas subsidiaries thus recognize the client money deposits and payables concurrently, and the net exposure to liquidity risk is not significant.

Other Price Risk

Other price risk is the risk of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market.

Security price risk arises from the decline in fair value because of unfavorable changes in the stock index level or the price of individual securities. We are exposed to security price risk of investments in ordinary shares or preferred shares measured at fair value through profit or loss and at fair value through other comprehensive income.

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Future Dividends

Since our inception, we have not declared or paid any dividends on our Shares. We expect to continue to invest in technology and innovation to implement our growth strategies, which we believe will contribute to the value creation for customers, employees and shareholders. Our Board of Directors regularly review our dividend policy by taking into consideration a number of factors, including our evolving strategies, results of operations, financial condition, operating and capital investment requirements and other factors it may deem relevant. Any declaration and payment, as well as the amount of the dividends, will be subject to our Articles and the relevant PRC laws and regulations, according to which the dividends may be paid only out of the distributable profits as determined under PRC GAAP or IFRSs, whichever is lower.

Distributable Reserves

As of June 30, 2020, we had retained earnings of RMB44,826 million available for distribution to our shareholders.

[REDACTED] Expenses

Based on the [REDACTED] being HK\$[REDACTED], the total estimated [REDACTED] expenses in relation to the H Share [REDACTED] is approximately RMB[REDACTED] million. [REDACTED] expenses of approximately RMB[REDACTED] million were incurred and charged to our consolidated income statements during the Track Record Period. We estimate that we will further incur [REDACTED] expenses of RMB[REDACTED] million of which RMB[REDACTED] million will be charged to our consolidated income statement for the remaining period of 2020. The balance of approximately RMB[REDACTED] million, which mainly includes [REDACTED] commission, is expected to be accounted for as a deduction from equity upon the completion of the H Share [REDACTED].

Unaudited Pro Forma Statement of Adjusted Net Tangible Assets

The following unaudited pro forma statement of our adjusted consolidated net tangible assets prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules is to illustrate the effect of the [REDACTED] and the H Share [REDACTED] on our consolidated net tangible assets attributable to owners of the Company as of June 30, 2020 as if the [REDACTED] and the H Share [REDACTED] had taken place on that date as set out in Appendix I to this document and adjusted as described below.

The unaudited pro forma statement of our adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not provide a true picture of the consolidated net tangible assets attributable to owners of the Company had the [REDACTED] and the H Share [REDACTED] been completed as of June 30, 2020 or at any future date. It is prepared based on our consolidated net tangible assets as of June 30, 2020 as set out in the Accountants' Report, the text of which is set forth in Appendix I to this document and adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets do not form part of the Accountants' Report, the text of which is set forth in Appendix I to this document.

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Audited consolidated net tangible assets attributable to owners of the Company as of June 30, 2020	Estimated [REDACTED] from the H Share [REDACTED]	Unaudited pro forma adjusted consolidated net tangible assets as of June 30, 2020	Unaudited pro forma adjusted consolidated net tangible assets per share as of June 30, 2020	
			RMB	HK\$
(in RMB millions) (note 1)	(in RMB millions) (note 2)	(in RMB millions) (note 3)	(note 3)	(note 4)

Based on an [REDACTED] of

HK\$[REDACTED] per share. [189,768] [REDACTED] [REDACTED] [REDACTED] [REDACTED]

Notes:

1. The consolidated net tangible assets attributable to owners of the Company as of June 30, 2020 is arrived at after deducting goodwill and other intangible assets of RMB18,495 million from the audited consolidated net assets attributable to owners of the Company of RMB208,263 million as of June 30, 2020, as shown in the Accountants’ Report to this document.
2. The estimated [REDACTED] from the H Share [REDACTED] are based on the indicative [REDACTED] of HK\$[REDACTED] per H Share, after deduction of the [REDACTED] fees and commissions and other related [REDACTED] expense which are not recorded in consolidated statements of profit or loss during the Track Record Period and do not take into account any H Share which may be allotted and issued upon exercise of the H Share [REDACTED].
3. The unaudited pro forma adjusted consolidated net tangible assets per share are arrived at after the adjustments referred to in note (2) above and on the basis that [REDACTED] H Shares are issued assuming the H Share [REDACTED] had been completed on June 30, 2020 and the redemption of all Ant International Class C shares and Ant International Class B shares in issue and the subscription for and issuance of 2,997,090,484 H Shares and 259,355,840 H Shares pursuant to the arrangements with the Ant International Class C shareholders and the arrangement in respect of the Pre-[REDACTED] Offshore ESOP Plan, respectively, as further described in “History and Development – Redemption and Subscription by Ant International Securities Holders”, but does not take into account any A Shares which may be issued upon A Share [REDACTED] and H Shares which may be issued upon the exercise of the H Share [REDACTED]. Had effect been given to the A Share [REDACTED] in this calculation, the unaudited pro forma adjusted consolidated net tangible assets per share would have been HK\$[REDACTED] (RMB[REDACTED]) based on the [REDACTED] of HK\$[REDACTED] per H share and RMB[REDACTED] per A share. This calculation is based on the assumption that [REDACTED] newly issued A shares were in issue in the A Share [REDACTED] (assuming the A Share [REDACTED] is not exercised) and the resulting [REDACTED] (after deduction of the estimated [REDACTED] fees and other related expenses payable by us) of RMB[REDACTED] billion (based on the [REDACTED] of RMB[REDACTED] per A share) from the A Share [REDACTED].
4. The unaudited pro forma adjusted consolidated net tangible assets per share are converted into Hong Kong dollars at the rate of HK\$1.00 to RMB0.9134, which was the exchange rate prevailing on June 30, 2020 with reference to the rate published by the PBOC.
5. No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to June 30, 2020.

No Material Adverse Change

After due and careful consideration, our Directors confirm that, up to the date of this Document, there has been no material adverse change in our financial and trading position or prospects since June 30, 2020, and there is no event since June 30, 2020 which would materially affect the information shown in the Accountant’s Report, the text of which is set out in Appendix I to this Document.

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Disclosure Required Under Chapter 13 of the Hong Kong Listing Rules

As of the Latest Practicable Date, our Directors confirmed that there are no circumstances that will give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Hong Kong Listing Rules.

Critical Accounting Policies and Estimates

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments relating to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and results of operations. Our management continually evaluates such estimates, assumptions and judgments based on past experiences and other factors, including industry practices and expectations of future events that are believed to be reasonable under the circumstances. There has not been any material deviation between our management’s estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes in these estimates and assumptions in the foreseeable future.

Revenue Recognition

We recognize revenue when the Group satisfies a performance obligation by transferring a promised good or service to a customer. Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if our performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls we perform; or
- does not create an asset with an alternative use to us and we have an enforceable right to payment for performance completed to date.

If control of the goods and services transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods and services.

Contracts with customers may include multiple performance obligations. For such arrangements, we allocate revenue to each performance obligation based on its relative standalone selling price. We generally determine standalone selling prices based on the prices charged to customers. If the standalone selling price is not directly observable, it is estimated using expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information. Assumptions and estimations have been made in estimating the relative selling price of each distinct performance obligation, and changes in judgments on these assumptions and estimates may impact the revenue recognition.

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The Accounting Policy for Our Principal Revenue Sources

Digital payment and merchant services

Digital payment and merchant services mainly include payment processing service where we process and complete the collection of payments and related technology services. We recognize revenues by charging transaction fees based on a percentage of the total transaction amount for payments made through us. Revenue from digital payment and merchant services also include the interest income derived from settlement reserve funds.

Digital finance technology platform

We provide the fundamental digital finance technology, risk management and distribution solutions to partner financial institutions, enabling them to effectively reach a wide customer base and provide services in consumer credit, SMB credit, investment products and insurance. We refer to these services as CreditTech, InvestmentTech and InsureTech, respectively. Our partner financial institutions include commercial banks, mutual fund managers, insurance companies, securities firms and other licensed financial institutions. We generate revenues primarily from technology services fees, which are based on a percentage of the credit balances, AUM and insurances premiums our partner financial institutions enabled or generated through our platform as detailed in “— Revenue Model.”

If control of the services transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the services.

Besides the digital finance technology services mentioned above, we also provide the following financial services:

- Certain subsidiaries of the Group, mainly including Ant Shangcheng, Ant Small and Micro Loan, and Shangrong (Shanghai) Commercial Factoring Co., Ltd., or Shangrong Factoring, engage in the origination and transfer of consumer and SMB credit enabled through our platform. These micro loans are subsequently measured according to accounting policies for financial instruments and the relevant income are recorded in net interest income and gains or losses on disposal of loan receivables, which are both presented in Revenue.
- Tianhong, our subsidiary, provides sales and management services for securities investment funds and asset management plans. The technical services provided by Tianhong are priced according to the transaction volume, AUM and contractual rate, and the revenue is recognized when Tianhong provides relevant services. If control of the services transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the services.
- Cathay Insurance, our subsidiary, earns premium income through providing insurance services. Premium income is recognized when all of the following criteria are met: (i) the insurance contracts are issued; (ii) the related insurance risk is undertaken by Cathay Insurance; (iii) it is probable that the related economic benefits will flow to Cathay Insurance; and (iv) the related income can

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be reliably measured. The amount of premium income of a non-life insurance contract is determined according to the total amount of premiums agreed upon in the original insurance contract.

Innovation initiatives and others

Our revenues from innovation initiatives and others are primarily from various technology and administrative and support services. We began to generate revenues from AntChain in 2019. We recognize revenues when the relevant services are provided, or the control of relevant goods is transferred to the customer.

Research and Development Expenses

All research expenses are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalized and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Share-based Compensation

A share-based compensation is classified as either an equity-settled share-based compensation or a cash-settled share-based compensation. We operate a number of share-based compensation schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of our operations. Our employees receive remuneration in the form of share-based payments, whereby employees render services as consideration.

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted.

The cost of equity-settled transactions is recognized in expenses, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and our best estimate of the number of equity instruments that will ultimately vest.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognized for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either us or the

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employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The cost of cash-settled transactions is measured initially at fair value at the grant date. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The cumulative expense recognized for cash-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and our best estimate of the number of awards that will ultimately vest. The liability is measured at the end of each reporting period up to and including the settlement date, with changes in fair value recognized in the statement of profit or loss. See Note 35 to the Accountant’s Report set forth in Appendix I to this document for further details.

Investments in Associates and Joint Ventures

Investments accounted for using the equity method

An associate is an entity over which we have significant influence, generally but not necessarily accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Our investments in associates and joint ventures in the form of ordinary shares are stated in our consolidated statement of financial position at our share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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Our share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, we recognize our share of any changes, when applicable, in our consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between us and our associates or joint ventures are eliminated to the extent of our investments in the associates or joint ventures, except where unrealized losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of our investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, we measure and recognize any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Investments measured at fair value through profit or loss

Certain investments held by us and through which we can exercise significant influence over the investees are ordinary shares with preferential rights and convertible redeemable preferred shares investments. We elect to classify these investments as financial assets at fair value through profit or loss and disclose them in financial investments at fair value through profit or loss.

Financial Assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and our business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which we have applied the practical expedient of not adjusting the effect of a significant financing component, we initially measure a financial asset at its fair value plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which we have applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out in “— Revenue recognition.”

In order for a financial asset to be classified and measured at amortized cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest, or SPPI, on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

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Our business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both:

- Financial assets classified and measured at amortized cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- Financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling.
- Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that we commit to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortized cost (debt instruments)

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in the statement of profit or loss when the asset is derecognized, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in other comprehensive income. Upon derecognition, the cumulative fair value change recognized in other comprehensive income is recycled to the statement of profit or loss.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, we can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to us and the amount of the dividend can be measured reliably, except when we benefit from such proceeds as a recovery of part of the cost of the

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financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

This category includes equity investments which we had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognized as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to us and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

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Fair value measurement

We measure certain financial instruments at fair value as of December 31, 2017, 2018 and 2019 and June 30, 2020. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by us. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

We use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

- Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, we determine whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) as of December 31, 2017, 2018 and 2019 and June 30, 2020.

Foreign currencies

Our financial statements are presented in RMB, which is the Company’s functional currency. Each entity of our Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities of our Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of each of the Track Record Period. Differences arising on settlement or translation of monetary items are recognized in the statement of profit or loss.

FUTURE PLANS AND USE OF PROCEEDS

Future Plans

For details on our future plans, see “Our Business — Our Strategies.”

[REDACTED]

We estimate that we will receive [REDACTED] from the H Share [REDACTED] of approximately HK\$[REDACTED] million after deducting the [REDACTED] commissions and other estimated expenses paid and payable by us in relation to the H Share [REDACTED], assuming an [REDACTED] of HK\$[REDACTED] per H Share, and that the H Share [REDACTED] is not exercised. We intend to use the [REDACTED] that we will receive from the H Share [REDACTED] for the following purposes:

- approximately [REDACTED]% (approximately HK\$[REDACTED] million) to further pursue our vision to digitalize the service industry. We intend to enhance our capabilities and solidify win-win relationships with our partners to create value for our ecosystem participants. In particular, we plan to (i) grow our user base and increase user engagement through expanding the variety of daily life use cases, enhancing product innovation and providing better user experience; (ii) continue to increase the breadth and depth of cooperation with partners and facilitate the digital transformation of our partners; and (iii) expand the services and tools available to merchants to drive their growth, improve operating efficiency and facilitate digital transformation.
- approximately [REDACTED]% (approximately HK\$[REDACTED] million) to enhance our innovation and research and development capabilities. In particular, we plan to (i) enhance our world-class research team through recruiting, retaining and effectively incentivizing talent; (ii) further invest in product and service innovation that can enable our partners and us to deliver differentiated services and products; and (iii) invest in our efforts to build the digital infrastructure for services through continuous investments in leading technologies such as blockchain.
- approximately [REDACTED]% (approximately HK\$[REDACTED] million) to expand our cross-border payment and merchant services initiatives. We intend to grow our global user base, enable more merchants and broaden service offering. In particular, we plan to (i) serve more consumers by enhancing our cross-border payments capabilities; (ii) invest in technology and service enhancement to enable merchants, especially small businesses, to better reach and serve consumers; and (iii) develop more digital payment, digital finance and daily life services for consumers, merchants and partners beyond China.
- approximately [REDACTED]% (approximately HK\$[REDACTED] million) for working capital and general corporate purposes.

As of the date of the Latest Practicable Date, we have not identified potential acquisitions or investments that we will pursue by utilizing the [REDACTED] from the H Share [REDACTED].

If the H Share [REDACTED] is exercised in full, the additional [REDACTED] that we will receive will be approximately HK\$[REDACTED] million, assuming an [REDACTED] of HK\$[REDACTED] per H Share. We may be required to issue up to an aggregate of

FUTURE PLANS AND USE OF PROCEEDS

[REDACTED] additional H Shares pursuant to the H Share [REDACTED]. Additional [REDACTED] received due to the exercise of any H Share [REDACTED] will be used for the above purposes accordingly on a pro rata basis in the event that the H Share [REDACTED] is exercised.

To the extent that the [REDACTED] of the H Share [REDACTED] are not immediately required for the above purposes or if we are unable to put into effect any part of our plan as intended, we may hold such funds in short-term deposits so long as it is deemed to be in the best interests of the Company. In such event, we will comply with the appropriate disclosure requirements under the Hong Kong Listing Rules.

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

Undertakings to the Hong Kong Stock Exchange pursuant to the Hong Kong Listing Rules

Undertakings by our Company

Pursuant to Rule 10.08 of the Hong Kong Listing Rules, our Company [has undertaken] to the Hong Kong Stock Exchange that it will not exercise its power to issue any further Shares, or securities convertible into Shares (whether or not of a class already listed) or enter into any agreement to such an issue within six months from the H Share [REDACTED] (whether or not such issue of Shares or securities will be completed within six months from the H Share [REDACTED]), except (a) pursuant to the H Share [REDACTED] or the A Share [REDACTED] (including the [REDACTED]) or (b) under any of the circumstances provided under Rule 10.08 of the Hong Kong Listing Rules.

[REDACTED]

UNDERWRITING

[REDACTED]

[REDACTED] *Interests in the Company*

As of the Latest Practicable Date, (i) China International Capital Corporation Limited (“CICC”), through its indirect wholly-owned subsidiary, Zhifu (Shanghai) Investment Center (Limited Partnership) (置付(上海)投資中心(有限合夥)), held 1.9402% of the Shares, and (ii) 0.1212% of the Shares were held by Beijing CICC Alpha V Equity Investment Partnership (Limited Partnership) (北京中金甲子伍號股權投資合夥企業(有限合夥)), the fund manager of which is a wholly-owned subsidiary of CICC Alpha (Beijing) Investment Fund Management Co., Ltd. (中金甲子(北京)投資基金管理有限公司), a joint venture of CICC. In addition, in accordance with relevant PRC laws and regulation, CICC, the sponsor to the A Share [REDACTED], is required to subscribe for the A Shares to be issued under the A Share [REDACTED] for a maximum amount of RMB[REDACTED] based on the current [REDACTED] of the A Share [REDACTED]. China International Capital Corporation Hong Kong Securities Limited is a wholly-owned subsidiary of CICC.

[Save as disclosed above and save for their respective obligations under the [REDACTED], as of the Latest Practicable Date, none of the [REDACTED] has any shareholding interest in the Company or any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in the Company.]

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

STRUCTURE OF THE H SHARE IPO

[REDACTED]

STRUCTURE OF THE H SHARE IPO

[REDACTED]

STRUCTURE OF THE H SHARE IPO

[REDACTED]

STRUCTURE OF THE H SHARE IPO

[REDACTED]

STRUCTURE OF THE H SHARE IPO

[REDACTED]

STRUCTURE OF THE H SHARE IPO

[REDACTED]

STRUCTURE OF THE H SHARE IPO

[REDACTED]

STRUCTURE OF THE H SHARE IPO

[REDACTED]

STRUCTURE OF THE H SHARE IPO

[REDACTED]

A SHARE IPO

[REDACTED]

A SHARE IPO

[REDACTED]

A SHARE IPO

[REDACTED]

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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HOW TO APPLY FOR THE HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

[REDACTED]

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

[REDACTED]

APPENDIX I

ACCOUNTANT’S REPORT

The Directors
Ant Group Co., Ltd.
[Sponsor(s)]

Dear Sirs,

We report on the historical financial information of Ant Group Co., Ltd. (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-4 to I-160, which comprises the consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the year ended 31 December 2017, 2018 and 2019, and the six months ended 30 June 2020 (the “Relevant Periods”), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2017, 2018 and 2019 and 30 June 2020 and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-4 to I-160 forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [●] (the “Document”) in connection with the [REDACTED] of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

DIRECTORS’ RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in notes 2.1 to the Historical Financial Information and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS’ RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants’ Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants’ judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity’s preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in notes 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

APPENDIX I

ACCOUNTANT’S REPORT

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion, the Historical Financial Information gives, for the purposes of the accountants’ report, a true and fair view of the financial position of the Group and the Company as at 31 December 2017, 2018 and 2019 and 30 June 2020 and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of preparation set out in notes 2.1 to the Historical Financial Information.

REVIEW OF INTERIM COMPARATIVE FINANCIAL INFORMATION

We have reviewed the interim comparative financial information of the Group which comprises the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six months ended 30 June 2019 and other explanatory information (the “Interim Comparative Financial Information”).

The directors of the Company are responsible for the preparation and presentation of the Interim Comparative Financial Information in accordance with the basis of preparation set out in notes 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purposes of the accountants’ report, is not prepared, in all material respects, in accordance with the basis of preparation set out in notes 2.1 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

ADJUSTMENTS

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

APPENDIX I

ACCOUNTANT’S REPORT

DIVIDENDS

We refer to note 12 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Relevant Periods.

Yours faithfully,

Certified Public Accountants

Hong Kong

[Date]

APPENDIX I**ACCOUNTANT’S REPORT**

I HISTORICAL FINANCIAL INFORMATION**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants’ report.

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the “Underlying Financial Statements”).

The Historical Financial Information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

APPENDIX I

ACCOUNTANT’S REPORT

I HISTORICAL FINANCIAL INFORMATION (Continued)

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

		Year ended 31 December			Six months ended 30 June	
	<i>Section II Notes</i>	2017	2018	2019	2019	2020
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i>
REVENUE	5	65,395,920	85,722,344	120,618,372	52,540,056	72,528,345
Cost of services	6	(23,725,610)	(40,909,334)	(60,515,170)	(28,135,979)	(30,044,345)
Gross profit		41,670,310	44,813,010	60,103,202	24,404,077	42,484,000
Selling and marketing expenses	6	(15,324,685)	(47,345,402)	(18,050,292)	(10,425,776)	(6,066,496)
General and administrative expenses	6	(8,292,742)	(5,017,462)	(9,978,984)	(4,135,243)	(3,678,948)
Research and development expenses	6	(4,789,332)	(6,903,324)	(10,605,456)	(4,658,568)	(5,719,950)
Gains on disposal of financial investments measured at amortised cost		–	17	156,449	–	–
Credit impairment losses		147,988	(29,346)	(296,999)	(122,528)	(45,449)
Other income and gains, net	5	(16,667)	19,622,501	4,499,414	733,301	(1,545,323)
Other expenses	7	(212,390)	(637,642)	(1,755,974)	(1,522,357)	(525,140)
Operating profit		13,182,482	4,502,352	24,071,360	4,272,906	24,902,694
Finance income, net	8	(140,096)	137,617	91,015	(10,171)	543,667
Share of profits and losses of associates and joint ventures, net		(2,094,275)	(1,525,851)	(3,109,972)	(1,245,238)	(1,027,171)
PROFIT BEFORE TAX		10,948,111	3,114,118	21,052,403	3,017,497	24,419,190
Income tax expense	11	(2,743,368)	(957,999)	(2,980,482)	(1,125,243)	(2,495,814)
PROFIT FOR THE YEAR/PERIOD		<u>8,204,743</u>	<u>2,156,119</u>	<u>18,071,921</u>	<u>1,892,254</u>	<u>21,923,376</u>
Attributable to:						
Owners of the parent		6,951,254	667,067	16,957,244	1,361,404	21,234,497
Non-controlling interests		<u>1,253,489</u>	<u>1,489,052</u>	<u>1,114,677</u>	<u>530,850</u>	<u>688,879</u>
		<u>8,204,743</u>	<u>2,156,119</u>	<u>18,071,921</u>	<u>1,892,254</u>	<u>21,923,376</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (RMB)	13					
Basic		0.46	0.04	0.85	0.08	0.80
Diluted		<u>0.46</u>	<u>0.04</u>	<u>0.85</u>	<u>0.08</u>	<u>0.80</u>

APPENDIX I

ACCOUNTANT’S REPORT

I HISTORICAL FINANCIAL INFORMATION (Continued)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	<i>Section II Notes</i>	Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i>
PROFIT FOR THE YEAR/PERIOD		<u>8,204,743</u>	<u>2,156,119</u>	<u>18,071,921</u>	<u>1,892,254</u>	<u>21,923,376</u>
OTHER COMPREHENSIVE INCOME						
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:						
Share of other comprehensive income of associates and joint ventures		103,072	(25,534)	(520,672)	(320,124)	(195,574)
Changes in fair value of debt instruments at fair value through other comprehensive income		(12,114)	–	3,004	–	484
Cash flow hedge reserve		12,632	(32,362)	11,286	27,439	3,043
Impairment loss on debt instruments at fair value through other comprehensive income		–	–	–	–	9,189
Currency translation differences		<u>(417,974)</u>	<u>139,707</u>	<u>728,261</u>	<u>1,433</u>	<u>(21,626)</u>
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:						
Changes in fair value of equity investments designated at fair value through other comprehensive income		–	2,926,032	(82,750)	–	(52,596)
Currency translation differences		<u>–</u>	<u>2,556,309</u>	<u>1,069,216</u>	<u>(58,148)</u>	<u>882,245</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR/ PERIOD, NET OF TAX		<u>(314,384)</u>	<u>5,564,152</u>	<u>1,208,345</u>	<u>(349,400)</u>	<u>625,165</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		<u>7,890,359</u>	<u>7,720,271</u>	<u>19,280,266</u>	<u>1,542,854</u>	<u>22,548,541</u>
Attributable to:						
Owners of the parent		6,630,020	6,231,219	18,183,118	1,011,988	21,853,718
Non-controlling interests		<u>1,260,339</u>	<u>1,489,052</u>	<u>1,097,148</u>	<u>530,866</u>	<u>694,823</u>
		<u>7,890,359</u>	<u>7,720,271</u>	<u>19,280,266</u>	<u>1,542,854</u>	<u>22,548,541</u>

APPENDIX I

ACCOUNTANT’S REPORT

I HISTORICAL FINANCIAL INFORMATION (Continued)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<i>Section II</i>	As at 31 December			As at 30 June
	<i>Notes</i>	2017	2018	2019	2020
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS					
Property, plant and equipment	14	4,086,893	5,649,891	7,637,723	7,546,071
Goodwill	15	1,626,900	1,894,931	5,309,196	5,141,718
Other intangible assets	16	315,396	333,970	13,503,015	13,353,067
Right-of-use assets	17	1,442,306	1,409,553	1,990,580	1,958,993
Investments accounted for using the equity method	18	24,156,516	23,795,950	26,797,175	26,549,158
Financial investments at fair value through profit or loss	19	7,346,245	26,180,068	38,344,557	41,511,497
Financial investments at fair value through other comprehensive income	20	1,069,990	33,307,883	33,835,178	39,979,483
Derivative financial instruments	21	266,772	203,021	367,712	368,508
Financial investments at amortised cost	25	–	6,449,266	–	–
Prepayments, other receivables and other assets	24	1,027,646	4,457,974	3,292,770	4,183,836
Deferred tax assets	31	846,165	2,057,211	1,241,043	796,377
Total non-current assets		<u>42,184,829</u>	<u>105,739,718</u>	<u>132,318,949</u>	<u>141,388,708</u>
CURRENT ASSETS					
Trade receivables	22	4,091,321	7,704,952	13,120,156	14,613,456
Loan receivables	23	25,634,223	32,746,436	37,511,392	36,242,154
Financial investments at fair value through profit or loss	19	11,991,007	11,356,158	9,041,357	6,963,519
Derivative financial instruments	21	–	–	89,377	106,464
Financial investments at amortised cost	25	2,011,381	2,136,264	2,339,685	1,166,666
Prepayments, other receivables and other assets	24	15,011,603	7,584,320	9,280,856	9,886,211
Cash and bank balances	26	<u>32,805,401</u>	<u>69,880,563</u>	<u>67,856,000</u>	<u>105,530,792</u>
Total current assets		<u>91,544,936</u>	<u>131,408,693</u>	<u>139,238,823</u>	<u>174,509,262</u>

APPENDIX I

ACCOUNTANT’S REPORT

I HISTORICAL FINANCIAL INFORMATION (Continued)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

	<i>Section II</i>	As at 31 December			As at 30 June
	<i>Notes</i>	2017	2018	2019	2020
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
CURRENT LIABILITIES					
Trade payables	27	11,679,542	16,167,268	18,376,180	18,584,700
Interest-bearing bank borrowings	28	22,293,662	40,890,000	14,600,000	21,845,000
Derivative financial instruments	21	254,659	113,653	320,157	167,069
Financial liabilities at fair value through profit or loss		191,754	121,068	388,454	309,958
Income tax payables		1,365,399	463,686	1,037,637	2,022,503
Contract liabilities	29	1,179,446	1,526,261	2,488,163	3,047,128
Other payables, accruals and other liabilities	30	23,196,527	23,703,252	33,786,484	45,140,808
Total current liabilities		60,160,989	82,985,188	70,997,075	91,117,166
NET CURRENT ASSETS		31,383,947	48,423,505	68,241,748	83,392,096
TOTAL ASSETS LESS CURRENT LIABILITIES		73,568,776	154,163,223	200,560,697	224,780,804
NON-CURRENT LIABILITIES					
Interest-bearing bank borrowings	28	7,882,577	–	8,039,875	7,766,176
Lease liabilities	17	191,557	162,771	215,132	176,346
Deferred tax liabilities	31	5,659	34,382	562,729	171,518
Other payables, accruals and other liabilities	30	121,324	1,582,540	2,174,603	1,736,180
Total non-current liabilities		8,201,117	1,779,693	10,992,339	9,850,220
Net assets		65,367,659	152,383,530	189,568,358	214,930,584
EQUITY					
Equity attributable to owners of the parent					
Share capital	32	15,000,000	15,761,247	23,524,249	23,778,629
Other equity instruments	33	–	68,278,095	69,085,961	69,227,306
Reserves	34	47,227,072	63,713,688	90,647,052	115,257,319
		62,227,072	147,753,030	183,257,262	208,263,254
Non-controlling interests		3,140,587	4,630,500	6,311,096	6,667,330
Total equity		65,367,659	152,383,530	189,568,358	214,930,584

APPENDIX I

ACCOUNTANT’S REPORT

I HISTORICAL FINANCIAL INFORMATION (Continued)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Year ended 31 December 2017

	Attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	General reserves	Surplus reserves	Other reserves	Retained profits	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	15,000,000	1,983,926	-	28,008,429	3,794,263	48,786,618	2,392,038	51,178,656
Profit for the year	-	-	-	-	6,951,254	6,951,254	1,253,489	8,204,743
Other comprehensive income for the year	-	-	-	(321,234)	-	(321,234)	6,850	(314,384)
Total comprehensive income for the year	-	-	-	(321,234)	6,951,254	6,630,020	1,260,339	7,890,359
Share-based compensation	-	-	-	2,798,032	-	2,798,032	(250)	2,797,782
Appropriations to general reserves	-	1,037,468	-	-	(1,037,468)	-	-	-
Appropriations to surplus reserves	-	-	42,829	-	(42,829)	-	-	-
Dividend paid to non-controlling interests	-	-	-	-	-	-	(525,867)	(525,867)
Share of other reserves of investments accounted for using the equity method	-	-	-	3,972,954	-	3,972,954	-	3,972,954
Disposal of subsidiaries	-	-	-	-	-	-	14,327	14,327
Others	-	-	-	39,448	-	39,448	-	39,448
At 31 December 2017	15,000,000	3,021,394	42,829	34,497,629	9,665,220	62,227,072	3,140,587	65,367,659

APPENDIX I

ACCOUNTANT’S REPORT

I HISTORICAL FINANCIAL INFORMATION (Continued)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

Year ended 31 December 2018

	Attributable to owners of the parent							Non-controlling interests	Total equity
	Share capital	Other equity instruments	General reserves	Surplus reserves	Other reserves	Retained profits	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	15,000,000	-	3,021,394	42,829	34,497,629	9,665,220	62,227,072	3,140,587	65,367,659
Profit for the year	-	-	-	-	-	667,067	667,067	1,489,052	2,156,119
Other comprehensive income for the year	-	-	-	-	5,564,152	-	5,564,152	-	5,564,152
Total comprehensive income for the year	-	-	-	-	5,564,152	667,067	6,231,219	1,489,052	7,720,271
Issuance of ordinary shares	761,247	-	-	-	6,895,474	-	7,656,721	-	7,656,721
Issuance of other equity instruments	-	68,278,095	-	-	-	-	68,278,095	-	68,278,095
Share-based compensation	-	-	-	-	3,355,448	-	3,355,448	861	3,356,309
Appropriations to general reserves	-	-	3,012,231	-	-	(3,012,231)	-	-	-
Appropriations to surplus reserves	-	-	-	18,489	-	(18,489)	-	-	-
Share of other reserves of investments accounted for using the equity method	-	-	-	-	900,248	-	900,248	-	900,248
Transfer of share of other reserves to profits or losses upon disposal of an associate and a joint venture	-	-	-	-	(1,026,400)	-	(1,026,400)	-	(1,026,400)
Others	-	-	-	-	130,627	-	130,627	-	130,627
At 31 December 2018	15,761,247	68,278,095	6,033,625	61,318	50,317,178	7,301,567	147,753,030	4,630,500	152,383,530

APPENDIX I

ACCOUNTANT’S REPORT

I HISTORICAL FINANCIAL INFORMATION (Continued)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

Year ended 31 December 2019

	Attributable to owners of the parent							Non-controlling interests	Total equity
	Share capital	Other equity instruments	General reserves	Surplus reserves	Other reserves	Retained profits	Total		
At 1 January 2019	15,761,247	68,278,095	6,033,625	61,318	50,317,178	7,301,567	147,753,030	4,630,500	152,383,530
Profit for the year	-	-	-	-	-	16,957,244	16,957,244	1,114,677	18,071,921
Other comprehensive income for the year	-	-	-	-	1,225,874	-	1,225,874	(17,529)	1,208,345
Total comprehensive income for the year	-	-	-	-	1,225,874	16,957,244	18,183,118	1,097,148	19,280,266
Issuance of ordinary shares	7,763,002	-	-	-	3,898,929	-	11,661,931	-	11,661,931
Issuance of other equity instruments	-	831,132	-	-	-	-	831,132	-	831,132
Capital injection by non-controlling shareholders	-	-	-	-	-	-	-	576,825	576,825
Share-based compensation	-	-	-	-	4,995,792	-	4,995,792	3,872	4,999,664
Appropriations to general reserves	-	-	338,732	-	-	(338,732)	-	-	-
Appropriations to surplus reserves	-	-	-	159,088	-	(159,088)	-	-	-
Share of other reserves of investments accounted for using the equity method	-	-	-	-	425,529	-	425,529	-	425,529
Others	-	(23,266)	-	-	(570,004)	-	(593,270)	2,751	(590,519)
At 31 December 2019	23,524,249	69,085,961	6,372,357	220,406	60,293,298	23,760,991	183,257,262	6,311,096	189,568,358

APPENDIX I

ACCOUNTANT’S REPORT

I HISTORICAL FINANCIAL INFORMATION (Continued)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2019 (unaudited)

	Attributable to owners of the parent							Non- controlling interests	Total equity
	Share capital	Other equity instruments	General reserves	Surplus reserves	Other reserves	Retained profits	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
At 1 January 2019	15,761,247	68,278,095	6,033,625	61,318	50,317,178	7,301,567	147,753,030	4,630,500	152,383,530
Profit for the period	-	-	-	-	-	1,361,404	1,361,404	530,850	1,892,254
Other comprehensive income for the period	-	-	-	-	(349,416)	-	(349,416)	16	(349,400)
Total comprehensive income for the period	-	-	-	-	(349,416)	1,361,404	1,011,988	530,866	1,542,854
Issuance of other equity instruments	-	666,419	-	-	-	-	666,419	-	666,419
Capital injection by non-controlling shareholders	-	-	-	-	-	-	-	518,145	518,145
Share-based compensation	-	-	-	-	1,984,586	-	1,984,586	1,329	1,985,915
Appropriations to general reserves	-	-	151,364	-	-	(151,364)	-	-	-
Share of other reserves of investments accounted for using the equity method	-	-	-	-	383,496	-	383,496	-	383,496
Others	-	(7,816)	-	-	(269,754)	-	(277,570)	-	(277,570)
At 30 June 2019	15,761,247	68,936,698	6,184,989	61,318	52,066,090	8,511,607	151,521,949	5,680,840	157,202,789

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2020

	Attributable to owners of the parent							
	Other						Non-controlling interests	Total equity
	Share capital	equity instruments	General reserves	Surplus reserves	Other reserves	Retained profits		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	23,524,249	69,085,961	6,372,357	220,406	60,293,298	23,760,991	183,257,262	6,311,096
Profit for the period	-	-	-	-	-	21,234,497	21,234,497	688,879
Other comprehensive income for the period	-	-	-	-	619,221	-	619,221	5,944
Total comprehensive income for the period	-	-	-	-	619,221	21,234,497	21,853,718	694,823
Assuance of ordinary shares	254,380	-	-	-	-	-	254,380	-
Assuance of other equity instruments	-	151,918	-	-	-	-	151,918	-
Share-based compensation	-	-	-	-	2,538,777	-	2,538,777	1,329
Appropriations to general reserves	-	-	169,580	-	-	(169,580)	-	-
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	(339,918)
Share of other reserves of investments accounted for using the equity method	-	-	-	-	352,448	-	352,448	-
Others	-	(10,573)	-	-	(134,676)	-	(145,249)	-
At 30 June 2020	23,778,629	69,227,306	6,541,937	220,406	63,669,068	44,825,908	208,263,254	6,667,330
								214,930,584

APPENDIX I

ACCOUNTANT’S REPORT

I HISTORICAL FINANCIAL INFORMATION (Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax	10,948,111	3,114,118	21,052,403	3,017,497	24,419,190
Adjustments for:					
Finance costs	291,623	816,892	1,251,801	626,983	440,719
Interest income	(160,846)	(971,283)	(1,419,738)	(665,844)	(1,034,197)
Interest expense of loan business	641,093	849,896	467,923	236,824	138,541
Depreciation and amortisation	963,374	1,322,632	2,305,585	1,017,959	1,409,070
Gains on disposal of items of equipment	(1,493)	(12,964)	(21,349)	(8,566)	(3,297)
Share of profits and losses of associates and joint ventures	2,094,275	1,525,851	3,109,972	1,245,238	1,027,171
Gains on disposal of subsidiaries, associates and joint ventures	(11,056)	(74,831)	(503,362)	(503,362)	(12,819)
Remeasurement from losing significant influence in an associate or joint control in a joint venture	–	(22,868,469)	–	–	–
Fair value changes of financial investments	1,082,802	5,589,473	(1,112,181)	739,053	3,028,433
Gains on derecognition of financial assets measured at amortised cost	–	(17)	(156,449)	–	–
Investment income arising from financial investments, net	(335,584)	(1,415,068)	(1,666,822)	(810,356)	(1,140,372)
Expected credit impairment losses for financial investments	(147,988)	29,346	296,999	122,528	45,449
Impairment of associates and joint ventures	–	42,343	54,408	–	110,482
(Reversal of impairment)/ impairment on other assets	(493)	(315)	123,479	104,550	52,021
Equity-settled share-based payments compensation	3,145,998	3,768,684	4,984,909	2,076,412	2,612,057
Exchange differences losses/(gains), net	40,411	(20,694)	46,257	62,226	(4,889)
	<u>18,550,227</u>	<u>(8,304,406)</u>	<u>28,813,835</u>	<u>7,261,142</u>	<u>31,087,559</u>

APPENDIX I

ACCOUNTANT’S REPORT

I HISTORICAL FINANCIAL INFORMATION (Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES (continued)					
Decrease/(Increase) in trade receivables	538,513	(3,601,124)	(5,052,721)	(3,805,391)	(1,495,908)
Net increase in loan receivables	(1,213,172)	(9,532,906)	(6,325,282)	(139,156)	(538,915)
Increase in prepayments, other receivables and other assets	(6,145,253)	(4,843,479)	(5,037,786)	(2,450,783)	(9,789,483)
Increase in trade payables	3,105,260	4,355,412	1,743,707	1,301,823	206,519
Increase/(Decrease) in other payables, accruals and other liabilities	3,642,181	5,263,625	3,461,110	(413,007)	8,044,510
Cash generated from/(used in) operations	18,477,756	(16,662,878)	17,602,863	1,754,628	27,514,282
Interest received	100,780	396,916	1,097,919	458,271	935,380
Income taxes paid	(2,437,367)	(2,783,612)	(1,440,840)	(940,258)	(1,437,042)
Net cash flows from/(used in) operating activities	16,141,169	(19,049,574)	17,259,942	1,272,641	27,012,620

APPENDIX I

ACCOUNTANT’S REPORT

I HISTORICAL FINANCIAL INFORMATION (Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i>
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of subsidiaries	28,221	(1,208,987)	(3,020,409)	(2,990,340)	(96,877)
Disposal of a subsidiary	(867)	–	–	–	–
Purchase of property, plant and equipment	(1,186,572)	(2,813,578)	(2,086,398)	(2,231,660)	(220,862)
Proceeds from disposals of property, plant and equipment	18,378	14,349	34,055	10,273	4,825
Purchase of other intangible assets and other assets	(186,627)	(130,587)	(12,858,661)	(123,881)	(54,041)
Proceeds from disposals of other intangible assets and other assets	–	186	12,059	156	–
Purchase of investments accounted for using the equity method	(6,392,783)	(5,713,117)	(5,818,251)	(2,681,381)	(1,093,769)
Proceeds from disposal of investments accounted for using the equity method	320,770	–	134,313	129,289	189,534
Purchase of financial investments measured at fair value	(20,351,959)	(52,545,273)	(31,133,869)	(10,184,955)	(11,477,250)
Proceeds from disposals of financial investments measured at fair value	11,175,592	39,213,181	19,104,130	13,541,444	9,215,649
Purchase of financial investments measured at amortised cost	(36,082)	(6,608,021)	(1,884,549)	(118,075)	(123,955)
Proceeds from disposals of financial investments measured at amortised cost	64,425	553,082	6,563,564	318,321	1,265,456
Repayment of loans from related parties	172,780	1,893,864	1,573,527	1,571,753	12,379
Advances of loans to related parties	(1,275,034)	(3,049,165)	(187,276)	(187,276)	–
Investment income from financial investments	417,063	1,740,309	2,038,465	373,912	1,294,888
Interest received from loan to related parties	4,665	102,261	22,722	22,322	15,180
Net cash flows used in investing activities	<u>(17,228,030)</u>	<u>(28,551,496)</u>	<u>(27,506,578)</u>	<u>(2,550,098)</u>	<u>(1,068,843)</u>

APPENDIX I

ACCOUNTANT’S REPORT

I HISTORICAL FINANCIAL INFORMATION (Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issuance of shares, net	–	76,573,288	12,217,238	55,976	277,057
Proceeds from borrowings and securities issued	34,964,080	66,960,235	22,883,329	18,566,140	20,233,945
Repayments of borrowings and securities issued	(22,801,878)	(56,923,443)	(41,041,868)	(24,342,368)	(13,507,971)
Dividends paid to non-controlling interests	(525,867)	–	–	–	(339,919)
Interest paid	(1,064,914)	(1,606,711)	(1,637,332)	(844,132)	(753,582)
(Increase)/Decrease of pledged deposits for standby letter of credit	–	(11,624,665)	11,901,957	1,275,698	–
Others	(226,071)	(534,146)	(450,747)	31,784	(330,479)
Net cash flows from financing activities	10,345,350	72,844,558	3,872,577	(5,256,902)	5,579,051
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	9,258,489	25,243,488	(6,374,059)	(6,534,359)	31,522,828
Cash and cash equivalents at beginning of year/period	11,156,712	20,377,585	46,000,405	46,000,405	39,767,024
Effect of foreign exchange rate changes, net	(37,616)	379,332	140,678	24,310	123,202
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	20,377,585	46,000,405	39,767,024	39,490,356	71,413,054

APPENDIX I

ACCOUNTANT’S REPORT

I HISTORICAL FINANCIAL INFORMATION (Continued)

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS				
Property, plant and equipment	205	115	35	18
Intangible assets	–	48	509	498
Financial investments at fair value through profit or loss	2,497,802	2,680,286	4,058,298	3,227,368
Financial investments at fair value through other comprehensive income	345,000	345,000	285,834	285,834
Investments in subsidiaries	23,149,518	31,676,959	37,016,673	37,076,673
Investments in associates	3,770,436	4,001,550	5,490,894	5,596,972
Prepayments, other receivables and other assets	564,395	1,074,395	–	–
Deferred tax assets	126,995	125,124	–	22,333
Total non-current assets	30,454,351	39,903,477	46,852,243	46,209,696
CURRENT ASSETS				
Trade receivables	1,113	156,301	173,258	126,322
Financial investments at fair value through profit or loss	2,207	8,747	–	–
Prepayments, other receivables and other assets	38,203,175	43,733,332	45,786,940	39,491,322
Cash and cash equivalents	1,425,256	5,054,275	10,143,957	34,289,084
Total current assets	39,631,751	48,952,655	56,104,155	73,906,728
CURRENT LIABILITIES				
Trade payables	98,603	137,643	21,355	205,660
Interest-bearing bank borrowings	3,500,000	14,880,000	1,000,000	6,145,000
Derivative financial instruments	–	113,471	249,377	40,144
Other payables, accruals and other liabilities	25,440,146	24,781,140	38,238,088	50,224,731
Total current liabilities	29,038,749	39,912,254	39,508,820	56,615,535

APPENDIX I

ACCOUNTANT’S REPORT

I HISTORICAL FINANCIAL INFORMATION (Continued)

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
NET CURRENT ASSETS	10,593,002	9,040,401	16,595,335	17,291,193
TOTAL ASSETS LESS CURRENT LIABILITIES	41,047,353	48,943,878	63,447,578	63,500,889
NON-CURRENT LIABILITIES				
Interest-bearing bank borrowings	–	–	699,000	698,500
Deferred tax liabilities	–	–	232,204	–
Deferred income	1,128	–	–	–
Total non-current liabilities	1,128	–	931,204	698,500
Net assets	41,046,225	48,943,878	62,516,374	62,802,389
EQUITY				
Share capital	15,000,000	15,761,247	23,524,249	23,778,629
Reserves	26,046,225	33,182,631	38,992,125	39,023,760
Total equity	41,046,225	48,943,878	62,516,374	62,802,389

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. Corporate information

Ant Group Co., Ltd. (hereinafter referred to as the “Company” or “Ant Group”) is a limited liability company incorporated in the People’s Republic of China (“PRC”) on 19 October 2000 and was converted in a joint stock limited company on 29 December 2016. The Company was formerly known as Ant Small and Micro Financial Services Group Co., Ltd. or Zhejiang Alibaba E-Commerce Co., Ltd.

The registered office of the Company is located at Room 802, Building 5, Xixi New Block, Xi Hu District, Hangzhou, the PRC.

The Company and its subsidiaries (the “Group”) is principally involved in the provision of digital payment and merchant services, digital finance technology platform, innovation initiatives and others.

The ultimate controller of the Group is Mr. Jack Ma.

As of the date of this report, the Company has direct and indirect interests in the following principal subsidiaries, all of which are private limited liability companies. The particulars of the principal subsidiaries are set out as follows:

Name	Place and date of incorporation/ registration and business	Registered capital/ authorised capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Alipay.com Co., Ltd. 支付寶(中國)網絡技術有限公司 (note (b))* (“Alipay China”)	PRC/Mainland China 8 December 2004	RMB1,500,000,000	100%	–	Third-party payment business
Alipay Singapore E-Commerce Private Limited (note (c))	Singapore 5 January 2010	SGD924,694,949	–	100%	Third-party payment business and Internet information technology services
Chongqing Ant Shangcheng Micro Loan Co., Ltd. 重慶市螞蟻商誠小額貸款有限公司 (note (b))* (“Ant Shangcheng”)	PRC/Mainland China 1 June 2011	RMB4,000,000,000	100%	–	Small and micro loan business and ancillary technical services
Chongqing Ant Small and Micro Loan Co., Ltd. 重慶市螞蟻小微小額貸款有限公司 (note (b))* (“Ant Small and Micro Loan”)	PRC/Mainland China 5 August 2013	RMB12,000,000,000	100%	–	Small and micro loan business and ancillary technical services

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

1. Corporate information (Continued)

Name	Place and date of incorporation/ registration and business	Registered capital/ authorised capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Ant Zhixin (Hangzhou) Information Technology Co., Ltd. 螞蟻智信(杭州)信息技術有限公司 (note (b))* (“Ant Zhixin”)	PRC/Mainland China 28 February 2017	RMB10,000,000	100%	–	Internet information technology services
Tianhong Asset Management Co., Ltd. 天弘基金管理有限公司 (note (d))* (“Tianhong”)	PRC/Mainland China 8 November 2004	RMB514,300,000	51%	–	Management of funds
Ant (Hangzhou) Funds Sales Co., Ltd. 螞蟻(杭州)基金銷售有限公司 (note (b))*	PRC/Mainland China 6 August 2007	RMB155,620,000	68.83%	7.07%	Sales of funds
Cathay Insurance Company Limited 國泰財產保險有限責任公司 (note (b))* (“Cathay Insurance”)	PRC/Mainland China 28 August 2008	RMB2,632,653,061	51%	–	Property insurance business
Chongqing Wantang Information Technology Co., Ltd. 重慶萬塘信息技術有限公司 (note (b)) * (“Chongqing Wantang”)	PRC/Mainland China 19 April 2017	RMB10,000,000	100%	–	Internet information technology services
Ant Shengxin (Shanghai) Information Technology Co., Ltd. 螞蟻勝信(上海)信息技術有限公司 (note (b))* (“Ant Shengxin”)	PRC/Mainland China 2 April 2015	RMB50,000,000	100%	–	Internet information technology services
Ant Financial (Hangzhou) Network Technology Co., Ltd. 螞蟻金服(杭州)網絡技術有限公司 (note (b))* (“Ant Hangzhou”)	PRC/Mainland China 22 October 2013	RMB50,000,000	100%	–	Internet information technology services
Alipay (Hangzhou) Information Technology Co., Ltd. 支付寶(杭州)信息技術有限公司 (note (b))*	PRC/Mainland China 7 July 2016	RMB100,000,000	100%	–	Internet information technology services
Shanghai Yunju Venture Capital Co., Ltd. 上海雲鉅創業投資有限公司 (note (b)) *	PRC/Mainland China 30 December 2013	RMB14,570,753,120	100%	–	Investment management

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

1. Corporate information (Continued)

Name	Place and date of incorporation/ registration and business	Registered capital/ authorised capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shanghai Yunxin Venture Capital Co., Ltd. 上海雲鑫創業投資有限公司 (note (b))*	PRC/Mainland China 11 February 2014	RMB1,451,782,336	100%	–	Investment management
Zhejiang Finance Credit Network Technology Co., Ltd. 浙江融信網絡技術有限公司 (note (g))*	PRC/Mainland China 16 July 2003	RMB1,796,960,970	100%	–	Investment management
Alipay (Hong Kong) Holding Limited (note (a))	Hong Kong 24 February 2014	HKD3,788,575,268	–	100%	Investment management
API (Hong Kong) Investment Limited (note (a))	Hong Kong 23 July 2014	HKD5,161,828,559 USD26,480,928	–	100%	Investment management
ANT KBW Investment Limited (note (f))	British Virgin Islands 6 August 2015	USD570,000,000	–	100%	Investment management
Antfin (Netherlands) Holding B.V.	Netherlands 25 October 2019	USD1	–	100%	Investment management
Ant International Co., Limited (“Ant International”) (note (e))	Cayman Islands 27 December 2017	USD14,745.62	–	100%	Overseas equity financing and employee incentive platform

* The English names of these entities registered in the PRC represent the best efforts made by management of the Company to directly translate their Chinese names as they did not register any official English name.

Notes:

- (a) The statutory financial statements of these entities for the year ended 31 December 2017, 2018 and 2019 prepared under Hong Kong Financial Reporting Standards (“HKFRSs”) were audited by Ernst & Young, Hong Kong.
- (b) The statutory financial statements of these entities for the year ended 31 December 2017, 2018 and 2019 prepared under China Accounting Standards for Business Enterprises (“PRC GAAP”) were audited by Ernst & Young Hua Ming LLP.
- (c) The statutory financial statements of this entity for the year ended 31 December 2017, 2018 and 2019 prepared under Financial Reporting Standards in Singapore were audited by Ernst & Young, Singapore.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

1. Corporate information (Continued)

- (d) The statutory financial statements of this entity for the year ended 31 December 2017, 2018 and 2019 prepared under PRC GAAP were audited by PricewaterhouseCoopers Zhong Tian LLP.
- (e) The financial statements of this entity for the year ended 31 December 2018 and 2019 prepared under International Financial Reporting Standards (“IFRSs”) were audited by Ernst & Young Hua Ming LLP.
- (f) No statutory audited financial statements have been prepared for this entity since its incorporation as this entity was not subject to any statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.
- (g) The statutory financial statements of this entity for the year ended 31 December 2017, 2018 and 2019 prepared under PRC GAAP were audited by Da Hua Certified Public Accounts LLP.

2.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which comprise all standards and interpretations approved by the International Accounting Standards Board (the “IASB”). All IFRSs effective for the accounting period commencing from 1 January 2020, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods. The Historical Financial Information has been prepared under the historical cost convention, except for certain financial instruments which have been measured at fair value. The consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The Historical Financial Information includes the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the Relevant Periods. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Group has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee
- (b) rights arising from other contractual arrangements
- (c) the Group’s voting rights and potential voting rights

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2.1 Basis of preparation (Continued)

Basis of consolidation (Continued)

The financial statements of the subsidiaries are prepared for the same Relevant Periods as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 Issued but not yet effective IFRSs

Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i> ¹
Amendments to IFRS 3	<i>Business combination</i> ¹
Amendments to IAS 16	<i>Property, Plant and Equipment</i> ¹
Amendments to IAS 37	<i>Provisions, Contingent Liabilities and Contingent Assets</i> ¹
Amendments to IFRS 1	<i>First-time Adoption of International Financial Reporting Standards</i> ¹
Amendments to IFRS 9	<i>Financial Instruments</i> ¹
Amendments to IFRS 16	<i>Lease</i> ¹
Amendments to IAS 41	<i>Agriculture</i> ¹
Amendments to IAS 1	<i>Presentation of Financial Statements</i> ¹
IFRS 17 and Amendments to IFRS 17	<i>Insurance Contracts</i> ²
Amendments to IFRS 4	<i>Extension of the Temporary Exemption from Applying IFRS 9</i> ²
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³

¹ Effective for annual periods beginning on or after 1 January 2022

² Effective for annual periods beginning on or after 1 January 2023

³ No mandatory effective date yet determined but available for adoption

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2.2 Issued but not yet effective IFRSs (Continued)

The Group is considering the impact of IFRS 17 on the Group’s result of operations and financial position. Except for IFRS 17, the adoption of the above standards, amendments and interpretations will have no material impact on the Group’s result of operations and financial position.

2.3 Summary of significant accounting policies

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree’s identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group’s previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units, or

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2.3 Summary of significant accounting policies (Continued)

Business combinations and goodwill (Continued)

groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group’s cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks (including time deposits with original maturity of less than three months), and assets similar in nature to cash, which are not restricted as to use.

Foreign currencies

The Historical Financial Information is presented in RMB, which is the Company’s functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of each of the Relevant Periods. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2.3 Summary of significant accounting policies (Continued)

Foreign currencies (Continued)

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group’s net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of each of the Relevant Periods, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of each of the Relevant Periods and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year or period.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2.3 Summary of significant accounting policies (Continued)

Foreign currencies (Continued)

For the purpose of the consolidated statement of cash flows, the cash flows of these entities are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these entities which arise throughout the year or period are translated into RMB at the weighted average exchange rates for the year or period.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and the Group’s business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for “Revenue recognition” below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest (“SPPI”) on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group’s business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2.3 Summary of significant accounting policies (Continued)

Financial assets (Continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2.3 Summary of significant accounting policies (Continued)

Financial assets (Continued)

Subsequent measurement (Continued)

The subsequent measurement of financial assets depends on their classification as follows: (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes equity investments which the Group has not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2.3 Summary of significant accounting policies (Continued)

Financial assets (Continued)

Subsequent measurement (Continued)

The subsequent measurement of financial assets depends on their classification as follows: (Continued)

Financial assets at fair value through profit or loss (Continued)

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group’s consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group’s continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2.3 Summary of significant accounting policies (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of borrowings and payables, net of directly attributable transaction costs.

The Group’s financial liabilities include trade and other payables, derivative financial instruments and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group’s own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2.3 Summary of significant accounting policies (Continued)

Financial liabilities (Continued)

Subsequent measurement (Continued)

The subsequent measurement of financial liabilities depends on their classification as follows: (Continued)

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (“ECLs”) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2.3 Summary of significant accounting policies (Continued)

Impairment of financial assets (Continued)

General approach (Continued)

significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 30 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2.3 Summary of significant accounting policies (Continued)

Impairment of financial assets (Continued)

Simplified approach (Continued)

instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in “Impairment of financial assets”; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Derivative financial instruments and hedge accounting

Derivatives are recognised at fair value at the trade date upon initial recognition, and subsequently measured at fair value. The positive fair value is recognised as an asset while the negative fair value is recognised as a liability.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualified as a hedging instrument, and if so, the nature of the item being hedged. For derivatives not designated or qualified as hedging instruments, changes in the fair value of these derivatives are recognised in the consolidated statement of profit or loss.

The Group documents, at inception, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The Group assesses the hedge effectiveness both at hedge inception and on an ongoing basis.

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2.3 Summary of significant accounting policies (Continued)

Derivative financial instruments and hedge accounting (Continued)

The Group discontinues hedge accounting prospectively when the hedging instrument expires or is sold, terminated or exercised (the replacement or rollover of a hedging instrument into another hedging instrument does not constitute an expiration or termination), or the hedging relationship ceases to meet the updated risk management objective, or to meet other qualifying criteria for hedging accounting.

Fair value hedge

The Group uses fair value hedge to hedge exposure to changes in fair value of an unrecognised firm commitment, that is attributable to foreign currency risk and could affect profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows, that is attributable to foreign currency risk and interest risk associated with a recognised liability and could affect profit or loss.

The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income, while any ineffective portion is recognised immediately in the statement of profit or loss. The amount accumulated in other comprehensive income is reclassified to the statement of profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the statement of profit or loss.

When a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss on the hedging instrument existing in other comprehensive income at that time remains in other comprehensive income and is reclassified to the profit or loss when the forecast transaction ultimately occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss existing in other comprehensive income is immediately transferred to the profit or loss.

Classification of insurance contracts

Cathay Insurance, a subsidiary of the Group, undertakes significant insurance risk due to insurance contracts signed. Cathay Insurance carries out significant insurance contract risk tests on the initial date of the contract based on a group of insurance contracts with similar insurance risk. The insurance risk should be treated as significant if the insured event agreed in the contract may lead to significant payment of additional interest by the insurer, except for those without business substance. Cathay Insurance is engaged in property and casualty, non-life insurance business.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2.3 Summary of significant accounting policies (Continued)

Insurance contract liabilities

Insurance contract liabilities of Cathay Insurance include unearned premium reserves and outstanding claim reserves. The measurement units of Cathay Insurance’s insurance contract reserves are determined based on a group of insurance contracts with similar insurance risk.

Insurance contract liabilities are measured based on a reasonable estimate of the amount of payments when Cathay Insurance fulfils relevant obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows under such contracts. Reasonable estimate of expected net future cash flows is determined on the basis of information currently available, possible outcomes under various situations and associated probability at the end of each of the Relevant Periods.

Margin factor is considered and separately measured when determining insurance contract liabilities at the end of each of the Relevant Periods.

Liability adequacy tests are performed at the end of each of the Relevant Periods to ensure the adequacy of the unearned premium reserves

Investments in associates and joint ventures

Investments accounted for using the equity method

An associate is an entity over which the Group has significant influence, generally but not necessarily accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group’s investments in associates and joint ventures in the form of ordinary shares are stated in the consolidated statement of financial position at the Group’s share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group’s share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2.3 Summary of significant accounting policies (Continued)

Investments in associates and joint ventures (Continued)

Investments accounted for using the equity method (Continued)

the Group’s investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group’s investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Investments measured at fair value through profit or loss

Certain investments held by the Group and through which the Group can exercise significant influence over the investees are ordinary shares with preferential rights and convertible redeemable preferred shares investments. The Group elect to classify these investments as financial assets at fair value through profit or loss and disclose them in financial investments at fair value through profit or loss.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2.3 Summary of significant accounting policies (Continued)

Property, plant and equipment and depreciation (Continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. Property, plant and equipment are depreciated over the following useful life:

Buildings	30 years
Electronic equipment	3 to 5 years
Office and transportation equipment	3 to 10 years
Leasehold improvements	Over the shorter of their useful lives and the remaining lease terms

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each of the Relevant Periods.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year/period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2.3 Summary of significant accounting policies (Continued)

Intangible assets (other than goodwill) (Continued)

useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each of the Relevant Periods.

Intangible asset is amortised on the straight-line basis over the following useful life.

Software, technology and patents	3 to 10 years
Trademarks and domain names	Indefinite
Others	4 to 8 years

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2.3 Summary of significant accounting policies (Continued)

Impairment of non-financial assets (Continued)

market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

Employee benefits

Employee benefits refer to all forms of remuneration or compensation made by the Group to their employees in exchange for services provided by the employees or for termination of labour relation. Employee benefits include short-term compensation, post-employment benefits, unemployment benefits and other long-term compensation. The benefits offered by the Group to the spouses, children, dependents of the employees, the family members of deceased employees and other beneficiaries are also employee benefits.

Post-employment benefits (Defined contribution plans)

The employees of the Group participate in the pension insurance and unemployment insurance managed by local governments, and the relevant expenditure are recognised, when incurred, in the costs of relevant assets or the profit or loss.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of each of the Relevant Periods of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2.3 Summary of significant accounting policies (Continued)

Employee home starter loan

Employee home starter loan is the housing loan granted to eligible employees by the Group in the form of bank entrusted loan. Employee home starter loan is measured at amortised cost using the effective interest method and the relevant revenue and expenses are recognised in profit or loss as they are incurred.

Share-based payments

A share-based payments is classified as either an equity-settled share-based payments or a cash-settled share-based payments. The term “equity-settled share-based payments” refers to a transaction in which the Group grants shares or other equity instruments as a consideration in return for services rendered or a transaction in which the Group has no obligation to settle the share-based payments or the awards granted are self-owned equity instruments of its’ shareholder.

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted.

The equity-settled share-based payments in return for employee services is measured at the fair value of the equity instruments granted to the employees. If the right of an equity-settled share-based payments may be exercised immediately after the grant date, the fair value of the equity instruments on the grant date is recognised in profit or loss, with a corresponding increase in other reserves. When the grant of equity instruments is conditional upon the achievement of a performance or service condition, an amount for the services received during the vesting period is recognised in the related cost or expense with a corresponding increase in other reserves based on the best available estimate of the number of equity instruments expected to vest. The fair value of equity instruments is calculated based on the binomial model. Further details are included in note 35.

During the period upon the achievement of a performance or service condition, the equity-settled share-based payments is recognised in the related cost or expense with a corresponding increase in other reserves. The cumulative expense recognised for cash-settled transactions at the end of each Relevant Periods until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of awards that will ultimately vest.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2.3 Summary of significant accounting policies (Continued)

Share-based payments (Continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

A cash-settled share-based payments rendered by the Group is measured in accordance with the fair value of a liability based on the shares or other equity instruments undertaken by the Group. If the right may not be exercised until the vesting period comes to an end or until the specified performance conditions are met, at the end of each Relevant Periods within the vesting period, the services obtained in the current period, based on the best estimate of the information about the exercisable right, is included in the relevant costs or expenses with a corresponding increase in the liability. The Group, at the end of each Relevant Periods and settlement date prior to the settlement of the liability, re-assesses the fair values of the liability with changes in fair value recognised in the statement of profit or loss.

Equity instruments

When classifying the financial instrument (or its component parts) issued by the Group on initial recognition, the Group considers all of the terms and provisions agreed between the entities within the Group and the holders of the financial instruments. The instrument is an equity instrument if, and only if, both conditions (a) and (b) below are met.

- (a) The instrument includes no contractual obligation:
 - (i) to deliver cash or another financial asset to another entity; or
 - (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.
- (b) If the instrument will or may be settled in the issuer’s own equity instruments, it is:
 - (i) a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or
 - (ii) a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2.3 Summary of significant accounting policies (Continued)

Revenue recognition

The Group recognises revenue when the Group satisfies a performance obligation by transferring a promised good or service to a customer. Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if the Group’s performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods and services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods and services.

Contracts with customers may include multiple performance obligations. For such arrangements, the Group allocates revenue to each performance obligation based on its relative standalone selling price. The Group generally determines standalone selling prices based on the prices charged to customers. If the standalone selling price is not directly observable, it is estimated using expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information. Assumptions and estimations have been made in estimating the relative selling price of each distinct performance obligation, and changes in judgements on these assumptions and estimates may impact the revenue recognition.

Membership points can be earned by users of Alipay through certain transaction activities and can be redeemed for free or discounted goods or services provided by the Group. The membership programs give rise to a separate performance obligation. Revenue is recognised when the customer obtains services or control of goods redeemed with the membership points or when the membership points expire.

The Group presents contract assets or contract liabilities depending on the relationship between the satisfaction of its performance obligations and customer’s payment in the statement of financial position. The Group offsets the contract assets and contract liabilities under the same contract and presents the net amount.

A contract asset is the right to consideration in exchange for goods or services transferred to the customer that the Group has transferred to a customer when that right is conditioned on something other than the passage of time.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2.3 Summary of significant accounting policies (Continued)

Revenue recognition (Continued)

A contract liability is the Group’s obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer, such as prepayment from a customer before the Group transfer goods or services for its performance obligation.

Principal versus agent considerations

The Group determines whether it is a principal or an agent for each specified good or service promised to the customer based on whether it controls the specified good or service before that good or service is transferred to a customer. The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer, the entity recognises revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred; or the Group is an agent and the entity recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Incentives

In order to attract new users, promote services, improve users’ activities as well as expand the overall coverage and participation of merchants, the Group conduct user operation and promotion through different types of incentives including the issuance of coupons, rewards and etc. Such marketing and promotion benefits given to users are recorded in relevant expenses or costs.

Variable consideration

The amount of consideration agreed in the contract between the Group and the customers may vary due to rebates, incentives and other factors. The Group determines the best estimate of variable consideration using the expected value or the most likely amount. However, the transaction price including variable consideration does not exceed the amount only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2.3 Summary of significant accounting policies (Continued)

Revenue recognition (Continued)

Contract modifications

When a modification is incurred in the service contract between the Group and the customer:

- (1) The Group accounts for a contract modification as a separate contract if the addition of services and the price are distinct and the increased price of the contract reflects the standalone selling prices of the additional service;
- (2) The Group accounts for the contract modification as if it were a termination of the existing contract and by combining the unsatisfied and modified portion of the contract as a new contract, if the contract modification does not meet (1) and the remaining services are distinct from the construction services transferred on the date of the contract modification;
- (3) The Group accounts for the contract modification as if it were a part of the existing contract. The effect on recognised revenue is recognised as an adjustment to revenue at the date of the contract modification if the contract modification does not meet (1) and the remaining services are not distinct from the services transferred at the date of the contract modification.

The accounting policy for the Group’s principal revenue sources

(a) Digital Payment and Merchant Services

The Group provides digital payment services to consumers and businesses in China and internationally for commercial transactions, financial transactions and personal transfers. The Group recognises digital payment services revenue by charging transaction fees based on a percentage of the total transaction amount once the Group completes transactions related to digital payment services. Revenue from digital payment and merchant services also include the interest income derived from settlement reserve funds held for users.

(b) Digital Finance Technology Platform

The Group provides the fundamental digital finance technology platform, risk management and distribution solutions to partner financial institutions, enabling them to effectively reach a wide customer base and provide services in consumer and small and micro business (“SMB”) credit, investment products and insurance. Accordingly, The Group mainly generates revenue in the form of technology service fee according to a certain percentage of the revenue achieved by partner financial institutions through the platform. The technology services provided by the Group are charged according to the credit balances, assets under management, insurance premiums and contributions and contractual rates, and the revenue is recognised when the Group provides relevant services. If control of the services transfers over time, revenue is recognised over the period of the

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2.3 Summary of significant accounting policies (Continued)

Revenue recognition (Continued)

The accounting policy for the Group’s principal revenue sources (Continued)

(b) Digital Finance Technology Platform (Continued)

contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the services.

- Certain subsidiaries of the Group, mainly including Ant Shangcheng, Ant Small and Micro Loan, and Shangrong (Shanghai) Commercial Factoring Co., Ltd. (“Shangrong Factoring”), engage in the origination and transfer of various micro loans. These micro loans are subsequently measured according to accounting policies for financial instruments and the relevant income are recorded in net interest income and gains or losses on disposal of loan receivables, which are both presented in Revenue.
- Tianhong, a subsidiary of the Group, provides sales and management services for securities investment funds and asset management plans. The services provided by Tianhong are priced according to the transaction volume, assets under management and contractual rate, and the revenue is recognised when Tianhong provides relevant services. If control of the services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the services.
- Cathay Insurance, a subsidiary of the Group, earns premium income through providing insurance services. Premium income is recognised when all of the following criteria are met: (i) the insurance contracts are issued; (ii) the related insurance risk is undertaken by Cathay Insurance; (iii) it is probable that the related economic benefits will flow to Cathay Insurance; and (iv) the related income can be reliably measured. The amount of premium income of a non-life insurance contract is determined according to the total amount of premiums agreed upon in the original insurance contract.

(c) Innovation Initiatives and others

The Group’s innovation initiatives and other revenue mainly include revenue generated by AntChain (trademark for blockchain technology) and other intelligent technology solutions, and revenue generated from the provision of administrative and support services to related parties. The Group recognises revenues when the relevant services are provided, or the control of relevant goods is transferred to the customer.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2.3 Summary of significant accounting policies (Continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income or deduction of related expense on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each of the Relevant Periods between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2.3 Summary of significant accounting policies (Continued)

Income tax (Continued)

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2.3 Summary of significant accounting policies (Continued)

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The lease term is the non-cancellable period of a lease for which the Group has the right to use an underlying asset. The Group considers a lease that, at the commencement date of the lease, has a lease term of 12 months or less, and does not contain any option to purchase the underlying asset as a short-term lease; and a lease for which the value of the individual underlying asset is relatively low when it is new as a lease of low-value asset. The Group chooses not to recognise the right-of-use assets and lease liabilities for short-term leases and leases of low-value assets, and the rental expenses are amortised on a straight-line basis over each period of the lease term.

At the commencement date of the lease, the Group recognises right-of-use assets and lease liabilities. Right-of-use assets are measured at cost, including the amount of lease liabilities initially recognised, lease payments made at or before the commencement date less any lease incentives received, initial direct costs incurred, an estimate of costs incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are depreciated on a straight-line basis subsequently by the Group. If the Group is reasonably certain that the ownership of the underlying asset will be transferred to the Group at the end of the lease term, the Group depreciates the asset from the commencement date to the end of the useful life of the asset. Otherwise, the Group depreciates the assets from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term.

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date, which is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

The Group calculates the interest expenses of lease liabilities in each period during the lease term using the constant periodic rate of interest, and recognises such interest expenses in profit or loss. Variable lease payments that are not included in the measurement of lease liabilities are recognised in profit or loss as incurred.

After the commencement date, the Group remeasures lease liabilities by discounting the revised lease payments if any of the following occur: (i) there is a change in the amounts expected to be payable under a residual value guarantee; (ii) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments; or (iii) there is a change in the assessments of options to purchase the underlying asset, extend or terminate the lease, or the circumstances of the actual exercise of these options.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2.3 Summary of significant accounting policies (Continued)

Leases (Continued)

Lease modification

Lease modification is a change in the scope of a lease, the consideration for a lease or lease term, that was not part of the original terms and conditions of the lease. For example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term.

The Group accounts for a lease modification as a separate lease if both:

- (1) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- (2) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification, the Group remeasures the lease term and the lease liability by discounting the revised lease payments using a revised discount rate.

Dividends

Dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Fair value measurement

The Group measures certain financial instruments at fair value at the end of each of the Relevant Periods. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2.3 Summary of significant accounting policies (Continued)

Fair value measurement (Continued)

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

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

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

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person’s family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2.3 Summary of significant accounting policies (Continued)

Related parties (Continued)

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

3 Significant accounting judgements and estimates

The preparation of the Group’s Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Fair value measurement of financial instruments using valuation techniques

The fair value of financial investments that are not traded in an active market, such as unlisted securities investment measured at fair value, consumer loans measured at fair value, are determined using valuation techniques. The valuation techniques include discounted cash flow model, market comparable model, adjusted recent transaction price and so on.

When using valuation techniques to determine the fair value of financial instruments, the Group selects inputs that are consistent with the characteristics of the assets or liabilities considered by market participants in the transactions of related assets or liabilities, uses the relevant observable inputs as much as possible, including market interest rate, stock price, etc., and uses unobservable input value if the relevant observable inputs cannot be obtained or are not feasible, such as estimation of credit

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

3 Significant accounting judgements and estimates (Continued)

Fair value measurement of financial instruments using valuation techniques (Continued)

risk, market volatility, liquidity adjustments, the possibilities of Initial Public Offering (“IPO”) and other scenarios etc. The use of different valuation techniques or inputs may result in significant differences in fair value estimate.

The fair value generated by valuation technique is also verified with transactions of same or similar financial instruments in observable markets according to market practice.

Impairment of non-financial assets (other than goodwill)

Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Intangible assets with indefinite life are tested by the Group at least annually, no matter whether any indicator was observed or not.

An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm’s length transaction of similar assets or observable market prices less incremental costs of disposing of asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the present value of expected future cash flows requires the Group to make an estimate of the expected cash flow from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Consolidation of structured entities

The Group determines whether or not to consolidate those structured entities depending on whether the Group has control over them. When assessing control over structured entities, the Group takes consideration of power arising from rights it directly owns or indirectly owns through subsidiaries (including controlled structured entities), variable returns, and link between power and returns.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

3 Significant accounting judgements and estimates (Continued)

Consolidation of structured entities (Continued)

The variable returns the Group is exposed to from its involvement with structured entities include management fees, performance fees, direct investment income or loss etc. When assessing whether it controls a structured entity, the Group not only considers applicable legal or regulatory requirements, and contractual agreements, but also other circumstances where the Group may have obligation to absorb any loss of the structured entity.

The Group reassesses whether it controls a structured entity if facts and circumstances indicate that there are changes to one or more of the relevant elements of control.

Transfer of financial assets

When carrying out its asset-backed securitisation and loan transfer transactions, the subsidiaries of the Group, Ant Shangcheng, Ant Small and Micro Loan and Shangrong Factoring need to make significant judgment on the extension of transfer of the risks and returns of the ownership of the financial assets. The judgment will have impact on whether the relevant transaction meets the conditions of the transfer of the financial assets and their subsequent measurement.

Business models for managing financial assets

The classification of financial assets at initial recognition is dependent on the Group’s business model for managing financial assets. When determining the business model, the Group considers the methods to include evaluation and report financial asset performance to key management, the risks affecting the performance of financial assets and the risk management, and the manner in which the relevant management receives remuneration. When assessing whether the objective is to collect contractual cash flows, the Group needs to analyse and assess the reasons, timing, frequency and value of the sale before the maturity date of the financial assets.

Impairment of financial instruments

The Group uses the ECLs model to assess the impairment of financial instruments. The Group is required to perform significant judgement and estimation and take into account all reasonable and supportable information, including forward-looking information. When making such judgments and estimates, the Group estimates the expected changes in the debtor’s credit risk based on historical repayment data combined with macroeconomic indicators and other factors.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

3 Significant accounting judgements and estimates (Continued)

Membership points

The Group makes reasonable estimate of the stand-alone selling price of the membership points by taking into account all relevant information such as discounted or free products or services enjoyed by the customer using the membership points and the possibility for the customer to exercise the redemption right. The Group determines the possibility for the customer to exercise the redemption right based on the historical data of point redemption, the current point redemption and the future changes in the customer, the future trend of the market and other factors. The Group re-evaluates the stand-alone selling price of membership points periodically and at least at the end of each of the Relevant Periods and determines the transaction price to be allocated to the membership points based on the stand-alone selling price of the re-evaluated membership points.

Share-based payments

The Group shall use appropriate valuation models based on vesting conditions to assess the fair value of share-based payments. The Group shall also determine appropriate input values used in these assessment models, including expected volatility and expected dividend yield, etc., and use appropriate assumptions. Such models and assumptions for assessing the fair value of share-based payments are disclosed in note 35.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

4 Segment information

Operating segment

Although there are different business units of the Group, including Digital Payment and Merchant Services, Digital Finance Technology Platform and Innovation Initiatives and others, information provided to the chief operating decision maker is at the revenue level and the Group does not allocate operating costs and expenses, assets and liabilities across business units, as the chief operating decision maker does not use such information to allocate resources or evaluate the performance of the business units. Accordingly, no segment information is presented.

Details of the Group’s revenue by business unit are set out in note 5.

Geographical information

(a) Revenue from external customers

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i>
Mainland China	61,972,886	81,414,069	114,031,497	49,614,933	69,321,689
Other countries/regions	3,423,034	4,308,275	6,586,875	2,925,123	3,206,656
	<u>65,395,920</u>	<u>85,722,344</u>	<u>120,618,372</u>	<u>52,540,056</u>	<u>72,528,345</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

4 Segment information (Continued)

Geographical information (Continued)

(b) Non-current assets

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Mainland China	16,266,145	20,934,169	26,278,114	25,868,725
Other countries/regions	15,958,594	16,046,374	30,737,303	31,044,098
	<u>32,224,739</u>	<u>36,980,543</u>	<u>57,015,417</u>	<u>56,912,823</u>

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about a major customer

No revenues from a single external customer was more than 10% of the Group’s total revenue for each of the Relevant Periods.

5 Revenue, other income and gains, net

Disaggregated revenue information

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Digital Payment and Merchant Services	35,889,519	44,361,431	51,904,526	22,993,698	26,011,490
Digital Finance Technology Platform	28,992,664	40,615,688	67,783,677	29,290,510	45,972,489
Innovation Initiatives and Others	<u>513,737</u>	<u>745,225</u>	<u>930,169</u>	<u>255,848</u>	<u>544,366</u>
	<u>65,395,920</u>	<u>85,722,344</u>	<u>120,618,372</u>	<u>52,540,056</u>	<u>72,528,345</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

5 Revenue, other income and gains, net (Continued)

Other income and gains, net

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Fair value changes on:					
Financial assets at fair value					
through profit or loss	(950,193)	(5,721,842)	1,073,648	(759,789)	(2,913,324)
Financial liabilities at fair value					
through profit or loss	107	(21,335)	(125,988)	(72,470)	(3,364)
Derivative financial instruments	(132,716)	153,704	164,521	93,206	(111,745)
Investment income from financial					
investments measured at					
amortised cost	60,574	255,115	857,862	338,704	777,610
Investment income from financial					
investments at fair value					
through profit or loss	345,317	1,379,877	796,028	452,593	356,896
Additional deduction of value-					
added tax	–	–	306,104	18,199	164,722
Government grants	729,639	780,248	900,650	192,375	101,588
Gains on disposal of subsidiaries,					
associates and joint ventures	11,056	74,831	503,362	503,362	12,819
Foreign exchange (losses)/gains	(40,411)	20,694	(46,257)	(62,226)	4,889
Gains on disposal of items of					
property, plant and equipment	1,493	12,964	21,349	8,566	3,297
Remeasurement from losing					
significant influence in an					
associate or joint control in a					
joint venture	–	22,868,469	–	–	–
(Losses)/gains arising from					
derivative financial instruments	(88,394)	(235,524)	(18,442)	3,647	(9,279)
Others	46,861	55,300	66,577	17,134	70,568
	(16,667)	19,622,501	4,499,414	733,301	(1,545,323)

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

6 Expense by nature

The Group’s costs of services, selling and marketing expenses, general and administrative expenses, research and development expenses classified by nature are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Transaction and maintenance costs	22,726,993	39,569,794	58,234,327	27,041,710	28,783,156
Payroll and welfares	4,670,142	6,755,773	9,701,503	4,481,949	5,531,909
Promotion and advertising expenses	13,937,414	45,694,121	16,165,715	9,601,712	4,867,456
Share-based payments compensation (note 35)	3,181,786	3,916,927	5,135,928	2,162,587	2,696,625
Depreciation and amortisation	963,374	1,322,632	2,305,585	1,017,959	1,409,070
Technology services expenses	231,319	376,369	989,042	430,023	620,876
Taxes and surcharges	376,696	435,261	632,090	218,347	430,892
Professional fees	349,607	441,510	642,280	382,467	393,422
Administrative and travel expenses	483,669	825,775	944,438	419,283	308,939
Software system use and service expense (“Software System Use and Service Payment”) (note 41)	89,441	89,441	89,441	44,721	44,721
Auditor’s remuneration	10,539	17,768	32,445	–	–
Royalties and software technology services fees (“Royalty and Service Payment”) (note 41)	4,812,066	251,293	3,480,683	1,272,665	–
Others	299,323	478,858	796,425	282,143	422,673
	<u>52,132,369</u>	<u>100,175,522</u>	<u>99,149,902</u>	<u>47,355,566</u>	<u>45,509,739</u>

7 Other expenses

An analysis of other expenses is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Donation	160,460	225,555	1,349,134	1,059,762	322,423
Impairment of investments in associates and joint ventures	–	42,343	54,408	–	110,482
Provision for insurance contract reserve	49,735	172,289	222,129	358,020	37,742
(Reversal of impairment)/					
Impairment of other assets	(493)	(315)	123,479	104,550	52,021
Others	2,688	197,770	6,824	25	2,472
	<u>212,390</u>	<u>637,642</u>	<u>1,755,974</u>	<u>1,522,357</u>	<u>525,140</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

8 Finance income, net

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (<i>unaudited</i>)	<i>RMB'000</i>
Finance income:					
Interest income from					
bank deposits	129,478	875,343	1,397,394	640,008	1,015,439
Others	31,368	95,940	22,344	25,836	18,758
	<u>160,846</u>	<u>971,283</u>	<u>1,419,738</u>	<u>665,844</u>	<u>1,034,197</u>

Interest income mainly represents interest income from bank deposits, including current deposits and time deposits.

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (<i>unaudited</i>)	<i>RMB'000</i>
Finance costs:					
Interest on bank loans	274,100	808,678	1,251,404	628,902	444,653
Interest on lease					
liabilities	17,523	18,929	20,400	9,065	8,879
Others	9,319	16,774	76,922	49,032	49,811
	<u>300,942</u>	<u>844,381</u>	<u>1,348,726</u>	<u>686,999</u>	<u>503,343</u>
Less: Interest					
capitalised	–	(10,715)	(20,003)	(10,984)	(12,813)
	<u>300,942</u>	<u>833,666</u>	<u>1,328,723</u>	<u>676,015</u>	<u>490,530</u>

Interest on bank loans mainly arose from the interest-bearing bank borrowings disclosed in note 28.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

9 Directors’, supervisors’ and chief executive officer’s remuneration

The aggregate amounts of remuneration of the directors, supervisors and chief executive officer for the Relevant Periods and the six months ended 30 June 2019 are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Salaries, allowances and benefits in kind	120,475	190,777	114,257	9,494	46,559
Pension scheme contributions and other social welfare	454	554	606	240	188
Share-based payments compensation	113,050	87,420	79,504	39,905	47,174
	<u>233,979</u>	<u>278,751</u>	<u>194,367</u>	<u>49,639</u>	<u>93,921</u>

The remuneration of each director, supervisor and chief executive officer of the Company for the Relevant Periods and the six months ended 30 June 2019 (unaudited) is set out below:

Year ended 31 December 2017	Salaries, allowances and benefits	Pension scheme contributions and other social welfare	Share-based payments compensation	Total
	RMB’000	RMB’000	RMB’000	RMB’000
Directors:				
Mr. Eric JING ¹	37,557	98	44,621	82,276
Ms. Lucy Lei PENG ⁷	35,983	74	23,486	59,543
Ms. Ying ZHAO ¹¹	27,597	98	6,050	33,745
Mr. Songbai ZENG ⁴	<u>16,697</u>	<u>99</u>	<u>26,166</u>	<u>42,962</u>
Supervisors:				
Mr. Hang JIA ⁵	1,569	43	8,052	9,664
Ms. Huijin CEN ⁹	<u>1,072</u>	<u>43</u>	<u>4,674</u>	<u>5,789</u>
	<u>120,475</u>	<u>455</u>	<u>113,049</u>	<u>233,979</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

9 Directors’, supervisors’ and chief executive officer’s remuneration (Continued)

The remuneration of each director, supervisor and chief executive officer of the Company for the Relevant Periods and the six months ended 30 June 2019 (unaudited) is set out below: (Continued)

Year ended 31 December 2018	Salaries, allowances and benefits	Pension scheme contributions and other social welfare	Share-based payments compensation	Total
	RMB’000	RMB’000	RMB’000	RMB’000
Directors:				
Mr. Eric JING ¹	67,188	108	37,711	105,007
Mr. Li CHENG ³	41,157	51	8,280	49,488
Ms. Lucy Lei PENG ⁷	35,780	84	7,789	43,653
Ms. Ying ZHAO ¹¹	25,026	108	8,724	33,858
Mr. Songbai ZENG ⁴	17,941	108	18,507	36,556
Supervisors:				
Mr. Hang JIA ⁵	2,775	47	3,782	6,604
Ms. Huijin CEN ⁹	911	46	2,628	3,585
	190,778	552	87,421	278,751
Year ended 31 December 2019	Salaries, allowances and benefits	Pension scheme contributions and other social welfare	Share-based payments compensation	Total
	RMB’000	RMB’000	RMB’000	RMB’000
Directors:				
Mr. Eric JING ¹	52,254	114	35,579	87,947
Mr. Simon HU ²	650	39	3,221	3,910
Mr. Li CHENG ³	28,762	91	21,721	50,574
Ms. Lucy Lei PENG ⁷	3,839	179	3,798	7,816
Mr. Songbai ZENG ⁴	24,547	86	11,190	35,823
Supervisors:				
Mr. Hang JIA ⁵	2,836	51	2,412	5,299
Ms. Yu ZHANG ⁸	501	30	295	826
Ms. Huijin CEN ⁹	867	16	1,289	2,172
	114,256	606	79,505	194,367

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

9 Directors’, supervisors’ and chief executive officer’s remuneration (Continued)

The remuneration of each director, supervisor and chief executive officer of the Company for the Relevant Periods and the six months ended 30 June 2019 (unaudited) is set out below: (Continued)

Six months ended 30 June 2020	Salaries, allowances and benefits	Pension scheme contributions and other social welfare	Share-based payments compensation	Total
	RMB’000	RMB’000	RMB’000	RMB’000
Directors:				
Mr. Eric JING ¹	32,981	31	14,731	47,743
Mr. Simon HU ²	1,334	31	14,402	15,767
Ms. Lucy Lei PENG ⁷	3,244	60	10,733	14,037
Mr. Xi HU ¹⁰	5,704	29	3,403	9,136
Supervisors:				
Mr. Hang JIA ⁵	1,794	10	2,942	4,746
Ms. Quan YU ⁶	1,462	20	946	2,428
Ms. Yu ZHANG ⁸	28	7	17	52
Ms. Huijin CEN ⁹	12	–	–	12
	46,559	188	47,174	93,921
Six months ended 30 June 2019				
(unaudited)	RMB’000	RMB’000	RMB’000	RMB’000
Directors:				
Mr. Eric JING ¹	4,678	57	18,269	23,004
Mr. Li CHENG ³	1,182	43	11,021	12,246
Ms. Lucy Lei PENG ⁷	229	43	543	815
Mr. Songbai ZENG ⁴	980	57	8,016	9,053
Supervisors:				
Mr. Hang JIA ⁵	1,871	25	1,338	3,234
Ms. Huijin CEN ⁹	553	16	718	1,287
	9,493	241	39,905	49,639

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

9 Directors’, supervisors’ and chief executive officer’s remuneration (Continued)

The remuneration of each director, supervisor and chief executive officer of the Company for the Relevant Periods and the six months ended 30 June 2019 (unaudited) is set out below: (Continued)

- ¹ Mr. Eric JING, has served as the director of the Company since October 2013. Besides, Mr. Eric JING served as the chief executive officer of the Company from October 2016 to December 2019 and as the chief financial officer of the Company from December 2016 to April 2020.
- ² Mr. Simon HU, has served as the chief executive officer of the Company since December 2019 and as the director of the Company since September 2019.
- ³ Mr. Li CHENG, has served as the director of the Company since August 2020. Prior to his current position, Mr. Li CHENG served as the director of the Company from June 2018 to December 2019.
- ⁴ Mr. Songbai ZENG, served as the director of the Company from December 2016 to September 2019.
- ⁵ Mr. Hang JIA, has served as the supervisor of the Company since December 2016.
- ⁶ Ms. Quan YU, has served as the supervisor of the Company since January 2020.
- ⁷ Ms. Lucy Lei PENG, served as the director of the Company from November 2013 to August 2020.
- ⁸ Ms. Yu ZHANG, served as the supervisor of the Company from December 2016 to January 2020.
- ⁹ Ms. Huijin CEN, served as the supervisor of the Company from December 2016 to January 2020.
- ¹⁰ Mr. Xi HU, served as the director of the Company from January 2020 to June 2020.
- ¹¹ Ms. Ying ZHAO, served as the director of the Company from December 2016 to September 2019.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

10 Five highest paid employees

The five highest paid employees during the Relevant Periods and the six months ended 30 June 2019 included three directors, four directors, three directors, three directors and three directors respectively, details of whose remuneration are set out in note 9. Details of the remuneration of the remaining five highest paid employees who are neither a director nor a supervisor of the Company are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i>
Salaries, allowances and benefits	5,437	3,372	52,942	4,629	32,410
Pension scheme contributions and other social welfare	130	53	201	109	60
Share-based payments compensation	112,545	36,501	15,636	19,542	13,550
	<u>118,112</u>	<u>39,926</u>	<u>68,779</u>	<u>24,280</u>	<u>46,020</u>

The number of non-director and non-supervisor highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i>
RMB10 million to RMB20 million	–	–	–	2	–
RMB20 million to RMB30 million	–	–	–	–	2
RMB30 million to RMB40 million	–	1	2	–	–
RMB50 million to RMB60 million	1	–	–	–	–
RMB60 million to RMB70 million	1	–	–	–	–
	<u>2</u>	<u>1</u>	<u>2</u>	<u>2</u>	<u>2</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

11 Income tax

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate. Income tax rates of the Group’s principal subsidiaries are as follows:

Mainland China

Pursuant to the Enterprise Income Tax Law of the PRC and the respective regulations, the subsidiaries which operate in Mainland China are subject to income tax at a rate of 25% on the taxable income, except for:

- (i) Certain subsidiaries of the Group are recognised as high-tech enterprises and, accordingly, are entitled to a preferential income tax rate of 15% during the Relevant Periods.
- (ii) Certain subsidiaries of the Group enjoy preferential tax from its first profit-making year, enterprise income tax in the first and second years shall be fully exempted while enterprise income tax will be levied at 50% of the statutory tax rate of 25% in the third to fifth years, and enjoy tax incentives until the end of such period.
- (iii) Certain subsidiaries meet the requirements of key software enterprises and are entitled to a preferential income tax rate of 10% during the Relevant Periods.
- (iv) From 1 January 2011 to 31 December 2020, enterprises established in the western region and engaged in encouraged industries are entitled to a preferential income tax rate of 15%. Accordingly, certain subsidiaries of the Group are entitled to an income tax rate of 15% during the Relevant Periods.

Hong Kong

Subsidiaries incorporated in Hong Kong are subject to income tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the Relevant Periods.

Other jurisdictions

Subsidiaries of the Group incorporated in other jurisdictions are subject to income tax in accordance with the prevailing practices of the jurisdictions in which the subsidiaries operate.

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Current	3,138,808	2,023,079	1,951,839	807,143	2,442,604
Deferred (note 31)	(395,440)	(1,065,080)	1,028,643	318,100	53,210
Total tax charge for the year/period	<u>2,743,368</u>	<u>957,999</u>	<u>2,980,482</u>	<u>1,125,243</u>	<u>2,495,814</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

11 Income tax (Continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the jurisdictions in which the majority of the Group’s subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i>
Profit before tax	10,948,111	3,114,118	21,052,403	3,017,497	24,419,190
Tax at the statutory tax rate of 25%	2,737,028	778,529	5,263,101	754,374	6,104,798
Effect of different tax rates in certain subsidiaries	(1,352,539)	(3,791,573)	(1,240,178)	(1,212,343)	(1,750,762)
Adjustment of current income tax of prior periods	(17,717)	(6,424)	(78,221)	(78,221)	(27,801)
Losses attributable to joint ventures and associates	523,569	381,463	777,493	311,310	256,793
Income not subject to tax	(248,091)	(2,548,276)	(329,820)	(315,669)	(194,453)
Expenses not deductible for tax	971,792	1,700,403	1,342,842	933,617	1,150,963
Additional deductible allowance for qualified research and development expenses	(227,673)	(656,026)	(1,009,577)	(397,000)	(591,706)
Utilisation of previously unrecognised tax losses	(43,798)	(33,922)	(1,855,228)	(149,224)	(2,535,062)
Effect on opening balance of deferred tax subject to change in tax rates	12,479	(56,219)	(150)	(150)	(32,958)
Unrecognised tax losses and temporary differences	388,318	5,190,044	110,220	1,278,549	116,002
Tax charge at the Group’s effective rate	2,743,368	957,999	2,980,482	1,125,243	2,495,814

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

12 Dividends

No dividends have been declared and paid by the Company in respect of the Relevant Periods.

13 Earnings per share (“EPS”) attributable to ordinary equity holders of the parent

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB	RMB	RMB	RMB (unaudited)	RMB
Basic EPS					
From continuing operations	0.46	0.04	0.85	0.08	0.80
Diluted EPS					
From continuing operations	0.46	0.04	0.85	0.08	0.80

The calculations of basic and diluted EPS are based on:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Earnings					
Profit attributable to owners of the Company	6,951,254	667,067	16,957,244	1,361,404	21,234,497
Less:					
Profit attributable to Class B and Class C shares holders of Ant International	–	(38,456)	(1,879,314)	(145,712)	(2,489,481)
Profit attributable to ordinary shares holders of the Company	<u>6,951,254</u>	<u>628,611</u>	<u>15,077,930</u>	<u>1,215,692</u>	<u>18,745,016</u>
	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
				(unaudited)	
Shares (in thousand)					
Weighted average number of ordinary shares of the Company in issue during the year/period used in the basic EPS calculation	<u>15,000,000</u>	<u>15,380,624</u>	<u>17,701,419</u>	<u>15,761,247</u>	<u>23,524,249</u>
Effect of dilution					
– Class B and Class C shares of Ant International	–	940,916	2,206,305	1,889,130	3,124,199
– Restricted Shares of Ant International	–	28,033	47,587	44,532	50,625

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

13 Earnings per share (“EPS”) attributable to ordinary equity holders of the parent (Continued)

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
				(unaudited)	
Adjusted weighted average number of shares in issue during the year/period used in the diluted EPS calculation	15,000,000	16,349,573	19,955,311	17,694,909	26,699,073

Note:

The Group shall pay dividends on the Class B and Class C Shares of Ant International if dividends are declared for ordinary shares of the Company. The amount of dividend per Class B and Class C share shall be equal to the USD equivalent of the amount of cash dividend per ordinary share of the Company. Refer to note 33 for details of Class B and Class C shares.

The calculation of the basic EPS amounts is based on the profit for the year/period attributable to ordinary shares holders of the Company which excludes profit attributable to Class B and Class C shares holders mentioned above, and divided by the weighted average number of ordinary shares of the Company in issue during the year/period.

The calculation of the diluted EPS amounts is based on the profit for the year/period attributable to owners of the parent, and divided by the total of following:

- (a) the weighted average number of ordinary shares in issue, as used in the basic EPS calculation;
- (b) the weighted average number of Class B shares and Class C shares of Ant International in issue; and
- (c) the incremental weighted average number of Class B shares arising from a dilutive effect caused by the conversion of granted but not yet vested restricted share units into Class B shares, of which the exercise price may be lower than its fair market value.

The newly issued ordinary shares, Class B shares and Class C shares are calculated in accordance with the conditions stated in the respective issuance agreements, commencing from the due date of consideration received (usually the according issue date).

When calculating the weighted average number of Class B shares assumed to have been converted from restricted shares, restricted shares granted in previous periods are assumed to have been converted at beginning of the current period, and those granted in current period are assumed to have been converted at the grant date.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

14 Property, plant and equipment

	Electronic equipment	Office and transportation equipment	Construction in progress	Leasehold improvements	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2017					
At 1 January 2017:					
Cost	2,279,172	93,303	2,367,859	113,688	4,854,022
Accumulated depreciation	(1,402,215)	(65,006)	–	(74,442)	(1,541,663)
Net carrying amount	<u>876,957</u>	<u>28,297</u>	<u>2,367,859</u>	<u>39,246</u>	<u>3,312,359</u>
At 1 January 2017, net of accumulated depreciation	876,957	28,297	2,367,859	39,246	3,312,359
Additions	999,971	49,014	427,705	30,470	1,507,160
Business combination	397	26	–	17	440
Depreciation	(661,576)	(11,781)	–	(40,899)	(714,256)
Disposals	(5,295)	(76)	–	(11,515)	(16,886)
Transfer	–	–	(114,387)	114,387	–
Exchange realignment	(2,040)	25	–	91	(1,924)
At 31 December 2017, net of accumulated depreciation	<u>1,208,414</u>	<u>65,505</u>	<u>2,681,177</u>	<u>131,797</u>	<u>4,086,893</u>
At 31 December 2017:					
Cost	3,075,034	134,586	2,681,177	247,138	6,137,935
Accumulated depreciation	(1,866,620)	(69,081)	–	(115,341)	(2,051,042)
Net carrying amount	<u>1,208,414</u>	<u>65,505</u>	<u>2,681,177</u>	<u>131,797</u>	<u>4,086,893</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

14 Property, plant and equipment (Continued)

	Electronic equipment	Office and transportation equipment	Construction in progress	Leasehold improvements	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2018					
At 1 January 2018:					
Cost	3,075,034	134,586	2,681,177	247,138	6,137,935
Accumulated depreciation	(1,866,620)	(69,081)	–	(115,341)	(2,051,042)
Net carrying amount	<u>1,208,414</u>	<u>65,505</u>	<u>2,681,177</u>	<u>131,797</u>	<u>4,086,893</u>
At 1 January 2018, net of accumulated depreciation	1,208,414	65,505	2,681,177	131,797	4,086,893
Additions	1,777,701	18,015	720,232	32,476	2,548,424
Business combination	206	3	–	–	209
Depreciation	(887,239)	(15,418)	–	(82,104)	(984,761)
Disposals	(515)	(870)	–	(178)	(1,563)
Transfer	–	–	(57,006)	57,006	–
Exchange realignment	550	104	–	35	689
At 31 December 2018, net of accumulated depreciation	<u>2,099,117</u>	<u>67,339</u>	<u>3,344,403</u>	<u>139,032</u>	<u>5,649,891</u>
At 31 December 2018:					
Cost	4,614,971	131,993	3,344,403	336,477	8,427,844
Accumulated depreciation	(2,515,854)	(64,654)	–	(197,445)	(2,777,953)
Net carrying amount	<u>2,099,117</u>	<u>67,339</u>	<u>3,344,403</u>	<u>139,032</u>	<u>5,649,891</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

14 Property, plant and equipment (Continued)

	Buildings	Electronic equipment	Office and transportation equipment	Construction in progress	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2019						
At 1 January 2019:						
Cost	–	4,614,971	131,993	3,344,403	336,477	8,427,844
Accumulated depreciation	–	(2,515,854)	(64,654)	–	(197,445)	(2,777,953)
Net carrying amount	–	2,099,117	67,339	3,344,403	139,032	5,649,891
At 1 January 2019, net of accumulated depreciation	–	2,099,117	67,339	3,344,403	139,032	5,649,891
Additions	411,275	1,547,139	620,738	822,454	6,022	3,407,628
Business combination	–	5,783	4,730	–	–	10,513
Depreciation	(55,866)	(1,211,739)	(33,740)	–	(89,228)	(1,390,573)
Disposals	–	(10,712)	(1,995)	–	(11,965)	(24,672)
Transfer	2,408,632	–	–	(2,443,828)	35,196	–
Impairment	–	(13,249)	–	–	–	(13,249)
Exchange realignment	–	1,893	(3,753)	–	45	(1,815)
At 31 December 2019, net of accumulated depreciation and impairment	2,764,041	2,418,232	653,319	1,723,029	79,102	7,637,723
At 31 December 2019:						
Cost	2,819,907	5,908,488	751,029	1,723,029	365,774	11,568,227
Accumulated depreciation and impairment	(55,866)	(3,490,256)	(97,710)	–	(286,672)	(3,930,504)
Net carrying amount	2,764,041	2,418,232	653,319	1,723,029	79,102	7,637,723

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

14 Property, plant and equipment (Continued)

	Buildings	Electronic equipment	Office and transportation equipment	Construction in progress	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
30 June 2020						
At 31 December 2019 and 1 January 2020:						
Cost	2,819,907	5,908,488	751,029	1,723,029	365,774	11,568,227
Accumulated depreciation and impairment	(55,866)	(3,490,256)	(97,710)	–	(286,672)	(3,930,504)
Net carrying amount	<u>2,764,041</u>	<u>2,418,232</u>	<u>653,319</u>	<u>1,723,029</u>	<u>79,102</u>	<u>7,637,723</u>
At 1 January 2020, net of accumulated depreciation and impairment	2,764,041	2,418,232	653,319	1,723,029	79,102	7,637,723
Additions	52,058	475,264	13,063	192,410	–	732,795
Depreciation	(37,195)	(705,279)	(60,920)	–	(18,878)	(822,272)
Disposals	–	(1,493)	(74)	–	(7,563)	(9,130)
Transfer	–	–	–	(14,588)	14,588	–
Exchange realignment	–	479	4,338	–	2,138	6,955
At 30 June 2020, net of accumulated depreciation and impairment	<u>2,778,904</u>	<u>2,187,203</u>	<u>609,726</u>	<u>1,900,851</u>	<u>69,387</u>	<u>7,546,071</u>
At 30 June 2020:						
Cost	2,871,965	6,337,742	760,879	1,900,851	374,937	12,246,374
Accumulated depreciation and impairment	(93,061)	(4,150,539)	(151,153)	–	(305,550)	(4,700,303)
Net carrying amount	<u>2,778,904</u>	<u>2,187,203</u>	<u>609,726</u>	<u>1,900,851</u>	<u>69,387</u>	<u>7,546,071</u>

As at 31 December 2017, 2018 and 2019 and 30 June 2020, no property, plant and equipment was under mortgage or not in use.

Ownership certificate has not been obtained by the Group for a building with a net carrying amount of RMB2,764 million and RMB2,325 million as at 31 December 2019 and 30 June 2020 respectively.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

15 Goodwill

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000
Cost				
At beginning of year/period	1,630,271	1,626,900	1,894,931	5,309,196
Acquisition of subsidiaries (note 37)	15,127	268,031	3,204,567	–
Disposal of a subsidiary	(18,498)	–	–	–
Exchange realignment	–	–	209,698	(167,478)
At end of year/period	1,626,900	1,894,931	5,309,196	5,141,718
Impairment				
At beginning of year/period	18,498	–	–	–
Disposal of a subsidiary	(18,498)	–	–	–
At end of year/period	–	–	–	–
Carrying amount				
At end of year/period	1,626,900	1,894,931	5,309,196	5,141,718
At beginning of year/period	1,611,773	1,626,900	1,894,931	5,309,196

The carrying amounts of goodwill are as follows:

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000
World First UK Limited	–	–	3,379,799	3,206,401
Others	1,626,900	1,894,931	1,929,397	1,935,317
	1,626,900	1,894,931	5,309,196	5,141,718

Goodwill acquired through business combinations is allocated to each acquired subsidiary or business unit as the cash-generating units (“CGUs”) for impairment testing. The recoverable amount of each CGU has been determined based on a value-in-use calculation using cash flow projections based on financial forecasts covering a five-year period or a longer period when it can be justified and has been approved by senior management. As at 31 December 2017, 2018 and 2019 and 30 June 2020, the implied pre-tax discount rates applied to the cash flow projections are 15.0%~17.0%, 15.0%~17.0%, 15.0%~17.4% and 15.0%~18.4%, respectively, the terminal growth rates applied to the cash flow projections are 2.0%~2.4%, 2.0%~2.4%, 2.0%~2.4% and 2.0%~2.4%, respectively. The Group assessed the impairment on goodwill at the end of each of the Relevant Periods and the recoverable amounts exceeded carrying amounts, and hence the goodwill was not regarded as impaired.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

15 Goodwill (Continued)

Assumptions were used in the value in use calculation of each CGU for each end of the Relevant Periods. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill.

Pre-tax discount rates – the discount rates used reflect specific risks relating to the units.

Terminal growth rates – the forecasted terminal growth rates are based on senior management’s expectations, which do not exceed the long-term average growth rates for the industry relevant to the CGUs.

The values assigned to the key assumptions are based on the business development of the acquirees, and the discount rates are comparable to external information sources.

16 Other intangible assets

	Software, technology and patents	Trademarks and domain names	Others	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
31 December 2017				
At 1 January 2017:				
Cost	422,422	9,452	17,376	449,250
Accumulated amortisation	(93,080)	–	(579)	(93,659)
Net carrying amount	<u>329,342</u>	<u>9,452</u>	<u>16,797</u>	<u>355,591</u>
At 1 January 2017, net of accumulated amortisation	329,342	9,452	16,797	355,591
Additions	44,084	635	–	44,719
Amortisation	(67,941)	–	(2,251)	(70,192)
Exchange realignment	(13,727)	(8)	(987)	(14,722)
At 31 December 2017, net of accumulated amortisation	<u>291,758</u>	<u>10,079</u>	<u>13,559</u>	<u>315,396</u>
At 31 December 2017:				
Cost	450,083	10,079	16,271	476,433
Accumulated amortisation	(158,325)	–	(2,712)	(161,037)
Net carrying amount	<u>291,758</u>	<u>10,079</u>	<u>13,559</u>	<u>315,396</u>

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

16 Other intangible assets (Continued)

	Software, technology and patents	Trademarks and domain names	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2018				
At 1 January 2018:				
Cost	450,083	10,079	16,271	476,433
Accumulated amortisation	(158,325)	–	(2,712)	(161,037)
Net carrying amount	291,758	10,079	13,559	315,396
At 1 January 2018, net of accumulated amortisation	291,758	10,079	13,559	315,396
Additions	40,696	410	–	41,106
Business combination	41,975	–	–	41,975
Amortisation	(73,942)	–	(2,092)	(76,034)
Disposals	(9)	–	–	(9)
Exchange realignment	10,543	7	986	11,536
At 31 December 2018, net of accumulated amortisation	311,021	10,496	12,453	333,970
At 31 December 2018:				
Cost	546,064	10,496	17,375	573,935
Accumulated amortisation	(235,043)	–	(4,922)	(239,965)
Net carrying amount	311,021	10,496	12,453	333,970
	Software, technology and patents	Trademarks and domain names	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2019				
At 1 January 2019:				
Cost	546,064	10,496	17,375	573,935
Accumulated amortisation	(235,043)	–	(4,922)	(239,965)
Net carrying amount	311,021	10,496	12,453	333,970
At 1 January 2019, net of accumulated amortisation	311,021	10,496	12,453	333,970
Additions	1,768,134	10,501,280	–	12,269,414
Business combination	187,653	455,052	568,206	1,210,911
Amortisation	(230,532)	–	(84,449)	(314,981)
Disposals	(88)	–	–	(88)
Exchange realignment	3,787	2	–	3,789
At 31 December 2019, net of accumulated amortisation	2,039,975	10,966,830	496,210	13,503,015
At 31 December 2019:				
Cost	2,513,799	10,966,830	585,581	14,066,210
Accumulated amortisation	(473,824)	–	(89,371)	(563,195)
Net carrying amount	2,039,975	10,966,830	496,210	13,503,015

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

16 Other intangible assets (Continued)

	Software, technology and patents	Trademarks and domain names	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
30 June 2020				
At 1 January 2020:				
Cost	2,513,799	10,966,830	585,581	14,066,210
Accumulated amortisation	(473,824)	–	(89,371)	(563,195)
Net carrying amount	<u>2,039,975</u>	<u>10,966,830</u>	<u>496,210</u>	<u>13,503,015</u>
At 1 January 2020, net of accumulated amortisation	2,039,975	10,966,830	496,210	13,503,015
Additions	45,432	1,339	–	46,771
Business combination	99,591	–	28,275	127,866
Amortisation	(263,767)	–	(50,334)	(314,101)
Exchange realignment	(1,697)	(8,787)	–	(10,484)
At 30 June 2020, net of accumulated amortisation	<u>1,919,534</u>	<u>10,959,382</u>	<u>474,151</u>	<u>13,353,067</u>
At 30 June 2020:				
Cost	2,648,704	10,959,382	613,856	14,221,942
Accumulated amortisation	(729,170)	–	(139,705)	(868,875)
Net carrying amount	<u>1,919,534</u>	<u>10,959,382</u>	<u>474,151</u>	<u>13,353,067</u>

During the Relevant Periods, the Group’s trademarks and domain names were mainly derived from the business combination of World First UK Limited (note 37) and purchases made in 2019.

The trademarks and domain names are regarded as having an indefinite useful life and are not amortised as there is no foreseeable limit to the years over which the assets are expected to generate economic benefits for the Group. The Group needs to apply to the relevant local authority for the renewal of the trademarks and domain names when the trademarks and domain names expire but the Group considers that there are no practical difficulties in their renewals, which would be at minimal cost.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

16 Other intangible assets (Continued)

The trademarks and domain names are allocated to each subsidiary, which the legal rights belong to, or business unit as the CGUs for impairment testing. The recoverable amount of each CGU has been determined based on a value-in-use calculation using the relief-from-royalty method based on financial budgets covering a justified period and approved by senior management. As at 31 December 2019 and 30 June 2020, the implied pre-tax discount rates applied to the cash flow projections are 18.3%~21.6% and 20.2%~20.5%, and the terminal growth rates applied to the cash flow projections are 2.0%~3.0% and 2.0%~3.0%, respectively. The Group assessed the impairment on trademarks and domain names at the end of Relevant Periods and the recoverable amounts exceeded carrying amounts, and hence the trademarks and domain names were not regarded as impaired.

Assumptions were used in the value in use calculation of each CGU at the end of each Relevant Periods. The following describes each key assumption on which management has based its cash flows projections to undertake impairment testing of the trademarks and domain names.

Pre-tax discount rates – the discount rates used reflect specific risks relating to the CGUs.

Terminal growth rates – the forecasted terminal growth rates are based on senior management’s expectations, which do not exceed the long-term average growth rates for the industry relating to the CGUs.

The values assigned to the key assumptions are based on the specific business of the subsidiaries and the business units that exempt the payments of royalty fee since becomes the legal owner of the trademarks and domain names, and the discount rates are comparable to external information sources.

17 Leases

(a) Amounts recognised in the consolidated statements of financial position

The consolidated statements of financial position show the following amounts relating to leases:

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000
Right-of-use assets				
Prepaid land lease payments	1,050,292	1,022,893	1,539,441	1,519,618
Buildings	392,014	386,660	451,139	439,375
	<u>1,442,306</u>	<u>1,409,553</u>	<u>1,990,580</u>	<u>1,958,993</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

17 Leases (Continued)

(a) Amounts recognised in the consolidated statements of financial position (Continued)

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Lease liabilities				
Current	212,241	226,144	246,334	259,423
Non-current	191,557	162,771	215,132	176,346
	<u>403,798</u>	<u>388,915</u>	<u>461,466</u>	<u>435,769</u>

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Lease liabilities				
Buildings	<u>403,798</u>	<u>388,915</u>	<u>461,466</u>	<u>435,769</u>

The lease liabilities based on their maturities are as follows:

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Analysed into:				
Within 1 year	212,241	226,144	246,334	259,423
1 to 2 years	129,899	116,990	120,221	109,079
Over 2 years	61,658	45,781	94,911	67,267
	<u>403,798</u>	<u>388,915</u>	<u>461,466</u>	<u>435,769</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

17 Leases (Continued)

(b) Right-of-use assets

The carrying amounts of the Group’s right-of-use assets and the movements during the Relevant Periods are as follows:

	Prepaid land lease payments	Buildings	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
As at 1 January 2017	1,080,638	331,565	1,412,203
Additions	–	240,309	240,309
Depreciation	(27,380)	(178,926)	(206,306)
Others	(2,966)	–	(2,966)
Exchange realignment	–	(934)	(934)
As at 31 December 2017	<u>1,050,292</u>	<u>392,014</u>	<u>1,442,306</u>
As at 1 January 2018	1,050,292	392,014	1,442,306
Additions	–	225,280	225,280
Depreciation	(27,399)	(231,242)	(258,641)
Exchange realignment	–	608	608
As at 31 December 2018	<u>1,022,893</u>	<u>386,660</u>	<u>1,409,553</u>
	Prepaid land lease payments	Buildings	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
As at 1 January 2019	1,022,893	386,660	1,409,553
Additions	548,029	398,549	946,578
Depreciation	(31,481)	(336,325)	(367,806)
Exchange realignment	–	2,255	2,255
As at 31 December 2019	<u>1,539,441</u>	<u>451,139</u>	<u>1,990,580</u>
As at 1 January 2020	1,539,441	451,139	1,990,580
Additions	–	133,478	133,478
Depreciation	(19,823)	(139,573)	(159,396)
Decrease	–	(2,862)	(2,862)
Exchange realignment	–	(2,807)	(2,807)
As at 30 June 2020	<u>1,519,618</u>	<u>439,375</u>	<u>1,958,993</u>

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

17 Leases (Continued)

(c) Lease liabilities

The carrying amount of lease liabilities (included in other payables, accruals and other liabilities) and the movements during the Relevant Periods are as follows:

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year/period	328,228	403,798	388,915	461,466
New leases	228,488	219,176	364,045	114,274
Accretion of interest	17,523	18,929	20,400	8,879
Payments	(169,467)	(253,601)	(313,399)	(144,284)
Contract changes	—	—	—	(2,901)
Exchange realignment	(974)	613	1,505	(1,665)
At end of year/period	<u>403,798</u>	<u>388,915</u>	<u>461,466</u>	<u>435,769</u>

18 Investments accounted for using the equity method

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Associates	24,067,040	22,747,213	25,659,874	25,560,591
Joint ventures	<u>91,059</u>	<u>1,092,663</u>	<u>1,234,577</u>	<u>1,196,761</u>
	24,158,099	23,839,876	26,894,451	26,757,352
Less: allowance for impairment	<u>(1,583)</u>	<u>(43,926)</u>	<u>(97,276)</u>	<u>(208,194)</u>
	<u>24,156,516</u>	<u>23,795,950</u>	<u>26,797,175</u>	<u>26,549,158</u>

Particulars of the material associates are as follows:

Name	Place of incorporation/ registration and business	Percentage of profit sharing attributable to the Group				Principal activity
		2017	2018	2019	2020.6	
One97 Communications Limited	India	31.85%	30.68%	30.41%	30.33%	Payments and ancillary services
Zhejiang E-Commerce Bank Co., Ltd. (“MYbank”)	Mainland China	30.00%	30.00%	30.00%	30.00%	Commercial banking

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

18 Investments accounted for using the equity method (Continued)

The following table illustrates the summarised financial information in respect of One97 Communications Limited adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	7,961,669	6,573,026	7,622,969	6,135,253
Non-current assets	1,720,123	2,078,835	4,028,828	3,930,924
Current liabilities	(1,394,739)	(1,715,531)	(2,682,775)	(1,825,230)
Non-current liabilities	(42,524)	(85,700)	(213,844)	(420,764)
Net assets	8,244,529	6,850,630	8,755,178	7,820,183
Net assets attributable to the shareholders of the parent	<u>7,798,654</u>	<u>6,341,945</u>	<u>8,356,819</u>	<u>7,465,870</u>
Reconciliation to the Group's interest in the associate:				
Proportion of the Group's ownership	31.85%	30.68%	30.41%	30.33%
Group's share of net assets of the associate, excluding adjustment	2,483,871	1,945,709	2,541,309	2,264,398
Adjustment	2,755,772	2,803,688	2,792,983	2,789,376
– Goodwill	<u>2,755,772</u>	<u>2,803,688</u>	<u>2,792,983</u>	<u>2,789,376</u>
Carrying amount of the investment	<u>5,239,643</u>	<u>4,749,397</u>	<u>5,334,292</u>	<u>5,053,774</u>
				Six months ended 30 June
	Year ended 31 December			2020
	2017	2018	2019	
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	2,242,207	3,403,446	3,213,990	1,262,253
Loss for the year/period	(1,869,870)	(3,391,875)	(3,400,177)	(861,125)
Other comprehensive income	280,639	(629,833)	(178,177)	(476,960)
Total comprehensive income for the year/period	<u>(1,589,231)</u>	<u>(4,021,708)</u>	<u>(3,578,354)</u>	<u>(1,338,085)</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

18 Investments accounted for using the equity method (Continued)

The following table illustrates the summarised financial information in respect of MYbank adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	At 31 December			At 30 June
	2017	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total assets	78,171,307	95,864,124	139,552,771	224,048,995
Total liabilities	(73,499,909)	(90,498,721)	(129,034,705)	(213,336,139)
Net assets	4,671,398	5,365,403	10,518,066	10,712,856
Net assets attributable to the shareholders of the parent	4,671,398	5,365,403	10,518,066	10,712,856
Reconciliation to the Group’s interest in the associate:				
Proportion of the Group’s ownership	30.00%	30.00%	30.00%	30.00%
Group’s share of net assets of the associate, excluding adjustment	1,401,419	1,609,621	3,155,420	3,213,857
Adjustment	(70,911)	–	–	–
– Unrealised gains	(70,911)	–	–	–
Carrying amount of the investment	1,330,508	1,609,621	3,155,420	3,213,857
				Six months ended 30 June
	Year ended 31 December			2020
	2017	2018	2019	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	4,276,181	6,283,509	6,628,370	4,016,852
Profit for the year/period	167,752	906,881	1,255,866	550,014
Other comprehensive income	(1,744)	4,149	1,996	(5,027)
Total comprehensive income for the year/period	166,008	911,030	1,257,862	544,987

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

18 Investments accounted for using the equity method (Continued)

The following table illustrates the aggregate financial information of the Group’s associates and joint ventures that are not individually material:

	At 31 December			At 30 June
	2017	2018	2019	2020
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Share of net losses for the year/period	(1,501,756)	(727,493)	(2,443,558)	(930,996)
Share of other reserves	2,390,674	375,826	203,996	289,929
Share of other comprehensive income	3,639	300,476	(466,606)	(49,404)
Aggregate carrying amount of the Group’s investments in associates and joint ventures	<u>17,586,365</u>	<u>17,436,932</u>	<u>18,307,463</u>	<u>18,281,527</u>

As the Group’s share of losses from Koubei Holding Limited has exceeded its interest in the joint venture, the Group discontinued the recognition of further losses exceeding its interest during the year ended 31 December 2017. The unrecognised share of losses of the joint venture is as follows:

31 December 2017

Name of a joint venture	Accumulated unrecognised losses for the previous period	Loss unrecognised at the end of the year	Accumulated unrecognised losses as at the end of the year
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Koubei Holding Limited (“Koubei”)	<u>–</u>	<u>1,120,163</u>	<u>1,120,163</u>

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

19 Financial investments at fair value through profit or loss

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Preferred shares (<i>note a</i>)	4,165,615	17,513,210	24,170,645	23,164,130
Ordinary shares (<i>note b</i>)	3,210,582	6,122,729	9,708,906	12,712,442
Trusts and asset management plans	9,436,655	3,616,486	4,731,968	4,988,639
Ordinary bonds	1,040,695	469,788	922,400	746,852
Convertible bonds	26,033	867,556	1,606,529	1,715,273
Mutual funds	943,951	7,923,177	5,187,825	1,709,119
Perpetual bonds	–	–	–	2,032,296
Others	513,721	1,023,280	1,057,641	1,406,265
	<u>19,337,252</u>	<u>37,536,226</u>	<u>47,385,914</u>	<u>48,475,016</u>
Analysed into:				
Current portion	11,991,007	11,356,158	9,041,357	6,963,519
Non-current portion	<u>7,346,245</u>	<u>26,180,068</u>	<u>38,344,557</u>	<u>41,511,497</u>
	<u>19,337,252</u>	<u>37,536,226</u>	<u>47,385,914</u>	<u>48,475,016</u>

Note:

- (a) Investments in preferred shares are mainly convertible redeemable preferred shares or ordinary shares with preferential rights. The Group has the right to require the investees to redeem the shares held by the Group upon certain conditions, and accordingly, these investments are accounted for as financial investments at fair value through profit or loss.
- (b) Investments in ordinary shares are mainly investments in listed shares over which the Group does not have significant influence. Accordingly, these investments are accounted for as financial investments at fair value through profit or loss.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

20 Financial investments at fair value through other comprehensive income

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000
Equity investments designated at fair value through other comprehensive income				
Unlisted equity investments	1,069,990	33,307,883	33,692,394	34,047,747
Debt investments at fair value through other comprehensive income				
Debt investments	–	–	142,784	5,931,736
	<u>1,069,990</u>	<u>33,307,883</u>	<u>33,835,178</u>	<u>39,979,483</u>

The above equity investments were irrevocably designated, at initial recognition, at fair value through other comprehensive income as the Group considers that these investments are not held for trading but to be strategic in nature. The balance included the investment in Local Services Holding Limited (“Local Services”) with a carrying amount of nil, RMB31,368 million, RMB31,834 million and RMB32,230 million at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively.

In 2015, the Group and a subsidiary of Alibaba Group Holding Limited (Alibaba Group Holding Limited and its subsidiaries are collectively referred as “Alibaba Group”) set up Koubei, a joint venture in which the Group held a 49.6% equity interest. The investment in Koubei was accounted for using the equity method.

In March 2016, the Group and Alibaba Group invested in the preferred shares of Rajax Holding (Rajax Holding and its subsidiaries are collectively referred as “Ele.me”), through a jointly held investment vehicle in which the Group held a 28% equity interest. The investment in the joint investment vehicle was accounted for using the equity method. In May 2018, Alibaba Group increased its investment in the joint investment vehicle to acquire all of the remaining equity interests in Ele.me. Upon the completion of the acquisition, equity interest held by the Group in the joint investment vehicle decreased to 10.5%, and as a result, the Group lost significant influence over the joint investment vehicle.

In December 2018, Alibaba Group established Local Services to integrate Ele.me and Koubei. After the integration, the equity interest held by the Group in the joint investment vehicle and Koubei was converted to equity interest in Local Services. As a result, the Group lost joint control over Koubei, and a gain of RMB22,485 million was recorded in other income and gains for the year ended 31 December 2018 accordingly.

There was no significant disposal of equity investments designated at fair value through other comprehensive income during the Relevant Periods.

There was no dividend received from equity investments designated at fair value through other comprehensive income during the Relevant Periods.

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

21 Derivative financial instruments

	At 31 December						At 30 June	
	2017		2018		2019		2020	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Hedging Instruments:								
Foreign currency forward	-	-	-	-	3,311	-	-	44,445
Interest rate swap	12,632	-	-	-	-	-	-	-
Foreign currency swap	-	-	-	113,471	-	249,377	444	40,144
Non-hedging Instruments:								
Share options	254,140	37,624	203,021	182	367,712	-	368,508	-
Foreign currency swap	-	-	-	-	-	-	571	-
Foreign currency forward	-	217,035	-	-	86,066	70,780	105,449	82,480
	266,772	254,659	203,021	113,653	457,089	320,157	474,972	167,069
Analysed into:								
Current portion	-	254,659	-	113,653	89,377	320,157	106,464	167,069
Non-current portion	266,772	-	203,021	-	367,712	-	368,508	-

Hedge accounting

Cash flow hedge

The Group introduces foreign currency swap contracts and interest rate swap contracts as hedges of cashflow volatility arising from interest rate risk or foreign currency risk.

At 31 December 2018, 31 December 2019 and 30 June 2020, the Group held foreign currency swap contracts with notional amount at USD1,500 million, USD1,500 million and USD630 million respectively as hedging instruments to hedge foreign currency risk arising from foreign currency borrowings of the Group with terms fully matched.

At 31 December 2017, the Group held interest rate swap contracts with notional amount at USD300 million whereby the Group receives floating interest and pays a fixed interest as hedging instruments to hedge interest rate risk arising from floating rate long-term borrowings with terms fully matched.

For the year ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, hedge ineffectiveness recognised in net fair value changes of financial instruments was insignificant.

Fair value hedge

The Group introduces foreign currency forward/swap contracts to hedge changes in fair value arising from foreign currency risk of firm commitments.

At 31 December 2019 and 30 June 2020, the Group held foreign currency forward/swap contracts with notional amount at EUR147.5 million and EUR135 million as hedging instruments to hedge changes in fair value arising from foreign currency risk of firm commitments in Euro with terms fully matched. For the year ended 31 December 2019 and the six months ended 30 June 2020, hedge ineffectiveness recognised in net fair value changes of financial instruments was insignificant.

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

22 Trade receivables

The credit term of the Group’s trade receivables is generally one month to three months based on the invoice date. Trade receivables are non-interest-bearing.

An aging analysis of the trade receivables is as follows:

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000
Within 1 year	4,042,863	7,528,522	12,921,692	14,356,287
1 to 2 years	52,011	160,458	164,772	212,416
2 to 3 years	7,198	31,191	56,615	49,335
Over 3 years	398	7,044	23,616	36,232
	4,102,470	7,727,215	13,166,695	14,654,270
Less: allowance for impairment	(11,149)	(22,263)	(46,539)	(40,814)
	<u>4,091,321</u>	<u>7,704,952</u>	<u>13,120,156</u>	<u>14,613,456</u>

The Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets. The movements in the allowance for impairment of trade receivables are as follows:

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000
At beginning of year/period	5,824	11,149	22,263	46,539
Provision for impairment losses, net	6,416	11,374	24,276	(8,266)
(Write-off)/Recovery of write-off	(1,091)	(260)	–	2,541
At end of year/period	<u>11,149</u>	<u>22,263</u>	<u>46,539</u>	<u>40,814</u>

An analysis of trade receivables and allowance for impairment by method of impairment provision is as follows:

	At 31 December 2017			
	Gross carrying amount		Allowance for impairment	
	Amount	Percentage	Amount	Percentage
	RMB’000	(%)	RMB’000	(%)
Provision on individual basis	3,451,957	84.14	269	0.01
Provision on collective basis	650,513	15.86	10,880	1.67
	<u>4,102,470</u>	<u>100.00</u>	<u>11,149</u>	<u>0.27</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

22 Trade receivables (Continued)

At 31 December 2018				
	Gross carrying amount		Allowance for impairment	
	Amount	Percentage	Amount	Percentage
	RMB'000	(%)	RMB'000	(%)
Provision on individual basis	7,352,065	95.15	3,992	0.05
Provision on collective basis	375,150	4.85	18,271	4.87
	<u>7,727,215</u>	<u>100.00</u>	<u>22,263</u>	<u>0.29</u>
At 31 December 2019				
	Gross carrying amount		Allowance for impairment	
	Amount	Percentage	Amount	Percentage
	RMB'000	(%)	RMB'000	(%)
Provision on individual basis	12,700,443	96.46	15,720	0.12
Provision on collective basis	466,252	3.54	30,819	6.61
	<u>13,166,695</u>	<u>100.00</u>	<u>46,539</u>	<u>0.35</u>
At 30 June 2020				
	Gross carrying amount		Allowance for impairment	
	Amount	Percentage	Amount	Percentage
	RMB'000	(%)	RMB'000	(%)
Provision on individual basis	13,856,073	94.55	13,943	0.10
Provision on collective basis	798,197	5.45	26,871	3.37
	<u>14,654,270</u>	<u>100.00</u>	<u>40,814</u>	<u>0.28</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

23 Loan receivables

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Measured at amortised cost				
Factoring	494,312	1,504,906	6,006,577	4,232,528
SMB credit	2,200,974	1,601,686	570,114	337,858
Allowance for impairment	(204,923)	(159,701)	(255,586)	(173,181)
	2,490,363	2,946,891	6,321,105	4,397,205
Measured at fair value through profit or loss				
Consumer credit	23,143,860	29,799,545	31,190,287	31,844,949
	25,634,223	32,746,436	37,511,392	36,242,154

The movements in the allowance for impairment losses on loan receivables measured at amortised cost are as follows:

	Stage 1	Stage 2	Stage 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	183,310	4,010	981,102	1,168,422
Transfer to Stage 2	(532)	532	–	–
Transfer to Stage 3	(1,160)	(798)	1,958	–
Reversal	(105,325)	(2,387)	(64,739)	(172,451)
Recovery of loan receivables written off	–	–	44,833	44,833
Write-off	–	–	(835,881)	(835,881)
At 31 December 2017	76,293	1,357	127,273	204,923
Transfer to Stage 2	(54)	54	–	–
Transfer to Stage 3	(696)	(975)	1,671	–
Charge/(reversal)	16,923	257	(40,654)	(23,474)
Recovery of loan receivables written off	–	–	49,745	49,745
Write-off	–	–	(71,493)	(71,493)
At 31 December 2018	92,466	693	66,542	159,701
Transfer to Stage 2	(128)	128	–	–
Transfer to Stage 3	(525)	(232)	757	–
Charge/(reversal)	103,264	(251)	(16,019)	86,994
Recovery of loan receivables written off	–	–	31,357	31,357
Write-off	–	–	(22,466)	(22,466)
At 31 December 2019	195,077	338	60,171	255,586
Transfer to Stage 2	(162)	162	–	–
Transfer to Stage 3	(181)	(9)	190	–
(Reversal)/charge	(61,179)	(9)	4,917	(56,271)
Recovery of loan receivables written off	–	–	1,493	1,493
Write-off	–	–	(27,627)	(27,627)
At 30 June 2020	133,555	482	39,144	173,181

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

24 Prepayments, other receivables and other assets

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current:				
Loans to employees	100,918	231,726	985,042	1,290,020
Prepayments	596,728	2,055,370	11,004	1,171,289
Continuing involvement in transferred assets (note 45)	–	1,289,000	1,126,000	610,125
Long-term prepaid expenses	–	551,878	640,724	582,402
Statutory deposits (note)	330,000	330,000	530,000	530,000
	<u>1,027,646</u>	<u>4,457,974</u>	<u>3,292,770</u>	<u>4,183,836</u>
Current:				
Recoverable value-added tax	1,583,137	2,920,939	2,947,546	3,485,444
Continuing involvement in transferred assets (note 45)	8,984,863	2,006,250	2,291,500	2,544,250
Amount due from related and other parties	1,150,289	292,150	755,584	1,075,464
Interest receivables	1,846,795	150,447	529,152	820,456
Deposits	76,679	1,151,810	1,038,110	695,786
Premium receivables	69,090	19,871	332,411	313,871
Prepayments	357,255	568,702	588,399	189,653
Prepaid expenses	13,025	44,179	127,010	41,836
Loans to employees	23,992	20,612	22,444	23,567
Advance payments of income tax	179,416	38,229	100,366	79,670
Others	809,229	440,854	678,305	723,742
	<u>15,093,770</u>	<u>7,654,043</u>	<u>9,410,827</u>	<u>9,993,739</u>
Less: impairment allowance	<u>(82,167)</u>	<u>(69,723)</u>	<u>(129,971)</u>	<u>(107,528)</u>
	<u>15,011,603</u>	<u>7,584,320</u>	<u>9,280,856</u>	<u>9,886,211</u>
	<u>16,039,249</u>	<u>12,042,294</u>	<u>12,573,626</u>	<u>14,070,047</u>

Note: According to the relevant regulations issued by the China Banking and Insurance Regulatory Commission, Cathay Insurance, a subsidiary of the Group, is required to place a statutory deposit based on 20% of its registered capital with designated commercial banks. The statutory deposit can only be utilised to settle liabilities during liquidation of Cathay Insurance.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

24 Prepayments, other receivables and other assets (Continued)

The movements for impairment allowance for ECLs are as follows:

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year/period	76,483	70,632	66,558	17,449
Charge/(Reversal)	2,581	(6,515)	7,423	8,672
Recovery of other receivables written off	–	2,441	–	–
Write-off	(8,432)	–	(56,532)	(3,882)
At end of year/period	<u>70,632</u>	<u>66,558</u>	<u>17,449</u>	<u>22,239</u>

Note: The allowance for ECLs of other receivables was mainly credit impairment losses for amounts recoverable from third parties for advances made on their behalf. Long aging amounts were regarded as credit-impaired at the end of each Relevant Periods and classified in stage 3, for which the loss allowance was provided with an amount equal to lifetime ECLs. As at 31 December 2017, 2018 and 2019 and 30 June 2020, the gross amounts of other receivables at stage 3 were RMB89 million, RMB69 million, RMB43 million and RMB35 million, respectively. Remaining of other receivables mainly including deposits, etc., which were mainly at stage 1 and of low credit risk.

The movements for impairment allowance other than impairment allowance for ECLs are as follows:

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year/period	12,028	11,535	3,165	112,522
(Reversal)/Charge	(493)	(315)	110,230	(27,233)
Write-off	–	(8,055)	(873)	–
At end of year/period	<u>11,535</u>	<u>3,165</u>	<u>112,522</u>	<u>85,289</u>

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

25 Financial investments at amortised cost

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current:				
Debt investments (<i>note</i>)	–	6,449,266	–	–
Current:				
Debt investments	2,140,020	2,252,857	2,526,691	1,442,997
Others	93,980	191,954	86,000	11,800
	2,234,000	2,444,811	2,612,691	1,454,797
Less: impairment allowance	(222,619)	(308,547)	(273,006)	(288,131)
	2,011,381	2,136,264	2,339,685	1,166,666
	<u>2,011,381</u>	<u>8,585,530</u>	<u>2,339,685</u>	<u>1,166,666</u>

Note: As at 31 December 2018, the balance of non-current debt investments represented bond investments made by Tianhong using the general reserve fund.

The movements in the loss allowance for impairment are as follows:

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year/period	207,198	222,619	308,547	273,006
Charge	15,421	158,934	177,794	91,857
Write-off	–	(73,006)	(213,335)	(76,732)
At end of year/period	<u>222,619</u>	<u>308,547</u>	<u>273,006</u>	<u>288,131</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

26 Cash and bank balances

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
<u>Cash and cash equivalents</u>				
<u>Cash</u>				
Cash on hand	28	86	88	86
Cash at bank on demand	19,805,057	41,516,792	38,671,697	62,638,733
Due from banks and other financial institutions on demand	–	–	370,673	105,855
<u>Cash equivalents</u>				
Time deposits with original term less than three months	572,500	4,483,527	349,941	7,966,882
Due from banks and other financial institutions with original term less than three months	–	–	374,625	701,498
	<u>20,377,585</u>	<u>46,000,405</u>	<u>39,767,024</u>	<u>71,413,054</u>
<u>Restricted cash</u>				
Restricted deposits for client money	5,834,251	6,645,693	14,395,941	17,874,358
General reserve deposits	4,237,711	3,125,699	8,928,442	3,321,422
Deposit in the process of clearance and settlement	1,962,852	1,883,095	3,689,399	12,791,072
Pledged deposits	42,980	11,661,737	77,340	41,874
Mandatory reserve funds	–	–	720	703
	<u>12,077,794</u>	<u>23,316,224</u>	<u>27,091,842</u>	<u>34,029,429</u>
<u>Time deposits and other bank balances</u>				
Time deposits with original term more than three months	350,000	556,000	616,426	27,238
Others	22	7,934	380,708	61,071
	<u>350,022</u>	<u>563,934</u>	<u>997,134</u>	<u>88,309</u>
	<u><u>32,805,401</u></u>	<u><u>69,880,563</u></u>	<u><u>67,856,000</u></u>	<u><u>105,530,792</u></u>

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default.

Restricted deposits for client money are cash deposits held by certain subsidiaries of the Group engaging in overseas digital payment services which shall deposit the client money received for handling the payments business into specific accounts.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

27 Trade payables

Details of trade payables are as follows:

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000
Transaction and maintenance costs	6,153,711	13,389,309	15,844,644	16,438,811
Promotion and advertising expenses	790,815	1,371,910	1,599,554	907,340
Royalty and Service Payment	4,317,654	817,154	–	–
Others	417,362	588,895	931,982	1,238,549
	<u>11,679,542</u>	<u>16,167,268</u>	<u>18,376,180</u>	<u>18,584,700</u>

An aging analysis of the trade payables as at the end of each Relevant Periods is as follows:

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000
Within 3 months	11,513,565	15,916,735	18,033,366	18,207,042
Over 3 months	165,977	250,533	342,814	377,658
	<u>11,679,542</u>	<u>16,167,268</u>	<u>18,376,180</u>	<u>18,584,700</u>

Trade payables are non-interest-bearing and are normally settled in one to three-month terms based on the invoice date, except that Royalty and Service Payment were settled at least an annual basis.

28 Interest-bearing bank borrowings

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000
Current:				
Bank loans – unsecured	22,293,662	30,090,000	14,600,000	21,845,000
Bank loans – secured	–	10,800,000	–	–
	<u>22,293,662</u>	<u>40,890,000</u>	<u>14,600,000</u>	<u>21,845,000</u>
Non-current:				
Bank loans – unsecured	7,882,577	–	8,039,875	7,766,176
	<u>30,176,239</u>	<u>40,890,000</u>	<u>22,639,875</u>	<u>29,611,176</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

28 Interest-bearing bank borrowings (Continued)

	31 December 2017			31 December 2018		
	<i>Effective interest rate (%)</i>	<i>Maturity</i>	<i>RMB’000</i>	<i>Effective interest rate (%)</i>	<i>Maturity</i>	<i>RMB’000</i>
Bank loans						
– unsecured						
Current	2.10~5.13	2018	22,293,662	3.70~5.10	2019	30,090,000
Non-current	2.78~2.90	2020	7,882,577	–	–	–
			<u>30,176,239</u>			<u>30,090,000</u>
Bank loans						
– secured						
Current	–	–	–	3.70~3.92	2019	10,800,000
			<u>30,176,239</u>			<u>40,890,000</u>
	31 December 2019			30 June 2020		
	<i>Effective interest rate (%)</i>	<i>Maturity</i>	<i>RMB’000</i>	<i>Effective interest rate (%)</i>	<i>Maturity</i>	<i>RMB’000</i>
Bank loans						
– unsecured						
Current	3.70~4.22	2020	14,600,000	2.50~3.92	2020~2021	21,845,000
Non-current	2.86~4.66	2021~2022	8,039,875	1.34~3.90	2022	7,766,176
			<u>22,639,875</u>			<u>29,611,176</u>

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

28 Interest-bearing bank borrowings (Continued)

	At 31 December			At 30 June
	2017	2018	2019	2020
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Analysed into:				
Bank loans repayable:				
Within one year or on demand	22,293,662	40,890,000	14,600,000	21,845,000
In the second year	–	–	360,075	7,766,176
In the third to fifth years, inclusive	7,882,577	–	7,679,800	–
	<u>30,176,239</u>	<u>40,890,000</u>	<u>22,639,875</u>	<u>29,611,176</u>

29 Contract liabilities

	At 31 December			At 30 June
	2017	2018	2019	2020
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Membership points	972,555	1,244,634	2,091,012	2,638,612
Advances from customers and others	206,891	281,627	397,151	408,516
	<u>1,179,446</u>	<u>1,526,261</u>	<u>2,488,163</u>	<u>3,047,128</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

30 Other payables, accruals and other liabilities

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current:				
Continuing involvement liabilities				
(note 45)	–	1,289,000	1,126,000	610,125
Long-term payables	33,601	151,842	726,009	786,193
Insurance contract liabilities	79,032	131,142	312,430	329,792
Deferred income	8,691	10,556	10,164	10,070
	<u>121,324</u>	<u>1,582,540</u>	<u>2,174,603</u>	<u>1,736,180</u>
Current:				
Client money payable (note a)	5,834,251	6,869,287	14,621,914	18,197,608
Items in the process of clearance				
and settlement	1,792,419	1,738,426	3,448,845	12,280,354
Salaries and welfares payable	1,570,925	2,691,131	3,414,135	2,554,593
Continuing involvement liabilities				
(note 45)	8,984,863	2,006,250	2,291,500	2,544,250
Amount due to related and other				
parties	744,966	1,161,389	1,870,143	2,014,353
Accrued expenses	826,985	3,634,091	1,806,303	1,300,280
Investments payables (note b)	268,196	1,079,123	1,214,837	1,101,439
Tax and surcharges payable	1,147,122	1,179,356	1,192,156	809,713
Insurance contract liabilities	595,030	1,088,007	1,087,528	1,211,518
Repurchase agreements	–	–	289,085	254,979
Long-term assets payables	374,826	326,270	287,871	719,005
Loan arrangement fee	–	–	253,880	9,529
Lease liabilities	212,241	226,144	246,334	259,423
Interest payables	74,303	87,063	63,951	59,823
Advance capital injection from				
non-controlling shareholders	–	490,000	–	–
Others	770,400	1,126,715	1,698,002	1,823,941
	<u>23,196,527</u>	<u>23,703,252</u>	<u>33,786,484</u>	<u>45,140,808</u>
	<u>23,317,851</u>	<u>25,285,792</u>	<u>35,961,087</u>	<u>46,876,988</u>

Notes:

- (a) Overseas subsidiaries of the Group that operate payments services are required to deposit money received from clients in specific accounts. As a result, corresponding assets and liabilities for such restricted client money received are recognised by the Group.
- (b) As at 31 December 2017, 2018 and 2019 and 30 June 2020, the investments payables were purchase consideration for equity investments due for payments under the agreed terms and conditions.

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ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

31 Deferred tax

The movements in deferred tax liabilities and assets during the Relevant Periods are as follows:

Deferred tax assets

	ECLs	Changes in fair value of financial instruments	Accrued expenses	Tax losses	Salaries and welfares payable	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	283,991	35,824	14,469	87,135	52,182	91,828	565,429
(Charge)/credited to the statement of profit or loss during the year	(233,584)	283,130	72,946	(21,344)	51,608	159,844	312,600
Credited to reserve	–	–	–	–	–	21,309	21,309
Exchange differences	–	–	(4)	(7,478)	13,555	(185)	5,888
At 31 December 2017 and 1 January 2018	<u>50,407</u>	<u>318,954</u>	<u>87,411</u>	<u>58,313</u>	<u>117,345</u>	<u>272,796</u>	<u>905,226</u>
(Charge)/credited to the statement of profit or loss during the year	(4,346)	65,397	199,002	718,852	69,117	(1,078)	1,046,944
Credited to reserve	–	6,577	–	–	–	130,202	136,779
Exchange differences	–	–	(295)	(880)	(5,168)	(9,605)	(15,948)
At 31 December 2018 and 1 January 2019	<u>46,061</u>	<u>390,928</u>	<u>286,118</u>	<u>776,285</u>	<u>181,294</u>	<u>392,315</u>	<u>2,073,001</u>
Credited/(charge) to the statement of profit or loss during the year	22,844	(86,423)	(82,950)	(311,184)	4,111	(120,511)	(574,113)
Credited to reserve	–	22,820	–	–	–	(151,511)	(128,691)
Exchange differences	–	–	189	4,678	998	3,421	9,286
At 31 December 2019 and 1 January 2020	<u>68,905</u>	<u>327,325</u>	<u>203,357</u>	<u>469,779</u>	<u>186,403</u>	<u>123,714</u>	<u>1,379,483</u>
(Charge)/credited to the statement of profit or loss during the period	(21,813)	23,414	(49,459)	(187,483)	(23,085)	66,767	(191,659)
Credited to reserve	–	(1,176)	–	–	–	–	(1,176)
Exchange differences	–	–	59	739	–	876	1,674
At 30 June 2020	<u>47,092</u>	<u>349,563</u>	<u>153,957</u>	<u>283,035</u>	<u>163,318</u>	<u>191,357</u>	<u>1,188,322</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

31 Deferred tax (Continued)

The movements in deferred tax liabilities and assets during the Relevant Periods are as follows: (Continued)

Deferred tax liabilities

	Asset revaluation	Changes in fair value of financial instruments	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	84,955	17,117	54,032	156,104
Credited in profit or loss	(21,179)	(17,117)	(44,544)	(82,840)
Exchange differences	(6,057)	–	(2,487)	(8,544)
At 31 December 2017 and 1 January 2018	57,719	–	7,001	64,720
(Credited)/charged in profit or loss	(29,904)	8,746	3,022	(18,136)
Exchange differences	3,284	–	304	3,588
At 31 December 2018 and 1 January 2019	31,099	8,746	10,327	50,172
(Credited)/charged in profit or loss	(10,772)	345,347	119,955	454,530
Arising from acquisition of subsidiaries	176,081	–	–	176,081
Exchange differences	19,830	–	556	20,386
At 31 December 2019 and 1 January 2020	216,238	354,093	130,838	701,169
Credited in profit or loss	(52,217)	(82,942)	(3,290)	(138,449)
Exchange differences	739	–	4	743
At 30 June 2020	164,760	271,151	127,552	563,463

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	846,165	2,057,211	1,241,043	796,377
Net deferred tax liabilities recognised in the consolidated statement of financial position	5,659	34,382	562,729	171,518

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

31 Deferred tax (Continued)

Deferred tax assets have not been recognised in respect of the following items:

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Tax losses	2,060,063	19,249,589	13,604,732	4,232,631
Deductible temporary differences	474,957	3,756,208	2,368,744	2,064,605
	<u>2,535,020</u>	<u>23,005,797</u>	<u>15,973,476</u>	<u>6,297,236</u>

32 Share Capital

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Issued and fully paid	<u>15,000,000</u>	<u>15,761,247</u>	<u>23,524,249</u>	<u>23,778,629</u>

A summary of movements in the Company’s share capital is as follows:

	Number of Shares in issue '000	Share capital RMB'000
At 1 January 2017	15,000,000	15,000,000
Issuance of ordinary shares	—	—
At 31 December 2017 and 1 January 2018	15,000,000	15,000,000
Issuance of ordinary shares	761,247	761,247
At 31 December 2018 and 1 January 2019	15,761,247	15,761,247
Issuance of ordinary shares	7,763,002	7,763,002
At 31 December 2019	<u>23,524,249</u>	<u>23,524,249</u>
At 1 January 2020	23,524,249	23,524,249
Issuance of ordinary shares	254,380	254,380
At 30 June 2020	<u>23,778,629</u>	<u>23,778,629</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

33 Other equity instruments

	Class B shares		Class C shares		Total	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
	'000	RMB'000	'000	RMB'000	'000	RMB'000
At 31 December 2017 and 1 January 2018	–	–	–	–	–	–
Issuance of Class B shares and Class C shares (<i>note a</i>)	37,042	151,527	1,838,518	68,126,568	1,875,560	68,278,095
At 31 December 2018 and 1 January 2019	37,042	151,527	1,838,518	68,126,568	1,875,560	68,278,095
Issuance of Class B shares and Class C shares (<i>notes b & c</i>)	73,091	831,124	1,171,509	8	1,244,600	831,132
Repurchase of Class B shares	(5,710)	(23,266)	–	–	(5,710)	(23,266)
At 31 December 2019 and 1 January 2020	104,423	959,385	3,010,027	68,126,576	3,114,450	69,085,961
Issuance of Class B shares and Class C shares	22,910	151,918	–	–	22,910	151,918
Repurchase of Class B shares	(3,412)	(10,573)	–	–	(3,412)	(10,573)
At 30 June 2020	123,921	1,100,730	3,010,027	68,126,576	3,133,948	69,227,306

Notes:

- (a) The Class C shares issued in 2018 recorded in other equity instruments mainly referred to the 1,838,517,798 Class C Shares issued by Ant International, a subsidiary of the Group, to external investors, which raised funds totalling USD10,314 million (equivalent to approximately RMB68,127 million).
- (b) The Class B shares issued in 2019 mainly included: (i) part of the consideration for the acquisition of World First UK Limited, under which 10,234,694 Class B shares were issued by Ant International and recorded in other equity instruments amounting to RMB361 million (further details are included in note 37), and (ii) the Class B shares vested for Ant International Restricted Share Units granted to employees.
- (c) The Class C shares issued in 2019 mainly referred to the 1,171,508,767 Class C shares issued by Ant international to Taobao Holding Limited, a subsidiary of Alibaba Group, at par value of USD0.000001 per share, according to the share and asset purchase agreement between the Group and Alibaba Group as disclosed in note 41.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

33 Other equity instruments (Continued)

Ant International was a limited company established by the Group on 27 December 2017 in the Cayman Islands. As at 31 December 2017, 2018 and 2019 and 30 June 2020, the Class A shares issued by Ant international were wholly owned by AntFin Technology Co., Limited (hereinafter referred to as “AntFin”), a wholly-owned subsidiary of the Group which was established in Hong Kong.

According to the agreements signed by the Company, Ant International, AntFin and Class B shares and Class C shares investors in 2018, holders of Class A shares have regular voting rights, while holders of Class B shares and Class C shares only have certain protective voting rights. Holders of Class B shares and Class C shares have the right to convert their shares into ordinary shares of the Company upon the fulfilment of certain conditions. Class B shares and Class C shares also have dividend and liquidation rights that track the ordinary shares of the Company, that is, each of Class B share or Class C share is entitled to an equal right as each ordinary share of the Company to the dividend declared by the Company and the liquidation proceeds of the Company.

The Class B shares and Class C shares issued by Ant International have no fixed maturity date, and the Group has no contractual obligation to pay dividends and to deliver cash or other financial asset, and also no contractual obligation to deliver a variable number of its own equity instrument. Accordingly, the Class B shares and Class C shares are classified as equity instruments of the Group.

34 Reserves

The amounts of the Group’s reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity.

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000
Other reserves (note a)	34,497,629	50,317,178	60,293,298	63,669,068
General reserves	3,021,394	6,033,625	6,372,357	6,541,937
Surplus reserves	42,829	61,318	220,406	220,406
Retained profits	9,665,220	7,301,567	23,760,991	44,825,908
	<u>47,227,072</u>	<u>63,713,688</u>	<u>90,647,052</u>	<u>115,257,319</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

34 Reserves (Continued)

(a) The movements in other reserves during the Relevant Periods are as follows:

	Share premium RMB'000	Share-based compensation reserve RMB'000	Share of other comprehensive income of associates and joint ventures RMB'000	Fair value reserve RMB'000	Hedging reserve RMB'000	Exchange fluctuation reserve RMB'000	Others RMB'000	Total other reserve RMB'000
At 1 January 2017	24,213,447	2,953,262	15,058	(9,836)	-	463,154	373,344	28,008,429
Share-based compensation	-	2,798,032	-	-	-	-	-	2,798,032
Share of other reserves of investments accounted for using the equity method	-	-	103,072	-	-	-	3,972,954	4,076,026
Changes in fair value of financial instruments at fair value through other comprehensive income	-	-	-	(18,964)	-	-	-	(18,964)
Currency translation differences	-	-	-	-	-	(417,974)	-	(417,974)
Cash flow hedge	-	-	-	-	12,632	-	-	12,632
Others	-	-	-	-	-	-	39,448	39,448
At 31 December 2017	24,213,447	5,751,294	118,130	(28,800)	12,632	45,180	4,385,746	34,497,629

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

34 Reserves (Continued)

(a) The movements in other reserves during the Relevant Periods are as follows: (Continued)

	Share premium	Share-based compensation reserve	Share of other comprehensive income of associates and joint ventures	Fair value reserve	Hedging reserve	Exchange fluctuation reserve	Others	Total other reserve
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	24,213,447	5,751,294	118,130	(28,800)	12,632	45,180	4,385,746	34,497,629
Issuance of shares	6,895,474	–	–	–	–	–	–	6,895,474
Share-based compensation	–	3,355,448	–	–	–	–	–	3,355,448
Share of other reserves of investments accounted for using the equity method	–	–	(25,534)	–	–	–	900,248	874,714
Transfer of share of other comprehensive income to profit or loss upon disposal of an associate and a joint venture	–	–	–	–	–	–	(1,026,400)	(1,026,400)
Changes in fair value of financial instruments at fair value through other comprehensive income	–	–	–	2,926,032	–	–	–	2,926,032
Currency translation differences	–	–	–	–	–	2,696,016	–	2,696,016
Cash flow hedge	–	–	–	–	(32,362)	–	–	(32,362)
Others	–	–	–	–	–	–	130,627	130,627
At 31 December 2018	31,108,921	9,106,742	92,596	2,897,232	(19,730)	2,741,196	4,390,221	50,317,178

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

34 Reserves (Continued)

(a) The movements in other reserves during the Relevant Periods are as follows: (Continued)

	Share premium	Share-based compensation reserve	Share of other comprehensive income of associates and joint ventures	Fair value reserve	Hedging reserve	Exchange fluctuation reserve	Others	Total other reserve
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	31,108,921	9,106,742	92,596	2,897,232	(19,730)	2,741,196	4,390,221	50,317,178
Issuance of shares	3,898,929	-	-	-	-	-	-	3,898,929
Share-based compensation	-	4,995,792	-	-	-	-	-	4,995,792
Share of other reserves of investments accounted for using the equity method	-	-	(520,672)	-	-	-	425,529	(95,143)
Changes in fair value of financial instruments at fair value through other comprehensive income	-	-	-	(62,414)	-	-	-	(62,414)
Currency translation differences	-	-	-	-	-	1,797,674	-	1,797,674
Cash flow hedge	-	-	-	-	11,286	-	-	11,286
Others	(22,751)	-	-	-	-	-	(547,253)	(570,004)
At 31 December 2019	34,985,099	14,102,534	(428,076)	2,834,818	(8,444)	4,538,870	4,268,497	60,293,298

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

34 Reserves (Continued)

(a) The movements in other reserves during the Relevant Periods are as follows: (Continued)

	Share premium	Share-based compensation reserve	Share of other comprehensive income of associates and joint ventures	Fair value reserve	Hedging reserve	Exchange fluctuation reserve	Others	Total other reserve
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	34,985,099	14,102,534	(428,076)	2,834,818	(8,444)	4,538,870	4,268,497	60,293,298
Share-based compensation investments accounted for using the equity method	-	2,538,777	-	-	-	-	-	2,538,777
Changes in fair value of financial instruments at fair value through other comprehensive income	-	-	(195,574)	-	-	-	352,448	156,874
Currency translation differences	-	-	-	(47,663)	-	-	-	(47,663)
Cash flow hedge	-	-	-	-	-	859,415	-	859,415
Others	-	-	-	-	3,043	-	(134,676)	3,043
At 30 June 2020	34,985,099	16,641,311	(623,650)	2,787,155	(5,401)	5,398,285	4,486,269	63,669,068

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

35 Share-based compensation

1. Overview

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (<i>unaudited</i>)	<i>RMB'000</i>
Amounts of share-based payments granted	4,179,420	6,458,128	7,365,598	5,456,142	5,641,376
Amounts of share-based payments vested	1,302,254	2,658,677	3,611,873	2,224,949	3,714,981
Amounts of share-based payments forfeited	451,354	874,111	1,088,968	510,340	547,536
Remaining life of outstanding at the end of the period/year	4.75	4.90	4.58	4.85	4.65
Amounts of employee services in exchange for share-based payments	3,181,786	3,904,496	5,113,042	2,152,869	2,687,707
Amounts of other services in exchange for share-based payments	–	12,431	22,886	9,718	8,918

Recognised in profit or loss under share-based payments arrangement:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (<i>unaudited</i>)	<i>RMB'000</i>
Expense arising from equity-settled share-based payments	3,145,998	3,768,684	4,984,909	2,076,412	2,612,057
Expense arising from cash-settled share-based payments	35,788	148,243	151,019	86,175	84,568

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

35 Share-based compensation (Continued)

1. Overview (Continued)

Recognised in salaries and welfares payable under share-based payments arrangement:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i>
Expense arising from cash-settled share-based payments	35,788	148,243	151,019	86,175	84,568
Effect of modification of settlement method of share-based payments	–	499,043	115,031	80,569	30,930
Increase in salaries and welfares payable	35,788	647,286	266,050	166,744	115,498
Effect of modification of settlement method of share-based payments	–	108,405	145,464	–	–
Effect of settlement of cash-settled share-based payments	–	61,112	174,247	65,445	78,091
Decrease in salaries and welfares payable	–	169,517	319,711	65,445	78,091

Recognised in other payables under share-based payments arrangement:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i>
Effect of settlement of share-based payments on behalf of related party	–	–	92,708	–	5,773
Increase in other payables	–	–	92,708	–	5,773

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

35 Share-based compensation (Continued)

1. Overview (Continued)

Recognised in reserves under share-based payments arrangement:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i>
Expense arising from equity-settled share-based payments	3,145,998	3,768,684	4,984,909	2,076,412	2,612,057
Less: attributable to non-controlling interests	(11,371)	(6,100)	(9,216)	(3,722)	(3,214)
Share-based payments granted to related parties	–	–	6,498	–	13,792
Effect of modification of settlement method of share-based payments	–	108,405	145,464	–	–
Increase in reserves	<u>3,134,627</u>	<u>3,870,989</u>	<u>5,127,655</u>	<u>2,072,690</u>	<u>2,622,635</u>
Share-based payments compensation paid to Hangzhou Junhan Equity Investment Partnership (“Hangzhou Junhan”)	348,216	21,737	22,176	9,928	7,826
Share-based payments compensation paid to Alibaba Group	–	–	–	–	46,988
Less: Equity changes attributable to non-controlling interests	(11,621)	(5,239)	(5,344)	(2,393)	(1,885)
Effect of modification of settlement method of share-based payments	–	499,043	115,031	80,569	30,929
Decrease in reserves	<u>336,595</u>	<u>515,541</u>	<u>131,863</u>	<u>88,104</u>	<u>83,858</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

35 Share-based compensation (Continued)

2. Share-based payments plans

Share Economic Rights (“SERs”)

Since 2014, Hangzhou Junhan, the shareholder of the Company, adopted the SERs plan, and granted SERs to the employees of the Group. The value of SERs is linked to the equity value of the Company. The vesting of SERs is conditional upon the fulfilment of requisite service conditions by the employees. Upon meeting the timing, volume and other conditions as allowed by Hangzhou Junhan, the employees may choose to sell the vested SERs to Hangzhou Junhan and the selling price with respect to SERs shall be equal to the aggregate of (i) the excess of the fair value over the base price with respect to the underlying share of the Company; and (ii) the amount of accrued dividends declared and paid with respect to the shares of the Company underlying such vested SERs during the period from the vesting date to the disposal date. Since the Group does not have the obligation to settle the SERs plan for employees, the SERs plan was accounted as equity-settled share-based payments.

As the business of the Group develops, mergers, acquisitions and investments are entered into from time to time, which requires SERs to be granted by Hangzhou Junhan to the employees of certain subsidiaries acquired by the Group as incentive. The Group needs to reimburse Hangzhou Junhan for SERs mentioned above. The cash compensation paid to Hangzhou Junhan by the Group for the aforementioned SERs granted amounted to RMB348 million, RMB22 million, RMB22 million, RMB10 million and RMB8 million for the year ended 31 December 2017, 2018 and 2019 and six months ended 30 June 2019 (unaudited) and 2020, respectively.

In July 2018 and June 2020, the Company issued 560,000,000 and 254,380,000 ordinary shares, respectively, at par value of RMB1.00 per share to Hangzhou Junhan for the purpose of supporting the SERs plan.

From 2018, the payments of vested SERs redeemed by entities domiciled outside of China were undertaken by Ant International, a subsidiary of the Group, instead of Hangzhou Junhan. Due to this modification, the SERs plan shall be modified from equity-settled share-based payments to cash-settled share-based payments for the Group, the modification involved neither changes to the vesting condition nor the amount of SERs granted under the original plan, as such, no additional expenses need to be recognised on modification date.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

35 Share-based compensation (Continued)

2. Share-based payments plans (Continued)

Share Economic Rights (“SERs”) (Continued)

The followings are details for fair value and share-based payments expenses arising from SERs granted during the Relevant Periods:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Fair value of SERs granted during the year/period	4,179,420	4,880,439	6,361,467	5,052,715	4,898,784
Expense arising from SERs	3,128,589	3,570,883	4,370,776	1,900,434	2,096,936
Including:					
Equity-settled share- based payments	3,128,589	3,475,469	4,249,926	1,814,259	2,076,198
Cash-settled share- based payments	–	95,414	120,850	86,175	20,738

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

35 Share-based compensation (Continued)

2. Share-based payments plans (Continued)

Share Economic Rights (“SERs”) (Continued)

The followings are details for movements in the numbers and weighted average fair value at grant date of SERs that were granted but not vested during the Relevant Periods:

	Number of SERs	Weighted average grant date fair value <i>RMB</i>
At 1 January 2017	146,451,862	36.12
Granted	76,476,125	54.65
Vested	(45,327,335)	28.73
Forfeited/Replaced	(9,358,375)	
Transfer out, net	(5,865,908)	
At 31 December 2017 and 1 January 2018	162,376,369	51.21
Granted	58,921,150	82.83
Vested	(54,958,495)	44.19
Forfeited/Replaced	(15,102,089)	
Transfer out, net	(936,351)	
At 31 December 2018 and 1 January 2019	150,300,584	65.58
Granted	41,879,307	151.90
Vested	(55,732,286)	56.02
Forfeited/Replaced	(9,802,584)	
Transfer out, net	(4,765,562)	
At 31 December 2019	121,879,459	96.75
At 1 January 2019	150,300,584	65.58
Granted	33,241,547	152.00
Vested	(38,569,622)	53.64
Forfeited/Replaced	(4,472,672)	
Transfer in, net	548,192	
At 30 June 2019 (<i>unaudited</i>)	141,048,029	88.50
At 1 January 2020	121,879,459	96.75
Granted	32,468,082	150.88
Vested	(35,377,335)	73.29
Forfeited/Replaced	(3,974,197)	
Transfer out, net	(709,975)	
At 30 June 2020	114,286,034	118.74

Note: Each unit of SER corresponds to 5.53 shares of the Company.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

35 Share-based compensation (Continued)

2. Share-based payments plans (Continued)

Share Economic Rights (“SERs”) (Continued)

The followings are details for the expiry dates, range of weighted average fair value and the respective numbers of SERs which remained outstanding as at the end of each of the Relevant Periods:

Expiry Date	Range of weighted average fair value	As at 31 December			As at 30 June	
		2017	2018	2019	2019	2020
	RMB	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
					(unaudited)	
6 years commencing from the grant date	51.24~118.83	156,938,031	146,332,746	117,707,367	136,825,938	111,184,192
8 years commencing from the grant date	50.44~90.62	5,438,338	3,967,838	4,172,092	4,222,091	3,101,842
		<u>162,376,369</u>	<u>150,300,584</u>	<u>121,879,459</u>	<u>141,048,029</u>	<u>114,286,034</u>

Ant International Restricted Share Units (“Ant RSUs”)

Since 2018, Ant International, a subsidiary of the Group, adopted the Ant RSUs incentive plan, planning to grant Ant RSUs which shall be settled with Class B shares of Ant International to overseas employees. The vesting of Ant RSUs is conditional upon the fulfilment of requisite service conditions by the employees, and Class B shares will be used as settlement for Ant RSUs by Ant International according to the plan. The Ant RSUs plan was accounted for as equity-settled share-based payments. Details for Class B shares are set out in note 33.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

35 Share-based compensation (Continued)

2. Share-based payments plans (Continued)

Ant International Restricted Share Units (“Ant RSUs”) (Continued)

The followings are details for fair value and share-based payments expenses arising from Ant RSUs granted during the Relevant Periods:

	At 31 December			At 30 June	
	2017	2018	2019	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Fair value of Ant RSUs granted during the year/period	Not applicable	1,577,689	706,553	403,427	382,713
Expense arising from Ant RSUs	Not applicable	282,062	600,422	260,605	283,952

For the year ended 31 December 2019 and the six months ended 30 June 2020, the Group granted Ant RSUs to the employees of Alibaba Group and the related share-based payment amount shall debit other capital reserves and the share-based payment reserve shall be correspondingly increased by RMB6 million and RMB14 million, respectively.

In June 2020, the Group and Alibaba Group entered into equity-based awards grant and settlement agreements, pursuant to which, Alibaba Group agreed to compensate the Group for Ant RSUs granted to certain employees of Alibaba Group after April 1, 2020, and the settlement amount shall be determined based on the vested numbers and the excess of fair market value of share underlying as of the grant date, over the base price or exercise price (based on the specific type of awards) of such awards. The Group accounted for the compensation borne by Alibaba Group to the Group for Ant RSU as equity transaction and credited reserve with reference to settlement amount in accordance with the equity-based awards grant and settlement agreements.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

35 Share-based compensation (Continued)

2. Share-based payments plans (Continued)

Ant International Restricted Share Units (“Ant RSUs”) (Continued)

The followings are details for movements in the numbers and weighted average fair value of Ant RSUs that were granted but not vested during the Relevant Periods:

	Number of Ant RSUs	Weighted average grant date fair value
		<i>RMB</i>
At 31 December 2017 and 1 January 2018	–	–
Granted (<i>note</i>)	103,049,599	15.31
Vested	(23,285,487)	9.88
Forfeited	(1,435,986)	
Transfer out, net	(1,407,664)	
At 31 December 2018 and 1 January 2019	76,920,462	17.08
Granted	22,979,968	30.75
Vested	(24,021,194)	11.46
Forfeited	(7,261,904)	
Transfer out, net	(54,570)	
At 31 December 2019	<u>68,562,762</u>	22.96
At 1 January 2019	76,920,462	17.08
Granted	12,078,639	33.40
Vested	(14,149,987)	11.03
Forfeited	(4,874,130)	
Transfer in, net	695,075	
At 30 June 2019 (<i>unaudited</i>)	<u>70,670,059</u>	20.81
At 1 January 2020	68,562,762	22.96
Granted	12,867,545	29.74
Vested	(19,694,460)	16.54
Forfeited	(3,608,221)	
Transfer out, net	(1,411,051)	
At 30 June 2020	<u>56,716,575</u>	26.84

Note: The number of Ant RSUs granted during the year ended 31 December 2018 includes those granted to certain employees of the Group to replace the original SERs granted.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

35 Share-based compensation (Continued)

2. Share-based payments plans (Continued)

Ant International Restricted Share Units (“Ant RSUs”) (Continued)

The followings are details for the expiry dates, weighted average fair value and the respective numbers of Ant RSUs which remained outstanding as at the end of each Relevant Periods:

Expiry Date	Weighted average fair value <i>RMB</i>	As at 31 December		As at 30 June	
		2018 <i>RMB’000</i>	2019 <i>RMB’000</i>	2019 <i>RMB’000</i> <i>(unaudited)</i>	2020 <i>RMB’000</i>
6 years commencing from the grant date	17.09~26.68	74,210,762	66,240,162	67,960,359	55,057,575
10 years commencing from the grant date	17.16	2,709,700	2,322,600	2,709,700	1,659,000
		<u>76,920,462</u>	<u>68,562,762</u>	<u>70,670,059</u>	<u>56,716,575</u>

Share Appreciation Rights (“SAR”) and Retention Bonus Plan (“Bonus Plan”)

The vesting of SAR and Bonus Plan were conditional upon the fulfilment of requisite service conditions by the employee. The value of SAR and Bonus Plan are linked to the equity value of the Group. Since SAR and Bonus Plan shall be settled using cash, other assets or shares according to the fair value of SAR and Bonus Plan at exercise date, SAR and Bonus plan were accounted for as cash-settled share-based payments.

The followings are details of fair value and share-based payments expense arising from SAR and Bonus Plan granted during the Relevant Periods:

	At 31 December			At 30 June	
	2017 <i>RMB’000</i>	2018 <i>RMB’000</i>	2019 <i>RMB’000</i>	2019 <i>RMB’000</i> <i>(unaudited)</i>	2020 <i>RMB’000</i>
Fair value of SAR and Bonus Plan granted during the year/period	–	–	297,578	–	71,030
Expense arising from SAR and Bonus Plan	35,788	52,829	30,169	–	63,830

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

35 Share-based compensation (Continued)

2. Share-based payments plans (Continued)

Share Appreciation Rights (“SAR”) and Retention Bonus Plan (“Bonus Plan”) (Continued)

The followings are details for movements in the numbers and weighted average fair value of SAR and Bonus Plan that were granted but not vested during the Relevant Periods:

	Number of Bonus Plan	Weighted average grant date fair value
		<i>RMB</i>
At 1 January 2017 and 31 December 2017	2,200,000	63.96
Replaced (<i>note b</i>)	(2,200,000)	
At 31 December 2018	—	

Each unit of bonus plan corresponds to 5.53 shares of the Company.

	Number of SAR Plan	Weighted average grant date fair value
		<i>RMB</i>
At 31 December 2018 and 1 January 2019	—	—
Granted (<i>note a</i>)	10,888,316	27.33
Vested	(2,771,782)	29.35
Forfeited/Replaced (<i>note b</i>)	(137,700)	
At 31 December 2019 and 1 January 2020	7,978,834	26.64
Granted	2,666,281	26.64
Vested	(2,781,524)	26.75
Forfeited/Replaced (<i>note b</i>)	(81,569)	
Transfer out, net	(104,519)	
At 30 June 2020	7,677,503	26.60

Each unit of SAR corresponds to 1 share of the Company.

Note:

- a. The number of SAR granted during the year ended 31 December 2019 includes those granted to certain employees of the Group to replace the original SERs granted.
- b. The number of SAR and Bonus Plan replaced includes those that were replaced by the Ant RSUs granted.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

35 Share-based compensation (Continued)

2. Share-based payments plans (Continued)

Share Appreciation Rights (“SAR”) and Retention Bonus Plan (“Bonus Plan”) (Continued)

The followings are details for the expiry dates, range of weighted average fair value and the respective numbers of SAR and Bonus Plan which remained outstanding as at the end of each of the Relevant Periods:

Expiry Date	Weighted average fair value	As at 31 December			As at 30 June	
		2017	2018	2019	2019	2020
		RMB	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
Bonus Plan						
6 years commencing from the grant date	63.96	2,200,000	–	–	–	–
SAR Plan						
6 years commencing from the grant date	26.60~ 26.64	–	–	7,978,834	–	7,677,503

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

35 Share-based compensation (Continued)

2. Share-based payments plans (Continued)

Alibaba Restricted Share Units (“AGH RSUs”)

The Group reimbursed Alibaba Group for AGH RSUs granted to the employees of the Group according to relevant share-based compensation reimbursement agreement entered by the parties before March 2014, while after which, the Group had no obligation to compensate Alibaba for the cost associated with the awards pursuant to a share and asset purchase agreement (together with all subsequent amendments, the “SAPA”). Since September 2019, Hangzhou Alibaba Network Technology Co., Ltd. (“Hangzhou Alibaba”), a subsidiary of Alibaba Group, stepped into as a shareholder of the Company and the Group accounted for such grants as equity-settled share-based payments. The vesting of AGH RSUs was conditional upon the fulfilment of requisite service conditions by the employees, and the value of AGH RSUs is tracking to the share price of Alibaba Group.

In June 2020, the Group and Alibaba Group entered into equity-based awards grant and settlement agreements, pursuant to which, the Group agreed to compensate Alibaba Group for AGH RSUs granted to certain employees of the Group after April 1, 2020, and the settlement amount shall be determined based on the vested numbers and the excess of fair market value of share underlying as of the grant date, over the base price or exercise price (based on the specific type of awards) of such awards. The Group debited reserve with reference to settlement amount in accordance with the equity-based awards grant and settlement agreements with regard to the compensation borne by the Group to Alibaba Group for AGH RSU.

The followings are details for fair value and share-based payments expenses arising from AGH RSUs granted during Relevant Periods:

	At 31 December			At 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Fair value of AGH RSUs granted during the year/period	Not applicable	Not applicable	Not applicable	Not applicable	288,849
Expense arising from AGH RSUs	Not applicable	Not applicable	117,665	–	240,883

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

35 Share-based compensation (Continued)

2. Share-based payments plans (Continued)

Alibaba Restricted Share Units (“AGH RSUs”) (Continued)

The valuation model and the main inputs used in the share-based payments plan:

In order to measure the fair value of the share-based payments plan mentioned above at each measurement date during the Relevant Periods, the Group applies the following valuation models and main inputs:

Share-based payments Plan	Measurement Model	The main inputs in the model	Year ended 31 December			Six months ended 30 June	
			2017	2018	2019	2019	2020
			(unaudited)				
SER, Ant RSUs (exercise price not at zero), SAR and bonus plan	Binomial model	Expected dividend yield (%)	–	–	–	–	–
		Expected volatility (%)	25.27~26.36	24.52~25.23	23.90~24.65	24.35~24.65	23.50~25.15
		Risk-free interest rate (%)	3.04~4.24	3.27~3.87	2.99~3.24	3.06~3.24	2.34~2.96
		Expected life of options (year)	6.00~8.00	6.00~8.00	6.00~8.00	6.00~8.00	6.00~8.00
Ant RSUs (exercise price at zero)	Recent transaction price	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
AGH RSUs	Closing price of underlying stock	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

36 Subsidiaries with material non-controlling interests

Details of the Group’s subsidiaries that have material non-controlling interests are set out below:

	At 31 December			At 30 June
	2017	2018	2019	2020
Percentage of equity interest held by non-controlling interests:				
Tianhong	49%	49%	49%	49%
Cathay Insurance	49%	49%	49%	49%
	Year ended 31 December			Six months ended 30 June
	2017	2018	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000
Profit/(loss) for the year/period allocated to non-controlling interests:				
Tianhong	1,303,519	1,507,182	1,103,219	669,642
Cathay Insurance	(48,844)	(27,230)	17,096	(4,756)
Dividends paid to non-controlling interests of Tianhong	525,867	–	–	339,918
Accumulated balances of non-controlling interests at the end of each of the Relevant Periods:				
Tianhong	2,727,196	4,234,855	5,321,870	5,656,334
Cathay Insurance	341,004	313,774	820,870	816,114

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

36 Subsidiaries with material non-controlling interests (Continued)

The following tables illustrate the summarised financial information of Tianhong. The amounts disclosed are before any inter-company eliminations:

	Year ended 31 December			Six months ended 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	9,357,506	9,732,923	6,687,404	3,819,761
Net profit	2,660,242	3,075,881	2,251,467	1,366,617
Total comprehensive income	2,671,441	3,075,881	2,216,094	1,376,289
Net cash flow generated from/(used in) operating activities	812,309	(1,125,023)	918,657	400,049
At 31 December				
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	7,265,471	10,708,845	12,776,531	13,246,399
Total liabilities	1,699,764	2,066,284	1,915,572	1,702,861

The following tables illustrate the summarised financial information of Cathay Insurance. The amounts disclosed are before any inter-company eliminations:

	Year ended 31 December			Six months ended 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	1,250,918	3,425,363	4,807,794	2,562,060
Net (loss)/profit	(99,681)	(55,572)	34,889	(9,706)
Total comprehensive income	(96,903)	(55,572)	34,889	(9,706)
Net cash flow (used in)/ generated from operating activities	(105,599)	373,575	125,139	389,513
At 31 December				
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	1,632,555	3,244,351	3,914,172	4,379,799
Total liabilities	936,629	2,603,996	2,238,928	2,714,260

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

37 Business combination

Acquisition of World First UK Limited

In 2019, the Group acquired a 100% interest in World First UK Limited (“WF”), with a purchase consideration of cash equivalent to RMB3,956 million and other equity instruments with a fair value of equivalent to RMB361 million. The acquisition date was determined as 13 February 2019.

The following table summarises the consideration paid for the acquisition of WF, the fair value of identifiable assets acquired and liabilities assumed on acquisition date:

	13 February 2019
	Fair value
	<i>RMB’000</i>
Current assets	3,288,257
Including: Cash and bank balances	2,779,352
Trade receivables	360,829
Non-current assets	1,090,773
Including: Intangible assets	1,019,136
Total assets	4,379,030
Current liabilities	(3,031,986)
Including: Trade payables	(465,117)
Client money payable	(2,485,131)
Non-current liabilities	(232,394)
Total liabilities	(3,264,380)
Total identifiable net assets at fair value	1,114,650
Goodwill on acquisition	3,202,178
Consideration paid by the Group:	
Purchase consideration settled in cash	3,955,748
Equity instruments issued	361,080
	4,316,828

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

37 Business combination (Continued)

Acquisition of World First UK Limited (Continued)

An analysis of the cash flows in respect of the acquisition of the subsidiary is as follows:

	<i>RMB'000</i>
Cash consideration	3,955,748
Cash paid during the year ended 31 December 2018	(896,062)
Cash and cash equivalents acquired	<u>(197,097)</u>
Net outflow of cash and cash equivalents included in cash flows used in investing activities during the year ended 31 December 2019	<u>2,862,589</u>

After closing of the acquisition, WF contributed RMB360 million to the Group’s revenue and RMB364 million of loss to the Group’s consolidated profit for the year ended 31 December 2019.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit for the year ended 31 December 2019 of the Group would amount to RMB120,676 million and RMB18,084 million, respectively.

38 Notes to the consolidated statement of cash flows

Changes in liabilities arising from financing activities

Interest-bearing bank borrowings

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i>
At beginning of the year/period	15,228,718	30,176,239	40,890,000	40,890,000	22,639,875
Changes from financing cash flows	15,121,408	10,562,196	(18,352,573)	(5,790,500)	6,885,000
Increase arising from acquisition of a subsidiary	–	–	148	–	–
Exchange realignment	(173,887)	151,565	102,300	–	86,301
At end of the year/period	<u>30,176,239</u>	<u>40,890,000</u>	<u>22,639,875</u>	<u>35,099,500</u>	<u>29,611,176</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

38 Notes to the consolidated statement of cash flows (Continued)

Changes in liabilities arising from financing activities (Continued)

Lease liabilities

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
At beginning of the year/period	328,228	403,798	388,915	388,915	461,466
Changes from financing cash flows	(169,467)	(253,601)	(313,399)	(135,137)	(144,284)
New leases	228,488	219,176	364,045	185,069	114,274
Interest expense	17,523	18,929	20,400	9,065	8,879
Contract change	—	—	—	—	(2,901)
Exchange realignment	(974)	613	1,505	454	(1,665)
At end of the year/period	<u>403,798</u>	<u>388,915</u>	<u>461,466</u>	<u>448,366</u>	<u>435,769</u>

39 Contingent liabilities

Guarantee

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the outstanding guarantees made by the subsidiary of the Group, Shangcheng Finance Guarantee Co, Ltd. amounted to RMB4 million, RMB4 million, RMB47 million and RMB23 million, respectively.

40 Commitments

Capital commitments

The Group had the following capital commitments at the end of the years/period as follows:

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted for but not yet incurred				
Purchase of property, plant and equipment	1,453,426	1,048,638	328,770	607,839
Capital investments in investees	3,863,542	3,775,740	1,263,935	3,789,344
	<u>5,316,968</u>	<u>4,824,378</u>	<u>1,592,705</u>	<u>4,397,183</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

41 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subjected to common control. Members of key management and their close family members of the Group are also considered as related parties.

The following significant transactions were carried out between the Group and its related parties during the periods presented. In the opinion of the directors, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

(a) Names and relationships with related parties

The following companies are significant related parties of the Group that had transactions and/or balances with the Group during the Relevant Periods.

Name of related parties	Relationship
Hangzhou Junhan Equity Investment Partnership	Entity with significant influence over the Group
Hangzhou Junao Equity Investment Partnership	Entity with significant influence over the Group
Hangzhou Alibaba Network Technology Co., Ltd. (<i>note i</i>)	Entity with significant influence over the Group
Alibaba Group Holding Limited (<i>note ii</i>)	Parent of the entity with significant influence over the Group
MYbank	Under significant influence of the Group
ZhongAn Online P&C Insurance Co., Ltd.	Under significant influence of the Group
Shanghai Junzheng Network Technology Co., Ltd. (“Shanghai Junzheng”)	Under significant influence of the Group
Bangdao Technology Co., Ltd.	Under significant influence of the Group
NetsUnion Clearing Corporation	Under significant influence of the Group
PT Elang Andalan Nusuantara	Under significant influence of the Group
Shanghai Leyu Information Technology Co., Ltd. (“Shanghai Leyu”) (<i>note iii</i>)	Under significant influence of the Group
M-DAQ Pte. Ltd.	Under significant influence of the Group
Qudian Inc. (<i>note iv</i>)	Under significant influence of the Group
Beijing UBOX Online Technology Corp. (<i>note v</i>)	Under significant influence of the Group
Koubei (Shanghai) Information Technology Co., Ltd. (<i>note vi</i>)	Under joint control of the Group
Alipay Payment Services (HK) Limited (<i>note vii</i>)	Under joint control of the Group
Ele.me (<i>note viii</i>)	Under significant influence of the Group
AER Holding Pte. Ltd. (<i>note ix</i>)	Under joint control of the entity with significant influence over the Group

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

41 Related party transactions (Continued)

(a) Names and relationships with related parties (Continued)

Notes:

- (i) Hangzhou Alibaba Network Technology Co., Ltd. is a wholly-owned subsidiary of Alibaba Group. Before 23 September 2019, Alibaba Group was an entity under significant influence of the ultimate controller of the Group, while after 23 September 2019, Alibaba Group has significant influence over the Group.
- (ii) In August 2014, the Group entered into SAPA, and entered into or amended certain ancillary agreements including amendment and restatement of the intellectual property license agreement with Alibaba Group (the “2014 IPLA”).

Under the 2014 IPLA, the Group paid Royalty and Service Payment to Alibaba Group related to the Group’s businesses at least annually. The Royalty and Service Payment were equal to the sum of an expense reimbursement plus 37.5% of the consolidated profit before tax of the Group, subject to certain adjustments, which represented the reimbursement for the costs and expenses incurred by Alibaba Group in the provision of software technology services.

In September 2019, pursuant to SAPA and certain ancillary agreements, Hangzhou Alibaba Network Technology Co., Ltd, a wholly-owned subsidiary of Alibaba Group, acquired 33% equity interest of the Group (the “2019 Issuance”) with a consideration of RMB12,095 million. Meanwhile, Taobao Holding Limited, a wholly owned subsidiary of Alibaba Group, subscribed 1,171,508,767 Class-C shares issued by Ant International at par value of USD0.000001 per share. Upon the 2019 Issuance, Alibaba Group signed several agreements related to intellectual property and transferred certain intellectual property under 2014 IPLA to the Group, and thereafter, the Royalty and Service Payment arrangement was terminated.

- (iii) Shanghai Leyu became a related party of the Group since 2018.
- (iv) The Group exercised significant influence over Qudian Inc. in 2017 but it had ceased to be a related party of the Group since December 2018.
- (v) Beijing UBOX Online Technology Corp. became a related party of the Group since 2019.
- (vi) The Group exercised joint control over Koubei (Shanghai) Information Technology Co., Ltd. a subsidiary of Koubei in 2017. After the integration of Ele.me and Koubei by Alibaba Group in December 2018, the Group ceased to exercise joint control over the entity in December 2018, and since then Koubei became a subsidiary of Alibaba Group and thus it still remained as a related party of the Group.
- (vii) The Group held 100% equity of Alipay Payment Services (HK) Limited before March 2018, which was then diluted to 50% in March 2018. Related party transaction disclosed here included only the amount that occurred after its transition into an investee over which the Group exercises joint control.
- (viii) After the integration of Ele.me and Koubei by Alibaba Group, the Group ceased to exercise significant influence over Ele.me in May 2018, since then Ele.me became a subsidiary of Alibaba Group.
- (ix) AER Holding Pte. Ltd. is an entity over which Alibaba Group exercises joint control and became a related party of the Group since September 2019.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

41 Related party transactions (Continued)

(b) Transactions with related parties

Sales and purchase of services

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Alibaba Group					
Sales of services:					
Payments processing and escrow services fee	5,630,134	7,565,747	9,236,472	4,399,678	4,043,710
Administrative and support services fee	70,491	208,389	130,075	49,237	66,633
Marketplace software technology services fee and others	115,324	75,323	406,370	172,380	359,983
Purchases of services:					
Royalty and Service Payment (<i>note i</i>)	4,812,066	251,293	3,480,683	1,272,665	–
Software System Use and Service Payment (<i>note ii</i>)	89,441	89,441	89,441	44,721	44,721
Administrative and support services fee (<i>note iii</i>)	665,339	923,112	1,207,873	464,777	582,102
Marketplace software technology services fee (<i>note iv</i>)	753,767	1,257,970	2,050,957	943,235	1,036,426
Cloud computing services fee (<i>note v</i>)	346,405	481,044	1,108,439	522,441	728,677
Reimbursement payments for RSUs and options (<i>note vi</i>)	40,176	–	–	–	–
Other related parties					
Sales of services	3,710,376	6,255,411	9,250,623	4,007,442	6,404,205
Purchases of services	240,457	820,499	1,524,472	564,357	916,468

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

41 Related party transactions (Continued)

(b) Transactions with related parties (Continued)

Sales and purchase of services (Continued)

- (i) Pursuant to the 2014 IPLA signed among the Group, Alibaba Group and other parties, the Group should pay Royalty and Service Payment as set out in note 41(a)(ii) above.
- (ii) Pursuant to the SAPA, Alibaba Group sold certain securities and assets primarily relating to small and micro enterprise (“SME”) loan business and other related services to the Group in February 2015. In addition, pursuant to the software system use and service agreements relating to the know-how and related intellectual property pertaining to SME loan business, the Group will pay Software System Use and Service Payment to Alibaba Group for a term of seven years. These Software System Use and Service Payment are determined as follows: for calendar years 2015 to 2017, the entities of the Group operating the SME loan business shall pay an annual fee equal to 2.5% of the average daily balance of SME loans provided by these entities, and in calendar years 2018 to 2021, these entities of the Group shall pay an annual fee equal to the amount of the fees paid in calendar year 2017.
- (iii) According to the shared services agreement which was amended and revised in August 2014 in connection with the SAPA among the Group, Alibaba Group and other parties, the Group and Alibaba Group provides each other and their respective related parties with several administrative and support services, including operating and maintenance services, server and bandwidth leasing, property leasing and other administrative and support services. The service fees are determined using the cost plus pricing model.
- (iv) Alibaba Group provides marketplace software technology services for the operation of some of the Group’s products in its retail marketplaces. The Group pays Alibaba Group for the services received.
- (v) The Group purchases cloud computing services from Alibaba Cloud of Alibaba Group and pays for the services accordingly.
- (vi) Alibaba Group granted AGH RSUs and share options to certain employees of the Group. According to the agreement between the Group and Alibaba Group, the Group should compensate Alibaba Group with cash for the AGH RSUs and share options granted during December 2011 to March 2014 to employees of the Group. The compensation amount was determined on the grant date fair value of RSUs and share options and their actual vested numbers by the employees.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

41 Related party transactions (Continued)

(b) Transactions with related parties (Continued)

Purchase of assets

In September 2019, according the SAPA and relevant ancillary agreement, Alibaba Group transferred certain intellectual property and assets under 2014 IPLA to the Group at a consideration of RMB12,204 million.

According to a commercial arrangement between the Group and Alibaba Group, the Group purchased fixed assets and intangible assets which amounted to RMB201 million and RMB21 million, respectively, in 2019, amounted to nil and RMB21 million in the six months ended 30 June 2019, and amounted to RMB255 million and RMB26 million in the six months ended 30 June 2020.

Borrowings and loans

Borrowings from related parties incurred during the Relevant Periods

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Hangzhou Junhan	–	3,000,000	–	–	–

Loans to related parties incurred during the Relevant Periods

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Shanghai Junzheng	1,000,000	850,000	–	–	–
Ele.me	–	966,869	182,183	182,183	–
Shanghai Leyu	–	489,973	–	–	–
Others	–	8,257	5,093	5,093	–
	<u>1,000,000</u>	<u>2,315,099</u>	<u>187,276</u>	<u>187,276</u>	<u>–</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

41 Related party transactions (Continued)

(b) Transactions with related parties (Continued)

Borrowings and loans (Continued)

Interest expense incurred during the Relevant Periods

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Hangzhou Junhan	–	8,338	–	–	–

Interest income incurred during the Relevant Periods

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Shanghai Junzheng	19,958	39,269	38,260	18,973	–
Ele.me	–	7,837	11,227	11,227	–
Shanghai Leyu	–	3,929	3,200	–	–
Others	–	187	32	–	–
	19,958	51,222	52,719	30,200	–

Interest income from bank deposits

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
MYbank	15,557	77,175	95,413	62,565	35,654

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

41 Related party transactions (Continued)

(b) Transactions with related parties (Continued)

Gain on transfer of loans

In 2017, Ant Small and Micro Loan and Ant Shangcheng, the subsidiaries of the Group, transferred their loans to an asset management plan wholly subscribed by MYbank and realised a gain on transfer of loans of RMB1,256 million.

Share-based compensation

During the Relevant Periods, Hangzhou Junhan and Alibaba Group granted SERs and AGH RSUs respectively to certain employees of the Group, and the Group granted Ant RSUs and SAR to certain employees of Alibaba Group. The details of share-based compensation arrangements are set out in note 35.

(c) Outstanding balances with related parties

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Alibaba Group				
Trade receivables	808,122	2,691,352	3,520,779	2,774,296
Other receivables	197,814	222,678	646,075	976,927
Trade payables	5,245,302	3,093,097	3,608,005	4,085,981
Other payables	483,666	920,508	1,113,302	1,004,653
Financial investments at amortised cost (<i>note i</i>)	—	—	—	31,332
Other related parties				
Bank deposits	999,233	1,167,904	1,312,273	2,152,560
Financial investments at fair value through profit or loss (<i>note ii</i>)	—	548,051	1,420,486	1,685,404
Trade receivables	512,655	837,875	1,787,103	3,030,786
Other receivables	751,676	23,790	33,901	45,441
Financial investments at amortised cost (<i>note i</i>)	1,000,000	1,392,654	3,490	—
Trade payables	185,357	365,771	696,870	389,027
Other payables	42,608	80,153	88,381	88,000

Notes:

- (i) Financial investments at amortised cost are entrust loans to related parties.
- (ii) Financial investments at fair value through profit or loss are investments in convertible debts issued by the related parties.

In the opinion of the directors, the transactions listed above between the Group and the aforementioned related parties were conducted in the ordinary and usual course of business and on terms and conditions were similar to those entered into with unrelated parties.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

41 Related party transactions (Continued)

(d) Compensation of key management personnel of the Group

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i>
Compensation of key management personnel of the Group	82,276	105,007	101,093	26,336	71,968

Further details of directors’, supervisors’ and the chief executive’s remuneration are included in note 9.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

42 Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

As at 31 December 2017

Financial assets

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Total
	Mandatorily classified as such	Equity investments		
	RMB'000	RMB'000	RMB'000	RMB'000
Financial investments at fair value through profit or loss	19,337,252	–	–	19,337,252
Derivative financial instruments	266,772	–	–	266,772
Financial investments at fair value through other comprehensive income	–	1,069,990	–	1,069,990
Trade receivables	–	–	4,091,321	4,091,321
Loan receivables	23,143,860	–	2,490,363	25,634,223
Other receivables and other assets	–	–	4,224,110	4,224,110
Financial investments at amortised cost	–	–	2,011,381	2,011,381
Cash and bank balances	–	–	32,805,401	32,805,401
	42,747,884	1,069,990	45,622,576	89,440,450

Financial liabilities

	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
	Designated as such upon initial recognition	Held for trading	
	RMB'000	RMB'000	RMB'000
Trade payables	–	–	11,679,542
Interest-bearing bank borrowings	–	–	30,176,239
Derivative financial instruments	–	254,659	254,659
Financial liabilities at fair value through profit or loss	130,450	61,304	191,754
Lease liabilities	–	–	191,557
Other payables and other liabilities	–	–	9,909,864
	130,450	315,963	51,957,202
			52,403,615

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

42 Financial instruments by category (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows: (Continued)
As at 31 December 2018
Financial assets

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Total
	Mandatorily classified as such	Equity investments		
	RMB'000	RMB'000	RMB'000	RMB'000
Financial investments at fair value through profit or loss	37,536,226	–	–	37,536,226
Derivative financial instruments	203,021	–	–	203,021
Financial investments at fair value through other comprehensive income	–	33,307,883	–	33,307,883
Trade receivables	–	–	7,704,952	7,704,952
Loan receivables	29,799,545	–	2,946,891	32,746,436
Other receivables and other assets	–	–	2,495,121	2,495,121
Financial investments at amortised cost	–	–	8,585,530	8,585,530
Cash and bank balances	–	–	69,880,563	69,880,563
	67,538,792	33,307,883	91,613,057	192,459,732

Financial liabilities

	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
	Designated as such upon initial recognition	Held for trading	
	RMB'000	RMB'000	RMB'000
Trade payables	–	–	16,167,268
Interest-bearing bank borrowings	–	–	40,890,000
Derivative financial instruments	–	113,653	113,653
Financial liabilities at fair value through profit or loss	38,429	82,639	121,068
Lease liabilities	–	–	162,771
Other payables and other liabilities	–	–	13,152,493
	38,429	196,292	70,607,253

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

42 Financial instruments by category (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows: (Continued)
As at 31 December 2019

Financial assets

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income		Financial assets at amortised cost	Total
	Mandatorily classified as such		Debt investments	Equity investments	at amortised cost	
	RMB'000		RMB'000	RMB'000	RMB'000	RMB'000
Financial investments at fair value through profit or loss	47,385,914		–	–	–	47,385,914
Derivative financial instruments	457,089		–	–	–	457,089
Financial investments at fair value through other comprehensive income	–		142,784	33,692,394	–	33,835,178
Trade receivables	–		–	–	13,120,156	13,120,156
Loan receivables	31,190,287		–	–	6,321,105	37,511,392
Other receivables and other assets	–		–	–	4,577,717	4,577,717
Financial investments at amortised cost	–		–	–	2,339,685	2,339,685
Cash and bank balances	–		–	–	67,856,000	67,856,000
	79,033,290		142,784	33,692,394	94,214,663	207,083,131

Financial liabilities

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortised cost	Total
	Designated as such upon initial recognition	Held for trading	at amortised cost	
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	–	–	18,376,180	18,376,180
Interest-bearing bank borrowings	–	–	22,639,875	22,639,875
Derivative financial instruments	–	320,157	–	320,157
Financial liabilities at fair value through profit or loss	179,438	209,016	–	388,454
Lease liabilities	–	–	215,132	215,132
Other payables and other liabilities	–	–	24,616,394	24,616,394
	179,438	529,173	65,847,581	66,556,192

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

42 Financial instruments by category (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows: (Continued)
As at 30 June 2020

Financial assets

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income		Financial assets at amortised cost		Total
	Mandatorily classified as such	Debt investments	Equity investments	Financial assets at amortised cost	Financial assets at amortised cost	Financial assets at amortised cost	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial investments at fair value through profit or loss	48,475,016	–	–	–	–	–	48,475,016
Derivative financial instruments	474,972	–	–	–	–	–	474,972
Financial investments at fair value through other comprehensive income	–	5,931,736	34,047,747	–	–	–	39,979,483
Trade receivables	–	–	–	14,613,456	–	–	14,613,456
Loan receivables	31,844,949	–	–	4,397,205	–	–	36,242,154
Other receivables and other assets	–	–	–	5,216,764	–	–	5,216,764
Financial investments at amortised cost	–	–	–	1,166,666	–	–	1,166,666
Cash and bank balances	–	–	–	105,530,792	–	–	105,530,792
	80,794,937	5,931,736	34,047,747	130,924,883	–	–	251,699,303

Financial liabilities

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortised cost		Total
	Designated as such upon initial recognition	Held for trading	Financial liabilities at amortised cost	Financial liabilities at amortised cost	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	–	–	–	18,584,700	18,584,700
Interest-bearing bank borrowings	–	–	–	29,611,176	29,611,176
Derivative financial instruments	–	167,069	–	–	167,069
Financial liabilities at fair value through profit or loss	97,575	212,383	–	–	309,958
Other payables and other liabilities	–	–	37,418,953	–	37,418,953
Lease liabilities	–	–	176,346	–	176,346
	97,575	379,452	85,791,175	–	86,268,202

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**43 Fair value and fair value hierarchy of financial instruments****Financial instruments not measured at fair value**

Management has assessed below financial instruments. Their carrying amounts approximate to their fair values due to short-term periods and regular repricing at market price.

Assets: Cash and bank balances, Loan receivables measured at amortised cost, Trade receivables, Other receivables and other assets, etc.

Liabilities: Interest-bearing bank borrowings, Trade payables, Other payables and other liabilities, etc.

The valuations of the financial assets at fair value through profit or loss were based on information known to the Group and market conditions existing at the end of each of the Relevant Periods. The fair values were determined by using appropriate valuation techniques. Valuation techniques include using discounted cash flow model, option pricing model, recent arm’s length market transactions, referring to the current market value of another instrument that is substantially the same and making as much use of available and supportable market data as possible, and etc.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

43 Fair value and fair value hierarchy of financial instruments (Continued)

Financial instruments not measured at fair value (Continued)

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at the end of each of the Relevant Periods:

Description	Fair value at 31 December			Fair value at 30 June	Valuation technique	Unobservable input	Sensitivity of fair value to the input
	2017	2018	2019	2020			
	RMB'000	RMB'000	RMB'000	RMB'000			
Financial investments at fair value through profit or loss	16,650,764	25,688,412	35,138,579	33,952,708	Discounted cash flow model/Market comparable model	Risk adjusted discount rate/ Discount for lack of marketability (“DLOM”)	The higher the risk adjusted discounted rate, the lower the fair value/The higher the DLOM, the lower the fair value
Derivative financial instruments – assets	254,140	203,021	367,712	368,508	Option pricing model	Volatility	The higher the volatility, the higher the fair value
Financial investments at fair value through other comprehensive income	1,069,990	33,307,883	33,692,394	34,047,747	Market comparable model/Adjusted recent transaction price	DLOM/ Volatility	The higher the DLOM, the lower the fair value/The higher the volatility, the higher the fair value
Derivative financial instruments – liabilities	37,624	182	–	–	Option pricing model	Volatility	The higher the volatility, the higher the fair value

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1	fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3	fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

43 Fair value and fair value hierarchy of financial instruments (Continued)

Fair value hierarchy (Continued)

The following tables illustrate the fair value measurement hierarchy of the Group’s financial instruments:

As at 30 June 2020

Assets measured at fair value

	Fair value measurement using			
	Quoted prices in active markets	Significant observable inputs	Significant Unobservable inputs	
	(Level 1)	(Level 2)	(Level 3)	Total
	RMB’000	RMB’000	RMB’000	RMB’000
Loan receivables	–	31,844,949	–	31,844,949
Derivative financial instruments	–	106,464	368,508	474,972
Financial investments at fair value through other comprehensive income	–	5,931,736	34,047,747	39,979,483
Financial investments at fair value through profit or loss	10,462,602	4,059,706	33,952,708	48,475,016
	<u>10,462,602</u>	<u>41,942,855</u>	<u>68,368,963</u>	<u>120,774,420</u>

Liabilities measured at fair value

	Fair value measurement using			
	Quoted prices in active markets	Significant observable inputs	Significant Unobservable inputs	
	(Level 1)	(Level 2)	(Level 3)	Total
	RMB’000	RMB’000	RMB’000	RMB’000
Financial liabilities at fair value through profit or loss	93,458	216,500	–	309,958
Derivative financial instruments	–	167,069	–	167,069
	<u>93,458</u>	<u>383,569</u>	<u>–</u>	<u>477,027</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

43 Fair value and fair value hierarchy of financial instruments (Continued)

Fair value hierarchy (Continued)

The following tables illustrate the fair value measurement hierarchy of the Group’s financial instruments: (Continued)

As at 31 December 2019

Assets measured at fair value

	Fair value measurement using			
	Quoted prices in active markets	Significant observable inputs	Significant Unobservable inputs	
	(Level 1)	(Level 2)	(Level 3)	Total
	RMB’000	RMB’000	RMB’000	RMB’000
Loan receivables	–	31,190,287	–	31,190,287
Derivative financial instruments	–	89,377	367,712	457,089
Financial investments at fair value through other comprehensive income	–	142,784	33,692,394	33,835,178
Financial investments at fair value through profit or loss	10,522,243	1,725,092	35,138,579	47,385,914
	<u>10,522,243</u>	<u>33,147,540</u>	<u>69,198,685</u>	<u>112,868,468</u>

Liabilities measured at fair value

	Fair value measurement using			
	Quoted prices in active markets	Significant observable inputs	Significant Unobservable inputs	
	(Level 1)	(Level 2)	(Level 3)	Total
	RMB’000	RMB’000	RMB’000	RMB’000
Financial liabilities at fair value through profit or loss	175,419	213,035	–	388,454
Derivative financial instruments	–	320,157	–	320,157
	<u>175,419</u>	<u>533,192</u>	<u>–</u>	<u>708,611</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

43 Fair value and fair value hierarchy of financial instruments (Continued)

Fair value hierarchy (Continued)

The following tables illustrate the fair value measurement hierarchy of the Group’s financial instruments: (Continued)

As at 31 December 2018

Assets measured at fair value

	Fair value measurement using			
	Quoted prices in active markets	Significant observable inputs	Significant Unobservable inputs	
	(Level 1)	(Level 2)	(Level 3)	Total
	RMB’000	RMB’000	RMB’000	RMB’000
Loan receivables	–	29,799,545	–	29,799,545
Derivative financial instruments	–	–	203,021	203,021
Financial investments at fair value through other comprehensive income	–	–	33,307,883	33,307,883
Financial investments at fair value through profit or loss	11,405,715	442,099	25,688,412	37,536,226
	<u>11,405,715</u>	<u>30,241,644</u>	<u>59,199,316</u>	<u>100,846,675</u>

Liabilities measured at fair value

	Fair value measurement using			
	Quoted prices in active markets	Significant observable inputs	Significant Unobservable inputs	
	(Level 1)	(Level 2)	(Level 3)	Total
	RMB’000	RMB’000	RMB’000	RMB’000
Financial liabilities at fair value through profit or loss	38,429	82,639	–	121,068
Derivative financial instruments	–	113,471	182	113,653
	<u>38,429</u>	<u>196,110</u>	<u>182</u>	<u>234,721</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

43 Fair value and fair value hierarchy of financial instruments (Continued)

Fair value hierarchy (Continued)

The following tables illustrate the fair value measurement hierarchy of the Group’s financial instruments: (Continued)

As at 31 December 2017

Assets measured at fair value

	Fair value measurement using			
	Quoted prices in active markets	Significant observable inputs	Significant Unobservable inputs	Total
	(Level 1)	(Level 2)	(Level 3)	
	RMB’000	RMB’000	RMB’000	RMB’000
Loan receivables	–	23,143,860	–	23,143,860
Derivative financial instruments	–	12,632	254,140	266,772
Financial investments at fair value through other comprehensive income	–	–	1,069,990	1,069,990
Financial investments at fair value through profit or loss	1,676,574	1,009,914	16,650,764	19,337,252
	<u>1,676,574</u>	<u>24,166,406</u>	<u>17,974,894</u>	<u>43,817,874</u>

Liabilities measured at fair value

	Fair value measurement using			
	Quoted prices in active markets	Significant observable inputs	Significant Unobservable inputs	Total
	(Level 1)	(Level 2)	(Level 3)	
	RMB’000	RMB’000	RMB’000	RMB’000
Financial liabilities at fair value through profit or loss	130,450	61,304	–	191,754
Derivative financial instruments	–	217,035	37,624	254,659
	<u>130,450</u>	<u>278,339</u>	<u>37,624</u>	<u>446,413</u>

During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

43 Fair value and fair value hierarchy of financial instruments (Continued)

Fair value hierarchy (Continued)

The movements in fair value measurements within Level 3 during the Relevant Periods are as follows:

	Financial investments at fair value through profit or loss <i>RMB'000</i>	Derivative financial instruments – assets <i>RMB'000</i>	Financial investments at fair value through other comprehensive income <i>RMB'000</i>	Derivative financial instruments – liabilities <i>RMB'000</i>
Carrying amount at 1 January 2017	8,713,125	60,638	489,403	108,985
Changes in fair value recognised in profit or loss	(243,742)	107,961	–	(64,432)
Changes in fair value recognised in other comprehensive income	–	–	–	–
Additions/(Disposals), net	8,288,313	93,323	585,000	–
Exchange differences	(106,932)	(7,782)	(4,413)	(6,929)
Carrying amount at 31 December 2017	<u>16,650,764</u>	<u>254,140</u>	<u>1,069,990</u>	<u>37,624</u>
	Financial investments at fair value through profit or loss <i>RMB'000</i>	Derivative financial instruments – assets <i>RMB'000</i>	Financial investments at fair value through other comprehensive income <i>RMB'000</i>	Derivative financial instruments – liabilities <i>RMB'000</i>
Carrying amount at 1 January 2018	16,650,764	254,140	1,069,990	37,624
Changes in fair value recognised in profit or loss	(1,810,958)	(105,050)	–	(39,620)
Changes in fair value recognised in other comprehensive income	–	–	2,926,032	–
Additions/(Disposals), net	10,426,299	39,920	28,870,379	–
Exchange differences	422,307	14,011	441,482	2,178
Carrying amount at 31 December 2018	<u>25,688,412</u>	<u>203,021</u>	<u>33,307,883</u>	<u>182</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

43 Fair value and fair value hierarchy of financial instruments (Continued)

Fair value hierarchy (Continued)

The movements in fair value measurements within Level 3 during the Relevant Periods are as follows: (Continued)

	Financial investments at fair value through profit or loss	Derivative financial instruments – assets	Financial investments at fair value through other comprehensive income	Derivative financial instruments – liabilities
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Carrying amount at 1 January 2019	25,688,412	203,021	33,307,883	182
Changes in fair value recognised in profit or loss	970,682	161,059	–	(185)
Changes in fair value recognised in other comprehensive income	–	–	(110,334)	–
Additions/(Disposal), net	8,248,514	–	13,557	–
Exchange differences	230,971	3,632	481,288	3
Carrying amount at 31 December 2019	<u>35,138,579</u>	<u>367,712</u>	<u>33,692,394</u>	<u>–</u>

	Financial investments at fair value through profit or loss	Derivative financial instruments – assets	Financial investments at fair value through other comprehensive income
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Carrying amount at 1 January 2020	35,138,579	367,712	33,692,394
Changes in fair value recognised in profit or loss	(2,717,248)	(68,096)	–
Changes in fair value recognised in other comprehensive income	–	–	(52,596)
Additions/(Disposals), net	1,361,404	64,172	–
Exchange differences	169,973	4,720	407,949
Carrying amount at 30 June 2020	<u>33,952,708</u>	<u>368,508</u>	<u>34,047,747</u>

APPENDIX I**ACCOUNTANT’S REPORT**

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**44 Financial risk management objectives and policies**

The main risks arising from the Group’s financial instruments are credit risk, liquidity risk, and market risk including foreign currency risk, interest rate risk, and other price risk. Refer to note 43 for details of financial instruments held by the Group. The risks related to those financial instruments and the Group’s overall risk management strategy to lower the risks are described as follows:

Introduction of risk management framework

The overall risk management structure of the Group is comprised of the board of directors, comprehensive risk management department, internal audit department, and management of the business lines together with their risk management teams. The board of directors is in charge of formulating the Group’s risk management strategy and basic risk management system as well as supervising the implementation of the system. The Group has established risk management policies to identify and analyse these risks, and developed guidance to manage specific risks including market risk, credit risk, liquidity risk etc. The Group regularly evaluates the market environment and changes in its operating activities to determine whether or not to update its risk management policies and systems. The comprehensive risk management department established by the Group is in charge of coordinating risk management so as to enhance the establishment of enterprise wide risk management system. The internal audit department is responsible to evaluate and report on the effectiveness of the Group’s risk management by performing independent and objective supervision and examination.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

44 Financial risk management objectives and policies (Continued)

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk of the Group arises principally from loan receivables, trade receivables, cash and bank balances, debt investments, derivative financial instruments and other receivables.

The main counterparties of cash and bank balances are banks with good reputation and high credit ratings, which with low credit risks.

The Group is also exposed to credit risk from accounts receivable and other receivables during client services providing. In respect with the related credit risk, the Group establishes credit policies as appropriate and determines the client’s credit facility accordingly. Credit evaluation is based on the client’s historical credit standing, ongoing risk monitoring and the client’s credit records.

The fund investments of the Group are mainly money market funds invested for cash management purpose with low credit risks. Besides these investments, the Group restricts investments to defined target market and sets approval procedures to ensure that the management fully understand the credit risks involved so as to select counterparty with caution, fully conducts the credit evaluation strategy, enhance the dynamic tracking capability and continue evaluating counterparty’s fulfilment capability so as to take timely measures to prevent and defuse risks.

In respect with the credit risk of loan receivables, the Group performs standardised credit management procedures. As for pre-issuance due diligence, the Group systematically approves the loan facility by credit modelling and strategy setting, combined with comprehensive information such as the borrower’s transaction scenario, business behaviour and repayments ability, etc., using big data analytics. Once a loan is issued, the Group would manage the loan by category and monitor risk using automation. Based on the algorithms and rules set for the business, the smart automated risk control module employed by the Group dynamically assesses and monitors capital flow, issues risk early-warning for risks identified and impose access limits and lower the credit line to control credit risk.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

44 Financial risk management objectives and policies (Continued)

Credit risk (Continued)

Financial assets are listed as follows in three stages:

As at 30 June 2020

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Debt investment at fair value through other comprehensive income	5,931,736	–	–	–	5,931,736
Financial investments at amortised cost	1,234,945	11,158	208,694	–	1,454,797
Other receivables and other assets	4,798,526	–	35,137	–	4,833,663
Trade receivables	–	–	–	14,654,270	14,654,270
Loan receivables	4,521,190	4,815	44,381	–	4,570,386
Cash and bank balances	105,530,706	–	–	–	105,530,706
	<u>122,017,103</u>	<u>15,973</u>	<u>288,212</u>	<u>14,654,270</u>	<u>136,975,558</u>

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Debt investment at fair value through other comprehensive income	142,784	–	–	–	142,784
Financial investments at amortised cost	2,142,022	37,965	432,704	–	2,612,691
Other receivables and other assets	4,149,663	–	42,578	–	4,192,241
Trade receivables	–	–	–	13,166,695	13,166,695
Loan receivables	6,508,821	3,376	64,494	–	6,576,691
Cash and bank balances	67,855,912	–	–	–	67,855,912
	<u>80,799,202</u>	<u>41,341</u>	<u>539,776</u>	<u>13,166,695</u>	<u>94,547,014</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

44 Financial risk management objectives and policies (Continued)

Credit risk (Continued)

Financial assets are listed as follows in three stages: (Continued)

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial investments at amortised cost	8,686,228	14,476	193,373	–	8,894,077
Other receivables and other assets	2,389,651	–	68,527	–	2,458,178
Trade receivables	–	–	–	7,727,215	7,727,215
Loan receivables	3,024,399	6,934	75,259	–	3,106,592
Cash and bank balances	69,880,477	–	–	–	69,880,477
	<u>83,980,755</u>	<u>21,410</u>	<u>337,159</u>	<u>7,727,215</u>	<u>92,066,539</u>

As at 31 December 2017

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial investments at amortised cost	1,385,247	–	848,753	–	2,234,000
Other receivables and other assets	4,058,240	56	88,566	–	4,146,862
Trade receivables	–	–	–	4,102,470	4,102,470
Loan receivables	2,543,086	13,577	138,623	–	2,695,286
Cash and bank balances	32,805,373	–	–	–	32,805,373
	<u>40,791,946</u>	<u>13,633</u>	<u>1,075,942</u>	<u>4,102,470</u>	<u>45,983,991</u>

APPENDIX I**ACCOUNTANT’S REPORT**

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**44 Financial risk management objectives and policies (Continued)****Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Group holds an appropriate amount of liquid assets to ensure the group’s liquidity needs, while the Group holds sufficient funds to meet unpredictable payments requirements in its daily operations. Due to the changing nature of the business, it is the Group’s policy to regularly monitor liquidity risks, maintain sufficient cash and cash equivalents or adjust financing arrangements to meet the Group’s liquidity needs.

Thereinto, certain subsidiaries of the Group engaging in overseas digital payment services shall deposit the client money received for handling the payments business into specific accounts. The overseas subsidiaries thus recognise the client money deposits and payables concurrently, and the net exposure to liquidity risk is not significant.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

44 Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The tables below summarise the maturity profile of the Group’s financial liabilities excluding client money payable mentioned above based on the contractual undiscounted cash flows.

As at 30 June 2020

	On demand	Within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Unspecified	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Financial liabilities							
Trade payables	–	18,012,840	571,860	–	–	–	18,584,700
Interest-bearing bank borrowings	–	7,561,714	14,947,793	7,904,601	–	–	30,414,108
Derivative financial instruments	–	29,212	137,857	–	–	–	167,069
Financial liabilities at fair value through profit or loss	97,575	–	–	–	–	–	97,575
Other payables and other liabilities	11,481	14,321,795	4,114,079	789,391	–	–	19,236,746
Lease liabilities	–	–	–	195,802	20,667	–	216,469
	<u>109,056</u>	<u>39,925,561</u>	<u>19,771,589</u>	<u>8,889,794</u>	<u>20,667</u>	<u>–</u>	<u>68,716,667</u>

As at 31 December 2019

	On demand	Within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Unspecified	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Financial liabilities							
Trade payables	–	17,732,445	643,735	–	–	–	18,376,180
Interest-bearing bank borrowings	–	3,901,084	11,263,786	8,327,299	–	–	23,492,169
Derivative financial instruments	–	25,646	287,444	7,067	–	–	320,157
Financial liabilities at fair value through profit or loss	179,438	–	–	–	–	–	179,438
Other payables and other liabilities	3,944	6,603,369	2,666,920	366,009	360,000	–	10,000,242
Lease liabilities	–	–	–	208,110	27,334	–	235,444
	<u>183,382</u>	<u>28,262,544</u>	<u>14,861,885</u>	<u>8,908,485</u>	<u>387,334</u>	<u>–</u>	<u>52,603,630</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

44 Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

As at 31 December 2018

	On demand	Within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Unspecified	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities							
Trade payables	–	14,438,825	1,728,443	–	–	–	16,167,268
Interest-bearing bank borrowings	–	6,454,813	35,715,244	–	–	–	42,170,057
Derivative financial instruments	182	–	113,471	–	–	–	113,653
Financial liabilities at fair value through profit or loss	38,429	–	–	–	–	–	38,429
Other payables and other liabilities	–	3,790,071	2,353,385	151,842	–	–	6,295,298
Lease liabilities	–	–	–	176,821	–	–	176,821
	<u>38,611</u>	<u>24,683,709</u>	<u>39,910,543</u>	<u>328,663</u>	<u>–</u>	<u>–</u>	<u>64,961,526</u>

As at 31 December 2017

	On demand	Within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Unspecified	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities							
Trade payables	–	7,346,150	4,333,392	–	–	–	11,679,542
Interest-bearing bank borrowings	–	6,851,211	16,185,600	8,295,282	–	–	31,332,093
Derivative financial instruments	37,624	180,256	36,779	–	–	–	254,659
Financial liabilities at fair value through profit or loss	130,450	–	–	–	–	–	130,450
Other payables and other liabilities	–	2,820,928	1,213,277	46,754	–	–	4,080,959
Lease liabilities	–	–	–	209,002	–	–	209,002
	<u>168,074</u>	<u>17,198,545</u>	<u>21,769,048</u>	<u>8,551,038</u>	<u>–</u>	<u>–</u>	<u>47,686,705</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

44 Financial risk management objectives and policies (Continued)

Market risk

Interest rate risk

The Group’s exposure to the risk of changes in market interest rates relates primarily to the Group’s interest-bearing financial instruments. Those carried at fixed rates expose the Group to fair value interest rate risk whereas those carried at floating rates expose the Group to cash flow interest rate risk. The Group manages its interest rate risk by keeping a balanced portfolio of fixed and floating interest rates.

For financial instruments with fixed interest rates, the rates are determined at initial recognition and remain unchanged during the holding period. For those measured at amortised cost, the changes in market interest rates will not impact on the profits or losses or equity. For most of those measured at fair value including loan receivables, debt investments, the maturity are relatively short, so there’s no significant risk on related fair value interest risk.

Financial instruments with floating interest rates including interest-bearing bank borrowing etc, rates of which shall be revalued before the maturity date, expose the Group to cash flow interest rate risk. The net exposure of financial instruments with floating interest rate within one year, was RMB8,450 million, RMB7,014 million, RMB19,040 million and RMB15,500 million, as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively. If the related interest rate had been 50 basis points higher/lower, the profit before income tax for the year ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, would have been RMB42 million, RMB35 million, RMB95 million, and RMB39 million lower/higher, respectively.

The sensitivity analysis above is based on the presumption that static term structures of interest rate are kept, only fluctuations of interest rate within one year are forecasted, impacts related to tax are not taken into consideration and there is a reasonably possible change in interest rates with all other variables held constant. The results represent the impact, derived from re-measurements of financial assets and financial liabilities, on the Group’s profit before tax.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

44 Financial risk management objectives and policies (Continued)

Market risk (Continued)

Foreign currency risk

The Group conducts its businesses mainly in RMB, with certain transactions denominated in USD, and, to a lesser extent, other currencies. The foreign currency risk of the Group originates from financial instruments denominated in foreign currencies other than the functional currency of the operating unit, that is, mainly from the exchange rate fluctuations of USD, GBP and HKD against RMB. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position. For example, the Group sets limits on various currency positions, regularly monitors the size of currency positions and uses hedging strategies to keep its foreign currency position within the limits set.

The foreign exchange gains or losses for the year ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 (unaudited) and 2020 was disclosed in note 5. The foreign currency monetary items held by the Group are mainly USD, GBP and HKD, which are listed as follows:

	USD denominated	GBP denominated	HKD denominated
	RMB'000	RMB'000	RMB'000
As at 31 December 2017:			
Monetary assets	29,867	5,828	113,387
Monetary liabilities	127,082	6,030	54,835
As at 31 December 2018:			
Monetary assets	730,813	13,438	224,456
Monetary liabilities	8,522	57,957	114,785
As at 31 December 2019:			
Monetary assets	1,045,116	30,385	332,104
Monetary liabilities	286,890	30,641	198,940
As at 30 June 2020:			
Monetary assets	986,389	66,183	242,744
Monetary liabilities	438,947	65,418	296,120

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

44 Financial risk management objectives and policies (Continued)

Market risk (Continued)

Other price risk

Other price risk is the risk of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market. Other price risk could arise from the changes of equity instruments’ price.

Security price risk arises from the decline in fair value because of unfavourable changes in the stock index level or the price of individual securities. The Group is exposed to security price risk of investments in ordinary shares or preferred shares measured at fair value through profit or loss and at fair value through other comprehensive income.

Based on the carrying amounts at the end of each of the Relevant Periods, with all other variables held constant and excluding the effect of tax, due to changes in fair values of investments in stock and unlisted equity securities by 10%, the impact on profit before tax would be RMB738 million, RMB2,364 million, RMB3,388 million, and RMB3,588 million for the year ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 respectively, and the impact on other comprehensive income would be RMB107 million, RMB3,331 million, RMB3,369 million and RMB3,405 million for the year ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, respectively.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

45 Transfers of financial assets

Transferred financial assets that are not derecognised in their entirety

Shangrong Factoring, a subsidiary of the Group, transfers loans to structured entities, which in turn issue various asset-backed securities (hereinafter referred to as “ABS”) of which the Group had fully subscribed the subordinated tranches. The outstanding balances of loan receivables transferred to the structured entities were RMB105 million, RMB202 million and RMB85 million at 31 December 2018 and 2019 and 30 June 2020, respectively. The Group is of the view that it retained substantially all the risks and rewards, including related default risks, and thus the Group continued to recognise the loan receivables as well as the related liabilities.

Ant Shangcheng and Ant Small and Micro Loan, subsidiaries of the Group, entered into securitisation transactions in the normal course of business whereby they transferred loan receivables to asset management plans established by third parties that issue asset-backed securities to investors. Ant Shangcheng and Ant Small and Micro Loan held certain portion of subordinated tranches of those asset-backed securities and accordingly may retain portions of the risks and rewards of the transferred loan receivables.

The balances of the assets management plans amounted to RMB390,870 million, RMB172,400 million, RMB186,300 million and RMB170,800 million at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively. As a result, the balances of continuing involvement in transferred assets and associated liabilities both amounted to RMB8,985 million, RMB3,295 million, RMB3,418 million and RMB3,154 million at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively, which approximately represented the maximum exposure to losses from its involvement in such securitisation arrangements due to holding subordinated tranches.

Interests in structured entities

The Group is principally involved with structured entities through financial investments, asset management and other business. These structured entities generally finance the purchase of assets by issuing securities or by other means. The Group determines whether or not to consolidate these structured entities depending on whether the Group has control over them.

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

45 Transfers of financial assets (Continued)

Interests in structured entities (Continued)

Interests in unconsolidated structured entities

The interests held by the Group in unconsolidated structured entities are set out as below:

a) Structured entities sponsored by the Group

The Group uses structured entities in the ordinary course of its business to achieve different business objectives, such as charging management fees from third-party investors for assets management service, and receiving technology and service fees from trusts and asset-backed securities vehicles as technical service provider and loan service provider.

The balances of such unconsolidated structured entities as at 31 December 2017, 2018 and 2019 and 30 June 2020 amounted to RMB2,661,327 million, RMB1,699,638 million, RMB1,974,354 million and RMB2,073,537 million, respectively. Thereinto, the investments of the Group in such unconsolidated structured entities were RMB9,797 million, RMB3,781 million, RMB4,251 million and RMB4,334 million at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively, which were classified as financial assets at fair value through profits or losses, and the maximum risk exposure of the Group for holding these investments approximate their carrying amount.

The Group is not contractually obliged to provide financing to these unconsolidated structured entities. The group has not provided financing to the unconsolidated structured entities during the Relevant Periods.

b) Structured entities sponsored by other institutions

The interests held by the Group in the structured entities sponsored by other financial institutions through direct investments as at each of the end of the Relevant Periods are set out as below:

	At 31 December			At 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Asset management plans and trust plans	381,521	308,381	1,236,418	1,831,886
Fund investments	202,451	7,450,117	4,431,879	532,119
Wealth management products	400,000	—	—	—
	<u>983,972</u>	<u>7,758,498</u>	<u>5,668,297</u>	<u>2,364,005</u>

APPENDIX I**ACCOUNTANT’S REPORT**

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)**45 Transfers of financial assets (Continued)****Interests in structured entities (Continued)***Consolidated structured entities*

The consolidated structured entities of Tianhong, a subsidiary of the Group, mainly consist of mutual funds and asset management plans. The Group controls these entities because the Group has power over, is exposed to, or has rights to variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group’s returns. Consolidation of these structured entities does not have significant impact on the Group’s financial position, financial performance, or cash flows.

46 Events after the relevant periods

On 21 August 2020, the Group entered into an agreement with other investors to jointly initiate and establish Chongqing Ant Consumer Finance Co., Ltd. The amount of registered capital the Group intends to subscribe to is RMB4 billion, accounting for 50% of its registered capital.

Except for the events above, the Group did not have any other significant events after the end of Relevant Periods which needs to be disclosed.

47 Subsequent financial statements

No audited financial statements have been prepared by the Company, the Group or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2020.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following information does not form part of the Accountants’ Report from Ernst & Young, Certified Public Accountants, Hong Kong, the Company’s reporting accountants, as set out in Appendix I to this document, and is included for information purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed “Financial Information” in this document and the Accountants’ Report set out in Appendix I to this document.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules is to illustrate the effect of the [REDACTED] and the H Share [REDACTED] on the consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2020 as if the [REDACTED] and the H Share [REDACTED] had taken place on that date as set out in Appendix I to this document and adjusted as described below.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not provide a true picture of the consolidated net tangible assets attributable to owners of the Company had the [REDACTED] and the H Share [REDACTED] been completed as at 30 June 2020 or at any future date. It is prepared based on our consolidated net tangible assets as of 30 June 2020 as set out in the Accountants’ Report, the text of which is set forth in Appendix I to this document and adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets do not form part of the Accountants’ Report, the text of which is set forth in Appendix I to this document.

Audited consolidated net tangible assets attributable to owners of the Company as at 30 June 2020	Estimated [REDACTED] from the H Share [REDACTED]	Unaudited pro forma adjusted consolidated net tangible assets as at 30 June 2020	Unaudited pro forma adjusted consolidated net tangible assets per Share as at 30 June 2020	
			RMB	HK\$
<i>RMB'000</i> <i>(note 1)</i>	<i>RMB'000</i> <i>(note 2)</i>	<i>RMB'000</i>	<i>(note 3)</i>	<i>(note 4)</i>
Based on an [REDACTED] of HK\$[REDACTED] per share	[189,768,469]	[REDACTED]	[REDACTED]	[REDACTED]

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

1. The consolidated net tangible assets attributable to owners of the Company as at June 30, 2020 is arrived at after deducting goodwill and other intangible assets of RMB[18,494,785] thousand from the audited consolidated net assets attributable to owners of the Company of RMB[208,263,254] thousand as at June 30, 2020, as shown in the Accountants’ Report.
2. The estimated [REDACTED] from the H Share [REDACTED] are based on the indicative [REDACTED] of HK\$[REDACTED] per H Share, after deduction of the [REDACTED] fees and commissions and other related [REDACTED] expense which are not recorded in consolidated statements of profit or loss for the Relevant Periods and do not take into account any H Share which may be allotted and issued upon exercise of the H Share [REDACTED].
3. The unaudited pro forma adjusted consolidated net tangible assets per share are arrived at after the adjustments referred to in note (2) above and on the basis that [REDACTED] H Shares are issued assuming the H Share [REDACTED] had been completed on June 30, 2020 and the redemption of all Ant International Class C shares and Ant International Class B shares in issue and the subscription for and issuance of 2,997,090,484 H Shares and 259,355,840 H Shares pursuant to the arrangements with the Ant International Class C shareholders and the arrangement in respect of the Pre-[REDACTED] Offshore ESOP Plan, respectively, as further described in “History and Development – Redemption and Subscription by Ant International Securities Holders”, but does not take into account any A Shares which may be issued upon A Share [REDACTED] and H Shares which may be issued upon the exercise of the H Share [REDACTED]. Had effect been given to the A Share [REDACTED] in this calculation, the unaudited pro forma adjusted consolidated net tangible assets per share would have been HK\$[REDACTED] (RMB[REDACTED]) based on the [REDACTED] of HK\$[REDACTED] per H share and RMB[REDACTED] per A share. This calculation is based on the assumption that [REDACTED] newly issued A shares were in issue in the A Share [REDACTED] (assuming the A Share [REDACTED] is not exercised) and the resulting [REDACTED] (after deduction of the estimated [REDACTED] fees and other related expenses payable by us) of RMB[REDACTED] billion (based on the [REDACTED] of RMB[REDACTED] per A share) from the A Share [REDACTED].
4. The unaudited pro forma adjusted consolidated net tangible assets per share are converted into Hong Kong dollars at the rate of HK\$1.00 to RMB0.9134, which was the exchange rate prevailing on June 30, 2020 with reference to the rate published by the People’s Bank of China.
5. No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to June 30, 2020.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

**B. INDEPENDENT REPORTING ACCOUNTANTS’ ASSURANCE REPORT ON
THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

The following is the text of a letter received from the Company’s reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.

[REDACTED]

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Opinion

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Certified Public Accountants
Hong Kong
[Date]

APPENDIX III

TAXATION AND FOREIGN EXCHANGE

PRC Taxation

Taxation on Dividends

Individual Investors

In accordance with the Individual Income Tax Law of the People’s Republic of China (《中華人民共和國個人所得稅法》) (hereinafter referred to as “IIT Law”) issued by the Standing Committee of the NPC, last amended on August 31, 2018, which came into effect on January 1, 2019, and the Regulations for the Implementation of the Individual Income Tax Law of the People’s Republic of China (《中華人民共和國個人所得稅法實施條例》) last amended by the State Council on December 18, 2018, which came into effect on January 1, 2019, dividends paid by Chinese companies to individual investors shall generally be subject to withholding tax at a rate of 20%. Meanwhile, according to the Notice on Issues concerning the Implementation of Differential Individual Income Tax Policies on Dividends and Bonuses of Listed Companies (《關於上市公司股息紅利差別化個人所得稅政策有關問題的通知》) (Cai Shui [2015] No. 101) issued by the MOF, the STA and the CSRC on September 7, 2015, where an individual acquires the stocks of a listed company from a public offering of the company or from the stock market, if the stock is held for more than one year, the dividend incomes shall be exempted from personal income taxation. Where an individual acquires the stocks of a listed company from public offering of the company or from the stock market, if the stock is held for one month or less, the full amount of dividend incomes shall be included in the individual’s taxable income; if the stock is held for more than one month and up to one year, 50% of the dividend income shall be included in the individual’s taxable income. The individual income tax rate on the aforesaid income is imposed at a uniform rate of 20%. In practice, the withholding rate imposed on non-resident individuals’ dividends may be lower than 20% in certain circumstances, as described in “Risk Factors — Risks Related to China — You may be subject to taxation in mainland China.”

Pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion Regarding Income Tax (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed on August 21, 2006, which came into effect on December 8, 2006, the PRC government may impose tax on dividends paid to a Hong Kong resident (including natural person and legal entity) by a mainland China company, but such tax shall not exceed 10% of the total amount of the dividends payable. If a Hong Kong resident directly holds 25% or more of the equity interest in a mainland China company, then the amount of such tax shall not exceed 5% of the total dividends payable by the mainland China company. The Fourth Protocol of the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion issued by the STA (《國家稅務總局關於<內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排>第四議定書》) effective on December 29, 2015, states that such provisions shall not apply to arrangements made for the primary purpose of gaining tax benefits.

Enterprise Investors

In accordance with the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (hereinafter referred to as “EIT Law”) last amended with immediate effect on December 29, 2018, and the Provisions for Implementation of the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) as amended, which came into effect on April 23, 2019, a non-resident enterprise is generally subject to a 10% EIT on

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PRC-sourced income, including dividends received from a PRC resident enterprise whose shares are issued and listed in Hong Kong, if such non-resident enterprise does not have an establishment or premises in mainland China or has an establishment or premises in mainland China but the mainland China-sourced income is not connected with such establishment or premises in mainland China. The aforesaid income tax must be withheld at the source, with the payer of the income being the withholding agent. Such withholding tax may be reduced or eliminated under an applicable treaty for the avoidance of double taxation.

The Notice of the STA on the Issues Concerning Withholding Enterprise Income Tax on the Dividends Payable by PRC Resident Enterprises to Overseas Non-PRC Resident Enterprise H Share Holders (《國家稅務總局關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) issued by the STA and effective on November 6, 2008, further clarified that a mainland resident enterprise must withhold EIT at a rate of 10% on dividends paid to non-mainland resident enterprise H Shareholders, which are derived from the profits generated after January 1, 2008. The Reply of the STA on Imposition of Enterprise Income Tax on B-share and Other Dividends of Non-resident Enterprises (《國家稅務總局關於非居民企業取得B股等股票股息徵收企業所得稅問題的批覆》) issued by the STA on July 24, 2009 further provides that any mainland-resident enterprise that is listed on overseas stock exchanges must withhold EIT at a rate of 10% on dividends that it distributes to non-mainland resident enterprise shareholders. Such tax rate may be further modified pursuant to the tax treaty or agreement that mainland China has concluded with a relevant jurisdiction, where applicable.

Pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion Regarding Income Tax (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed on August 21, 2006, which came into effect on December 8, 2006, the PRC government may impose tax on dividends paid to a Hong Kong resident (including natural person and legal entity) by a mainland China company, but such tax shall not exceed 10% of the total amount of the dividends payable. If a Hong Kong resident directly holds 25% or more of equity interest in a mainland China company, such tax shall not exceed 5% of the total amount of dividends payable by that mainland China company. The Fourth Protocol of the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion issued by the STA (《國家稅務總局關於<內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排>第四議定書》) effective on December 29, 2015, states that such provisions shall not apply to arrangements made for the primary purpose of gaining such tax benefits.

Tax Treaties

Non-mainland resident investors residing in countries which have entered into treaties for the avoidance of double taxation with mainland China or residing in Hong Kong or Macau may be entitled to preferential tax rates on dividends received by such investors from the mainland China company. The mainland China has entered into arrangements for the avoidance of double taxation with Hong Kong and Macau, respectively, and has entered into treaties for the avoidance of double taxation with certain other countries, including but not limited to Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States. A non-mainland resident enterprise which is entitled to a preferential tax rate under a relevant income tax treaty or arrangement may apply to the mainland China tax authorities for a refund of the difference between the amount of tax withheld and tax computed based on the treaty rate.

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Taxation on Gains from Share Transfer

Individual Investors

In accordance with the IIT Law and its implementation rules, individuals are subject to individual income tax at a rate of 20% on gains realized on the sale of equity interests in mainland China resident enterprises. Under the Circular of the MOF and the STA on Declaring that Individual Income Tax Continues to Be Exempted over Individual Income Tax from Transfer of Shares (《財政部、國家稅務總局關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) (Cai Shui Zi [1998] No. 61) issued by the MOF and the STA on March 30, 1998, effective from January 1, 1997, gains of individuals from the transfer of shares of listed companies continue to be exempted from individual income tax. According to the latest amendment to the IIT Law and its implementation rules, the STA has not explicitly stated whether it will continue to exempt individuals from income tax on income derived from the transfer of listed shares. However, on December 31, 2009, the MOF, the STA and the CSRC jointly issued the Circular on Relevant Issues Concerning the Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Moratorium Shares of Listed Companies (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知》) (Cai Shui [2009] No. 167), which provides that individuals' income from transferring listed shares on certain domestic exchanges shall continue to be exempted from individual income tax, except for shares of certain specified companies (as defined in the Supplementary Circular on Relevant Issues Concerning the Collection of Individual Income Tax (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的補充通知》) (Cai Shui [2010] No. 70) over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation issued by the MOF, the STA and the CSRC on November 10, 2010). As of the Latest Practicable Date, the aforesaid provision has not expressly provided that individual income tax shall be collected from non-mainland resident individuals on the sale of shares of mainland China resident enterprises listed on overseas stock exchanges such as the Hong Kong Stock Exchange. In practice, the mainland China tax authorities have not collected income tax from non-mainland resident individuals on gains from the sale of shares of PRC resident enterprises listed on overseas stock exchanges.

Enterprise Investors

In accordance with the EIT Law and its implementation rules, a non-mainland resident enterprise is generally subject to EIT at the rate of 10% with respect to mainland China-sourced income, including gains derived from the disposition of shares in a mainland China resident enterprise, if it does not have an establishment or premises in mainland China or has an establishment or premises in mainland China but the mainland China-sourced income is not actually connected with such establishment or premises in mainland China. Such tax may be reduced or eliminated under applicable tax treaties or arrangements.

Taxation Policy of Shanghai-Hong Kong Stock Connect

On October 31, 2014, the MOF, the STA and the CSRC jointly issued the Circular on the Relevant Taxation Policy regarding the Pilot Program that Links the Stock Markets in Shanghai and Hong Kong (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》) (Cai Shui [2014] No. 81) (hereinafter referred to as “Shanghai-Hong Kong Stock Connect Taxation Policy”), which came into effect on November 17, 2014. Pursuant to the “Shanghai-Hong Kong Stock Connect Taxation Policy,” enterprise income tax (“EIT”) will be levied according to law on transfer spread income (included in total income derived from investment by mainland enterprise incomes in stocks listed on the Hong Kong Stock

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Exchange through Shanghai-Hong Kong Stock Connect. Under the Announcement of the MOF, the STA and the CSRC on the Policies of the Individual Income Tax Concerning Continuing to Implement the Shanghai-Hong Kong Stock Connect (《財政部、稅務總局、證監會關於繼續執行滬港股票市場交易互聯互通機制有關個人所得稅政策的公告》) (Cai Shui [2019] No. 93), which came into effect on December 5, 2019, gains on price difference from transfer of shares derived by mainland individual investors through investment into shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Connect shall continually be exempted from individual income tax from December 5, 2019 to December 31, 2022. For dividends and bonus obtained by mainland individual investors investing in H shares listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect, the H-share companies shall apply to China Securities Depository and Clearing Co., Ltd. (hereinafter referred to as “CSDCC”) for provision by CSDCC to the H-share companies register of mainland individual investors, and the H-share companies shall continually withhold individual income tax at a rate of 20%.

EIT will be levied according to law on dividend and bonus income (included in total income) obtained by mainland enterprises from investing in stocks listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect. In particular, EIT will be exempted according to law for dividend and bonus income obtained by mainland resident enterprises which hold H shares for at least 12 consecutive months. For dividend and bonus income obtained by mainland enterprises, the H-share companies will not withhold dividend and bonus income tax for mainland enterprises. The tax payable shall be declared and paid by the enterprises themselves.

Taxation Policy of Shenzhen-Hong Kong Stock Connect

On November 5, 2016, the MOF, the STA and the CSRC jointly issued the Circular on the Relevant Taxation Policy regarding the Pilot Program that Links the Stock Markets in Shenzhen and Hong Kong (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》) (Cai Shui [2016] No. 127), (hereinafter referred to as “Shenzhen-Hong Kong Stock Connect Taxation Policy”), which came into effect on December 5, 2016. Pursuant to the Shenzhen-Hong Kong Stock Connect Taxation Policy, EIT will be levied according to law on price difference (included in total income) derived from investment by mainland enterprises in stocks listed on the Hong Kong Stock Exchange through Shenzhen-Hong Kong Stock Connect. Personal income tax will be temporarily exempted for transfer spread income derived from investment by mainland individual investors in stocks listed on the Hong Kong Stock Exchange through Shenzhen-Hong Kong Stock Connect from December 5, 2016 to December 31, 2022. For dividends and bonus income obtained by mainland individual investors investing in H shares listed on the Hong Kong Stock Exchange through Shenzhen-Hong Kong Stock Connect, the H-share companies shall apply to CSDCC for provision by CSDCC to the H-share companies register of mainland individual investors, and personal income tax shall be withheld by CSDCC at a tax rate of 20%.

EIT will be levied according to law on dividend and bonus income (included in total income) obtained by mainland enterprises from investing in stocks listed on the Hong Kong Stock Exchange through Shenzhen-Hong Kong Stock Connect. In particular, EIT will be exempted according to law for dividend and bonus income obtained by mainland resident enterprises which hold H shares for at least 12 consecutive months. For dividend and bonus income obtained by mainland enterprises, the H-share companies will not withhold dividend and bonus income tax for mainland enterprises. The tax payable shall be declared and paid by the enterprises themselves.

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PRC Stamp Duty

Under the Provisional Regulations of the PRC Concerning Stamp Duty (《中華人民共和國印花稅暫行條例》) amended on January 8, 2011, and the Rules for Implementation of Provisional Regulations of the PRC Concerning Stamp Duty (《中華人民共和國印花稅暫行條例施行細則》), which came into effect on October 1, 1988, PRC stamp duty is imposed on documents that are legally binding in the PRC and governed by the PRC laws. Therefore, PRC stamp duty does not apply to acquisitions or dispositions of H shares outside PRC.

Estate Duty

The PRC currently has not imposed any estate duty.

Major Taxation of the Company in the PRC

EIT

Under the EIT Law, the EIT rate in the PRC is 25% and is in line with the rate applicable to foreign investment enterprises and foreign enterprises.

Entities qualifying as High and New Technology Enterprises enjoy a preferential tax rate of 15%. Entities recognized as Software Enterprises are exempt from the EIT for two years beginning from their first profitable calendar year and are entitled to a 50% reduction in EIT for the following three calendar years. Furthermore, entities recognized as Key Software Enterprises within the PRC national plan enjoy a preferential EIT rate of 10%. Key software enterprises encouraged by the state (to be determined by the NDRC and MIIT together with relevant ministries) will be exempt from the EIT for five years beginning from their first profitable calendar year and entitled to a rate of 10% thereafter. Entities established in the PRC western region and engaged in encouraged industries are entitled to a preferential EIT rate of 15%.

Value-added Tax

Pursuant to the Notice of Comprehensive Roll-out of the Pilot Collection of Value Added Tax in lieu of Business Tax from Ministry of Finance and State Administration of Taxation (《財政部、國家稅務總局關於全面推開營業稅改徵增值稅試點的通知》) (Cai Shui [2016] No. 36) promulgated by the MOF and the STA on March 23, 2016, which came into effect on May 1, 2016, upon approval of the State Council, the pilot program of the collection of VAT in lieu of business tax shall be promoted nationwide in a comprehensive manner starting from May 1, 2016, and all business tax payers engaged in sectors such as construction, real estate, finance or lifestyle services shall be included in the scope of the pilot program, where payment of VAT shall be made instead of business tax. Pursuant to the Measures for the Implementation of Pilot Reform for Transition from Business Tax to Value-added tax (《營業稅改徵增值稅試點實施辦法》) issued, which came into effect on May 1, 2016, and certain announcements issued by MOF and STA subsequently, the tax rates applied to taxpayers for tangible property leasing, real estate sale or leasing, and selling services, shall be 13%, 9% and 6%, respectively.

Our major PRC subsidiaries are subject to VAT on revenue earned for our services. In general, the applicable VAT rate on the revenue earned for services is 6% with companies entitled to credit VAT paid on certain purchases against VAT on sales. Revenue is recognized net of VAT in our consolidated income statement.

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Foreign Exchange Control of the PRC

The lawful currency of the PRC is the Renminbi, which is currently subject to foreign exchange control and is not freely convertible into foreign exchange. The SAFE under the PBOC is responsible for administration of all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

In accordance with the Notice of the State Council on Further Reforming the Foreign Exchange Management System (《關於進一步改革外匯管理體制的通知》) (Guo Fa [1993] No. 89 (abolished)) issued by the State Council, since January 1, 1994, the conditional convertibility of Renminbi in current account items and the unified exchange rate has been implemented, and the official Renminbi exchange rate and the market rate for Renminbi have been unified. The former dual exchange rate system for Renminbi was abolished and a unitary and managed floating rate based on market demand and supply was introduced. The PBOC set and published daily the medium price of Renminbi against the U.S. dollar and the exchange rates of Renminbi against other major currencies in reference to changes in international foreign exchange markets, which was permitted to float to a certain extent in foreign exchange transactions.

On January 29, 1996, the State Council promulgated Regulations of the PRC for Foreign Exchange Control (《中華人民共和國外匯管理條例》) (hereinafter referred to as the “Foreign Exchange Control Regulations”) which became effective on April 1, 1996. The Foreign Exchange Control Regulations classify all international payments and transfers into current account items and capital account items. Most of the current account items are no longer subject to SAFE’s approval, while capital account items still are. The Foreign Exchange Control Regulations were subsequently amended on January 14, 1997 and August 1, 2008. The latest amendment to the Foreign Exchange Control Regulations clearly states that the State will not impose any restriction on international current account payments and transfers.

On June 20, 1996, the PBOC promulgated the Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》) (Yin Fa [1996] No. 210) (hereinafter referred to as the “Settlement Regulations”) which became effective on July 1, 1996. The Settlement Regulations abolished the remaining restrictions on convertibility of foreign exchange under current account items, while retaining the existing restrictions on foreign exchange transactions under capital account items.

According to the Announcement on Improving the Reform of the Renminbi (《關於完善人民幣匯率形成機制改革的公告》) (PBOC Announcement [2005] No. 16), issued by the PBOC on July 21, 2005, the PRC began to implement a managed floating exchange rate system in which the exchange rate would be determined based on market supply and demand and adjusted with reference to a basket of currencies. The Renminbi exchange rate was no longer pegged to the U.S. dollar. The PBOC would publish the closing price of the Renminbi against foreign currencies such as the U.S. dollar in the inter-bank foreign exchange market after the closing of the market on each business day, which would be used as the central parity for Renminbi transactions on the following business day.

Starting from January 4, 2016, the PBOC introduced over-the-counter transactions into the inter-bank spot foreign exchange market for the purpose of improving the formation mechanism of the central parity of Renminbi exchange rates, and the practice of matching was kept at the same time. In addition, the PBOC introduced the market-maker rule to provide liquidity to the foreign exchange market. On July 1, 2014, the PBOC further improved the market-oriented formation mechanism of the Renminbi exchange rate by

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authorizing the China Foreign Exchange Trade System to make inquiries with the market makers before the inter-bank foreign exchange market opens every day for their offered quotations which are used as samples to calculate the central parity of the Renminbi against the U.S. dollar, and announce it at 9:15 a.m. on each business day.

On August 5, 2008, the State Council promulgated the revised Regulations of the PRC for Foreign Exchange Control (《中華人民共和國外匯管理條例》) (hereinafter referred to as the “Revised Foreign Exchange Control Regulations”), which have made substantial changes to the foreign exchange supervision system of the PRC. First, the Revised Foreign Exchange Control Regulations adopted an approach of balancing the inflow and outflow of funds. Foreign exchange income received overseas can be repatriated or deposited overseas, and foreign exchange and foreign exchange settlement funds under the capital account are required to be used only for purposes as approved by the competent authorities and foreign exchange administrative authorities. Second, the Revised Foreign Exchange Control Regulations improved the mechanism for determining the Renminbi exchange rate based on market supply and demand. Third, the Revised Foreign Exchange Control Regulations enhanced the monitoring of cross-border foreign currency fund flows. In the event that revenues and costs in connection with international transactions suffer or may suffer a material misbalance, or the national economy encounters or may encounter a severe crisis, the State may adopt necessary safeguard or control measures. Fourth, the Revised Foreign Exchange Control Regulations enhanced the supervision and administration of foreign exchange transactions and grant extensive authority to the SAFE to enhance its supervisory and administrative powers.

Pursuant to relevant rules and regulations, all of the foreign exchange revenue of the PRC enterprises from current account transactions may be retained or sold to financial institutions operating a foreign exchange sale or settlement business. Foreign exchange income from loans granted by overseas entities or from the issuance of bonds and shares is not required to be sold to, but may be deposited in foreign exchange accounts at, designated foreign exchange banks.

PRC enterprises (including foreign investment enterprises) which need foreign exchange for transactions relating to current account items may, without the approval of the SAFE, effect exchange and payment from their foreign exchange accounts or at the designated foreign exchange banks, on the strength of valid receipts and proof. Foreign investment enterprises which need foreign exchange for the distribution of profits to their shareholders and PRC enterprises which, in accordance with regulations, are required to pay dividends to their shareholders in foreign exchange may, on the strength of resolutions of the board of directors or the shareholders’ meeting approving the distribution of profits, effect exchange and payment from their foreign exchange accounts or convert and pay dividends at the designated foreign exchange banks.

The Decisions of the State Council on Matters including Canceling and Adjusting a Batch of Administrative Approval Items (《國務院關於取消和調整一批行政審批項目等事項的決定》) (Guo Fa [2014] No. 50) promulgated on October 23, 2014 canceled the approval requirement of the SAFE and its branches for the remittance and settlement of proceeds raised from the overseas listing of foreign shares into domestic Renminbi accounts.

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Pursuant to the Notice on Issues Concerning the Foreign Exchange Administration of Overseas Listing (《關於境外上市外匯管理有關問題的通知》) (Hui Fa [2014] No. 54) issued by the SAFE on December 26, 2014, a domestic issuer shall, within 15 business days of completion of its initial public offering overseas, register the overseas listing with the SAFE's local branch at its place of incorporation. The proceeds from an overseas listing of a domestic issuer may be remitted to a domestic account or deposited overseas, and the use of the proceeds shall be consistent with the content of the prospectus and other disclosure documents.

Pursuant to the Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (《關於改革和規範資本項目結匯管理政策的通知》) (Hui Fa [2016] No. 16) promulgated by the SAFE on June 9, 2016, discretionary settlement of foreign exchange capital income (including, among other things, capital contribution in foreign currencies and proceeds from overseas debt and overseas listing) can be settled at banks based on domestic companies' actual operating needs. The proportion of discretionary settlement of foreign exchange capital income for domestic companies is temporarily set at 100%. The SAFE may timely adjust this proportion based on the international balance of payments.

Taxation in Hong Kong

Taxation on Dividends

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us.

Taxation on Capital Gains and Profits

No tax is imposed in Hong Kong in respect of capital gains from the sale of H Shares. However, trading gains from the sale of H Shares by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arisen in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax. Currently, a profits tax is imposed on corporations at a maximum rate of 16.5% and on non-registered businesses at a maximum rate of 15.0%. From the year of assessment 2018/19, a concessionary tax rate (i.e. half of the current tax rate) can apply to corporations or unincorporated businesses for the first HK\$2 million of assessable profits, subject to applicable conditions. Certain categories of taxpayers (such as financial institutions, insurance companies and securities dealers) are likely to be regarded as generating trading gains rather than capital gains unless these taxpayers can prove that the investment securities are held for long-term investment. Trading gains from sales of H Shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arisen in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H Shares effected on the Hong Kong Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

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Stamp Duty

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of Hong Kong securities (including H Shares). The duty is currently charged at the ad valorem rate of 0.1% of the consideration for, or (if greater) the market value of, the H Shares transferred on each of the seller and purchaser. In other words, a total of 0.2% of stamp duty is currently payable on a typical sale and purchase transaction of H Shares. In addition, a fixed duty of HK\$5.00 is currently charged on each instrument of transfer of H Shares. Where a sale or purchase of H Shares is effected by a person who is not a resident of Hong Kong and any stamp duty payable on the instrument of transfer is not paid, the relevant instrument of transfer (if any) shall be assessed, and the transferee shall be liable to pay such duty. If no stamp duty is paid on or before the due date, a penalty of up to ten times the duty payable may be imposed.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong, pursuant to which no Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application of a grant of representation in respect of holders of H Shares whose deaths occur on or after February 11, 2006.

APPENDIX IV

REGULATIONS

We conduct our business primarily in the PRC and therefore are required to comply with a variety of PRC laws, rules and regulations across a number of aspects of our business. This section summarizes the principal laws, rules and regulations applicable to our business and operations, primarily those of the PRC, because the PRC remains the country where we conduct the substantial majority of our business and generate the substantial majority of our revenues.

We offer a wide variety of services on our platform, and a wide array of information is disseminated on our platform. Accordingly, we are subject to various laws and regulations on (i) telecommunications and Internet information services (including those related to value-added telecommunication services, cybersecurity and data security, information compliance and privacy protection and anti-fraud), (ii) AML and anti-terrorism financing, (iii) consumer protections, (iv) digital payment and merchant services, (v) digital finance technology platform, and (vi) innovation initiative business.

Regulations on Telecommunications and Internet Information Services

Our telecommunications and Internet information services are primarily regulated by MIIT and the Cyberspace Administration of China (the “CAC”).

Licenses for Value-added Telecommunications Services

The Telecommunications Regulations of the PRC (《中華人民共和國電信條例》) (the “Telecommunications Regulations”), promulgated by the State Council of the PRC (“State Council”) on September 25, 2000 and last amended with immediate effect on February 6, 2016, provide the regulatory framework for telecommunications service providers in the PRC. The Telecommunications Regulations requires telecommunications service providers to obtain an operating license prior to commencing their operations. The Telecommunications Regulations categorizes telecommunications services into basic telecommunications services and value-added telecommunications services. Providers of value-added telecommunications services are required to obtain a license for value-added telecommunications services (the “VATS License”). According to the Catalog of Telecommunications Services (《電信業務分類目錄》), attached to the Telecommunications Regulations, which was last amended by MIIT with immediate effect on June 6, 2019, information services provided via fixed network, mobile network and Internet fall within value-added telecommunications services. Our Alipay platform, through which we provide our digital finance technology platform, digital daily life services and digital merchant services, is classified as value-added telecommunications services.

The Administrative Measures for the Licensing of Telecommunications Business (《電信業務經營許可管理辦法》) (the “Telecom Licensing Measures”) were promulgated by MIIT on July 3, 2017 and came into effect on September 1, 2017. The Telecom Licensing Measures provide that there are two types of telecommunications operating licenses for operators in the PRC, namely, the license for basic telecommunications services and the VATS License. Telecommunications service providers should apply for a license, which will set out the licensed activities. A licensed value-added telecommunications service provider should conduct its business in accordance with the specifications of its VATS License which has a term of five years and can be renewed 90 days prior to the expiration of the term.

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As a subcategory of the value-added telecommunications services, Internet information services are regulated by the Administrative Measures for Internet Information Services (《互聯網信息服務管理辦法》) (the “Internet Information Measures”), which were promulgated by State Council on September 25, 2000 and amended with immediate effect on January 8, 2011. “Internet information services” are defined as services that provide information to online users through the Internet. Under the Internet Information Measures, commercial Internet information service providers are required to obtain an Internet information services license (the “ICP License”), from MIIT or its provincial counterpart before engaging in any commercial Internet information services operations within the PRC. An Internet information services provider should conduct its business in accordance with the specifications approved by the competent authorities.

On June 28, 2016, CAC promulgated the Administrative Provisions on Mobile Internet Applications Information Services (《移動互聯網應用程式資訊服務管理規定》) (the “APP Provisions”), which became effective on August 1, 2016. Under the APP Provisions, mobile application providers are prohibited from engaging in any activity that may endanger national security, disturb social order, or infringe the legal rights of third parties, and may not produce, copy, issue or disseminate through Internet mobile applications any content prohibited by laws and regulations.

Regulations on Cybersecurity and Data Security

The Cybersecurity Law of the PRC (《中華人民共和國網絡安全法》) (the “Cybersecurity Law”), was promulgated by the Standing Committee of the National People’s Congress on November 7, 2016 and came into effect on June 1, 2017. The Cybersecurity Law defines “networks” as systems comprised of computers or other information terminals and relevant facilities used for the purpose of collecting, storing, transmitting, exchanging and processing information in accordance with certain rules and procedures. “Network operators,” which are broadly defined as owners and administrators of networks and network service providers, are required to take steps to ensure cybersecurity, network stability, to respond effectively security breaches, to guard against Internet crimes, and to maintain data integrity, confidentiality, and availability, including:

- complying with security obligations in accordance with tiered system protection requirements, which include formulating internal security management rules and manuals, appointing personnel responsible for cybersecurity, adopting technical measures to prevent computer viruses and cybersecurity endangering activities, adopting technical measures to monitor and record the status of network operation and cybersecurity events, retaining user logs for at least six months and adopting measures such as data classification, key data backup and encryption for the purpose of securing networks from interference, damage, or unauthorized visits, and preventing against leakage, theft or tampering of network data;
- verifying users’ identities before entering into agreements or providing services such as network access, domain name registration, landline telephone or mobile phone access, information publishing or real-time communication services;
- formulating cybersecurity emergency response plans, timely handling security risks, initiating emergency response plans, taking appropriate remedial measures and reporting to regulatory authorities; and

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- providing technical assistance and support to public security and national security authorities for protection of national security and criminal investigations in accordance with law.

According to the Cybersecurity Law, network operators must inform users about and report to the relevant authorities any known security defects and bugs, and must provide continuous security maintenance for their products and services. Network products should not contain any malware. Network service providers that do not comply with the Cybersecurity Law may be subject to fines, suspension of their businesses, shutdown of their websites, and revocation of their business licenses.

Under the Several Provisions on Regulating the Market Order of Internet Information Services (《規範互聯網信息服務市場秩序若干規定》) issued by MIIT on December 29, 2011, which became effective on March 15, 2012, Internet information service providers are prohibited from collecting any personal data or providing any information to third parties without user consent unless the information is anonymous, not personally identifiable and unrecoverable. Internet information service providers must expressly inform their users of the methods, scope and purposes of collecting and processing user personal data and may only collect information necessary for provision of its services. Internet information service providers are also required to properly store user personal data, and in case of any leak or likely leak, Internet information service providers must report any material leak to the telecommunications regulatory authorities and take remedial measures immediately to improve system security and safeguard information uploaded by users.

Aside from the above regulations, Internet information service providers are guided by the Guidelines for Internet Personal Data Security Protection (《互聯網個人信息安全保護指南》) (the “Personal Data Security Guideline”) issued by the Ministry of Public Security of the PRC (“MPS”) and two other agencies on April 10, 2019. The Personal Data Security Guideline is non-binding standards and guidelines. The Personal Data Security Guideline applies to “personal data holders,” defined as entities or individuals that control and process personal data through their provision of services using the Internet, private networks, or offline, and requires personal data holders to establish a personal data administrative control system, implement technical safeguards and protect personal data during their business processes.

Regulations on Information Compliance and Privacy Protection

The Cybersecurity Law requires network operators to abide by the principles of legality, appropriateness and necessity when collecting or using personal data. network operators are prohibited from leaking, tampering with or damaging collected personal data, and they should adopt technical and other necessary measures to ensure security of personal data, safeguard against information leakage, damage or loss, improve information management with respect to data published by users and establish complaint and reporting mechanisms with respect to network data security.

In addition, the Decision on Strengthening Network Information Protection (《關於加強網絡信息保護的決定》), promulgated by the Standing Committee of the National People’s Congress on December 28, 2012 with immediate effect, emphasizes the need to protect electronic information that contains personally identifiable information and other private data. This decision requires Internet information service providers to establish and publish policies regarding the collection and use of personal electronic information and to take necessary measures to ensure information security and to prevent any information leakage, damage or loss. Furthermore, MIIT’s Rules on the Protection of Personal Data of

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Telecommunications and Internet Users (《電信和互聯網用戶個人信息保護規定》), which were promulgated on July 16, 2013 and came into effect on September 1, 2013, contain detailed requirements on the collection and use of personal data as well as the security measures to be taken by Internet information service providers. “Personal data” includes the user’s name, birth date, identification card number, address, phone number, account name, password and other information that can be used for identifying a user. The collection and provision of user personal data by Internet information service providers are subject to user consent and should abide by the principles of legality, appropriateness and necessity and be within the specified methods, scope and purposes that are required to be published by such Internet information service providers. Internet information service providers should safeguard users’ personal data against any leakage, damage, tampering or loss and assess data security at least once a year. Internet information service providers should also provide their staff with knowledge and skills training on personal data protection and related liabilities.

The Law on the Protection of Consumers’ Rights and Interests of the PRC (《中華人民共和國消費者權益保護法》) also provides principles of legality, appropriateness and necessity for collecting or using consumers’ personal data. See “— Regulations on Consumer Protections” for details. In addition, the Implementing Measures for Protection of Consumers’ Rights and Interests (《中國人民銀行金融消費者權益保護實施辦法》), which was promulgated by the PBOC on December 14, 2016 with immediate effect, specify financial institutions’ obligations to protect personal financial data, covering various aspects, such as data collection, storage, use, management and cross-border transmission. Financial institutions should follow the same principles of legality, appropriateness and necessity when collecting personal financial data and therefore are prohibited from collecting data that are irrelevant to their businesses or collecting data through improper means. Financial institutions are also required to store personal financial data that they collect in compliance with applicable records management and electronic data management regulations to avoid any data loss, damage, leakage or tampering.

Internet information service providers may be subject to criminal penalty for failure to protect personal data. The Amendment IX to the Criminal Law of the PRC (《中華人民共和國刑法修正案(九)》) (the “Amendment IX”), which was promulgated by the Standing Committee of the National People’s Congress on August 29, 2015 and came into effect on November 1, 2015, provides that selling or providing personal data in violation of laws and regulations is punishable by up to seven years’ imprisonment.

In providing our services, we collect certain personal data from users primarily for the purpose of credit assessment and enhancing user experience. We have obtained consent from users to collect and use their personal data, and have also established data security systems to protect user information and abide by other network security requirements under such laws and regulations. However, there is uncertainty as to how the requirements for maintaining network security and protecting users’ personal data will be interpreted and implemented. We cannot assure you that our existing policies and procedures will be deemed to be in full compliance with any laws and regulations that are applicable, or may become applicable, to us in the future. We may be subject to penalties for any violation of such laws and regulations.

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Anti-fraud Regulations

The Notice of MIIT on Further Preventing and Combating Telecommunications Fraud (《工業和信息化部關於進一步做好防範打擊通訊信息詐騙相關工作的通知》), which was promulgated by MIIT with immediate effect on December 31, 2015, requires providers of value-added telecommunications services such as search engine, e-commerce platform, app store and social media platform to clean up “caller ID spoofing” software, which causes a caller ID display showing a phone number different from that of the telephone from which the call was placed, from their platforms. Platforms are required to take steps, such as blocking keywords and downloads, to stem the spread of such software. The Implementation Opinions of MIIT on Further Preventing and Combating Telecommunications Fraud (《工業和信息化部關於進一步防範和打擊通訊信息詐騙工作的實施意見》), which were promulgated by MIIT with immediate effect on November 17, 2016, reemphasizes the requirements to clean up “caller ID spoofing” software and requires value-added telecommunications service providers to improve personal data protection.

Regulations on Foreign Investment

Foreign direct investment in telecommunications companies in the PRC is primarily governed by the Administrative Provisions on Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》), which were promulgated by State Council on December 11, 2001 and last amended with immediate effect on February 6, 2016. These regulations provide the foreign investors may acquire up to 50% of the equity interests of foreign invested value-added telecommunications enterprises in the PRC, unless otherwise provided under applicable laws and regulations. In addition, the primary foreign investor must demonstrate a good track record and experience in operating a value-added telecommunications business. Moreover, foreign investors that meet these requirements must obtain approvals from MIIT and MOFCOM (or its authorized local counterparts) for conducting value-added telecommunications business in the PRC.

Policies related to Internet Industry

The Internet industry benefits from a series of policies that are designed to promote and regulate the industry’s development.

The Decision of State Council on Accelerating the Cultivation and Development of Strategic Emerging Industries (《國務院關於加快培育和發展戰略性新興產業的決定》), which was issued by State Council on October 10, 2010 with immediate effect, encourages innovation and calls for developing emerging industries that have strategic value into the leading industries and pillar industries of the national economy. The decision also promotes strengthening service capabilities related to software services, Internet value-added services and other information services, accelerating intelligent upgrades to critical infrastructure facilities, and developing digital and virtual technologies as well as cultural and creative industries.

The Guidelines of State Council on Promoting the Orderly and Healthy Development of the Internet of Things (《國務院關於推進物聯網有序健康發展的指導意見》), which were issued by State Council on February 5, 2013 with immediate effect, promotes integrating IoT with technologies such as the next generation of mobile communication, cloud computing, the next generation of Internet and satellite communication. These guidelines also encourage exploring new cooperation models to achieve mutual benefits among upstream and downstream businesses along the IoT industry chain, support businesses to

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develop IoT services and value-added services that can grow market demand and promote the commercialization of application services. In addition, pursuant to these guidelines, China will develop the service outsourcing industry and foster emerging services industries.

The Opinions of State Council on Promoting the Innovative Development of Cloud Computing and Cultivating New Business Forms of the Information (《國務院關於促進雲計算創新發展培育信息產業新業態的意見》), which were issued by State Council on January 6, 2015 with immediate effect, support integrating cloud computing with technologies and services such as IoT, mobile Internet, Internet finance and e-commerce and innovative applications thereof. The opinions also encourage cultivating new business formats and models, sharing platform resources by large businesses and building a mutually beneficial ecosystem for cloud computing services.

The Guidelines of State Council on Vigorously Advancing the “Internet +” Action Plan (《國務院關於積極推進“互聯網+”行動的指導意見》) (the “Internet + Guidelines”), which were issued by State Council on July 1, 2015 with immediate effect, encourage large Internet companies and basic telecommunication operators to leverage their technology and integration capabilities and promote small businesses and startups through:

- opening resources such as platform access, data and computing capacity;
- providing research and development tools, and support and services related to operations and marketing;
- increasing digitalization of small businesses; and
- fostering startups with promising commercial models.

These guidelines also promote the orderly development of the Internet finance industry, which improves the industry’s service capabilities and degree of inclusion, and aim to foster influential innovators in the industry by encouraging businesses to offer innovative Internet-based banking, securities, insurance and fund products and services to satisfy distinct finance and investment demands of the real economy.

The Outline of the 13th Five-Year Plan for the National Economic and Social Development of the People’s Republic of China (《中華人民共和國國民經濟和社會發展第十三個五年規劃綱要》) (the “13th Five-Year Plan Outline”), which was published by the National People’s Congress on March 16, 2016 with immediate effect, supports, among other things, the development of new generation information technology and digital innovation. Pursuant to this outline, China will implement the “Internet +” initiative and promote wider application of Internet, which in turn drives the transformation of production models and the formation of a new pattern of industrial development that is Internet-based, intelligent, service-oriented, and coordinated. In addition, China will accelerate efforts to promote innovations in Internet-based business models, service models, management models, supply chains, and logistics chains, cultivate the “Internet +” ecosystem, as well as ensure the formation of a new pattern of Internet-based collaboration and division of work.

The Circular of State Council on Issuing the 13th Five-Year National Plan for the Development of Strategic Emerging Industries (《“十三五”國家戰略性新興產業發展規劃》), which was issued by State Council on November 29, 2016 with immediate effect, sets out additional policy support for the Internet industry. Pursuant to this circular, China will implement Internet power strategy, accelerate building “Digital China” and promote the application and penetration level of technologies such as IoT, cloud computing and AI, with

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the aim of forming a new generation of the information technology industry that is connected, innovative, intelligent, collaborative, secured and controllable. In addition, China will carry out the “Internet +” action plan that is designed to promote the integration of the new generation of information technology with the economy and society, which entails the integration of technologies such as mobile Internet, cloud computing and IoT with agriculture, energy, finance, commerce and logistics and the integration of Internet with manufacturing. The concept contemplated in the “Internet +” action plan will be applied to areas of daily life and public services, which drives services related to healthcare, education, social security, employment, transportation and tourism becoming smart.

The 13th Five-Year National Plan for Informatization (《“十三五”國家信息化規劃》), which was issued by State Council on December 15, 2016 with immediate effect, encourages Internet-based innovations and promotes the establishment of a digital market system that is fair, transparent, open, trusting and inclusive. The plan reiterates the “Internet +” action plan. Pursuant to this plan, China will promote the development and integration of new generation information technologies such as broadband network, mobile network, IoT, cloud computing, big data, and triple play as well as the orderly development of Internet finance and financial information services.

The Opinions on Promoting the Sound and Orderly Development of the Mobile Internet (《關於促進移動互聯網健康有序發展的意見》) (the “Mobile Internet Opinions”), which were issued by the Central Committee of the Communist Party of China and State Council in January 2017 with immediate effect, provide more detail on the policy support for mobile Internet. In particular, these opinions aim to foster and regulate the newly emerged sharing economies such as mobile Internet-based ridesharing, property leasing and payment.

The Notice on Further Development of the Mobile Internet of Things (《關於深入推進移動物聯網全面發展的通知》), which was issued by MIIT on April 30, 2020 with immediate effect, provides policy support for the development of mobile IoT. Pursuant to this notice, China will increase the application of mobile IoT in areas such as manufacturing, storage and logistics, smart agriculture and smart healthcare as part of the industry digitalization, which will improve data collection and production efficiency.

Regulations on Anti-Money Laundering and Anti-Terrorism Financing

AML and anti-terrorism financing obligations applicable to our digital payment services, our various licensed financial services subsidiaries, our associates and our partner financial institutions are primarily regulated by the PBOC. CSRC and CBIRC also have regulatory authority in this regard pursuant to their statutory mandate.

The Anti-Money Laundering Law of the PRC (《中華人民共和國反洗錢法》) (the “AML Law”) was promulgated by the Standing Committee of the National People’s Congress of on October 31, 2006 and came into effect on January 1, 2007. The AML Law sets out the legal framework for the AML regime, providing that financial institutions should comply with various AML requirements, including establishing an internal control system and designating an internal department to monitor and control money laundering activities. The Provisions on Anti-Money Laundering for Financial Institutions (《金融機構反洗錢規定》), which were promulgated by the PBOC on November 14, 2006 and came into effect on January 1, 2007, provide that PBOC is the supervisory body for financial institutions’ compliance with anti-money laundering requirements and sets out PBOC’s responsibilities on AML supervision and regulation. The Provisions also implement the AML Law by

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setting out detailed requirements for financial institutions including the establishment of a sound internal control system, client identification system and record-keeping system for client identification information and transaction information and the reporting of large-value or suspicious transactions.

PBOC’s supervisory measures are further specified in the Anti-money Laundering Supervisory Measures for Finance Institutions (Provisional) (《金融機構反洗錢監督管理辦法(試行)》) (the “AML Supervisory Measures”), which were promulgated by the PBOC with immediate effect on November 15, 2014. The AML Supervisory Measures provide that financial institutions are required to have designated officers periodically report AML activities and related information to PBOC or its local counterpart, which should truthfully reflect reporting entities’ AML practice. PBOC can conduct onsite and offsite inspections of financial institutions’ compliance with AML requirements.

The Implementation Measures on the Anti-money Laundering by Securities and Futures Industry (《證券期貨業反洗錢工作實施辦法》) which took effect on October 1, 2010, further specifies the AML regulations for the securities and futures industry, as well as the AML responsibilities of the institutions engaging in sales of funds in their business operation. Securities and futures entities shall establish internal control systems for AML.

The requirements for client identification system and record-keeping system for client identification information and transaction information is further specified in the Measures on Administration of Identification of Clients and Preservation of Client Identity Information and Trading Records of Financial Institutions (《金融機構客戶身份識別和客戶身份資料及交易記錄保存管理辦法》), which were jointly issued by the PBOC, CSRC and the former China Banking Regulatory Commission and the former China Insurance Regulatory Commission on June 21, 2007, and came into effect on August 1, 2007, as well as the PBOC’s Notice on Strengthening the Client Identification for Anti-money Laundering (《中國人民銀行關於加強反洗錢客戶身份識別有關工作的通知》), which was promulgated by the PBOC on October 20, 2017 with immediate effect.

The reporting obligations are provided for in more detail in a series of measures and circulars published by the PBOC, including the Large-value Transactions and Suspicious Transactions Reporting Measures for Financial Institutions (《金融機構大額交易和可疑交易報告管理辦法》), which were initially promulgated on November 14, 2006 and last amended with immediate effect on July 26, 2018 by the PBOC. These measures detail the implementing measures for reporting large-value transactions and suspicious transactions by financial institutions, including, among other things, reporting standards, requirements for sound internal control and monitoring system, requirements for designated positions for AML, and obligations to monitor watch lists of suspected terrorist organizations and individuals.

Aside from the above obligations, the Provisional Guidance on Risk Management of Money Laundering and Terrorism Financing of Corporate Financial Institutions (《法人金融機構洗錢和恐怖融資風險管理指引(試行)》), which was promulgated by the PBOC on September 29, 2018 and came into effect on January 1, 2019, requires corporate financial institutions to establish a risk management system to detect and prevent money laundering and terrorism financing activities and sets out detailed requirements for various aspects of such system, including risk management structure, strategies, methodologies, implementing measures, information system, internal inspection, auditing, performance assessment and reward and penalty mechanisms.

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Regulations on Consumer Protections

The Law on Protection of Consumers’ Rights and Interests of the PRC (《中華人民共和國消費者權益保護法》) (the “Consumer Protection Law”), which was promulgated by the Standing Committee of the National People’s Congress on October 31, 1993 and last amended on October 25, 2013 with effect from March 15, 2014, sets out the obligations of business operators and the rights and interests of the consumers. Business operators must guarantee the quality, function, usage and term of validity of the goods or services they sell or provide. The consumers whose interests have been damaged due to their purchase of goods or acceptance of services on online platforms may claim damages from the sellers or service providers. Online platform operators may be subject to liabilities if the lawful rights and interests of consumers are infringed in connection with consumers’ purchase of goods or acceptance of services on online platforms and the platform operators fail to provide consumers with authentic contact information of the sellers or service providers. In addition, platform operators may be jointly and severally liable with the sellers and service providers if they are aware or should be aware that the sellers or the service providers are using the online platform to infringe upon the lawful rights and interests of consumers and fail to take measures necessary to prevent or stop this activity.

The Consumer Protection Law also provides principles of legality, appropriateness and necessity for collecting or using consumers’ personal data. In particular, businesses operators should disclose the purposes, methods and scopes of collecting and using personal data and obtain consumers’ consent. Business operators should also disclosure the terms for its data collection and use and should not collect or use information in violation of laws, regulations or agreements with consumers. Businesses operators should main confidentiality of the personal data collected from consumers and should not leak or sell personal data and should not provide personal data in violation of laws to third parties. They should also adopt technical and other necessary measures to ensure security of personal data, and to safeguard against information leak and loss. In case of information leak or loss, remedial measures should be taken by the business operators.

Regulations on Digital Payment

Our digital payment business is primarily regulated by the PBOC, as well as SAFE with respect to any cross-border foreign exchange payment transactions. See “— Regulations on Cross-Border Payment” for further details on the related regulations.

Payment License

According to the Administrative Measures on Non-Financial Institutions Payment Services (《非金融機構支付服務管理辦法》) (“the Decree No. 2 of PBOC”), which was promulgated by the PBOC on June 14, 2010 and came into effect on September 1, 2010, and the Implementation Rules for the Administrative Measures on Non-Financial Institutions Payment Services (《非金融機構支付服務管理辦法實施細則》), which were promulgated by the PBOC with immediate effect on December 1, 2010, “payment services provided by non-financial institutions” refers to all or a portion of the money transfer services provided by non-financial institutions as intermediaries between payers and payees, including online payment, issuance and acceptance of prepaid cards, bankcard acquiring and other payment services determined by the PBOC. Non-financial institutions are required to obtain a payment service license from PBOC (《中華人民共和國支付業務許可證》) (the “Payment License”) before engaging in payment business. A payment institution should only engage in business activities in accordance with the business scope approved in its Payment License and should refrain from engaging in payment services beyond the approved

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business scope or assigning, leasing or lending its Payment License. The payment license has a term of five years and can be renewed within six months prior to the expiration of the term. Our Payment License allows us to provide online payment services, mobile payment services, issuance and acceptance of prepaid cards (which is limited to top up authenticated online accounts) and bankcard acquiring services.

Regulations on Online Payment

The Administrative Measures on Online Payments by Non-bank Payment Institutions (《非銀行支付機構網絡支付業務管理辦法》) (the “Administrative Measures on Online Payment”) were promulgated by the PBOC on December 28, 2015 and came into effect on July 1, 2016. According to the Administrative Measures on Online Payment, “online payment services” refers to money transfer services provided by payment institutions when a payer and a payee, through computers and mobile terminals, remotely initiate payment instructions relying on public network information systems with no interaction between the payer’s electronic device and the payee’s personal equipment.

The Administrative Measures on Online Payment set out requirements on various aspects of online payment, including business scope, limitations on payment, client management, risk management, supervision and penalty. Specifically, they require payment institutions to establish a “know your customer” system. Accounts should be opened on a real-name basis and payment institutions should take steps to verify clients’ identification information and link different accounts of the same client. Personal payment accounts are divided into Type I, II and III depending on the identity verification methods and the reliability of such verification, and are regulated differently. Type I and Type II payment accounts can only be used for consumption and fund transfer. Type III payment accounts can be used for consumption, fund transfer and investments and have higher payment limits.

The Administrative Measures on Online Payment also require payment institutions to have risk management in place and to protect clients’ rights and interests. They require payment institutions to establish a transaction risk management system and transaction monitoring system and take steps, such as investigation, delaying settlement and termination of services, to stop suspected fraud, illegal cash-out, money laundering, illegal financing, terrorist financing and the like. In addition, payment institutions are required to protect clients’ funds security, data security, right of choice and information rights. Specifically, payment institutions should establish a sound risk control system and transaction compensation system, and should compensate clients for any loss of funds that are not attributable to such clients’ negligence or bad faith.

The Guidance Letter on Promoting the Sound Development of Internet Finance (《關於促進互聯網金融健康發展的指導意見》) (the “Internet Finance Guidance Letter”), jointly issued by the PBOC and several other authorities with immediate effect on July 14, 2015, provides that banking financial institutions and third-party payment institutions that are engaged in online payment services should comply with applicable laws and regulations. When collaborating with other institutions, third-party payment institutions are required to clearly define each party’s rights and obligations and establish effective risk insulation and mechanisms to protect clients’ rights. Payment institutions should make adequate disclosure regarding their services and clear disclosure regarding risks related to their businesses and should avoid exaggerating the nature and functions of the payment service intermediaries. The Internet Finance Guidance Letter also confirms PBOC as the supervisory body of online payment businesses.

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The Notice on the Transfer of the Online Payment Business of Non-bank Payment Institutions from the Direct-Connection Mode to the NetsUnion Platform (《關於將非銀行支付機構網絡支付業務由直連模式遷移至網聯平臺處理的通知》) issued by the PBOC on August 4, 2017, requires all online payments involving bank accounts that are cleared through non-bank payment institutions to be processed via NetsUnion, which is a network payment and clearing platform for non-bank payment institutions developed by the Payment and Clearing Association of China.

Regulations on Bankcard Acquiring Business

Under Administrative Measures on Bankcard Acquiring Services (《銀行卡收單業務管理辦法》) (the “Measures on Bankcard Acquiring”), which were promulgated by the PBOC on July 5, 2013 with immediate effect, bankcard acquiring services refer to transaction funds settlement services provided by bankcard acquirers to their merchant clients pursuant to the respective bankcard acceptance agreements between the bankcard acquirers and their merchant clients. The transaction funds settlement service is provided once the merchant clients have accepted cardholders’ payment cards and closed transactions with cardholders. Bankcard acquirers include payment institutions which provide offline merchants with bankcard acceptance and settlement services under a Payment License of bankcard acquiring as well as payment institutions which provide Internet merchants with bankcard acceptance and settlement services under a Payment License of network payment.

The Measures on Bankcard Acquiring require bankcard acquirers to protect the legitimate rights and interests of the parties concerned, ensure data security and transaction security as well as comply with AML laws and regulations. In addition, the Measures on Bankcard Acquiring set out specific requirements with respect to merchant management, operations and risk management, including:

- to separately conduct risk ratings with respect to offline merchants and online merchants;
- to adopt inspection mechanisms with respect to merchants’ transactions and business operations;
- to establish a risk monitoring system with respect to bankcard acquiring services; and
- to set up review mechanisms for merchants’ designating and changing bank settlement accounts for accepting bankcards.

Regulations on the Management of Client Reserve Funds

The Decree No. 2 of PBOC stipulates that the paid-in cash capital of a non-bank payment institution should be more than 10% of the daily average balance of client reserve funds. According to the Decree No. 2 of PBOC, (i) the client reserve funds received by payment institutions should not constitute such payment institutions’ own assets; (ii) payment institutions should transfer client reserve funds pursuant to the payment instructions given by their clients; and (iii) payment institutions should not embezzle client reserve funds in any form. The Administrative Measures on the Custody of Client Reserve Funds of Payment Institutions (《支付機構客戶備付金存管辦法》) (“Measures on the Custody of Reserve Funds”), which was promulgated by the PBOC with immediate effect on June 7, 2013, details restrictions on the actions (including deposit, accumulation, usage and

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transfer) that can be taken with respect to clients’ reserve funds in the custody of payment institutions. It also sets out the eligibility requirements for depository banks, supervisory measures with respect to payment institutions and penalties.

According to the Notice on the Implementation of Centralized Deposit of Clients’ Reserve Funds of the Payment Institution issued by the General Office of the PBOC (《中國人民銀行辦公廳關於實施支付機構客戶備付金集中存管有關事項的通知》), which was promulgated by the General Office of the PBOC with immediate effect on January 13, 2017 and the Notice of the General Office of PBOC on Matters concerning the Centralized Deposit of the Full Amount of Clients’ Reserve Funds of Payment Institutions (《中國人民銀行辦公廳關於支付機構客戶備付金全部集中交存有關事宜的通知》), which was promulgated by PBOC with immediate effect on June 29, 2018, payment institutions should deposit all clients’ reserve funds received in connection with their payment services to designated deposit accounts opened with a depository bank.

Regulations on Barcode/QR code Payment Business Standard

According to the Rules for the Barcode Payment Business Standard (Provisional) (《條碼支付業務規範(試行)》) (the “Barcode Rules”), which was issued by the PBOC on December 25, 2017 and came into effect on April 1, 2018, barcode/QR code payment business refers to payment services offered by banking financial institutions or non-bank payment institutions in reliance on barcode/QR code technologies, which enables money transfers through scanning barcode/QR code, such as payment code or receipt code. The Barcode Rules provides that non-bank payment institutions engaging in barcode/QR code payment business should be licensed and comply with rules and regulations related to payment business. All barcode/QR code transactions will be settled via a clearing system supervised by the PBOC.

The Notice by the General Administration Department of PBOC for Enhancing the Security Management of QR Payment (《中國人民銀行辦公廳關於加強條碼支付安全管理的通知》), together with the Technical Specifications for Barcode Payment Security (Provisional) (《條碼支付安全技術規範(試行)》) and the Technical Specifications for Barcode Payment Terminals (Provisional) (《條碼支付受理終端技術規範(試行)》) included therein, which were promulgated by the PBOC with immediate effect on December 22, 2017, set out the operational standards and technical specifications for barcode/QR code payment services.

Regulations on Cross-border Payment

The cross-border payment business is primarily regulated by SAFE. The Circular on Administrative Measures for the Foreign Exchange Business of Payment Institutions (《支付機構外匯業務管理辦法》), which was promulgated by SAFE with immediate effect on April 29, 2019, adopts a SAFE registration regime for foreign exchange business conducted by payment institutions. It also provides for requirements as to (i) trading parties’ verification and management, such as “know your customer” and “know your business” procedures, (ii) underlying transaction review and verification, (iii) account management and (iv) information collection and reporting. In addition, cross-border payment is subject to the Regulation of the People’s Republic of China on Foreign Exchange Administration (《中華人民共和國外匯管理條例》), which was promulgated by State Council on January 29, 1996 and last amended with immediate effect on August 5, 2008 and the Procedures for Reporting Balance of International Payments (《國際收支統計申報辦法》), which were promulgated by the PBOC (as authorized by the State Council) on September 14, 1995 and amended on November 9, 2013 with effect from January 1, 2014.

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Regulations on AML and Anti-fraud in the Payment Industry

In addition to generally applicable AML laws and regulations, payment institutions’ AML obligations are further specified in the Anti-Money Laundering and Anti-Terrorism Financing Measures for Payment Institutions (《支付機構反洗錢和反恐怖融資管理辦法》) (the “AML and Anti-Terrorism Financing Measures for Payment Institutions”), which were promulgated by the PBOC with immediate effect on March 5, 2012. The AML and Anti-Terrorism Financing Measures for Payment Institutions stipulate that payment institutions are required to carry out the obligations of AML and anti-terrorism financing in accordance with the law. The main aspects of these obligations include client identification, client identification information and transaction record-keeping, suspicious transaction reporting and AML and anti-terrorism financing surveying.

The Notice of PBOC on Strengthening Payment and Settlement Management to Prevent New Telecommunications Crimes (《中國人民銀行關於加強支付結算管理防範電信網絡新型違法犯罪有關事項的通知》), which was promulgated by the PBOC with immediate effect on September 30, 2016, prohibits any non-bank payment institution from opening more than one Type III payment account for the same client starting from December 1, 2016. Each Type III payment account can be used for consumption, fund transfer and purchase of financial products, subject to an annual payment limit of RMB200,000. Non-bank payment institutions should strengthen their surveillance of suspicious transactions. If an account of any account holder is suspected of crimes as notified by local public security bureaus, non-bank payment institutions should suspend transactions of all accounts of such account holder.

Policies related to Payment Industry

Under the Opinions on Promoting Information Consumption and Boosting Domestic Demand (《關於促進信息消費擴大內需的若干意見》) (the “Expanding Consumption Opinions”), which were issued by State Council on August 8, 2013 with immediate effect, China undertakes to promote cross-industry businesses such as mobile payment, improve Internet payment system, accelerate the pilot city program for e-commerce and implement a pilot policy program for Internet e-invoices and trusted transactions. China also supports Internet based financial innovations and normalized Internet based financial services. It also supports the development of a multi-layered payment system through measures such as certifying payment facilities of non-financial institutions and building a secured and trusted public service platform for mobile finance. Relatedly, China is committed to further develop a national basic database, credit information basic database and other databases to support the social credit system.

Pursuant to the Notice on Issuing the Plan for Advancing the Development of Inclusive Finance (2016-2020) (《關於印發推進普惠金融發展規劃(2016-2020年)的通知》) (the “Inclusive Finance Notice”), which was issued by State Council on December 31, 2015 with immediate effect, China encourages Internet payment institutions to facilitate the development of e-commerce, providing small, speedy and convenient payment services and improving payment efficiency. In addition, Internet finance platforms are encouraged to address the financing needs of small businesses, farmers and disadvantaged groups.

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Regulations on Digital Finance Technology Platform

Our digital finance technology platform businesses comprise: (i) CreditTech services; (ii) InvestmentTech services; and (iii) InsureTech services. We provide various technology services to our partner financial institutions to efficiently provide credit, investment and insurance products. We also provide these products through our various licensed financial services subsidiaries.

Our partner financial institutions, primarily banks, including MYbank, our associate, asset managers and insurance companies, are primarily regulated by the PBOC, CBIRC and CSRC according to various laws and regulations. These laws and regulations generally do not directly apply to us, but could potentially affect our cooperation with these partner financial institutions. See “Risk Factors — Risks Related to Our Business and Industry — The financial services industry is subject to evolving and extensive regulation,” “— Our licensed financial services subsidiaries and associate are subject to evolving and extensive regulation,” “— The laws and regulations governing the online lending and consumer finance industry in China are evolving, and our business operations have been and may need to continue to be modified to ensure full compliance with relevant laws and regulations,” “— The PRC regulatory environment for asset management industry is evolving, and we are susceptible to changes in regulations and government policies,” and “— The insurance industry is highly regulated in China. Non-compliance with the evolving laws and regulations may materially and adversely affect our business and prospects.”

CreditTech

For our CreditTech services, we partner with financial institutions, primarily banks, to provide consumer credit and SMB credit on our platform. In addition, Chongqing Ant Shangcheng Micro Loan Co., Ltd. and Chongqing Ant Small and Micro Loan Co., Ltd., our licensed small loan subsidiaries, also provide consumer credit loans through our platform and are regulated by Chongqing Local Financial Regulatory Bureau according to laws and regulations applicable to the microcredit industry.

These companies are primarily regulated by the provincial governments of where they are established, pursuant to the Guidance on the Pilot Program for Small Loan Companies (《關於小額貸款公司試點的指導意見》) (the “Small Loan Companies Guidance”), which was jointly issued by the PBOC and the former China Banking Regulatory Commission with immediate effect on May 4, 2008. The Small Loan Companies Guidance also sets out requirements on various aspects of small loan companies, including their legal forms, incorporation process, capital sources, capital utilization, interest rate, loss provision and supervisory policies. Under the Internet Finance Guidance Letter, Internet finance institutions should clearly define their role as information intermediary, which entails providing information services to the parties directly involved in credit transactions. Internet finance institutions are prohibited from providing credit enhancement services or conducting fundraising activities illegally. Internet small loan businesses should comply with the regulations on small loan business. As our licensed small loan companies were established in Chongqing municipality, they are subject to the rules and regulations adopted by the Chongqing municipal government with respect to small loan companies. The Provisional Regulatory Guidance of the Chongqing Municipality Government for Small Loan Companies’ Online Lending Business (《重慶市小額貸款公司開展網絡貸款業務監管指引（試行）》) (the “Chongqing Guidance”), which was issued by the Financial Affairs Office of the Chongqing Municipality Government on December 25, 2015 with immediate effect, sets out the entry requirements and risk management requirements for small loan companies engaging in online lending business, as well as oversight measures for the

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industry in Chongqing. Under the Chongqing Guidance, subject to filings with the local financial regulatory bureau, small loan companies licensed in Chongqing can conduct self-operated online lending business nationwide.

The way that we cooperate with our partner financial institutions is affected by rules and regulations on these partners. On July 12, 2020, the CBIRC issued the Provisional Regulatory Measures for Commercial Banks’ Online Lending Business (《商業銀行互聯網貸款管理暫行辦法》) (the “Online Lending Measures”) to provide for the regulatory requirements on the extension of credit by commercial banks via online channels in various aspects. The Online Lending Measures explicitly forbid borrowers from purchasing real property, stocks, bonds, futures, financial derivatives, and asset management products and making other riskier investments with bank loans issued online. In addition, according to the Online Lending Measures, commercial banks should cap online consumer credit lines for each customer at RMB200,000, and the credit extension period should not exceed one year if the principal is repaid in a lump sum upon maturity. Although the Online Lending Measures have not restricted the establishment of uniform quantitative indicators for local commercial banks to carry out cross-regional Internet loan business, commercial banks are required to conduct such business prudently based on their own risk control capability and build a comprehensive risk management system for online lending business (including co-lending business). Meanwhile, the Online Lending Measures tighten the requirement on the co-lending business between banks and online lending and consumer finance lenders and prohibit banks from co-lending to customers with institutions that do not possess proper lending licenses.

InvestmentTech

For our InvestmentTech services, we partner with financial institutions, primarily asset management companies, to provide investment products through our platform. In addition, Tianhong, our licensed asset management subsidiary, also offers investment products through our platform and is regulated by CSRC according to laws and regulations applicable to the asset management industry as detailed below.

The Securities Investment Fund Law of the PRC (《中華人民共和國證券投資基金法》) (the “Securities Investment Fund Law”), which was promulgated by the Standing Committee of the National People’s Congress on December 28, 2012 and amended with immediate effect on April 24, 2015, provides the legal framework for regulating securities investment funds. The Securities Investment Fund Law sets out the eligibility requirements and responsibilities of publicly-offered funds’ managers and of their directors, supervisors and senior management. It also regulates various aspects of publicly-offered funds’ operations and organization, including offering process, trading of fund units, subscription and redemption.

In addition, CSRC has adopted regulations that are applicable to securities investment fund management companies. The Measures for the Administration of Securities Investment Fund Management Companies (《證券投資基金管理公司管理辦法》), which came into effect on November 11, 2012 by CSRC and were amended with immediate effect on March 20, 2020, provide for the qualification requirements of fund management companies and their shareholders, the requirements on effecting changes to shareholders and articles of association, etc. and dissolution, and the requirements on establishing subsidiaries and branches and on effecting changes to, or dissolving of, these entities. These measures also set out requirements on corporate governance and fund operation and administration. The Administrative Measures for the Operation of Publicly-offered Securities Investment Funds

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(《公開募集證券投資基金運作管理辦法》), which came into effect on August 8, 2014, set out various requirements related to publicly-offered securities investment funds’ operations, including funds offering, subscription, redemption, trading of fund units, investment of fund assets and profit distribution.

Fund sales are regulated by CSRC through a series of regulations, including the Administrative Measures for Sales of Securities Investment Funds (《證券投資基金銷售管理辦法》) (the “Fund Sales Measures”), which were promulgated by CSRC on March 15, 2013 and came into effect on June 1, 2013. Fund sales agencies are required to conduct due diligence on fund managers, evaluate fund products’ risk levels, evaluate investors’ risk tolerance and solicit suitable investors. The Fund Sales Measures set out entry requirements for fund sales agencies and standards on payment and settlement, promotion and solicitation, and other aspects of fund sales.

The investment products that our partner asset managers offer on our platform are affected by rules and regulations on these partners. The Guiding Opinions on Regulating the Asset Management Business of Financial Institutions (《關於規範金融機構資產管理業務的指導意見》) jointly issued by the PBOC, CBIRC, CSRC and SAFE on April 27, 2018, impose new requirements on the asset management industry, and prohibit financial institutions from, among other things:

- guaranteeing principal or investment return in connection with the asset management business;
- providing direct or indirect, explicit or implicit guarantees, repurchase or other risk-bearing commitments to non-standard debt investments or equity investments underlying the asset management products they offer; and
- providing conduit services that can be used to circumvent restrictions on investments, leverage ratio or other requirements by asset management products offered by other financial institutions.

In addition, non-financial institutions are prohibited from using intelligent investment consulting services to exceed their permitted business scope or conducting disguised asset management business.

InsureTech

For our InsureTech services, we partner with financial institutions, primarily insurance companies, to provide insurance products through our platform. In addition, Cathay Insurance, our licensed insurance subsidiary, also offers insurance products through our platform and is regulated by CBIRC according to laws and regulations applicable to the insurance industry as detailed below.

The Insurance Law of the PRC (《保險法》) (the “Insurance Law”), which was promulgated by the Standing Committee of the National People’s Congress on June 30, 1995 and last amended with immediate effect on April 24, 2015, sets out the legal framework for regulating the insurance industry. The Insurance Law comprises general principles, insurance contracts, insurance companies, insurance operational standards, supervision and regulation of the insurance industry, insurance agencies and insurance brokers, legal liabilities and supplementary provisions. Since the promulgation of the Insurance Law, CBIRC and its predecessor have published a series of rules and regulations implementing the Insurance Law.

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The organization of insurance companies is regulated by the Administrative Regulations for Insurance Companies (《保險公司管理規定》) (the “Administrative Regulations for Insurance Companies”), which were promulgated by the former China Insurance Regulatory Commission on September 25, 2009 and amended with immediate effect on October 19, 2015. The Administrative Regulations for Insurance Companies set out regulations on the organization of insurance companies, branch establishment, change in organization structure, dissolution and deregistration, branch management, insurance operations and supervision.

The Interim Measures for the Supervision of the Internet Insurance Business (《互聯網保險業務監管暫行辦法》) (the “Internet Insurance Business Measures”), which were promulgated by the former China Insurance Regulatory Commission on July 22, 2015 and came into effect on October 1, 2015, set out regulations on “Internet insurance business”, which refers to utilizing Internet, mobile communications, or other technologies to form insurance contracts or provide insurance services through self-operated network platforms or third-party network platforms. These interim measures provide for, among other things, qualifying criteria for operating network platforms and disclosure and operational standards for Internet insurance business.

On June 22, 2020, the CBIRC published the Notice on Regulating the Backtracking Management of Online Insurance Sales Behavior (《關於規範互聯網保險銷售行為可回溯管理的通知》) (the “Online Insurance Sales Notice”) with effect from October 1, 2020. The Online Insurance Sales Notice sets out requirements on various aspects of online sales by insurance institutions, including sales practices, record-keeping for backtracking sales, and disclosure requirements. For example, the Online Insurance Sales Notice requires that online sales pages should be displayed only on insurance institutions’ self-operated online platforms and should be separated from non-sales pages. Insurance institutions should keep records for five years after the expiry of the policy for policies with a term of one year or less and for ten years for policies with a term longer than one year for purposes of backtracking sales. It also requires that important insurance clauses should be presented on a separate page and be confirmed by policyholders or insureds.

Policies related to Digital Finance Technology Platform

Our digital finance technology platform business benefits from policy support. Pursuant to the Opinions on Promoting Informatization and Protecting Data Security (《關於大力推進信息化發展和切實保障信息安全的若干意見》), which were issued by State Council on June 28, 2012 with immediate effect, China will promote information sharing across banking, securities and insurance industries and support innovations in financial products and services. China will also promote the development of consumer finance and improve financial services to small businesses, agriculture and rural areas.

Pursuant to the Expanding Consumption Opinions, China encourages financial institutions to provide small loans to small and medium sized e-commerce businesses and promotes the application of e-commerce by all small businesses. China will promote community e-commerce, e-commerce for agricultural products and encourage e-commerce businesses to expand into other jurisdictions through establishing platforms that facilitate cross-border e-commerce’s clearance of customs and cross-border trade platforms as well as implementing regulatory measures tailored for cross-border e-commerce. Financial institutions should prioritize support to Internet small businesses in accordance with the financial policies supporting small businesses’ development.

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Pursuant to the Inclusive Finance Notice, China undertakes to promote innovative small loans to small businesses, college graduates, farmers and disadvantaged groups. In addition, Internet finance platforms are encouraged to leverage their broad user base and ready access to capital to address the financing needs of small businesses, farmers and disadvantaged groups.

Pursuant to the 13th Five-Year Plan Outline, China will support the development of new consumption models that connect online and offline activities and the development of inclusive finance. China also will establish a multi-layered, broad and differentiated banking system, expand investment from private capital in banking industry, promote inclusive finance and small and micro financial entities’ presence across different business formats while bring the development of Internet finance into line with industry standards.

Pursuant to the Guidelines on Enhancing the Financial Support for New Consumption Areas (《關於加大對新消費領域金融支持的指導意見》), which were issued by the PBOC and CBIRC on March 24, 2016 with immediate effect, China will promote the integration of consumer finance with Internet technologies, encourage bank financial institutions to design standardized Internet small loan products based on technologies such as big data analytics and promote revolving credit products as well as consumer loan platforms.

Pursuant to the Opinions on Accelerating the Development of Circulation Industry and Promoting Consumer Spending (《關於加快發展流通促進商業消費的意見》), which were issued by State Council on August 16, 2019 with immediate effect, financial institutions are encouraged to design innovative consumer credit products and services. In addition, China seeks to increase policy support for financial services catering to new consumption areas and promote the development of businesses that are specialized in consumer finance.

Pursuant to the Guidelines on Promoting the High-Quality Development of the Banking and Insurance Industry (《關於推動銀行業和保險業高質量發展的指導意見》), which were issued by CBIRC on December 30, 2019, China will increase its support to the refinancing needs of non-state owned businesses and small businesses and increase the proportion of credit loans and medium and long term loans provided to such businesses. China will seek to develop supply chain financing services and explore the application of financial technologies in areas such as credit assessment, credit approval and risk management, which will help expand the coverage of financial services. If the risks are controllable, loan protection insurance products can be provided to loans incurred by non-state owned businesses and small businesses.

Regulations on our Innovation Initiatives Business

We provide innovation technology services to various businesses and partners, including blockchain, cloud computing and database services. We have established an industry-leading blockchain ecosystem, that we call AntChain, with extensive large scale commercial applications. As such, our innovation initiatives business is subject to the following laws and regulations.

The Cyberspace Administration of China issued the Administrative Provisions on Blockchain Information Services (《區塊鏈信息服務管理規定》) (the “Blockchain Provisions”) on January 10, 2019, which came into effect on February 15, 2019. The Blockchain Provisions is the first set of official rules to regulate the blockchain industry. It applies to blockchain information services, which are defined as information services delivered to the public by way of Internet or application programs based on blockchain technology or systems. Under the Blockchain Provisions, the central and local Cyberspace

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Administration of China authorities will take charge of supervision and management of blockchain services and blockchain services providers are required to register with the Cyberspace Administration of China. In addition, the Blockchain Provisions require blockchain service providers to:

- fulfill data security management responsibilities;
- establish a sound management system for user registration, information verification, emergency response and security;
- maintain technology capabilities that can meet the demands of the services provided;
- adopt and publish management rules and platform conventions;
- enter into services agreements with blockchain services users;
- verify the identity of blockchain service users; and
- report to the Cyberspace Administration of China or its local counterparts and go through a security assessment when launching any new products, new application programs or new functions.

In addition, the Announcement on Preventing the Financing Risks of Initial Coin Offerings (《關於防範代幣發行融資風險的公告》), which was jointly issued by the PBOC, the Office of the Central Leading Group for Cyberspace Affairs, MIIT and several other regulators on September 4, 2017 with immediate effect and the Risk Alert related to Illegal Fundraising in Disguise of Virtual Currency and Blockchain (《關於防範以“虛擬貨幣”“區塊鏈”名義進行非法集資的風險提示》), which was announced by CBIRC on August 24, 2018, prohibit any entities or individuals from conducting initial coin offerings illegally. Financial institutions and non-bank payment institutions should not directly or indirectly provide products or services related to accounts opening, registration, trading, clearance or settlement in connection with any initial coin offerings or virtual currency offerings.

Other than the regulations on data security, data compliance, personal data protection and other specialized areas that apply to the Internet industry, there has not been an universal regulatory regime on AI as an emerging subindustry of the Internet industry. As the AI industry continues to develop, the regulatory regime will evolve to provide oversight.

APPENDIX V SUMMARY OF LEGAL AND REGULATORY MATTERS

This appendix sets forth summaries of certain aspects of PRC laws, PRC legal system and PRC corporate laws and regulations. Laws and regulations relating to taxation in the PRC are discussed separately in “Appendix III — Taxation and Foreign Exchange.” This appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain major differences between PRC and Hong Kong company laws, certain requirements of the Hong Kong Listing Rules and additional provisions required by the Hong Kong Stock Exchange for inclusion in the articles of association of PRC issuers.

The PRC Legal System

The PRC legal system is based on the PRC Constitution (《中華人民共和國憲法》) which was revised and took effect on March 11, 2018 (the “Constitution”), and is composed of laws, administrative regulations, local regulations, separate regulations, autonomous regulations, rules and regulations of departments, rules and regulations of local governments, international treaties to which the PRC Government is a signatory, and other regulatory documents. Judicial decisions do not constitute binding precedents. However, they may be used as judicial reference and guidance.

According to the Constitution and the Legislation Law of the PRC (《中華人民共和國立法法》) which was revised and took effect on March 15, 2015, the NPC and its Standing Committee are empowered to exercise the legislative power of the State. The NPC formulates and amends basic laws governing criminal and civil matters, state organs and other matters. The Standing Committee of the NPC formulates and amends laws other than those required to be enacted by the NPC and supplements and amends any parts of laws enacted by the NPC during the adjournment of the NPC, provided that such supplements and amendments shall not conflict with the basic principles of such laws.

The State Council is the highest administrative authority of the PRC and has the power to formulate administrative regulations based on the Constitution and laws. The people’s congresses of provinces, autonomous regions and municipalities and their respective standing committees may formulate local regulations based on the specific circumstances and actual demands of their own respective administrative areas, provided that such local regulations do not contravene any provision of the Constitution, laws or administrative regulations.

The ministries and commissions of the State Council, the People’s Bank of China, the National Audit Office, and institutions with administrative functions directly under the State Council, may formulate rules within the jurisdiction of their respective departments based on the laws and the administrative regulations, decisions and rulings of the State Council.

The people’s congresses of cities divided into districts and their respective standing committees may formulate local regulations on aspects such as urban and rural construction and management, environmental protection and historical and cultural protection based on the specific circumstances and actual demands of such cities, provided that such local regulations do not contravene any provision of the Constitution, laws, administrative regulations and local regulations of their respective provinces or autonomous regions. However, if there are separate provisions by laws on the formulation of local regulations by cities divided into districts, those provisions shall prevail. Such local regulations will become enforceable after being reported to and approved by the standing committees of the people’s congresses of the relevant provinces or autonomous regions. The people’s

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congresses of national autonomous areas have the power to enact autonomous regulations and separate regulations in light of the political, economic and cultural characteristics of the ethnic groups in the areas concerned.

The people’s governments of the provinces, autonomous regions and municipalities directly under the Central Government as well as cities divided into districts and autonomous prefectures may enact rules, in accordance with laws, administrative regulations and the local regulations of their respective provinces, autonomous regions or municipalities. The people’s governments of cities divided into districts and autonomous prefectures may only formulate local regulations in respect of urban and rural construction and management, environmental protection and historical and cultural protection. Local government regulations which have been enacted involving aspects other than those described above shall remain in effect.

The Constitution has supreme legal authority and no laws, administrative regulations, local regulations, autonomous regulations and separate regulations and rules may contravene the Constitution. The authority of laws is greater than that of administrative regulations, local regulations and rules. The authority of administrative regulations is greater than that of local regulations and rules. The authority of local regulations is greater than that of the rules of the local governments at or below the corresponding level. The authority of the rules enacted by the people’s governments of the provinces or autonomous regions is greater than that of the rules enacted by the people’s governments of the cities divided into districts within the administrative areas of the provinces and the autonomous prefectures.

The NPC has the power to alter or annul any inappropriate laws enacted by its Standing Committee, and to annul any autonomous regulations or separate regulations which have been approved by its Standing Committee but which contravene the Constitution or the Legislation Law. The Standing Committee of the NPC has the power to annul any administrative regulations that contravene the Constitution and laws, to annul any local regulations that contravene the Constitution, laws or administrative regulations, and to annul any autonomous regulations or separate regulations which have been approved by the standing committees of the people’s congresses of any provinces, autonomous regions or municipalities directly under the Central Government, but which contravene the Constitution and the Legislation Law. The State Council has the power to alter or annul any inappropriate rules and regulations of departments or rules of local governments. The people’s congresses of provinces, autonomous regions or municipalities directly under the Central Government have the power to alter or annul any inappropriate local regulations enacted or approved by their respective standing committees. The standing committees of the local people’s congresses have the power to annul any inappropriate rules enacted by the people’s governments at the corresponding level. The people’s governments of provinces and autonomous regions have the power to alter or annul any inappropriate rules enacted by the people’s governments at a lower level.

According to the Constitution, the power to interpret laws is vested in the Standing Committee of the NPC. According to the Resolutions of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws (《全國人民代表大會常務委員會關於加強法律解釋工作的決議》) passed on June 10, 1981, all laws or legal provisions that need to be further defined or supplemented shall be interpreted by the Standing Committee of the NPC or regulated in decrees. Interpretation of questions involving the specific application of laws and decrees in court trials shall be provided by the Supreme People’s Court. Interpretation of questions involving the specific application of laws and decrees in the procuratorial work of the procuratorates shall be provided by the Supreme People’s Procuratorate. If the interpretations provided by the Supreme People’s Court and

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the Supreme People’s Procuratorate are at variance with each other in principle, they shall be submitted to the Standing Committee of the NPC for interpretation or decision. Interpretation of questions involving the specific application of laws and decrees in areas unrelated to judicial and procuratorial work shall be provided by the State Council and competent authorities. In cases where the scope of local regulations needs to be further defined or additional stipulations need to be made, the standing committees of the people’s congresses of provinces, autonomous regions and municipalities directly under the Central Government which have enacted these regulations shall provide the interpretations or make the stipulations. Interpretation of questions involving the specific application of local regulations shall be provided by the competent authorities under the people’s governments of provinces, autonomous regions and municipalities directly under the Central Government.

PRC Judicial System

Under the Constitution and the PRC Law on the Organization of the People’s Courts (《中華人民共和國人民法院組織法》) which was last revised and passed on October 26, 2018 and took effect on January 1, 2019, the PRC judicial system is composed of the Supreme People’s Court, the local people’s courts and special people’s courts (including military courts, maritime courts, intellectual property courts and financial courts). The Supreme People’s Court can establish circuit courts to decide cases designated by the Supreme People’s Court in accordance with laws. Circuit courts are part of the Supreme People’s Court. Judgments, rulings, and decisions made by the circuit courts are deemed judgments, rulings and decisions of the Supreme People’s Court. The local people’s courts are composed of the primary people’s courts, the intermediate people’s courts and the higher people’s courts. The primary people’s courts may organize a number of divisions based on areas, population or case profiles. People’s courts may organize special divisions as necessary. The intermediate people’s courts and the primary people’s courts with a limited number of judges may elect to organize comprehensive tribunals or not to organize tribunals. The people’s courts at a higher level shall supervise the judicial work carried out by the people’s courts at a lower level. The Supreme People’s Court is the highest judicial body in the PRC which is empowered to supervise the judicial administration of the local people’s courts at all levels and the special people’s courts. The people’s procuratorate shall also be entitled to exercise supervision rights over the judicial activities of the people’s court.

The people’s courts have a two-tier appellate system. A party may appeal against a judgment or ruling of a local people’s court to the people’s court at the next higher level. Second judgments or rulings given at the next higher level are final. First judgments or rulings of the Supreme People’s Court are also final. However, if a superior people’s court or the Supreme People’s Court finds an error in a legally effective judgment which has been given in any people’s court at a lower level, or the president of the people’s court finds an error in a legally effective judgment which has been given in the court over which he presides, the case may then be retried according to the judicial supervision procedures.

The Civil Procedure Law of the People’s Republic of China (《中華人民共和國民事訴訟法》) which was last revised and passed on June 27, 2017 and took effect on July 1, 2017 (the “Civil Procedure Law”) sets forth the criteria for instituting a civil action, the jurisdiction of the people’s courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is initially heard by a local court where the defendant resides. The parties to a contract or a dispute arising from any other property rights may, by written

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agreement, select a judicial court where civil actions may be brought, provided that the judicial court is either within the plaintiff’s or the defendant’s place of residence, the place of execution or implementation of the contract or within the place of the object of the action and other place which has actual connection with the dispute, provided that the provisions of the Civil Procedure Law regarding the level of jurisdiction and exclusive jurisdiction shall not be violated.

A foreign national, enterprise or organization or a stateless person generally has the same litigation rights and obligations as a citizen, legal person or other organization of the PRC in relation to suing or being sued in the people’s courts. If a foreign country’s judicial system limits the litigation rights of PRC citizens, enterprises and other organizations, the PRC courts may apply the same limitations to the citizens, enterprises and other organizations of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgment or ruling made by a people’s court or an award made by an arbitration panel in the PRC, the other party may apply to the people’s court for the enforcement of the same. There are time limits of two years imposed on the right to apply for such enforcement. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by the other party, enforce the judgment in accordance with the law. A party seeking to enforce a judgment or ruling of a people’s court against a party who is not personally or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of the judgment or ruling. If a legally effective judgment or order made by a foreign court requires recognition and enforcement by a people’s court of the PRC, the party concerned may directly apply to the competent intermediate people’s court of the PRC for recognition and enforcement, or the foreign court concerned may request a people’s court for recognition and enforcement in accordance with the provisions of the international treaties entered into or acceded to by the PRC or under the principle of reciprocity. Upon the examination, the people’s court shall recognize the validity of the judgment or order if it considers that it will not contravene the basic principles of the laws of the PRC nor violates national sovereignty, security or social and public interests; if enforcement is required, a writ of enforcement will be issued in accordance with relevant regulations. If the judgment or order contravenes the basic principles of the laws of the PRC or violates national sovereignty, security or social and public interests, the people’s court shall not recognize and enforce it.

The PRC Company Law of the People’s Republic of China, the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies, and the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas

A joint stock limited company which is incorporated in the PRC and seeking a listing on the Hong Kong Stock Exchange is mainly subject to the following three laws and regulations in China:

- the Company Law of the People’s Republic of China (《中華人民共和國公司法》) (the “PRC Company Law”), which was promulgated by the Standing Committee of the NPC on December 29, 1993, came into effect on July 1, 1994, revised as of December 25, 1999, August 28, 2004, October 27, 2005, December 28, 2013 and October 26, 2018 respectively and the latest revision of which was implemented on October 26, 2018;

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- the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (《國務院關於股份有限公司境外募集股份及上市的特別規定》) (the “Special Regulations”), which were promulgated by the State Council on August 4, 1994 pursuant to the relevant provisions of the PRC Company Law, and are applicable to the overseas share subscription and listing of joint stock limited companies; and
- the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (《到境外上市公司章程必備條款》) (the “Mandatory Provisions”), which were jointly promulgated by the former Securities Committee of the State Council and the State Economic Restructuring Commission on September 29, 1994, and specified the mandatory provisions which must be incorporated into the articles of association of a joint stock limited company seeking an overseas listing. As such, the Mandatory Provisions are set out in the Articles of Association of the Company, the summary of which is set out in “Appendix VI — Summary of Articles of Association.”

Set out below is a summary of the provisions of the PRC Company Law, the Special Regulations and the Mandatory Provisions applicable to the Company.

General

A joint stock limited company refers to an enterprise legal person incorporated under the PRC Company Law with its registered capital divided into shares of equal par value. The liability of its shareholders is limited to the amount of shares subscribed to by them and the company is liable to its creditors for an amount equal to the total value of its assets.

Incorporation

A joint stock limited company may be incorporated by promotion or subscription. A joint stock limited company may be incorporated by a minimum of two but not more than 200 promoters, and at least half of the promoters must have residence within the PRC. Companies incorporated by promotion are companies with the total number of shares entirely subscribed for by the promoters. Where companies are incorporated by subscription, the promoters are required to subscribe for part of the total number of shares of a company, and the remaining shares can be offered to the public or specific persons. If companies are incorporated by subscription, the promoters are required to subscribe for not less than 35% of the total number of shares of a company unless otherwise stipulated by laws and administrative regulations.

According to the Securities Law of the People’s Republic of China (《中華人民共和國證券法》) last revised on December 28, 2019, which took effect on March 1, 2020 (the “PRC Securities Law”), listing applications should meet listing requirements under the listing rules of stock exchanges. According to the Rules Governing the Review of Offering and Listing of Stocks on the Science and Technology Innovation Board of Shanghai Stock Exchange (《上海證券交易所科創板股票上市規則》) promulgated on March 1, 2019 and amended on April 30, 2019, which came into effect on the same date (the “Listing Rules for the STAR Market”), the total share capital of a company seeking to list its shares on the Science and Technology Innovation Board of Shanghai Stock Exchange shall be no less than RMB30 million upon completion of the initial public offering.

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The promoters of a joint stock limited company must convene an inaugural meeting within 30 days after the issued shares have been fully paid up, and must give notice to all subscribers or make an announcement of the date of the inaugural meeting 15 days before convening the meeting. The inaugural meeting may be convened only with the presence of promoters or subscribers representing more than half of the shares in the company. At the inaugural meeting, matters including the adoption of articles of association and the election of members of the board of directors and members of the board of supervisors of the company will be dealt with. All resolutions of the meeting require the approval of subscribers with more than half of the voting rights present at the meeting. Within 30 days after the conclusion of the inaugural meeting, the board of directors must apply to the company registration authority for registration of the establishment of the joint stock limited company. A company is formally established and has the status of a legal person once the business license has been issued by the relevant company registration authority. Joint stock limited companies established by the subscription method shall file the approval of the offering of shares issued by the securities administration department of the State Council with the company registration authority for record.

A joint stock limited company’s promoters shall be liable for: (i) the payment of all expenses and debts incurred in the establishment process jointly and severally if the company cannot be established; (ii) the refund of subscription monies to the subscribers, together with interest, at bank rates for a deposit of the same term jointly and severally if the company cannot be established; and (iii) damages suffered by the company as a result of the default of the promoters in the course of establishment of the company.

Allotment and Issue of Shares

All issuance of shares of a joint stock limited company shall be based on the principles of equality and fairness. The same class of shares must carry equal rights. Shares issued at the same time and within the same class must be issued on the same conditions and at the same price. It may issue shares at par value or at a premium, but it may not issue shares below the par value. A company shall obtain the approval of the CSRC to offer its shares to the overseas public. Under the Special Regulations, shares issued to foreign investors by joint stock limited companies and listed overseas are known as overseas listed and foreign invested shares. Shares issued to investors within the PRC by joint stock limited companies, which also issue overseas listed and foreign shares, are known as domestic shares. Upon approval of the CSRC, a company issuing overseas listed and foreign invested shares in total shares determined by the issuance program may agree with underwriters in the underwriting agreement to retain not more than 15% of the aggregate number of overseas listed and foreign invested shares outside the underwritten amount. The issuance of the retained shares is deemed to be a part of this issuance.

Registered Shares

Under the PRC Company Law, the shareholders may make capital contributions in cash, or alternatively may make capital contributions with such valuated non-monetary property as physical items, intellectual property rights, and land-use rights that may be valued in monetary terms and may be transferred in accordance with the law. Pursuant to the Special Regulations, overseas listed and foreign invested shares shall be issued in registered form, denominated in Renminbi and subscribed for in a foreign currency. Domestic shares issued shall be in registered form.

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Increase of Share Capital

According to the PRC Company Law, when a joint stock limited company issues new shares, resolutions shall be passed by a general meeting, approving the class and number of the new shares, the issue price of the new shares, the commencement date and deadline of the new share issuance and the class and amount of new shares to be issued to original shareholders. When a company launches a public issuance of new shares with the approval of the CSRC, it shall publish a new prospectus and financial and accounting reports, and prepare the share subscription form. After the new share issuance has been paid up, the change shall be registered with the company registration authorities and an announcement shall be made.

Reduction of Share Capital

A company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law:

- it shall prepare a balance sheet and a property list;
- the resolution approving the reduction of registered capital shall be passed by a general meeting;
- it shall inform its creditors of the reduction in capital within 10 days and publish an announcement of the reduction in a newspaper within 30 days after the resolution approving the reduction has been passed;
- creditors may be entitled to require the company to pay off its debts or provide corresponding guarantees covering the debts within 30 days after receiving the notice, or within 45 days of the public announcement if no notice has been received; and
- it shall apply to the relevant registration authority for the alteration registration of the reduction in registered capital in accordance with laws.

Repurchase of Shares

According to the PRC Company Law, a joint stock limited company may not purchase its shares other than under any the following circumstances:

- (1) reduction of its registered capital;
- (2) merger with any other company that holds its shares;
- (3) utilizing its shares for an employee share ownership scheme or for equity incentives;
- (4) shareholders require the company to purchase their shares because of their objection to a resolution made at a general meeting on the merger or division of the company;

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- (5) utilizing the shares for conversion of corporate bonds which are convertible into shares issued by a listed company;
- (6) where it is necessary for a listed company to safeguard its value and the interests of its shareholders.

Any acquisition of the shares of the company under circumstances set out in Clauses (1) and (2) referred to above shall be resolved at a general meeting; any acquisition of the shares of the company under circumstances set out in Clauses (3), (5) and (6) referred to above could be resolved at a board meeting where over two-thirds of the directors are present, according to the provisions of the articles of association or the authority granted by the general meeting.

The shares repurchased under circumstances set out in Clause (1), shall be canceled within ten days from the date of repurchase; under circumstances set out in Clauses (2) and (4), shall be transferred or canceled within six months; under circumstances set out in Clauses (3), (5) and (6), the total shares of the company held by the company itself shall not exceed 10% of its total shares in issue and shall be transferred or canceled within 3 years.

After a listed company acquires its own shares, it shall fulfill its disclosure obligation as required under the PRC Securities Law. If the listed company acquires its own shares under circumstances set out in Clauses (3), (5) and (6) referred to above, the transaction shall be carried out in an open and centralized manner.

A company may not accept its own shares as subject of pledge right.

Transfer of Shares

Shares held by shareholders may be transferred in accordance with relevant laws and regulations. Pursuant to the PRC Company Law, transfer of shares by shareholders of a joint stock limited company shall be carried out at a legally established securities exchange or in other ways stipulated by the State Council. No registration of changes in the share register caused by transfer of registered shares shall be carried out within twenty days prior to the convening of a general meeting or five days prior to the base date for determination of dividend distributions. However, where there are separate provisions by law on registration of changes in the share register of listed companies, those provisions shall prevail. Pursuant to the Mandatory Provisions, no registration of changes in the share register caused by transfer of shares shall be carried out within thirty days prior to convening of a general meeting or five days prior to any base date for determination of dividend distributions.

Under the PRC Company Law, shares held by promoters shall not be transferred within one year from the date of inception of the company. Shares issued prior to the public issuance of shares shall not be transferred within one year from the date on which the shares of the company are first listed and traded on a stock exchange.

The directors, supervisors and senior management shall declare to the company their shareholdings in the company and any changes of such shareholdings. They shall not transfer more than 25% of all the shares they hold in the company annually during their tenure. They shall not transfer the shares they hold within one year from the date on which the company's shares are listed and commenced trading on a stock exchange, nor within six months after their resignation from the company. The articles of association may have other restrictions on the transfer of shares held by the directors, supervisors and senior managers.

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Amendment of the Articles of Association

According to the PRC Company Law, a company may amend its articles of association according to laws, administrative regulations and provisions of its articles of association. A joint stock limited company's articles of association may be amended by resolution at a general meeting. The resolution of a general meeting regarding any amendment to the company's articles of association requires affirmative votes by more than two-thirds of the votes held by shareholders present at the meeting. The board of directors is responsible to the general meeting and exercises power including formulating the proposed amendments to the company's articles of association. According to the Mandatory Provisions, the amendment of the articles of association involving the contents of the Mandatory Regulations will only be effective upon approval of the company examination and approval authority authorized by the State Council and of the CSRC. It must complete the registration of changes involving matters of the company registration in accordance with laws. The Special Regulations require that the company must not modify or delete those provisions in the articles of association related to the mandatory provisions of the articles of association without authorization.

Shareholders

Under the PRC Company Law and the Mandatory Provisions, the rights of holders of ordinary shares of a joint stock limited company include:

- the right to attend or appoint a proxy to attend general meetings and to vote thereat;
- the right to transfer shares in accordance with laws, administrative regulations and provisions of the articles of association;
- the right to inspect the company's articles of association, share register, counterfoils of company debentures, minutes of general meetings, resolutions of meetings of the board of directors, resolutions of meetings of the board of supervisors and financial and accounting reports and to make proposals or enquires on the company's operations;
- the right to bring an action before the people's court to rescind resolutions passed by general meetings and board of directors within 60 days from the date of such resolutions where the articles of association is violated by the above resolutions;
- the right to receive dividends and other types of interest distributed in proportion to the number of shares held;
- in the event of the termination or liquidation of the company, the right to participate in the distribution of surplus properties of the company in proportion to the number of shares held; and
- other rights granted by laws, administrative regulations, other regulatory documents and the articles of association.

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The obligations of a shareholder include the obligation to abide by the company’s articles of association, to pay the subscription amount in respect of the shares subscribed for and in accordance with the form of making capital contributions, to be liable for the company’s debts and liabilities to the extent of the amount of his or her subscribed shares, not to abuse rights of shareholders to the detriment of the interest of the company or other shareholders and not to abuse the company’s independent legal person status and limited liability of the shareholders to the detriment of the interest of the company’s creditors, and any other shareholders’ obligations specified in the company’s articles of association.

General Meetings

General meeting is the organ of authority of a joint stock limited company, which exercises its power in accordance with the PRC Company Law. Under the PRC Company Law, general meetings exercise the following principal powers:

- to decide on the company’s operational policies and investment plans;
- to elect and change the directors and supervisors (served by representative of the employees of the company) and to decide on matters relating to the remuneration of directors and supervisors;
- to examine and approve reports of the board of directors;
- to examine and approve reports of the board of supervisors;
- to examine and approve the company’s proposed annual financial budget and final accounts;
- to examine and approve the company’s proposals for profit distribution plans and losses recovery plans;
- to decide on any increase or reduction of the company’s registered capital;
- to decide on the issuance of bonds by the company;
- to decide on issues such as merger, division, dissolution, liquidation and transformation of the company and other matters;
- to amend the articles of association; and
- other powers as provided for in the articles of association.

Annual general meetings are required to be held once every year. Under the PRC Company Law, an interim general meeting is required to be held within two months after the occurrence of any of the following:

- the number of directors is less than the number stipulated by the law or less than two thirds of the number specified in the articles of association;
- the losses of the company which are not recovered reach one-third of the company’s total paid up share capital;

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- when shareholders alone or in aggregate holding more than 10% of the company’s shares so request;
- whenever the board of directors deems necessary;
- when the board of supervisors so proposes; or
- other circumstances as provided for in the articles of association.

Under the PRC Company Law, general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors. In the event that the chairman is incapable of performing or does not perform his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or does not perform his duties, a director nominated by more than half of directors shall preside over the meeting. Where the board of directors is incapable of performing or does not perform its duties of convening the general meeting, the board of supervisors shall convene and preside over such meeting in a timely manner. In case the board of supervisors fails to convene and preside over such meeting, shareholders alone or in aggregate holding more than 10% of the company’s shares for more than 90 days consecutively may unilaterally convene and preside over such meeting.

Under the PRC Company Law, notice of a general meeting shall state the time and venue of and matters to be considered at the meeting and shall be given to all shareholders 20 days before the meeting. Notice of the extraordinary general meetings shall be given to all shareholders 15 days prior to the meeting.

There is no specific provision in the PRC Company Law regarding the number of shareholders constituting a quorum in a shareholders’ meeting. Pursuant to the Mandatory Provisions, modification or abrogation of rights conferred to any class of shareholders shall be passed both by a special resolution of the general meeting and by shareholders of the affected class at the class meeting convened respectively.

Under the PRC Company Law, shareholders present at the general meeting have one vote for each share they hold, save that shares held by the company itself are not entitled to any voting rights.

Pursuant to the provisions of the articles of association or a resolution of the general meeting, the accumulative voting system may be adopted for the election of directors and supervisors at the general meeting. Under the accumulative voting system, each share shall be entitled to vote equivalent to the number of directors or supervisors to be elected at the general meeting and shareholders may consolidate their voting rights when casting a vote.

Pursuant to the PRC Company Law and/or the Mandatory Provisions, resolutions of the general meeting shall be adopted by more than half of the voting rights held by the shareholders present at the meeting. However, resolutions of the general meeting regarding the following matters shall be adopted by more than two-thirds of the voting rights held by the shareholders present at the meeting: (i) amendments to the articles of association; (ii) the increase or decrease of registered capital; (iii) the issuance of any types of shares, warrants or other similar securities; (iv) the issuance of corporate bonds; (v) the merger, division, dissolution, liquidation or change in the form of the company; and (vi) other matters considered by the general meeting, by way of an ordinary resolution, to be of a nature which may have a material impact on the company and should be adopted by a special resolution.

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Under the PRC Company Law, meeting minutes shall be prepared in respect of decisions on matters discussed at the general meeting. The chairman of the meeting and directors attending the meeting shall sign to endorse such minutes. The minutes shall be kept together with the shareholders’ attendance register and the proxy forms.

Board of Directors

Under the PRC Company Law, a joint stock limited company shall have a board of directors, which shall consist of 5 to 19 members. Members of the board of directors may include representatives of the employees of the company, who shall be democratically elected by the company’s staff at the staff representative assembly, general staff meeting or otherwise. The term of a director shall be stipulated in the articles of association, but no term of office shall last for more than three years. Directors may serve consecutive terms if re-elected upon the expiry of his term of office. A director shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a re-elected director takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office, or if the resignation of directors in his term of office results in the number of directors being less than the quorum.

Under the PRC Company Law, the board of directors mainly exercises the following powers:

- to convene the general meetings and report on its work to the general meetings;
- to implement the resolutions passed at general meetings;
- to decide on the company’s business plans and investment proposals;
- to formulate the company’s proposed annual financial budget and final accounts;
- to formulate the company’s profit distribution proposals and loss recovery proposals;
- to formulate proposals for the increase or reduction of the company’s registered capital and the issuance of corporate bonds;
- to prepare plans for the merger, division, dissolution and change in the form of the company;
- making decisions on the establishment of the company’s internal management bodies;
- to decide on the appointment or dismissal of company managers and their remuneration, and decide on the appointment or dismissal of deputy managers and person-in-charge of finance of the company based on the nomination by the managers as well as their remuneration;
- to formulate the company’s basic management system; and
- any other power under the articles of association.

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Under the PRC Company Law, meetings of the board of directors of a joint stock limited company shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors 10 days before the meeting. Interim board meetings may be proposed to be convened by shareholders representing more than 10% of voting rights, more than one-third of the directors or the supervisors. A company may make provisions to regulate the means of notification and notice period for interim board meetings. The chairman shall convene and preside over such meeting within 10 days after receiving such proposal. Meetings of the board of directors shall be held only if more than half of the directors are present. Resolutions of the board of directors shall be passed by more than half of all directors. Each director shall have one vote for resolutions to be approved by the board of directors. Directors shall attend board meetings in person. If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his behalf. If a resolution of the board of directors violates the laws, administrative regulations, the articles of association or resolutions of shareholders’ meeting, and as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objection was recorded in the minutes of the meeting, such director may be released from that liability.

Under the PRC Company Law, the following persons may not serve as a director:

- a person who is unable or has limited ability to undertake any civil liabilities;
- a person who has been convicted of an offense of corruption, bribery, embezzlement or misappropriation of property, or the destruction of socialist market economy order; or who has been deprived of his political rights due to his crimes, in each case where less than five years have elapsed since the date of completion of the sentence;
- a person who has been a former director, factory manager or manager of a company or an enterprise that has entered into insolvent liquidation and who was personally liable for the insolvency of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- a person who has been a legal representative of a company or an enterprise that has had its business license revoked due to violations of the law and has been ordered to close down by law and the person was personally responsible, where less than three years have elapsed since the date of such revocation; and
- a person who is liable for a relatively large amount of debts that are overdue.

Other circumstances under which a person is disqualified from acting as a director are set out in the Mandatory Provisions.

Under the PRC Company Law, the board of directors shall have a chairman and may appoint a vice chairman. The chairman and the vice chairman are elected with approval of more than half of all the directors. The chairman shall convene and preside over board meetings and examine the implementation of board resolutions. The vice chairman shall assist the work of the chairman. In the event that the chairman is incapable of performing

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or not performing his duties, the duties shall be performed by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of the directors shall perform his duties.

Board of Supervisors

A joint stock limited company shall have a board of supervisors composed of not less than three members. The board of supervisors is made up of representatives of the shareholders and an appropriate proportion of representatives of the employees of the company, the proportion of representatives of the employees shall not be less than one third of the supervisors. The specific proportion shall be stipulated in the articles of association. Representatives of the employees of the company in the board of supervisors shall be democratically elected by the employees at the employees’ representative assembly, employees’ general meeting or otherwise. The directors and senior management may not act concurrently as supervisors. The board of supervisors shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the board of supervisors are elected with approval of more than half of all the supervisors. The chairman of the board of supervisors shall convene and preside over the meetings of the board of supervisors. In the event that the chairman of the board of supervisors is incapable of performing or does not perform his duties, the vice chairman of the board of supervisors shall convene and preside over the meetings of the board of supervisors. In the event that the vice chairman of the board of supervisors is incapable of performing or does not perform his duties, a supervisor nominated by more than half of the supervisors shall convene and preside over the meetings of the board of supervisors. Each term of office of a supervisor is three years and he may serve consecutive terms if re-elected. A supervisor shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office, or if the resignation of supervisors in their term of office results in the number of supervisors being less than the quorum.

The board of supervisors exercises the following power:

- to review the company’s financial condition;
- to supervise the directors and senior management in the performance of their duties and to propose the removal of directors and senior management who have violated laws, administrative regulations, the articles of association or the resolutions of general meetings;
- when the acts of directors and senior management are harmful to the company’s interests, to require correction of those acts;
- to propose the convening of interim general meetings and to convene and preside over general meetings when the board of directors fails to perform the duty of convening and presiding over general meetings;
- to initiate proposals for resolutions to general meetings;
- to initiate proceedings against directors and senior management in accordance with the PRC Company Law; and
- other power specified in the articles of association.

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Supervisors may attend board meetings and make enquiries or proposals in respect of matters in board resolutions. The board of supervisors may initiate investigations into any irregularities identified in the operation of the company and, where necessary, may engage an accounting firm to assist their work at the company’s expense.

Manager and Senior Management

Under the PRC Company Law, a company shall have a manager who shall be appointed or removed by the board of directors. The manager shall be responsible to the board of directors and may exercise the following power:

- to preside over the business operations and administration of the company and arrange for the implementation of resolutions of the board of directors;
- to arrange for the implementation of the company’s annual business plans and investment proposals;
- to draw up the plan for the establishment of the company’s internal management bodies;
- to formulate the general administration system of the company;
- to formulate the company’s detailed rules;
- to recommend the appointment and dismissal of deputy managers and person-in-charge of finance;
- to appoint or dismiss administration officers (other than those required to be appointed or dismissed by the board of directors); and
- other powers conferred by the board of directors or the articles of association.

The manager shall also comply with other provisions of the articles of association concerning his power. The manager shall attend board meetings. According to the PRC Company Law, senior management refers to the manager, deputy manager(s), person-in-charge of finance, board secretary (in case of a listed company) of a company and other personnel as stipulated in the articles of association.

Duties of Directors, Supervisors, the General Manager and Other Senior Management

According to the PRC Company Law, directors, supervisors and senior management of the company shall comply with the relevant laws, administrative regulations and the articles of association, and have the faithful and diligent duties to the company.

Directors, supervisors and senior management are prohibited from utilizing their powers to accept bribes or other unlawful income and misappropriate the company’s properties. Directors and senior management are prohibited from:

- misappropriation of the company’s capital;
- depositing the company’s capital into accounts under his own name or the name of other individuals;

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- loaning company funds to others or providing guarantees in favor of others supported by the company’s properties without authorization in violation of the articles of association or without prior approval of the general meeting or board of directors;
- entering into contracts or dealing with the company without authorization in violation of the articles of association or without prior approval of the general meeting;
- unauthorized using their position to procure business opportunities for themselves or others that should have otherwise been available to the company or operating for their own benefits or managing on behalf of others businesses similar to that of the company without prior consent of the general meeting;
- accepting and possessing commissions paid in transaction conducted between a third party and the company;
- unauthorized divulgence of secrets of the company; or
- other acts in violation of their duty of loyalty to the company.

A director, supervisor or senior management official who contravenes any law, regulation or the provisions of the articles of association in the performance of his duties resulting in any loss to the company shall be liable for compensating the company.

Finance and Accounting

Under the PRC Company Law, a company shall establish financial and accounting systems according to laws, administrative regulations and the regulations of the financial department of the State Council and shall at the end of each accounting year prepare a financial and accounting report which shall be audited by an accounting firm as required by law. The company’s financial and accounting report shall be prepared in accordance with provisions of the laws, administrative regulations and the regulations of the financial department of the State Council.

A joint stock limited company’s financial and accounting reports shall be available at the company for inspection by the shareholders at least 20 days before the convening of an annual general meeting. A joint stock limited company publicly issuing shares must also publish its financial and accounting reports.

When distributing the year’s after-tax profits, it shall set aside 10% of its after-tax profits into a statutory reserve fund (except where the aggregate amount of fund has reached 50% of its registered capital’s amount). If its statutory reserve fund is not sufficient to make up losses of the previous year, profits of the current year shall be applied to make up losses before allocation is made to the statutory reserve fund pursuant to the above provisions. After allocation of the statutory reserve fund from after-tax profits, it may, upon a resolution passed at the general meeting, allocate discretionary reserve fund from after-tax profits. The remaining after-tax profits after making up losses and allocation of reserve fund shall be distributed in proportion to the number of shares held by the shareholders, unless otherwise stipulated in the articles of association. Shares held by the company shall not be entitled to any distribution of profit.

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The premium received through issuance of shares at issuing prices above par value and other incomes required by the financial department of the State Council to be allocated to the capital reserve fund shall be allocated to the company’s capital reserve fund. The company’s reserve fund shall be applied to make up losses of the company, expand its business operations or be converted to increase the capital of the company. However, the capital reserve fund may not be applied to make up the company’s losses. Upon the conversion of statutory reserve fund into capital, the balance of the statutory reserve fund shall not be less than 25% of the registered capital of the company before such conversion.

The company shall have no other accounting books except the statutory accounting books. Its assets shall not be deposited in any accounts opened in the name of any individual.

Appointment and Dismissal of Accounting Firms

Pursuant to the PRC Company Law, the appointment or dismissal of accounting firms responsible for the auditing of the company shall be determined by the general meeting or board of directors in accordance with provisions of the articles of association. The accounting firm should be allowed to make representations when the general meeting or board of directors conducts a vote on the dismissal of the accounting firm. The company should provide true and complete accounting evidences, accounting books, financial and accounting reports and other accounting data to the accounting firm it engages without any refusal, withholding and misrepresentation.

The Special Regulations provide that a company shall engage an independent accounting firm complying with the relevant regulations of the State to audit its annual report and review and check other financial reports of the company. The accounting firm’s term of office shall commence from its appointment at an annual general meeting to the end of the next annual general meeting.

Distribution of Profits

According to the PRC Company Law, a company shall not distribute profits before losses are covered and the statutory reserve fund is provided. Under the Mandatory Provisions, a company shall appoint receiving agents on behalf of holders of the overseas listed and foreign invested shares to receive dividends and other distributions payable in respect of their overseas listed and foreign invested shares on behalf of such shareholders.

Dissolution and Liquidation

According to the PRC Company Law, a company shall be dissolved by reason of the following:

- (I) the term of its operations provided in the articles of association has expired or other causes of dissolution provided in the articles of association have occurred;
- (II) the general meeting has resolved to dissolve the company;
- (III) the company is dissolved by reason of merger or division;
- (IV) the business license is revoked according to the laws; the company is ordered to close down or be dissolved; or

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- (V) the company is dissolved by the people's court in response to the request of shareholders holding shares that represent more than 10% of the voting rights of all shareholders, on the grounds that the company suffers significant hardships in its operation and management that cannot be resolved through other means, and the ongoing existence of the company would bring significant losses for shareholders' interests.

In the event of (I) above, the company may carry on its existence by amending its articles of association. The amendment of the articles of association in accordance with provisions set out above shall require approval of more than two thirds of voting rights of shareholders attending a general meeting.

Where the company is dissolved in the circumstances described in subparagraphs (I), (II), (IV), or (V) above, a liquidation group shall be established and the liquidation process shall commence within 15 days after the occurrence of such event of dissolution. The members of the company's liquidation group shall be composed of its directors or the personnel appointed by the general meeting. If a liquidation group is not established within the stipulated period, creditors of the company may apply to the people's court, requesting the court to appoint relevant personnel to form the liquidation group. The people's court should accept such application and form a liquidation group to conduct a liquidation in a timely manner.

The liquidation group shall exercise the following power during the liquidation period:

- to dispose the company's assets and to prepare a balance sheet and an inventory of the properties;
- to notify creditors through notice or public announcement;
- to deal with the company's outstanding businesses related to liquidation;
- to pay any tax overdue as well as tax amounts arising from the process of liquidation;
- to claim credits and pay off debts;
- to handle the company's remaining properties after its debts have been paid off; and
- to represent the company in civil lawsuits.

The liquidation group shall notify the company's creditors within 10 days after its establishment, and issue public notices in newspapers within 60 days. A creditor shall lodge his claim with the liquidation group within 30 days after receiving notification, or within 45 days of the public notice if he did not receive any notification. A creditor shall state all matters relevant to his creditor rights in making his claim and furnish evidence. The liquidation group shall register such creditor rights. The liquidation group shall not make any debt settlement to creditors during the period of claim.

Upon liquidation of properties and the preparation of the balance sheet and inventory of properties, the liquidation group shall draw up a liquidation plan to be submitted to the general meeting or people's court for confirmation. The company's remaining properties after payment of liquidation expenses, wages of employees, social insurance expenses and

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statutory compensation, outstanding taxes and debt shall be distributed to shareholders according to their shareholding proportion. It shall continue to exist during the liquidation period, although it can only engage in operating activities that are related to the liquidation. The company’s properties shall not be distributed to the shareholders before payments are made in accordance to the foregoing provisions.

Upon liquidation of the company’s properties and the preparation of the balance sheet and inventory of properties, if the liquidation group becomes aware that the company does not have sufficient assets to pay off its liabilities, it must apply to the people’s court for a declaration of bankruptcy according to relevant laws. Following such declaration, the liquidation group shall hand over all matters relating to the liquidation to the people’s court.

Upon completion of the liquidation, the liquidation group shall submit a liquidation report to the general meeting or the people’s court for verification. Thereafter, the report shall be submitted to the company registration authority in order to cancel the company’s registration, and a public notice of the company’s termination shall be issued. Members of the liquidation group are required to discharge their duties honestly and in compliance with the relevant laws. Members of the liquidation group shall be prohibited from abusing their power to accept bribes or other unlawful income and from misappropriating the company’s properties. A member of the liquidation group is liable to indemnify the company or its creditors in respect of their losses arising from his intentional or gross negligence.

Loss of Share Certificates

According to the PRC Company Law, if a registered share certificate is stolen, lost or destroyed, the respective shareholder may apply, in accordance with the public notice procedures set out in the PRC Civil Procedure Law, to a people’s court for a declaration that such certificate will no longer be valid. After the people’s court declares the invalidity of such certificate, the shareholder may apply to the company for a replacement share certificate. A separate procedure regarding the loss of overseas listed and foreign invested share certificates is provided for in the Mandatory Provisions.

Merger and Demerger

According to the PRC Company Law, companies may merge through absorption or the establishment of a new entity. If it merges by absorption, the company which is absorbed shall be dissolved. If the companies merge by forming a new corporation, then both companies shall be dissolved. For corporate merger, all parties to the merger shall enter into a merger agreement and prepare balance sheets and checklists of assets. The companies involved shall, within ten days after the decision of merger, notify the creditors, and shall make a newspaper announcement within 30 days. The creditors may, within 30 days after the receipt of the notice or (if it fails to receive a notice) within 45 days after the announcement, require the company to settle its debts or to provide guarantees. Upon the merger, the credits and debts of the companies involved shall be succeeded by the surviving company or by the newly established company. For division of a company, the property of the company shall be divided properly, and balance sheets and checklists of assets shall be prepared. The company shall, within ten days after the decision of division, notify the creditors and make a newspaper announcement within 30 days. The companies after division shall jointly bear liabilities for the debts of the former companies before division, unless it is otherwise prescribed by written agreements entered into between the companies and their respective creditors for the settlement of debts before the division.

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Overseas Listing

The shares of a company shall only be listed overseas after obtaining approval from the CSRC, and the listing must be arranged in accordance with procedures specified by the CSRC. Pursuant to the Special Regulations, a company may issue shares to overseas investors and list its shares overseas upon approval from the CSRC. Subject to approval of the company’s plans to issue overseas-listed foreign shares and domestic shares by the CSRC, the board of directors of the company may make arrangement to implement such plans for issuance of the foreign shares and domestic shares, respectively, within fifteen months from the date of approval by the CSRC.

Securities Law and Regulations

The PRC has promulgated a number of regulations relating to the issue and trading of shares and disclosure of information of the joint stock limited company. The PRC Securities Law is the first national securities law in the PRC, and comprehensively regulates activities in the PRC securities market. It is divided into 14 chapters and 226 articles regulating, among other things, the issuance and trading of securities, takeovers by listed companies, disclosure of information, investor protection, securities exchanges, securities companies, securities registration and clearing institutions, securities trading service organizations, securities industry associations, securities regulatory authorities and legal liabilities. Article 224 of the PRC Securities Law provides that domestic enterprises that directly or indirectly offer its shares or list its shares outside the PRC should comply with the relevant regulations of the State Council. Currently, the issuance and trading of foreign issued shares (including H shares) are mainly governed by the rules and regulations promulgated by the State Council and the CSRC.

Arbitration and Enforcement of Arbitral Awards

Under the Arbitration Law of the People’s Republic of China (《中華人民共和國仲裁法》) last revised on September 1, 2017 and took effect on January 1, 2018 (the “Arbitration Law”), an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the people’s court will refuse to accept the case except when the arbitration agreement is declared invalid.

The Mandatory Provisions require an arbitration clause to be included in the articles of association of an issuer to the effect that whenever any disputes or claims arise (i) between holders of H shares and the issuer; (ii) between holders of H shares and the issuer’s directors, supervisors, managers or other senior management officials; and (iii) between holders of H shares and holders of domestic shares, such disputes shall be resolved through arbitration. Matters in arbitration include any disputes or claims of rights in relation to the issuer’s affairs as a result of any rights or obligations arising under its articles of association, the PRC Company Law and other relevant laws and administrative regulations.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim of rights or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim of rights or whose participation is necessary for the resolution of such dispute or claim of rights, must comply with the arbitration. Disputes in respect of the definition of shareholder and disputes in relation to the issuer’s register of shareholders need not be resolved by arbitration.

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A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission in accordance with its rules or the Hong Kong International Arbitration Center (the “HKIAC”) in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim of rights to arbitration, the other party shall submit to the arbitral body elected by the claimant. If the claimant elects for arbitration to be carried out at the HKIAC, any party may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the HKIAC.

Under the Arbitration Law and Civil Procedure Law, an arbitral award is final and binding on the parties. If a party fails to comply with an arbitral award, the other party may apply to the people’s court for enforcement. A people’s court shall order the cancelation of an arbitral award made by an arbitration commission if there is any irregularity on the procedures or composition of arbitral tribunal specified by law or the award exceeds the scope of the arbitration agreement or exceeds the jurisdiction of the arbitration commission.

A party seeking to enforce an arbitral award of PRC arbitration panel against a party who, or whose property, is not within the PRC, shall apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC.

The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (《承認及執行外國仲裁裁決公約》) adopted on June 10, 1958 (the “New York Convention”) pursuant to a resolution of the Standing Committee of the NPC passed on December 2, 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by all other parties to the New York Convention, subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the New York Convention in the PRC that (i) the PRC will only apply the New York Convention to the recognition and enforcement of arbitral awards made in the territory of another contracting state on the principle of reciprocity; and (ii) the PRC will only apply the New York Convention in disputes considered under PRC laws to arise from contractual and non-contractual mercantile legal relations.

Agreement has been reached between Hong Kong S.A.R. and the Supreme People’s Court of the PRC for the mutual enforcement of arbitral awards. On June 18, 1999, the Supreme People’s Court of the PRC adopted the Arrangement on Mutual Enforcement of Arbitral Awards between Mainland and Hong Kong SAR (《關於內地與香港特別行政區相互執行仲裁裁決的安排》), which became effective on February 1, 2000. In accordance with this arrangement, awards made by the Mainland arbitral authorities acknowledged by Hong Kong arbitration rules can be enforced in Hong Kong, and Hong Kong arbitral awards are also enforceable in the Mainland.

Overseas Direct Investment Regulations

Pursuant to the Regulations on the Administration of Overseas Investment (《境外投資管理辦法》) promulgated by the MOFCOM which became effective on October 6, 2014, enterprises shall obtain approval from or register with the commerce authorities for conducting overseas investment according to such regulations.

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Pursuant to Regulations on Foreign Exchange Administration of Overseas Direct Investment of Domestic Institutions (《境內機構境外直接投資外匯管理規定》) promulgated by the SAFE which became effective on August 1, 2009, upon obtaining approval for overseas investment, a PRC enterprise shall apply for foreign exchange registration for its overseas direct investments. According to the Notice of the State Administration of Taxation on Further Simplifying and Improving the Foreign Exchange Management Policies for Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》), which came into effect on June 1, 2015, the administrative approval for foreign exchange registration approval under overseas direct investment has been canceled, and the banks are entitled to review and carry out foreign exchange registration under overseas direct investment directly. SAFE and its branches shall implement indirect supervision over foreign exchange registration of direct investment via the banks. Pursuant to the Administrative Measures for Outbound Investment by Enterprises (《企業境外投資管理辦法》) promulgated by the NDRC and took effect on March 1, 2018, outbound investment projects that involve sensitive countries and regions or sensitive industries shall be subject to administration of verification and approval by the NDRC. For big-sized non-sensitive projects carried out by investors through overseas enterprises controlled by them, the investors shall, prior to the implementation of the projects, submit situation report on development of such big-sized non-sensitive projects through the network system to inform the NDRC of relevant information. In particular, big-sized non-sensitive projects refer to non-sensitive projects of US\$300 million or above invested by Chinese investors. Other outbound investment projects shall be subject to administration by record-filing.

Summary of Certain Material Differences between Certain Aspects of Corporation Law in mainland China and Hong Kong

Hong Kong company law is primarily set out in the Companies Ordinance and the Companies (WUMP) Ordinance, supplemented by common law and rules of equity that apply to Hong Kong. As a joint stock limited company incorporated under the PRC Company Law that is seeking a listing of shares on the Hong Kong Stock Exchange, we are governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law. Set out below is a summary of certain material differences between Hong Kong company law and the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

Corporate Existence

Under Hong Kong company law, a company with share capital is incorporated by the Registrar of Companies in Hong Kong, which issues a certificate of incorporation to the company upon its incorporation, and the company will acquire an independent corporate existence henceforth. A company may be incorporated as a public company or a private company. Pursuant to the Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain certain pre-emptive provisions. A public company's articles of association do not contain such pre-emptive provisions.

Under the PRC Company Law, a joint stock limited company may be incorporated by promotion or subscription.

Share Capital

Under Hong Kong law, the directors of a Hong Kong company may, with the prior approval of the shareholders if required, issue new shares of the company. The PRC Company Law does not provide for authorized share capital. The company's registered capital is the

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amount of its issued share capital. Any increase in the company’s registered capital must be approved by a shareholders’ general meeting and shall be approved by/filed with the relevant PRC governmental and regulatory authorities (if applicable).

According to the PRC Securities Law, listing applications should meet the listing requirements under the listing rules of the stock exchanges. According to the Listing Rules for the STAR Market, the total share capital of a company seeking to list its shares on the STAR Market shall be no less than RMB30 million upon completion of the initial public offering. The Companies Ordinance does not prescribe any minimum capital requirement for companies incorporated in Hong Kong.

Under the PRC Company Law, the shares may be subscribed for in the form of money or non-monetary properties (other than properties not entitled to be used as capital contributions under relevant laws or administrative regulations). For non-monetary assets to be used as capital contributions, appraisals must be carried out to ensure there is no over-valuation or under-valuation of the properties. There is no such restriction on a company incorporated in Hong Kong.

Restrictions on Shareholding and Transfer of Shares

Generally, A shares of the company, which are denominated and subscribed for in Renminbi, can be subscribed for and traded by mainland China investors, qualified overseas institutional investors or qualified overseas strategic investors, while also being eligible securities under the Northbound Trading Link. A shares of the company can be subscribed for and traded by Hong Kong and other overseas investors in accordance with the rules and limits of Shanghai-Hong Kong Stock Connect. Overseas listed shares, which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside mainland China, or qualified domestic institutional investors. If the H shares are eligible securities under the Southbound Trading Link, they are also subscribed for and traded by mainland China investors in accordance with the rules and limits of Shanghai-Hong Kong Stock Connect or Shanghai-Hong Kong Stock Connect.

Under the PRC Company Law, a promoter of a joint stock limited company is not allowed to transfer the shares it holds for a period of one year after the date of establishment of the company. Shares in issue prior to a public offering of the company cannot be transferred within one year from the listing date of the shares on a stock exchange. Shares in a joint stock limited liability company held by its directors, supervisors and senior management and transferred each year during their term of office shall not exceed 25% of the total shares they held in a company, and the shares they held in a company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after the said personnel has left office. Pursuant to the rules of the Shanghai Stock Exchange, directors, supervisors and senior management whose engagement are terminated before the end of their terms, should comply with the restrictions from transferring more than 25% of the company’s shares held in each year and from transferring any of the company’s shares held in the half-year period after the termination of engagements during their original terms of office and until six months thereafter. The articles of association may set other restrictive requirements on the transfer of a company’s shares held by its directors, supervisors and senior management. There are no restrictions on shareholdings and transfers of Shares under Hong Kong law apart from (i) the restriction on the Company to issue additional Shares within six months, and (ii) 12-month lockup on Controlling Shareholders’ disposal of Shares, after the [REDACTED].

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Financial Assistance for Acquisition of Shares

The PRC Company Law does not prohibit or restrict a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company’s shares. However, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries on providing such financial assistance similar to those under Hong Kong company law.

Notice of Shareholders’ Meetings

Under the PRC Company Law, notice of a shareholder’s annual general meeting must be given not less than 20 days before the meeting. Whereas notice of an extraordinary general meeting must be given not less than 15 days before the meeting. If a company issues bearer shares, notice of a shareholder’s general meeting must be given at least 30 days prior to the meeting.

For a company incorporated in Hong Kong with limited liability, the minimum period of notice of a general meeting is 14 days. Further, where a meeting involves consideration of a resolution requiring special notice, the company must also give its shareholders notice of the resolution at least 14 days before the meeting. The notice period for the annual shareholders’ general meeting is 21 days.

Quorum for Shareholders’ Meetings

The PRC Company Law does not specify any quorum requirement for a shareholders’ general meeting. Under Hong Kong law, the quorum for a shareholders’ meeting is two members, unless the articles of association of a company specifies otherwise or the company has only one member, in which case the quorum is one.

Voting at Shareholders’ Meetings

Under the PRC Company Law, the passing of any resolution at a shareholders’ meeting requires more than one-half of the affirmative votes held by the shareholders present in person or by proxy at a shareholders’ meeting except in cases such as proposed amendments to the articles of association, increase or decrease of registered capital, merger, division, dissolution or transformation, which require more than two-thirds of the affirmative votes cast by shareholders present in person or by proxy at a shareholders’ general meeting.

Under Hong Kong law, an ordinary resolution is passed by a simple majority of affirmative votes cast by shareholders present in person, or by proxy, at a general meeting, and a special resolution is passed by not less than three-fourths of affirmative votes cast by shareholders present in person, or by proxy, at a general meeting.

Variation of Class Rights

The PRC Company Law makes no specific provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate requirements relating to other kinds of shares. The Mandatory Provisions contain detailed provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarized in “Appendix VI — Summary of Articles of Association”.

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Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the passing of a special resolution by the shareholders of the relevant class at a separate meeting sanctioning the variation, (ii) with the written consent of shareholders representing at least three-fourths of the total voting rights of shareholders of the relevant class, or (iii) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

As required by the Hong Kong Listing Rules and the Mandatory Provisions, we have adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed shares and domestic listed shares are defined in the Articles of Association as different classes. The special procedures for voting by a class of Shareholders shall not apply in the following circumstances: (i) where we issue, either separately or concurrently in any 12-month period, upon approval by special resolutions passed at a general meeting, A Shares and H Shares not more than 20% of each of the existing A Shares and H Shares, respectively; (ii) where the plan for the issue of A Shares and H Shares upon our establishment is implemented within 15 months following the date of approval by the securities regulatory authorities under the State Council or within the stated period as stipulated by applicable requirements.

Derivative Action by Minority Shareholders

Under Hong Kong company law, a shareholder may, with the leave of the Court, start a derivative action on behalf of a company for any misconduct committed by its directors against the company. For example, leave may be granted where the directors control a majority of votes at a general meeting, and could thereby prevent the company from suing the directors in its own name.

Pursuant to the PRC Company Law, in the event where the directors and senior management of a joint stock limited company violate laws, administrative regulations or its articles of association in carrying out their duties, resulting in losses to the company, the shareholders individually or jointly holding over 1% of the shares in the company for more than 180 consecutive days may request in writing the board of supervisors to initiate proceedings in the people’s court. In the event that the board of supervisors violates as such, the above said shareholders may send written request to the board of directors to initiate proceedings in the people’s court. Upon receipt of such written request from the shareholders, if the board of supervisors or the board of directors refuses to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under urgent situations, failure of initiating immediate proceeding may cause irremediable damages to the company’s interests, the above said shareholders shall, for the benefit of the company’s interests, have the right to initiate proceedings directly to the court in their own name.

In addition, the Mandatory Provisions provide certain remedies against the directors, supervisors and senior management who breach their duties to the company. In addition, as a condition to the listing of overseas listed foreign shares on the Hong Kong Stock Exchange, each director and supervisor of a joint stock limited company is required to give an undertaking to observe the articles of association in favor of the company. This allows minority shareholders to take action against the directors and supervisors in default.

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Minority Shareholder Protection

Under the Companies Ordinance, a shareholder who alleges that the affairs of a company are conducted in a manner unfairly prejudicial to his interests may petition to the Court to make an appropriate order to give relief to the unfairly prejudicial conduct. Alternatively, pursuant to the Companies (WUMP) Ordinance, a shareholder may seek to wind up the company on the just and equitable ground. In addition, on the application of a specified number of members, the Financial Secretary may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated or registered in Hong Kong. The PRC Company Law provides that any shareholders holding 10% or above of voting rights of all issued shares of a company may request a people’s court to dissolve the company to the extent that the operation or management of the company experiences any serious difficulties and its continuous existence would cause serious losses to shareholders’ interests, and no other alternatives can resolve such difficulties.

The Company, as required by the Mandatory Provisions, has adopted in its Articles of Association minority Shareholder protection provisions similar to (though not as comprehensive as) those available under the Hong Kong law. These provisions state that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of other Shareholders, may not relieve a Director or Supervisor of his duty to act honestly in our best interests or may not approve the expropriation by a Director or Supervisor of our assets or the individual rights of other Shareholders.

Directors

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of directors’ interests in material contracts, restrictions on directors’ authority in making major dispositions, restrictions on companies providing certain benefits to directors and indemnification in respect of directors’ liability and prohibitions against compensation for loss of office without shareholders’ approval. The Mandatory Provisions, however, contain certain requirements and restrictions on major disposals and specify the circumstances under which a director may receive compensation for loss of office.

Board of Supervisors

Under the PRC Company Law, a joint stock limited company’s directors and senior management are subject to the supervision of a board of supervisors. There is no mandatory requirement for the establishment of a board of supervisors for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Fiduciary Duties

In Hong Kong, directors owe fiduciary duties to the company, including the duty not to act in conflict with the company’s interests. Furthermore, the Companies Ordinance has codified the directors’ statutory duty of care. Under the Special Regulations, directors, supervisors, managers and other members of senior management of the company shall honestly and diligently perform their duties for the company.

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Financial Disclosure

Under the PRC Company Law, a joint stock limited company is required to make available at the company for inspection by shareholders its financial report 20 days before its annual general meeting. In addition, a joint stock limited company of which the shares are publicly offered must publish its financial report. The Companies Ordinance requires a company incorporated in Hong Kong to send to every shareholder a copy of its financial statements, auditors’ report and directors’ report, which are to be presented before the company in its annual general meeting, not less than 21 days before such meeting. According to the PRC laws, a company shall prepare its financial accounting reports as at the end of each accounting year, and submit the same to accounting firms for auditing as required by law. The Mandatory Provisions require that a company must, in addition to preparing financial statements according to the CAS, have its financial statements prepared and audited in accordance with international or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the CAS.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

Information on Directors and Shareholders

The PRC Company Law gives shareholders the right to inspect the company’s articles of association, minutes of the general meetings, financial and accounting reports and other documents. Under the articles of association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders which is similar to the rights of shareholders of Hong Kong companies under the Companies Ordinance.

Receiving Agent

Under the Hong Kong law, dividends once declared by the board of directors will become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while under the PRC law this limitation period is three years. The Mandatory Provisions require that the relevant company shall appoint a receiving agent for shareholders who hold overseas listed foreign shares, and the receiving agent shall receive on behalf of such holders of shares dividends declared and other monies owed by the company in respect of its overseas listed foreign shares.

Corporate Reorganization

Corporate reorganization involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of voluntary winding up to another company pursuant to Section 237 of the Companies (WUMP) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to Section 673 and Division 2 of Part 13 of the Companies Ordinance, which requires the sanction of the court. In addition, subject to the shareholders’ approval, an intra-group wholly-owned subsidiary company may also be amalgamated horizontally or vertically under the Companies Ordinance. Under PRC law, merger, division, dissolution or change to the status of a joint stock limited liability company has to be approved by shareholders in general meeting.

APPENDIX V SUMMARY OF LEGAL AND REGULATORY MATTERS

Mandatory Transfers

Under the PRC Company Law, a joint stock limited liability company is required to make transfers equivalent to certain prescribed percentages of its after tax profit to the statutory common reserve fund. There are no corresponding provisions under Hong Kong law.

Arbitration of Disputes

In Hong Kong, disputes between shareholders and a company or its directors, managers and other senior management may be resolved through the courts. The Mandatory Provisions provides that disputes or claims between a holder of H shares and the company, a holder of H shares and directors, supervisors, managers and other members of senior management of the company or a holder of H shares and a holder of domestic listed shares, arising from rights or obligations conferred or imposed thereupon by the articles of association, the PRC Company Law or other relevant laws and administrative regulations which concerns the affairs of the company should, with certain exceptions, be referred to arbitration at either the HKIAC or the China International Economic and Trade Arbitration Commission. Such arbitration is final and conclusive and binding on all parties.

The Securities Arbitration Rules of the HKIAC contain provisions allowing, upon application by any party, an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Hong Kong Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties, including witnesses and arbitrators, being permitted to enter Shenzhen for the purpose of the hearing. Where a party, other than a PRC party or any of its witnesses or any arbitrator, is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules of the HKIAC, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

Remedies of a Company

Under the PRC Company Law, if a director, supervisor or senior management in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in losses to the company, that director, supervisor or senior management should be responsible to the company for such losses. In addition, the Hong Kong Listing Rules require listed companies' articles to provide for remedies of the company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits from a director, supervisor or senior management).

Dividends

The company has the power in certain circumstances to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of declared dividends) is six years, whereas under PRC laws, the relevant limitation period is three years. The company must not exercise its powers to forfeit any unclaimed dividend in respect of shares until after the expiry of the applicable limitation period.

APPENDIX V SUMMARY OF LEGAL AND REGULATORY MATTERS

Closure of Register of Shareholders

The Companies Ordinance requires that the register of shareholders of a company must not be closed for the registration of transfers of shares for more than thirty days (extendable to sixty days in certain circumstances) in a year, whereas, as required by the Mandatory Provisions, change of register of members due to share transfers shall not be registered within thirty days before the date of convening a general meeting or within five days before the base date of distribution of dividends.

APPENDIX VI

SUMMARY OF ARTICLES OF ASSOCIATION

Set out below is a summary of the principal provisions of our Articles of Association, the objective of which is to provide investors with an overview of our Articles of Association.

Our Articles of Association and relevant amendments thereto were adopted by our Shareholders in Shareholders’ general meetings in accordance with applicable laws and regulations, including the PRC Company Law, the Securities Law, the Special Regulations, the Official Reply of the State Council on Adjusting the Provisions Governing Matters including the Application of the Notice Period for the Convening of Shareholders’ General Meetings by Companies Listed Overseas (《國務院關於調整適用在境外上市公司召開股東大會通知期限等事項規定的批覆》), the Code of Corporate Governance for Listed Companies (《上市公司治理準則》), the Guidance on Articles of Association of Listed Company (《上市公司章程指引》), the Rules for the Shareholders’ Meetings of Listed Companies (《上市公司股東大會規則》), the Mandatory Provisions, the Reply on Opinions Concerning the Supplement and Amendment to the Articles of Association by Companies to be Listed in Hong Kong (《關於到香港上市公司對公司章程作補充修改的意見的函》), the Listing Rules for the STAR Market and the Hong Kong Listing Rules, and will become effective upon the completion of our A Share Listing or H Share Listing (whichever is earlier). As the information contained below is in summary form, it may not contain all the information that may be important to potential investors.

Shares

Issuance of Shares

Our Company shall set up ordinary Shares at any time. According to our needs, our Company may create other classes of Shares upon approval from the authorized department of the State Council.

Our Shares shall be in the form of stocks.

Our Shares shall be issued by our Company following the principles of open, fairness and justice, and each Share in the same class shall have the same rights.

For the same class of Shares issued at the same time, each Share shall be issued on the same conditions and at the same price. All entities or individuals subscribing for the Shares shall pay the same price for each Share.

Our Company may issue Shares to domestic and overseas investors upon approval or registration by competent securities department of the State Council.

Transfer of Shares

Unless otherwise specified by laws, administrative regulations, regulations of ministries and commissions, regulatory documents and securities regulatory rules of the place where our Shares are listed, our Shares may be transferred freely without any lien attached. Registration shall be made in the Hong Kong share registrar authorized by our Company for the transfer of H Shares.

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SUMMARY OF ARTICLES OF ASSOCIATION

All fully paid H Shares may be freely transferred in accordance with our Articles of Association. The Board may refuse to recognize any documents for the transfer of H Shares without stating any reasons unless the conditions stipulated below are met:

- (a) all transfer documents and other documents relating to or affecting the title of any H Shares are required to be registered. Where a fee is required for such registration, such fee shall not *exceed* the highest fee prescribed by the Hong Kong Listing Rules from time to time;
- (b) transfer documents are only in relation to H Shares;
- (c) stamp duty (as stipulated by Hong Kong law) in relation to transfer documents has been duly paid;
- (d) relevant share certificate(s) and any other evidence which the Board may reasonably require to show that the transferor has the right to transfer the Shares have been provided;
- (e) where the Shares are intended to be transferred to joint holders, the number of such joint Shareholders shall not be more than four; and
- (f) Shares are free and clear of any lien of our Company.

Any changes or corrections of any part of the register of Shareholders shall be effected in accordance with the laws of the locality in which that part of the register of Shareholders is kept.

The Directors, Supervisors and senior management of our Company shall notify our Company of their holding of our Shares and changes of their holdings. The Shares transferrable by them during each year of their tenures shall not *exceed* twenty-five percent of their total holdings of the same class of our Shares, Shares of our Company held by them are not transferable within one year from the date on which our Shares are listed. The aforesaid persons shall not transfer the Shares of our Company held by them within six months of their departure from our Company.

Shares issued prior to our Company’s initial public offering are not transferable within one year from the date on which our Shares are listed on the stock exchange. Where the laws, administrative regulations, regulations of ministries and commissions, regulatory documents and securities regulatory rules of the place where our Shares are listed stipulate requirements regarding the aforementioned share transfers and related matters, such requirements shall prevail.

Where the laws, administrative regulations, regulations of ministries and commissions, regulatory documents and securities regulatory rules of the place where our Shares are listed stipulate requirements on the occasions when no change of registration of the register of Shareholders shall be made before convention of a general meeting or before the benchmark date set by our Company for the purpose of distribution of dividends, such requirements shall prevail.

Pledge of Shares

Our Company does not accept Shares as the subject of pledges.

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SUMMARY OF ARTICLES OF ASSOCIATION

Repurchase of Shares

Our Company may repurchase our Shares in the following circumstances, after passing the procedures stipulated in laws, administrative regulations, regulations of ministries and commissions, regulatory documents, securities regulatory rules of the place where our Shares are listed and our Articles of Association:

- (a) reduction of our registered capital;
- (b) merging with another company holding our Shares;
- (c) issuing Shares under employee shareholding schemes or as share incentives;
- (d) requests to our Company for acquiring their Shares from Shareholders who have voted against the resolutions passed at a Shareholders’ general meeting on the merger or division of our Company;
- (e) to satisfy the conversion of the convertible corporate bonds issued by our Company with Shares;
- (f) to safeguard corporate value and the interests of the Shareholders as our Company deems necessary; and
- (g) other circumstances permitted by laws and administrative regulations.

Except for the circumstances set out above, our Company shall not repurchase our Shares.

Approval shall be obtained from general meeting when our Company is to repurchase our Shares under the circumstances (a) or (b) set out above. Approval of more than two-thirds of the Directors present at a Board meeting shall be obtained when our Company is to repurchase our Shares under the circumstances (c), (e) or (f) set out above. Subject to the Hong Kong Listing Rules, after our Company has repurchased our Shares in accordance with the preceding provision, the Shares so repurchased shall be deregistered within ten days from the date of repurchase (under the circumstances set out in (a)), or shall be transferred or deregistered within six months (under the circumstances set out in (b), (d)). After our Company has repurchased our Shares under the circumstances set out in (c), (e) or (f) above, the total number of Shares held by our Company shall not exceed ten percent of the total issued Shares of our Company and all Shares so acquired shall be transferred or deregistered within three years after the date of announcement on the repurchase and changes in share capital. Where the laws, administrative regulations, regulations of ministries and commissions, regulatory documents and securities regulatory rules of the place where our Shares are listed stipulate requirements regarding the aforementioned repurchase of shares and related matters, such requirements shall prevail.

In accordance with the laws, our Company may repurchase our Shares by the following ways:

- (a) repurchasing the Shares by public trading on a stock exchange;
- (b) making a repurchase offer to all Shareholders in proportion to their shareholdings;
- (c) repurchasing the Shares by agreement without involving a stock exchange;

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- (d) by other means stipulated by laws or regulations or permitted by competent securities department of the State Council or other competent authorities.

Notwithstanding the above requirements, if our Company repurchase our Shares under the circumstances set out in (c), (e) or (f) above, it shall be conducted through open centralized trading.

A prior approval shall be obtained from a general meeting in respect of any repurchase of Share by our Company through an off-market agreement instead of on a securities exchange in accordance with the provisions of our Articles of Association. After the general meeting has given its approval in the same way, our Company may rescind or alter any contracts entered into in the said manner or waive any rights under such contracts.

The contract to repurchase Shares as referred to in the paragraph includes, but is not limited to, an agreement to become obliged to repurchase or to acquire the right to repurchase Shares.

Our Company shall not assign any contract for repurchasing our Shares or any of our rights thereunder.

Where our Company has the right to repurchase redeemable Shares by means other than repurchases through the market or by tender, the repurchase price shall be limited to a maximum price; if repurchases are made by tender, an invitation for tenders shall be made to all Shareholders alike.

Unless our Company is undergoing liquidation, it shall comply with the following requirements with respect to repurchase of our issued Shares:

- (a) for repurchases of Shares by our Company at their par value, payment shall be made from the book balance of our distributable profits or from the proceeds of issuance of new Shares for that purpose;
- (b) where our Company repurchases our Shares at a premium to its par value, payment up to the par value shall be made from the book balance of our distributable profits or from the proceeds of issuance of new Shares for that purpose. Payment of the portion which is in excess of the par value shall be made as follows:
 - (i) if the Shares being repurchased are issued at par value, payment shall be made from the book balance of our distributable profits; or
 - (ii) if the Shares being repurchased are issued at a premium to its par value, payment shall be made from the book balance of our distributable profits or from the proceeds of issuance of new Shares for that purpose. However, the amount deducted from the proceeds of issuance of new Shares shall not *exceed* the aggregate amount of the premium received by our Company from the issuance of the Shares so repurchased, nor shall it exceed the amount in our Company's premium account or capital reserve fund account (including premium on the new issue) at the time of such repurchase;

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- (c) our Company shall make the following payments from our Company's distributable profits:
 - (i) acquisition of the rights to repurchase our Shares;
 - (ii) variation of any contracts for the repurchase of our Shares; or
 - (iii) release from our obligations under any repurchase contracts;
- (d) after the aggregate par value of the canceled Shares is deducted from our Company's registered capital in accordance with the relevant provisions, the amount deducted from the distributable profits used for the repurchase of the Shares at par value shall be credited to our Company's capital reserve fund account.

Financial Assistance for the Acquisition of Shares in Our Company

Our Company and our subsidiaries shall not offer any financial assistance at any time by any means to purchasers or prospective purchasers who will or who intend to purchase our Shares. The aforementioned purchasers include both persons who have directly or indirectly assumed obligations due to purchasing our Shares.

Our Company and our subsidiaries shall not offer any financial assistance at any time by any means in order to reduce or relieve the obligations of the aforesaid obligors.

The acts listed below are not prohibited by the preceding two paragraphs:

- (a) the financial assistance provided by our Company is either genuinely for the interests of our Company and the main purpose of the financial assistance is not to purchase our Shares, or the financial assistance is an incidental part of an overall plan of our Company;
- (b) the lawful distribution of our Company's properties in the form of dividends;
- (c) the distribution of dividends in the form of Shares;
- (d) the reduction of registered capital, repurchase of Shares, and adjustment of shareholding structure, etc. in accordance with our Articles of Association;
- (e) the provision of a loan by our Company within our scope of business and in the ordinary course of business (provided that this does not lead to a reduction in the net assets of our Company or that if this causes a reduction, the financial assistance is taken from our Company's distributable profits); or
- (f) provision of funds by our Company for an employee shareholding scheme (provided that this does not lead to a reduction in the net assets of our Company or that if there causes a reduction, the financial assistance is taken from our Company's distributable profits).

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"Financial assistance" referred to in our Articles of Association shall include, without limitation, the following means:

- (a) financial assistance given as gifts;
- (b) financial assistance given by guarantee (including the assumption of liability by the guarantor or the provision of properties by the guarantor to secure the performance of obligations by the obligor), indemnity (other than an indemnity in respect of our Company's neglect or default) or the release or waiver of any rights;
- (c) the provision of loans or the entrance into any agreement under which the obligations of our Company are to be fulfilled prior to the obligations of another party, and a change in the parties to, and the assignment of rights arising under such loans or agreement; or
- (d) any other form of financial assistance given by our Company when our Company is insolvent, has no net assets, or under any other situations when our net assets would be reduced to a material extent.

The "obligations" referred to in our Articles of Association shall include the obligations of an obligor which have arisen from entering into an agreement or making an arrangement (regardless of whether such agreement or arrangement is enforceable, or whether such obligations are assumed by the obligor individually or jointly with any other person) or any obligations that arise out of changes made in any other way to the obligor's financial condition.

Shareholders

Register of Shareholders

Unless there is proof to the contrary, the register of Shareholders shall be sufficient evidence to the holding of our Shares by a Shareholder.

Our Company shall have a Shareholders register to record the following matters:

- (a) the name, address (domicile), occupation or nature of each Shareholder;
- (b) the class and number of Shares held by each Shareholder;
- (c) the amount paid or payable for the Shares held by each Shareholder;
- (d) the serial number(s) of the share certificate(s) held by each Shareholder;
- (e) the date on which each Shareholder is registered as a Shareholder;
- (f) the date on which each Shareholder ceases to be a Shareholder.

Transfer of Shares shall be registered at domestic and overseas share transfer register agencies assigned by our Company and recorded in the Shareholders' register.

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Rights of Shareholders

The Shareholders shall enjoy the following rights:

- (a) to receive dividends and other kinds of distributions as determined by the number of Shares held by them;
- (b) to request, convene, host, attend or appoint a proxy to general meetings according to laws, and to exercise voting rights based on the number of the Shares held by them;
- (c) to supervise the operations of our Company, and to make suggestions and enquiries accordingly;
- (d) to transfer, bestow or pledge of the Shares held by them in accordance with the laws, administrative regulations, regulations of ministries and commissions, regulatory documents, securities regulatory rules of the place where our Shares are listed and the provisions of our Articles of Association;
- (e) to obtain relevant information in accordance with our Articles of Association, including:
 - (i) to obtain our Articles of Association after paying the production costs thereof;
 - (ii) to inspect for free and to acquire the right to duplicate after paying a reasonable charge:
 - (1) all parts of the register of Shareholders;
 - (2) information on the share capital of our Company;
 - (3) reports on the aggregate par value, number of Shares, and highest and lowest prices of each class of Shares in relation to any repurchase by our Company of our Shares since the last financial year, as well as all the expenses paid by our Company in relation to such repurchases (classified as domestic Shares and foreign-invested Shares);
 - (4) bond stub of our Company;
 - (5) minutes of the Shareholders' general meetings, resolutions of the Board, resolutions of the Supervisory Committee, special resolutions of Shareholders' general meetings;
 - (6) the audited financial and accounting reports and reports of the Board, external auditors and the Supervisory Committee of the most recent period; or
 - (7) the latest issue of annual report already submitted to the company registration authority or other competent authorities for filing.

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Our Company shall keep documents and any other applicable documents related to item (1), (2), (3), (5), (6) and (7) above at our Company’s Hong Kong domicile for public and Shareholders to inspect free of charge (but the minutes of Shareholder’s general meeting are only available for Shareholders’ inspection) and Shareholders have the right to duplicate such documents after paying a reasonable charge according to provisions of Hong Kong Listing Rules. Our Company may refuse to provide information if the content requested by Shareholders to inspect and duplicate involves trade secrets and price sensitive information of our Company. If a Shareholder obtains the above-mentioned relevant information in accordance with the provisions of our Articles of Association and subsequently leaks the such relevant information and causes damage to our Company’s legitimate interests, such Shareholder shall be liable for compensation in accordance with laws for the relevant losses caused to our Company;

- (f) to participate in the distribution of the remaining assets of our Company based on the number of Shares held in the event of our Company’s dissolution or liquidation;
- (g) to demand our Company to acquire their Shares (for Shareholders who disagree with the resolutions adopted at a Shareholders’ general meeting in relation to the merger or division of our Company); and
- (h) to have other rights conferred in accordance with the law, administrative regulations, regulations of ministries and commissions, regulatory documents, securities regulatory rules of the place where our Shares are listed or our Articles of Association.

Rights of minorities in relation to fraud or oppression

Save for the obligations under laws, administrative regulations, regulations of ministries and commissions, regulatory documents or securities regulatory rules of the place where our Shares are listed, controlling Shareholders shall not, in the exercise of their Shareholders’ powers, make any decisions prejudicial to the interests of all or part of the Shareholders as a result of the exercise of their voting rights on the issues set forth below:

- (a) to relieve a Director or Supervisor from his/her obligations to act in good faith for the best interests of our Company;
- (b) to approve that a Director or Supervisor (for his/her own interests or another’s interests) expropriate Company’s property in any manner, including (but not limited to) any opportunity which is beneficial to our Company;
- (c) to approve that a Director or Supervisor (for his/her own interests or another’s interests) deprive other Shareholders of individual rights and interests including (but not limited to) any distribution rights and voting rights, but not including the reorganization of our Company submitted to the general meeting for approval in accordance with our Articles of Association.

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Voting Rights

A Shareholder (including his/her proxy) shall exercise his/her voting rights based on the number of Shares with voting rights represented by him/her. Each share shall have one vote. However, our Shares held by our Company have no voting rights, and will not be counted into the total voting Shares present in the Shareholders’ general meeting.

Voting at a Shareholders’ general meeting shall be taken by registered poll or such other way as required by securities regulatory rules of the place where our Shares are listed. On a poll taken at a meeting, a Shareholder (including his/her proxies) who is entitled to two or more votes needs not to use all of his/her votes for, against or abstention in the same way.

Proxies

Any Shareholder entitled to attend and having voting rights at a Shareholders’ general meeting shall be entitled to attend the meeting in person or appoint one or more persons (these persons need not be Shareholders) as proxies to attend and vote on their behalf. A proxy so appointed may exercise the following powers at a Shareholders’ general meeting:

- (a) the Shareholder’s right to speak at a Shareholders’ general meeting;
- (b) to severally or jointly request to vote by ballot; and
- (c) to exercise voting rights, but only by ballot when there is more than one proxy.

The proxy form shall be placed at our Company’s domicile or at any other place designated in the notice of Shareholders’ general meeting at least twenty-four hours prior to either the convening of the relevant meeting in which the resolutions are to be voted on or the designated voting time. If the proxy form is signed by a person authorized by the appointing Shareholder instead of the appointing Shareholder himself/herself, the power of attorney or other authorization documents shall be notarized. The notarized power of attorney or other authorization documents, together with the proxy form, shall be placed at our Company’s domicile or any other place designated in the notice of Shareholders’ general meeting.

Where the proxy is a legal person, its legal representative or proxies authorized by the resolutions of the Board and other decision-making bodies shall be represented to attend the general meeting of our Company.

If the proxy has passed away or lost his/her ability to act or withdrawn the authorization or withdrawn the authorization of the signed proxy form or has transferred all of his/her Shares prior to voting at the Shareholders’ general meeting, as long as our Company has not received any written notice regarding these matters prior to the commencement of the relevant meeting, the vote casted by the proxy in accordance with the proxy form shall remain valid.

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Shareholders’ General Meeting

Notice of the Meeting

The Shareholders’ general meetings shall be divided into annual general meetings and extraordinary general meetings.

The annual general meeting shall be convened once a year, and be held within six (6) months after the end of each accounting year.

An extraordinary general meeting shall be convened when necessary. An extraordinary general meeting shall be convened within two months from the date of occurrence of any of the following events:

- (a) the number of Directors is less than the minimum number required by the PRC Company Law or less than two-thirds of the number stipulated in our Articles of Association;
- (b) the outstanding loss of our Company has reached one-third of our Company’s total paid-up share capital;
- (c) when Shareholders who individually or jointly holding more than ten percent of our Shares with voting rights request in writing to convene an extraordinary general meeting;
- (d) the Board deems it necessary to convene the meeting;
- (e) the Supervisory Committee proposes to convene the meeting; or
- (f) any other circumstances as stipulated by laws, administrative regulations, regulations of ministries and commissions, regulatory documents, securities regulatory rules of the place where our Shares are listed or our Articles of Association.

When our Company is to convene an annual general meeting, our Company shall issue a written notice prior to twenty working days from the date of the meeting; when our Company is to convene an extraordinary general meeting, it shall issue a written notice prior to ten working days or fifteen days (whichever is longer) from the date of the meeting. Such notice shall state the matters to be considered at the meeting and the date and venue of the meeting.

The notice of a Shareholders’ general meeting shall:

- (a) be issued in writing;
- (b) specify the time, venue and duration of the meeting;
- (c) state the matters and proposals to be deliberated at the meeting;

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- (d) provide to Shareholders with all necessary information and explanation as required to enable Shareholders to make reasonable judgments on the matters to be discussed. This means that when (including but not limited to) any merger, share repurchase, share capital reorganization or any proposals relating to change in the structure of our Company are involved, the detailed terms of the proposed transaction, copies of the proposed agreement (if any) and detailed explanation as to the cause and effect of such a proposal transaction shall be provided;
- (e) if any of the Directors, Supervisors or senior management of our Company have material interest in the matters to be discussed, they shall disclose the nature and extent of such interest; and if the effects of the matters to be discussed have a different effect on a Director, Supervisor or other senior management as Shareholders compared to other Shareholders of that same class, they shall explain this difference;
- (f) the full text of any proposed special resolution to be voted on at the meeting;
- (g) a prominent statement stating that all Shareholders entitled to attend the meeting and appoint proxy by written to attend and vote on his/her behalf, and such proxy need not be a Shareholder of our Company;
- (h) the time and venue for delivering the proxy form authorizing the proxy to vote of the relevant meeting;
- (i) specify the date of registration of shareholdings of Shareholders who are entitled to attend the Shareholders' general meeting; and
- (j) the name and phone number of the contact person of the meeting.

Unless otherwise stipulated by laws, administrative regulations, securities regulatory rules of the place where our Shares are listed or our Articles of Association, the notice of a Shareholders' general meeting shall be delivered by hand or prepaid mail to all Shareholders (regardless of whether they have voting rights at the Shareholders' general meeting). The address of the recipients shall be the address registered in the register of Shareholders. For holders of domestic Shares, the notice of a Shareholders' general meeting may be in the form of an announcement.

The aforesaid announcement shall be published in one or more newspapers, specified by competent securities department of the State Council, the website of Shanghai Stock Exchange and any media satisfying the requirements prescribed by the competent securities department of the State Council. All holders of domestic Shares shall be deemed as having been notified of the forthcoming Shareholders' general meeting once the announcement is published.

Provided that such action is in compliance with the laws, administrative regulations, regulations of ministries and commissions, regulatory documents and securities regulatory rules of the place where our Shares are listed and fulfills the relevant procedures, our Company may also send or despatch the aforesaid notices of general meeting to the holders of H Shares through the websites of our Company and website specified by the Hong Kong Stock Exchange or by other methods approved by Hong Kong Listing Rules and our Articles of Association to replace the approach of delivery by hand or pre-paid post.

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Power of the Meeting and Matters to be Determined

The Shareholders' general meeting shall be the governing body of our Company. It may exercise the following powers in accordance with the law:

- (a) to decide on the business policies and investment plans of our Company;
- (b) to elect and replace Directors and Supervisors which are not appointed as representatives of the employees and to decide on the remuneration of the relevant Directors and Supervisors;
- (c) to review and approve reports made by the Board;
- (d) to review and approve reports made by the Supervisory Committee;
- (e) to review and approve our proposed annual financial budget, final accounts and annual report;
- (f) to review and approve our plans for profit distribution and loss recovery plans;
- (g) to adopt resolutions concerning the increase or reduction of our share capital;
- (h) to adopt resolutions on the issuance of bond, issuance of Shares of any class, warrants or other similar securities;
- (i) to adopt resolutions on the merger, division, dissolution, liquidation or change in corporate form of our Company;
- (j) amendment of our Articles of Association;
- (k) to adopt resolutions on the engagement, dismissal or discontinuation of the appointment of accounting firms;
- (l) to review the proposals raised by the Shareholders severally or jointly representing above three percent of our Shares with voting rights;
- (m) to review and approve the guarantees in accordance with Article 65 of our Articles of Association;
- (n) to review and approve purchase or sale by our Company of any major assets within one year of which the amount exceeds 30% of the latest audited total assets of our Company;
- (o) to review and approve matters relating to the modification of use of proceeds;
- (p) to review and approve the share incentive schemes; and
- (q) to review and approve other issues which should be decided by the Shareholders' general meeting as stipulated by laws, administrative regulations, regulations of ministries and commissions, regulatory documents, securities regulatory rules of the place where our Shares are listed or our Articles of Association.

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Resolutions at the general meeting shall be divided into ordinary resolutions and special resolutions.

Ordinary resolutions of the general meeting shall be passed by half or more of the voting rights represented by Shareholders (including proxies) present at the meeting.

Special resolutions of the general meeting shall be passed by two thirds or more of the voting rights represented by Shareholders (including proxies) present at the meeting.

The following matters shall be approved by general meeting by special resolutions:

- (a) increasing or reducing our share capital and issuing Shares of any class, warrants and other similar securities;
- (b) the issuance of corporate bonds;
- (c) merger, division, dissolution, liquidation or change of corporate form of our Company;
- (d) amendment to our Articles of Association;
- (e) purchase, disposal of major assets within one year with value of more than 30% of the total audited assets of our Company for the latest period;
- (f) share incentive schemes; or
- (g) other matters stipulated by laws, administrative regulations, regulations of ministries and commissions, regulatory documents, securities regulatory rules of the place where our Shares are listed or our Articles of Association, or matters which are determined by an ordinary resolution of the general meeting to be of material significance to our Company and are required to be approved by way of special resolutions.

Special Procedures for Voting by Class Shareholders

Shareholders who hold different classes of Shares shall be Class Shareholders.

Class Shareholders shall have rights and obligations in accordance with the laws, administrative regulations and our Articles of Association.

Apart from holders of other classes of Shares, holders of domestic Shares and H Shares are regarded as Shareholders of different classes.

If our Company proposes to change or nullify certain rights of a certain class of Shareholders, this proposal should be passed by a special resolution at the Shareholders' general meeting and passed at the meeting convened according to Articles 128 to 132 of the Articles of the Association by the related class of Shareholders. Approval at the class general meeting is not required where the change or nullification of certain rights of a certain class of Shareholders is as a result of changes to laws, administrative regulations, regulations of ministries and commissions, regulatory documents and securities regulatory rules of the place where our Shares are listed or decisions made in accordance with the laws by regulatory authorities of the place where our Shares are listed.

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Transfer by holders of domestic Shares of all or part of their domestic Shares to overseas investors for listing on overseas stock exchanges, or the conversion of all or part of the domestic Shares into overseas listed foreign Shares for listing and trading on overseas stock exchanges shall not be deemed as change or nullification of rights of Class Shareholders by the Company and shall not require the approval of other Shareholders.

Unless otherwise specified in our Articles of Association, the rights of a certain class of Shareholders shall be deemed to be changed or nullified in the following circumstances:

- (a) to increase or reduce in the number of the Shares of such class, or increase or reduce the number of the Shares of other class which enjoy the same or more voting rights, distribution rights or other privileges;
- (b) to convert part or whole of the Shares of such class into other class(es), convert part or whole of the Shares of other class(es) into such class, or grant such conversion rights;
- (c) to nullify or reduce the rights of such class of Shares to receive payable dividends or cumulative dividends;
- (d) to reduce or nullify the privileged rights of such class of Shares to acquire dividends or obtain distribution of assets during liquidation of our Company;
- (e) to increase, nullify or reduce the conversion, option, voting, transfer or pre-emptive allotment rights of such class of Shares or the rights of such class of Shares to obtain securities issued by our Company;
- (f) to nullify or reduce the rights of such class of Shares to receive amounts payable by our Company in a particular currency;
- (g) to establish new class(es) of Shares with the same or more voting rights, distribution rights or other privileges as compared with those enjoyed by such class of Shares;
- (h) to impose restriction or additional restrictions on the transfer or ownership of such class of Shares;
- (i) to grant the share subscription options or share conversion options of such class or another class of Shares;
- (j) to increase the rights or privileges of other class(es) of Shares;
- (k) any restructuring scheme of our Company that may result in the assumption of disproportionate responsibilities by different classes of Shareholders during the restructuring; or
- (l) to revise or nullify the provisions under the chapter with title of “Special Procedures for Voting by Class Shareholders” in our Articles of Association, except for revision or nullification of the provisions under that chapter with title of “Special Procedures for Voting by Class Shareholders” as a result of changes to laws, administrative regulations, regulations of ministries and commissions, regulatory documents, securities regulatory rules of the place where our Shares are listed and amendments to the Mandatory Provisions.

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Where issues specified in (b) to (h), (k) to (l) of the preceding provisions are involved, the affected Class Shareholders, whether or not they are entitled to vote at Shareholders’ general meetings originally, shall have the right to vote at class general meetings. However, the Shareholders with conflicts of interests shall have no voting rights at the meeting for such class of Shareholders.

A resolution of the meeting for a certain class of Shareholders shall be adopted by above two-thirds of the voting Shares represented by Shareholders of such class present at the meeting.

The special voting procedure at a Shareholders’ general meeting for Class Shareholders shall not apply for the following cases:

- (a) upon the approval by way of a special resolution passed by a Shareholders’ general meeting, our Company separately or concurrently issues domestic Shares and overseas listed foreign Shares in a period of twelve months, provided that the amount of each class of Shares intended to be issued is not more than twenty percent of the issued and outstanding Shares of the respective class;
- (b) our Company’s proposal to issue domestic Shares and overseas listed foreign Shares upon establishment, which is completed within fifteen months from the date of approval from competent securities department under the State Council or within validity period of the approval documents;
- (c) upon the approval by competent securities department under the State Council, transfer by holders of domestic Shares of all or part of their domestic Shares to overseas investors for listing on overseas stock exchanges, or the conversion of all or part of the domestic Shares into overseas listed foreign Shares for listing and trading on overseas stock exchanges;
- (d) repurchase of domestic Shares by our Company under the circumstances set out in Articles 27(III), (V) and (VI); or
- (e) other matters which do not require a vote by the Class Shareholders as stipulated by laws, administrative regulations, regulations of ministries and commissions, regulatory documents and securities regulatory rules of the place where our Shares are listed.

Dividends and Other Methods of Profit Distribution

Our Company may distribute dividends in proportion to the number of Shares held by Shareholders, in cash, Shares, a combination of cash and Shares or such other methods as permitted by applicable laws, regulations and regulatory documents for distribution of dividends. Our Company may distribute profit by way of distributing dividends in cash if the conditions for distribution of dividend in cash are met (including having considered the PRC Company Law and other applicable laws and regulations as well as our strategy, future capital needs, the distributable profit attributable to the Shareholders during the year, cash flow conditions, cash retention level of comparable companies and other actual conditions of the Company to determine the conditions for distribution of dividend in cash are met). Our Company shall appoint for Shareholders of H Shares a recipient agent. The recipient agent shall collect on behalf of the Shareholders concerned the dividends distributed and other funds payable by our Company in respect of the H Shares. The recipient agent appointed by our Company shall comply with the laws of the locality in

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which our Shares are listed or the relevant requirements of the stock exchange where our Shares are listed. The recipient agent appointed by our Company for Shareholders of H Shares shall be a company which is registered as a trust company under the Trustee Ordinance of Hong Kong (Cap. 29).

Call on Shares and Forfeiture of Shares

Our Company shall have the right to cease delivering dividend notice to the Shareholders of H Shares by mail, but such right can only be exercised after the dividend notice has not been drawn twice consecutively. If a dividend notice fails to reach the expected recipient in the initial mail delivery and is returned, our Company may exercise the right promptly.

Under the circumstance that complying with relevant laws, administrative regulations, regulations of ministries and commissions, regulatory documents and listing rules for stock exchanges where our Shares are listed, our Company shall have the right to sell the Shares of the Shareholders of H Shares through the methods the Board deems appropriate and subject to the following conditions:

- (a) our Company has distributed dividends on such Shares at least three times in a period of twelve years and the dividends are not claimed by anyone during that period;
- (b) after the expiration of the twelve-year period, our Company makes a public announcement in one or more newspapers in the place of listing, stating our intention to sell such Shares and notifies the stock exchange of the locality in which our Shares are listed.

Directors and Senior Management

Power to Dispose of the Assets of Our Company or Any Subsidiary

For the disposal of fixed assets by the Board, if the aggregate of the expected value of the fixed assets proposed to be disposed of and the value of the fixed assets which had been disposed of within four months preceding such proposal for disposal exceeds thirty-three percent of the fixed assets of our Company shown in the most recent balance sheet reviewed at a Shareholders’ general meeting, the Board shall not dispose of or approve of the disposal of such fixed assets without the approval of the Shareholders’ general meeting. The disposal of fixed assets referred to in this paragraph includes the transfer of interests of certain assets, but excludes the provision of fixed assets as pledges to any guarantees.

A breach of the above paragraph shall not affect the validity of transactions entered into by our Company in disposing of fixed assets.

Borrowing Powers

Our Articles of Association do not contain any special provision in respect of the manner in which borrowing powers may be exercised by the Directors, other than provisions which (a) give the Board the power to formulate proposals for the issuance of corporate bonds by our Company; and (b) require the issuance of corporate bonds to be approved by the Shareholders in general meeting by way of a special resolution.

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Remunerations and Compensation for Loss of Office

Our Company shall enter into written contracts with the Directors and the Supervisors regarding remuneration which are subject to the prior approval from the Shareholders’ general meeting. The aforesaid “remunerations” include:

- (a) remuneration for the Directors, Supervisors or senior management of our Company;
- (b) remuneration for the directors, supervisors or senior management of the subsidiaries of our Company;
- (c) remuneration for those providing other services for managing our Company and our subsidiaries; and
- (d) compensation to Directors or Supervisors for loss of office or upon retirement.

Except for the contracts mentioned above, the Directors and Supervisors shall not initiate litigation against our Company and claim benefits due to them for the foregoing matters.

The remuneration contracts between our Company and our Directors or Supervisors shall stipulate that if our Company is to be acquired, the Directors and Supervisors of our Company shall, subject to prior approval from the Shareholders’ general meeting, be entitled to compensation or other funds for loss of their positions or upon retirement. The “acquisition of our Company” mentioned in this paragraph refers to one of the following circumstances:

- (a) a takeover offer made by any person to all Shareholders; and
- (b) a takeover offer made by any person with the intent of becoming a “controlling shareholder” (as defined in Article 274 of our Articles of Association).

If Directors and Supervisors do not comply with the preceding provisions, any funds received by them shall go to the persons who have accepted the offer mentioned above and sell their Shares. The Directors and Supervisors shall bear the expenses arising from the proportional distribution of such amounts, and such expenses shall not be deducted from the amounts.

Loans to Directors, Supervisors and Senior Management

Our Company shall not, directly or indirectly, provide loans or loan guarantees to the Directors, Supervisors and senior management of our Company and our parent company, nor shall our Company provide the same to their connected persons.

The preceding provision shall not apply to the following circumstances:

- (a) loans or loan guarantees provided by our Company to our subsidiaries;

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- (b) loans, loan guarantees or other funds provided by our Company to the Directors, Supervisors and senior management of our Company pursuant to their employment contracts which were adopted by the Shareholders' general meeting, with which the foregoing persons can make payments in the interests of our Company or for the expenses incurred in performing their duties and responsibilities for our Company;
- (c) where the normal scope of business of our Company includes the provisions of loans and loan guarantees, loans and loan guarantees can be provided by our Company to the relevant Directors, Supervisors and senior management of our Company and their connected persons, provided that the loans and loan guarantees are provided on normal commercial terms and conditions.

If our Company provides a loan in breach of the provisions above, the person who has received the loan shall repay it immediately regardless of the terms of the loan.

Disclosure of Interests in Contracts with Our Company

The Directors, Supervisors and senior management of our Company having any direct or indirect material conflict of interests in any executed or proposed contracts, transactions or arrangements (except the employment contracts between our Company and our Directors, Supervisors and senior management), regardless of whether such interests are usually subject to the approval and consent of the Board, such persons shall disclose the nature and extent of the interests to the Board as soon as possible.

That, subject to such exceptions specified in the Note 1, Appendix 3 of Hong Kong Listing Rules or exceptions otherwise approved by the Hong Kong Stock Exchange, a Director shall not vote on any Board resolution approving any contract or arrangement or any other proposal in which he or any of his close associates (the definitions are stipulated in the Hong Kong Listing Rules) has a material interest nor shall he be counted in the quorum present at the meeting.

Unless the Directors, Supervisors and senior management of our Company with conflicts of interest have disclosed their interests to the Board in accordance with the requirements of the preceding paragraph, and the Board has approved the matter without counting the interested persons into the quorum and without their participation in the vote, our Company shall have the right to rescind such contracts, transactions or arrangements, except in circumstances where the counterparty is acting in good faith and unaware of that the Directors, Supervisors and senior management are in breach of their obligations.

If a connected person of a Director, Supervisor or senior management of our Company has any conflict of interests with any contract, transaction or arrangement, the Director, Supervisor or senior management shall be deemed to have a conflict of interests as well.

Appointment, Removal and Retirement

Directors shall be elected or removed from office by Shareholders at a Shareholders' general meeting. Each term of office of a Director shall be three years, and a Director may be re-elected and re-appointed upon expiry of his/her term of office. The Board of our Company consists of 9 Directors, including 3 independent Directors.

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The Board shall have one chairman, which shall be elected or removed from office by more than half of all Directors.

Candidates for Directors, excluding the candidates for independent Directors, shall be nominated by the Board or Shareholders individually or jointly holding above three percent of our total Shares with voting rights and be selected by the Shareholders' general meeting.

Candidates for non-employee representative Supervisor shall be nominated by the Supervisory Committee or Shareholders individually or jointly holding above three percent of our Shares with voting rights and be selected by the Shareholders' general meeting.

A person may not serve as a Director, Supervisor, Chief Executive Officer or other senior management of our Company if such person:

- (i) has no civil capacity or has limited civil capacity;
- (ii) was sentenced for the offense of corruption, bribery, expropriation, misappropriation of property or for disrupting the social and economic order, and less than five years has elapsed since the sentence was served, or has been deprived of political rights due to such crimes, and less than five years has elapsed since the deprivation was completed;
- (iii) has served as a director, factory manager or general manager of a company or enterprise that was bankrupted and liquidated, and was personally liable for the bankruptcy of such company or enterprise, and less than three years has elapsed since the date of completion of the bankruptcy and liquidation of that company or enterprise;
- (iv) was a former legal representative of a company or an enterprise which has had its business license revoked and been ordered to close down its business for violating the laws, and was personally liable for that revocation, and less than three years has elapsed since the date of revocation;
- (v) has comparatively large amount of individual debts that have become overdue and have not been settled;
- (vi) has been currently under investigation for criminal offense and which investigation is not yet concluded;
- (vii) has been prohibited to enter the capital market by competent securities department of the State Council and the period has not expired;
- (viii) is prohibited from acting as leader of an enterprise by virtue of any laws and administrative regulations;
- (ix) is not a natural person;
- (x) has been convicted by relevant competent authorities for violation of securities related laws and regulations, where such violation involved fraudulent or dishonest acts, and less than five years has elapsed since the date of such conviction; or

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- (xi) other contents stipulated by laws, administrative regulations, regulations of ministries and commissions, regulatory documents or securities regulatory rules of the place where our Shares are listed.

The validity of any act by a Director or senior management of our Company made on behalf of our Company towards a third party acting in good faith shall not be affected by any non-compliance in regulations of that person’s position, election procedure or qualifications.

Directors shall not be required to hold shares of the Company.

Financial and Accounting System

Our Company shall establish our financial and accounting system in accordance with laws, administrative regulations and the provisions of competent departments.

The Board of our Company has an Audit Committee.

In addition to preparing our financial statements in accordance with PRC accounting standards and regulations, our Company may prepare our financial statements in accordance with international accounting standards or the accounting standards of the overseas locality in which our Shares are listed. If there are any material differences between the financial statements prepared in accordance with the two accounting standards, such differences shall be stated in the notes to the financial statements. When distributing the after-tax profits of a given fiscal year, our Company shall take as final the smaller amount of after-tax profits out of the aforesaid two sets of financial statements.

The interim results or financial information published or disclosed by our Company shall be prepared in accordance with the PRC accounting standards and regulations and may be prepared in accordance with the international accounting standards or the accounting standards of the overseas locality where our Shares are listed at the same time.

Except as otherwise provided in our Articles of Association, our Company shall send the aforesaid report or report of the Board along with the balance sheet (including all documents attached to the balance sheet required by law and regulations) and income statement or income and expenditure statement or financial report summary to each Shareholder of H Share by hand or pre-paid post or other means approved by Hong Kong Stock Exchange at least twenty-one days prior to the convening of the Shareholders’ general meeting. The address of the recipients shall be the address registered in the register of Shareholders.

Amendments to our Articles of Association

In any of the following circumstances, our Company shall amend our Articles of Association:

- (a) if upon amendments to the PRC Company Law or relevant laws and administrative regulations, any terms contained in our Articles of Association become inconsistent with the provisions of the amended laws and administrative regulations;
- (b) a change in our Company causes inconsistency with those contained in our Articles of Association; or

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- (c) a resolution being passed by the Shareholders' general meeting to amend our Articles of Association.

If the amendments to our Articles of Association are subject to approval by relevant competent authorities, the amendments to our Articles of Association adopted at the Shareholders' general meeting shall be reported to the competent authority for approval; if registration matters are involved, our Company shall apply for registration of the changes in accordance with the law.

Procedures on Liquidation

Our Company shall be dissolved in any of the following circumstances:

- (a) occurrence of other dissolved matters stipulated in our Articles of Association;
- (b) if the Shareholders' general meeting resolves to do so;
- (c) if a dissolution is necessary as a result of a merger or division of our Company;
- (d) our Company is declared bankrupt pursuant to the law as a result of our inability to pay due debts;
- (e) if the business license of our Company is revoked or if it is ordered to close down our business; or
- (f) where the operation and management of our Company falls into serious difficulties and our continued existence would cause material losses to Shareholders, Shareholders holding above ten percent of the total voting rights of our Company may apply to the people's court to dissolve our Company if there are no other solutions.

If the Board decides that our Company shall be liquidated (except for liquidation resulting from our Company's declaration of bankruptcy), it shall state in the notice of Shareholders' general meeting convened for such purpose that the Board have conducted a comprehensive investigation into the situation of our Company and believes that our Company is able to pay off all our debts within twelve months following the commencement of the liquidation.

After the Shareholders' general meeting adopts a resolution in favor of the liquidation, the functions and powers of the Board of our Company shall be terminated immediately. The liquidation committee shall follow the instructions of the Shareholders' general meetings and shall report to the Shareholders' general meeting at least once a year on the income and expenditure of the liquidation committee, the business of our Company and the progress of the liquidation, and shall make a final report to the Shareholders' general meeting at the end of the liquidation.

Other Provisions Material to Our Company and Our Shareholders

General Provisions

Our Company is a joint stock company with limited liability and permanently surviving. From the date on which our Articles of Association come into effect, our Articles of Association shall constitute a legally binding document to our Company, Shareholders,

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Directors, Supervisors and senior management, regulating our Company's organization and activities, and the rights and obligations between our Company and each Shareholder and among the Shareholders inter se.

Our Company may, based on our operating and development needs, increase our share capital pursuant to laws, subject to the resolution on general meeting. Our Company may increase our capital by the following ways:

- (a) public offering of Shares;
- (b) non-public offering of Shares;
- (c) placing Shares to existing Shareholders;
- (d) distributing bonus Shares to existing Shareholders;
- (e) transferring reserve funds to increase share capital; or
- (f) other methods permitted by laws, administrative regulations, competent securities department and other relevant competent authorities of the State Council.

Board of Directors

The Board of Directors shall exercise the following functions and powers:

- (a) convening Shareholders' general meetings and reporting its performance at the Shareholders' general meetings;
- (b) implementing resolutions of the Shareholders' general meetings;
- (c) determining our business plans and investment plans;
- (d) formulating annual financial budget plans and final account plans;
- (e) formulating profit distribution plans and plans for recovery of losses of our Company;
- (f) formulating proposals for the increase or reduction of our registered capital, and for the issuance of our Company's debentures or other securities and the listing;
- (g) drafting proposals for merger, division, dissolving and change in corporate form of our Company;
- (h) drafting proposals for our major acquisitions of our Company and repurchase of our Shares under the circumstances set out in Articles 27(I), and (II) of our Articles of Association;
- (i) deciding on external guarantees of our Company other than those which shall be subject to approval by Shareholders' general meeting as required by Article 65 of our Articles of Association (except for the guarantee business within the business scope as approved by the competent financial regulatory agency);

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- (j) deciding external investments, acquisition and disposal of assets, pledge of assets, entrusted investments, connected transactions and other matters which do not reach the standard that is required to be considered at a Shareholders’ general meeting;
- (k) deciding on our Company’s internal management structure;
- (l) appointing or dismissing the Chief Executive Officer, the secretary to the Board of our Company and the company secretary; appointing or dismissing Chief Financial Officer and other senior management of our Company based on the nominations of the Chief Executive Officer, and determining their emoluments, rewards and penalties;
- (m) establishing the basic management system of our Company;
- (n) drafting proposals for the amendment to our Articles of Association;
- (o) managing the information disclosures of our Company;
- (p) proposing the engagement or change of the appointment of accounting firms to the Shareholders’ general meeting;
- (q) reviewing work reports of the Chief Executive Officer of our Company and examine his or her work;
- (r) drafting the share incentive schemes;
- (s) approving the repurchase of Shares under the circumstances set out in Articles 27(III), (V) and (VI) of our Articles of Association; and
- (t) other duties and powers stipulated by laws, administrative regulations, regulations of ministries and commissions, regulatory documents, securities regulatory rules of the place where our Shares are listed and our Articles of Association.

The Board meeting includes regular meetings and extraordinary meetings. The Board of Directors shall hold a regular meeting at least four times a year. A regular Board meeting shall be convened by the chairman of the Board and notices of the regular Board meeting shall be sent to all Directors and Supervisors at least fourteen days prior to the date of the meeting. With the unanimous consent of all Directors, the above-mentioned notice period for convening a Board meeting may be shortened, but such notice shall not be shorter than the minimum time required by the laws and regulations.

Unless otherwise specified in our Articles of Association, a meeting of the Board of Directors shall only be held if it has a quorum of more than one half of the directors. Resolutions adopted at the Board meeting must be approved by more than one half of all members of the Directors, unless otherwise required in our Articles of Association of our Company. Resolutions of the Board shall be passed on a “one person one vote” basis.

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Supervisory Committee

Our Company shall have a Supervisory Committee, comprising of one employee representative Supervisor and two non-employee representative Supervisors. The Directors and senior management shall not act concurrently as Supervisors. Employee representative Supervisors shall be elected at an employee representative meeting. The non-employee representative Supervisors shall be elected by Shareholder’s general meeting.

The Supervisory Committee shall have one chairman. The appointment and removal of the chairman shall be made with a resolution passed by over two-thirds of all members of the Supervisory Committee.

Each Supervisor shall serve for a term of three years, which may be re-elected upon the expiration of his/her term.

The Supervisory Committee shall exercise the following powers:

- (a) to monitor financial situations of our Company;
- (b) to supervise the related acts of any of the Directors and senior management and propose the removal of who violates any laws, administrative regulations, our Articles of Association or resolutions passed by the Shareholders’ meeting;
- (c) to demand any Director or senior management who acts in a manner which is detrimental to our Company’s interest to rectify such behavior;
- (d) to propose the convening of extraordinary general meeting and to convene and preside over extraordinary general meeting when the Board fails to perform the duty of convening and presiding Shareholders’ general meetings;
- (e) to make proposal to the Shareholders’ general meeting;
- (f) to convene an extraordinary Board meeting;
- (g) to represent our Company to negotiate with the Directors and senior management members or bringing actions against Directors and senior management members according to Article 151 of the PRC Company Law;
- (h) to verify the financial information such as the financial report, business report and plans for distribution of profits to be submitted by the Board to the Shareholders’ general meetings and to authorize, in our Company’s name, publicly certified and practicing accountants to assist in the re-examination of such information should any doubt arise in respect thereof and the fees shall be borne by our Company;
- (i) to review and give written comments to securities issuance documents and regular reports of our Company formulated by the Board;

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- (j) to investigate our Company should any abnormal operation situation arise; to authorize accounting firms, law firms and other professional institutions to assist the investigation and the fees shall be borne by our Company; and
- (k) other powers stipulated by laws, administrative regulations, regulations of ministries and commissions, regulatory documents, securities regulatory rules of the place where our Shares are listed or our Articles of Association.

Meetings of the Supervisory Committee shall be convened at least once each six months and be convened and presided by its chairman. A Supervisor shall be elected by half or more of all Supervisors to convene and host the meetings of Supervisory Committee when the chairman fails or refuses to perform the duty.

Chief Executive Officer

Our Company shall have one Chief Executive Officer, who shall be accountable to the Board and shall exercise the following powers:

- (i) to be in charge of our operation and management and report to the Board;
- (ii) to formulate and implement resolutions of the Board, our annual business plan and investment plan;
- (iii) to draft the basic management scheme of our Company and to formulate our internal management structure;
- (iv) to formulate our specific bylaws;
- (v) to propose to the Board the appointment or dismissal of Chief Financial Officer and other senior management (except for nominations to be made by the chairman of the Board in accordance with our Articles of Association);
- (vi) to determine the appointment or dismissal of responsible management personnel except for whom should be appointed or dismissed by the Board of Directors; and
- (vii) to exercise other powers conferred by our Articles of Association and the Board.

The Chief Executive Officer shall be present at meetings of the Board, but shall have no voting rights at the meetings if he/she is not a Director.

Secretary of the Board

There shall be a secretary of the Board. The secretary of the Board is a member of the senior management. The secretary is in charge of preparations for the Board meetings and Shareholders' general meetings, maintaining documents, keeping and managing Shareholders' information, information disclosure and other matters of our Company to ensure:

- (a) complete organizational documents and records are available for our Company;
- (b) our Company prepares and submits documents and reports required by relevant authorities pursuant to the law; and

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- (c) the register of Shareholders of our Company is properly established, and that persons entitled to receive relevant records and documents of our Company are given timely access to such records and documents.

Resolution of Disputes

Our Company shall abide by the following rules for dispute resolution:

- (a) If any disputes or claims in relation to our Company’s business, with respect to any rights or obligations under our Articles of Association, the PRC Company Law or any other relevant laws and administrative regulations, arise between Shareholders of overseas listed foreign Shares and our Company, between Shareholders of overseas listed foreign Shares and our Company’s Directors, Supervisors, Chief Executive Officer or other senior management of our Company, or between Shareholders of overseas listed foreign Shares and Shareholders of domestic Shares, the parties concerned shall submit such disputes or claims to arbitration.

When the aforementioned disputes or claims are submitted to arbitration, such disputes or claims shall be submitted in their entirety, and all persons (being our Company, our Company’s Shareholders, Directors, Supervisors, Chief Executive Officer or other senior management of our Company) that have a cause of action based on the same grounds or the persons whose participation is necessary for the resolution of such disputes or claims, shall comply with the arbitration.

Disputes with respect to the definition of Shareholders and disputes concerning the register of Shareholders need not be resolved by arbitration.

- (b) An applicant may choose for the arbitration to be arbitrated either by the China International Economic and Trade Arbitration Commission in accordance with its arbitration rules or the Hong Kong International Arbitration Center in accordance with its securities arbitration rules. Once a claimant submits a dispute or claim to arbitration, the other party must carry out the arbitration at the arbitration institution selected by the claimant.

If an applicant opts for arbitration by the Hong Kong International Arbitration Center, either party may request for the arbitration to be conducted in Shenzhen in accordance with the securities arbitration rules of the Hong Kong International Arbitration Center.

- (c) Unless otherwise provided by laws and administrative regulations, the laws of the PRC shall apply to the settlement of any disputes or claims that are resolved by arbitration described in item (a) above.

The award of the arbitration institution shall be final and binding upon all parties.

APPENDIX VII

STATUTORY AND GENERAL INFORMATION

A. Further Information About Our Group

1. Incorporation

Our predecessor company, Zhejiang Alibaba E-Commerce Co., Ltd. (浙江阿里巴巴電子商務有限公司), was incorporated as a limited liability company in the PRC on October 19, 2000 and was renamed Zhejiang Ant Small and Micro Financial Services Group Co., Ltd. (浙江螞蟻小微金融服務集團有限公司) on June 11, 2014. On December 28, 2016, we were converted into a joint-stock limited company under the laws of the PRC and were renamed Ant Small and Micro Financial Services Group Co., Ltd. (浙江螞蟻小微金融服務集團股份有限公司). Our Company’s name was changed to Ant Group Co., Ltd. (螞蟻科技集團股份有限公司) on July 13, 2020. Our registered office is located at Room 802, Building 5, Xixi New Block, Xihu District, Hangzhou, the People’s Republic of China.

Our Company has established a place of business in Hong Kong at 26/F Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong and [has been] registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance. Mr. Leiming Chen has been appointed as the authorized representative of our Company for the acceptance of service of process and notices in Hong Kong under Part 16 of the Companies Ordinance. The address for service of process on our Company in Hong Kong is the same as our principal place of business in Hong Kong as set out above.

As we were established in the PRC, our corporate structure and Articles of Association are subject to relevant laws and regulations of the PRC. A summary of relevant provisions of our Articles of Association is set out in “Appendix VI — Summary of Articles of Association.” A summary of certain relevant aspects of the laws and regulations of the PRC is set out in “Appendix V — Summary of Legal and Regulatory Matters.”

2. Changes in the Share Capital of Our Company

On October 19, 2000, our Company was incorporated with a registered capital of RMB500,000.

The following changes in the share capital of our Company have taken place within the two years immediately preceding the date of this document:

On September 19, 2019, the registered share capital of our Company was increased from RMB15,761,247,162 (divided into 15,761,247,162 shares of RMB1.00 each) to RMB23,524,249,496 (divided into 23,524,249,496 shares of RMB1.00 each).

On June 28, 2020, the registered share capital of our Company was increased from RMB23,524,249,496 (divided into 23,524,249,496 shares of RMB1.00 each) to RMB23,778,629,496 (divided into 23,778,629,496 shares of RMB1.00 each).

Save as disclosed above, there has been no alteration in the share capital of our Company within the two years immediately preceding the date of this document.

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Immediately after completion of the H Share [REDACTED] and the A Share [REDACTED] and assuming that the [REDACTED] are fully exercised, our registered share capital will be increased to RMB[REDACTED], comprising [REDACTED] A Shares and [REDACTED] H Shares, representing approximately [REDACTED]% and [REDACTED]% of our enlarged registered capital, respectively, assuming [REDACTED].

3. Changes in the Share Capital of Our Subsidiaries

The list of our principal subsidiaries as at June 30, 2020 is set out in Note 1 to the financial statements in the Accountant’s Report, the text of which is set out in Appendix I to this document. Save as disclosed below, there has been no alteration in the share capital of any of our principal subsidiaries within the two years immediately preceding the date of this document.

Ant Financial (Hangzhou) Network Technology Co., Ltd. (螞蟻金服(杭州)網絡技術有限公司)

On May 11, 2020, the registered capital of Ant Financial (Hangzhou) Network Technology Co., Ltd. (螞蟻金服(杭州)網絡技術有限公司) was increased from RMB10,000,000 to RMB50,000,000.

Shanghai Yunxin Venture Capital Co., Ltd. (上海雲鑫創業投資有限公司)

On January 18, 2019, the registered capital of Shanghai Yunxin Venture Capital Co., Ltd. (上海雲鑫創業投資有限公司) was increased from RMB451,782,336 to RMB1,451,782,336.

Chongqing Ant Small and Micro Loan Co., Ltd. (重慶市螞蟻小微小額貸款有限公司)

On October 10, 2019, the registered capital of Chongqing Ant Xiaowei Small Loan Co., Ltd. (重慶市螞蟻小微小額貸款有限公司) was increased from RMB8,000,000,000 to RMB12,000,000,000.

Alipay (Hangzhou) Information Technology Co., Ltd. (支付寶(杭州)信息技術有限公司)

On October 22, 2018, the registered capital of Alipay (Hangzhou) Information Technology Co., Ltd. (支付寶(杭州)信息技術有限公司) was increased from RMB10,000,000 to RMB100,000,000.

Cathay Insurance Company Limited (國泰財產保險有限責任公司)

On March 28, 2019, the registered capital of Cathay Insurance Company Limited (國泰財產保險有限責任公司) was increased from RMB1,632,653,061 to RMB2,632,653,061.

API (Hong Kong) Investment Limited

On December 28, 2018, the issued share capital of API (Hong Kong) Investment Limited was increased from 5,161,828,559 shares of HK\$1.00 each and 4,800,000 shares of US\$1.00 each to 5,161,828,559 shares of HK\$1.00 each and 26,480,928 shares of US\$1.00 each.

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ANT KBW Investment Limited

On December 28, 2018, the issued share capital of ANT KBW Investment Limited was increased from 441,226,471 shares of US\$1.00 each to 560,127,955 shares of US\$1.00 each.

Ant International Co., Limited

On June 28, 2020, the authorized share capital of Ant International Co., Limited was amended from 1,000 Class A Shares of US\$0.000001 each, 540,000,000 Class B Shares of US\$0.000001 each and 14,459,999,000 Class C Shares of US\$0.000001 each to 1,000 Class A Shares of US\$0.000001 each, 285,620,000 Class B Shares of US\$0.000001 each and 14,459,999,000 Class C Shares of US\$0.000001 each by cancellation of 254,380,000 authorized but unissued Class B Shares of US\$0.000001 each.

Antfin (Netherlands) Holding B.V.

On February 3, 2020, the issued share capital of Antfin (Netherlands) Holding B.V. was amended from one share of EUR1.00 to one share of US\$1.00.

4. Resolutions Passed by the Shareholders of the Company on August 21, 2020

Pursuant to a general meeting held on August 21, 2020, our Shareholders resolved, among others, that:

- (a) the issue by our Company of the H Shares pursuant to the H Share [REDACTED] and the [REDACTED] of such H Shares on the Hong Kong Stock Exchange be approved;
- (b) the issue by our Company of the A Shares and the [REDACTED] of such A Shares on the STAR Market be approved;
- (c) the aggregate number of H Shares and A Shares to be issued initially under the H Share [REDACTED], A Share [REDACTED] and the Redemption and Subscription shall not be more than [REDACTED] Shares, and the number of H Shares and A Shares to be issued pursuant to the exercise of the H-Share [REDACTED] and the A-Share [REDACTED], respectively, shall not be more than [REDACTED]% of the H Shares to be [REDACTED] initially pursuant to the H Share [REDACTED], and the A Shares to be [REDACTED] initially pursuant to the A Share [REDACTED], respectively;
- (d) the Articles of Association be approved and adopted, which shall only become effective on the earlier of (i) the H Share [REDACTED] and (ii) the A Share [REDACTED]; and the Board be authorized to amend the Articles of Association in accordance with any comments from the Hong Kong Stock Exchange and the relevant PRC regulatory authorities;
- (e) the Board be authorized to handle all matters relating to, among other things, the H Share [REDACTED] and the A Share [REDACTED];

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- (f) a general unconditional mandate was granted to the Directors to allot, issue and deal with A Shares and/or H Shares or securities convertible into A Shares and/or H Shares or options, warrants or similar rights to subscribe for A Shares and/or H Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the total number of A Shares and/or H Shares allotted or agreed to be allotted by the Directors other than pursuant to (i) a rights issue, (ii) any scrip dividend scheme or similar arrangement providing for the allotment of A Shares and/or H Shares in lieu of the whole or part of a dividend on A Shares and/or H Shares in accordance with the Articles, or (iii) a specific authority granted by the Shareholders in general meeting, shall not exceed 20% of the respective amount of A Shares and/or H Shares in issue immediately following the completion of the H Share [REDACTED] and the A Share [REDACTED] (but excluding any Shares which may be issued pursuant to the exercise of the [REDACTED]), such mandate to remain in effect during the period from the passing of the resolution until the earliest of the conclusion of our next annual general meeting, the expiration of the period within which we are required by any applicable laws, regulations or the Articles to hold our next annual general meeting or the date on which the resolution is varied or revoked by a special resolution of the Shareholders in general meeting;
- (g) the rules of the 2020 H Share Equity Incentive Plan and the Post-[REDACTED] H Share Equity Incentive Plan, the principal terms of which are set forth in “D. Employees Equity Incentive Plans” in this appendix be adopted, and the issue by our Company of not more than [REDACTED] H Shares and [REDACTED] H Shares for the purpose of the 2020 H Share Equity Incentive Plan and the Post-[REDACTED] H Share Equity Incentive Plan, respectively, be approved; and
- (h) the rules of the Restricted A Shares Incentive Plan, the principal terms of which are set forth in “D. Employees Equity Incentive Plans” in this appendix, and the issue of not more than [REDACTED] A Shares for the purpose of the Restricted A Shares Incentive Plan, be approved.

B. Further Information About Our Business

1. Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Group within the two years preceding the date of this document and are, or may be, material:

- (i) second amendment to share and asset purchase agreement entered into by and among our Company, Alibaba and Softbank Group Corp. dated September 23, 2019, relating to amendments made to a share and asset purchase agreement entered into by and among the same parties dated August 12, 2014, and amended pursuant to an amendment agreement dated February 1, 2018;
- (ii) second amended and restated intellectual property license agreement entered into by and among our Company, Alipay and Alibaba dated September 23, 2019, relating to amendments made to an intellectual property license and software technology services agreement entered into by and between Alipay and Alibaba dated July 29, 2011, as amended and restated on August 12, 2014;

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- (iii) anti-dilution letter agreement entered into by and between our Company and Alibaba dated July 27, 2020, relating to the grant of a subscription right to Alibaba for additional equity securities of our Company in any initial public offering of our Company on one or more stock exchanges so that the interest of Alibaba in our Company immediately after the consummation of such initial public offering (without taking into account any over-allotment options to be granted to underwriters in such initial public offering) shall be up to 33%, subject to compliance with applicable laws;
- (iv) third amendment to share and asset purchase agreement entered into by and among our Company, Alibaba and Softbank Group Corp. dated August 24, 2020, relating to amendments made to a share and asset purchase agreement entered into by and among the same parties dated August 12, 2014, and amended pursuant to an amendment agreement dated February 1, 2018 and a second amendment agreement dated September 23, 2019; and
- (v) [REDACTED].

2. Material Intellectual Property Rights

As of July 31, 2020, our Group had registered or has applied for the registration of the following intellectual property rights which we consider to be material in relation to the business of our Group.

(a) Patents

As of July 31, 2020, our Group had registered the following patents which we consider to be material in relation to the business of our Group:

No.	Patent name	Owner	Place of registration	Registration number	Date of application
1	Derivation and Verification Methods, Devices and Apparatus of Digital Identity Information (數字身份信息的派生、驗證方法、裝置及設備)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	ZL202010098861.3	February 18, 2020
2	Blockchain-based Resource Allocation Methods and Devices (基於區塊鏈的資源分配方法以及裝置)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	ZL202010006407.0	January 3, 2020
3	A Business Processing System, Methods, Devices and Apparatus for Business Processing (一種業務處理系統、業務處理的方法、裝置及設備)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	ZL202010147724.4	March 5, 2020
4	A Method and Device for Executing Functional Module in Virtual Machine (一種在虛擬機中執行功能模塊的方法和裝置)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	ZL202010147875.X	March 5, 2020

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No.	Patent name	Owner	Place of registration	Registration number	Date of application
5	Methods and Devices for Obtaining Transaction Processing Status in Decentralized Application Cluster (獲取去中心化應用集群中的交易處理狀態的方法及裝置)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	ZL202010036646.0	January 14, 2020
6	Methods, Nodes and Computing Apparatus for Nodes Management of Blockchain System (用於區塊鏈系統的節點管理的方法、節點和計算設備)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	ZL202010181765.5	March 16, 2020
7	A Method, Device and Apparatus for Information Processing (一種信息的處理方法、裝置及設備)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	ZL202010140120.7	March 3, 2020
8	Methods and Devices for Executing Transaction in Blockchain (在區塊鏈中執行交易的方法及裝置)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	ZL202010170493.9	March 12, 2020
9	Methods and Devices for Accessing External Data (訪問外部數據的方法及裝置)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	ZL202010191190.5	March 18, 2020
10	Methods and Devices for Modifying and Reading State Tree in Parallel (並行修改和讀取狀態樹的方法和裝置)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	ZL202010155154.3	March 9, 2020
11	Methods, Nodes and Computing Apparatus for Nodes Management of Blockchain System (用於區塊鏈系統的節點管理的方法、節點和計算設備)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	ZL202010181033.6	March 16, 2020
12	Methods and Devices for Processing Message Synchronization during Blockchain Consensus Processing (在區塊鏈共識處理時進行處理消息同步的方法及裝置)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	ZL202010181621.X	March 16, 2020
13	Methods, Devices and Computing Apparatus for Data Synchronization in Blockchain Network (用於區塊鏈網絡中的數據同步的方法、裝置和計算設備)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	ZL202010180584.0	March 16, 2020

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No.	Patent name	Owner	Place of registration	Registration number	Date of application
14	Methods and Devices for Verifying Contract (驗證合約的方法及裝置)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	ZL202010191188.8	March 18, 2020
15	Methods and Devices for Sharing Cluster Key (共享集群密鑰的方法及裝置)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	ZL202010191189.2	March 18, 2020
16	Methods and Devices for Calling Contracts (調用合約的方法及裝置)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	ZL202010191197.7	March 18, 2020
17	Methods and Devices for Transaction Processing in Blockchain and Blockchain Nodes (區塊鏈交易處理方法及裝置和區塊鏈節點)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	ZL202010253639.6	April 2, 2020
18	Deposit Certificate, Recovery Method and Devices of Blockchain Account Balance (區塊鏈賬戶餘額的存證、恢復方法及裝置)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	ZL202010254885.3	April 2, 2020
19	Methods and Devices for Correcting Blockchain Data (區塊鏈數據的訂正方法及裝置)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	ZL202010277279.3	April 10, 2020
20	Block On-chain Methods for Traceable Information and Related Apparatus (溯源信息的區塊鏈上鏈方法及相關設備)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	ZL202010329505.8	April 24, 2020
21	Methods and Devices for Cross-chain Data Subscription (跨鏈數據訂閱方法及裝置)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	ZL202010254516.4	April 2, 2020
22	Methods, Devices and Electronic Apparatus for Sharing Transaction Record Based on Blockchain Network (基於區塊鏈網絡的交易記錄共享方法、裝置及電子設備)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	ZL202010254521.5	April 2, 2020
23	Methods and Devices for Generating Shared Contract Key (生成共享合約密鑰的方法及裝置)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	ZL202010190878.1	March 18, 2020

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No.	Patent name	Owner	Place of registration	Registration number	Date of application
24	A Business Processing System, Methods, Devices and Apparatus for Business Processing (一種業務處理系統、業務處理的方法、裝置及設備)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	ZL202010147246.7	March 5, 2020
25	A Method, Device, Apparatus and System for Transmitting Verifiable Statement (一種可驗證聲明的傳輸方法、裝置、設備及系統)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	ZL202010277167.8	April 10, 2020
26	Methods and Devices for Permission Inquiry Configuration Based on Smart Contract (基於智能合約的權限查詢配置方法及裝置)	Ant Blockchain Technology (Shanghai) Co., Ltd.	China	ZL201911085007.7	November 8, 2019
27	Methods and Devices for Permission Inquiry Configuration Based on Chain Code (基於鏈代碼的權限查詢配置方法及裝置)	Ant Blockchain Technology (Shanghai) Co., Ltd.	China	ZL201911085167.1	November 8, 2019
28	A Method, Device and Apparatus for Authorizing Audio Works Based on Blockchain (一種基於區塊鏈的音頻作品授權方法、裝置及設備)	Ant Blockchain Technology (Shanghai) Co., Ltd.	China	ZL202010039401.3	January 15, 2020
29	A Blockchain System, Data Storage Method and Device (一種區塊鏈系統、數據存儲方法及裝置)	Advanced New Technologies Co., Ltd.	China	ZL201710086153.6	February 17, 2017
30	A Method and Device for Processing Business Requests (一種業務請求的處理方法及裝置)	Advanced New Technologies Co., Ltd.	China	ZL201710168014.8	March 21, 2017
31	A Method and Device for Consensus Verification (一種共識驗證的方法及裝置)	Advanced New Technologies Co., Ltd.	China	ZL201710292517.6	April 28, 2017
32	A Method and Apparatus for Data Processing Based on Blockchain (一種基於區塊鏈的數據處理方法及設備)	Advanced New Technologies Co., Ltd.	China	ZL201710372331.1	May 24, 2017
33	A Method and Device for Communication between Blockchain Nodes (一種區塊鏈節點間的通信方法及裝置)	Advanced New Technologies Co., Ltd.	China	ZL201710616370.1	July 26, 2017

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No.	Patent name	Owner	Place of registration	Registration number	Date of application
34	A Method and Device for Communication between Blockchain Nodes (一種區塊鏈節點間通信方法及裝置)	Advanced New Technologies Co., Ltd.	China	ZL201710617463.6	July 26, 2017
35	A Method and Device for Business Execution (一種業務執行的方法及裝置)	Advanced New Technologies Co., Ltd.	China	ZL201710362074.3	May 22, 2017
36	A Method for Authentication, Method and Apparatus for Processing Authentication Data Based on Blockchain (一種認證方法、基於區塊鏈的認證數據處理方法及設備)	Advanced New Technologies Co., Ltd.	China	ZL201710465995.2	June 19, 2017
37	A Method and Device for Block Data Verification (一種區塊鏈數據校驗方法和裝置)	Advanced New Technologies Co., Ltd.	China	ZL201611215749.3	December 26, 2016
38	Methods and Devices for Controlling Smart Locks and Smart Locks (智能鎖的控制方法、裝置及智能鎖)	Advanced New Technologies Co., Ltd.	China	ZL201610453587.0	June 21, 2016
39	A Method and Apparatus for Data Processing Based on Blockchain (一種基於區塊鏈的數據處理方法及設備)	Advanced New Technologies Co., Ltd.	China	ZL201710366698.2	May 23, 2017
40	A Method and Device for Broadcasting Messages (一種廣播消息的方法及裝置)	Advanced New Technologies Co., Ltd.	China	ZL201710182459.1	March 24, 2017
41	A Method and Device for Data Storage and Inquiry Based on Blockchain (一種基於區塊鏈的數據存儲以及查詢的方法及裝置)	Advanced New Technologies Co., Ltd.	China	ZL201710191771.7	March 28, 2017
42	A Method and Apparatus for Data Processing Based on Blockchain (一種基於區塊鏈的數據處理方法及設備)	Advanced New Technologies Co., Ltd.	China	ZL201710407238.X	June 2, 2017
43	A Method and Apparatus for Data Processing Based on Blockchain (一種基於區塊鏈的數據處理方法及設備)	Advanced New Technologies Co., Ltd.	China	ZL201710191658.9	March 28, 2017
44	A Method and Device for Consensus Based on Blockchain (一種基於區塊鏈的共識方法及裝置)	Advanced New Technologies Co., Ltd.	China	ZL201710190786.1	March 28, 2017

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No.	Patent name	Owner	Place of registration	Registration number	Date of application
45	A Method, Apparatus and System for Blockchain Consensus (一種區塊鏈共識方法、設備及系統)	Advanced New Technologies Co., Ltd.	China	ZL201710197538.X	March 29, 2017
46	A Method and Device for Consensus Verification (一種共識校驗的方法及裝置)	Advanced New Technologies Co., Ltd.	China	ZL201710181068.8	March 24, 2017
47	A Method and Device for Sending Transaction Information and Consensus Verification (一種發送交易信息和共識驗證的方法及裝置)	Advanced New Technologies Co., Ltd.	China	ZL201710181241.4	March 24, 2017
48	A Method and Device for Blockchain Business Acceptance and Consensus (一種區塊鏈業務受理及業務共識方法及裝置)	Advanced New Technologies Co., Ltd.	China	ZL201710362162.3	May 22, 2017
49	A Block Chain Consensus Method and Apparatus (一種區塊鏈共識方法及設備)	Advanced New Technologies Co., Ltd.	China	ZL201710405191.3	May 31, 2017
50	A Blockchain-Based Data Processing Method and Apparatus (一種基於區塊鏈的數據處理方法及設備)	Advanced New Technologies Co., Ltd.	China	ZL201710574373.3	July 14, 2017
51	A Blockchain-Based Data Processing Method and Apparatus (一種基於區塊鏈的數據處理方法及設備)	Advanced New Technologies Co., Ltd.	China	ZL201710575008.4	July 14, 2017
52	A Method and Device for Processing Business Requests (一種業務請求的處理方法及裝置)	Advanced New Technologies Co., Ltd.	China	ZL201710190507.1	March 28, 2017
53	A Block Chain Consensus Method and Device (一種區塊鏈共識方法及裝置)	Advanced New Technologies Co., Ltd.	China	ZL201710191996.2	March 28, 2017
54	A Data Processing Method and Device (一種數據處理的方法及裝置)	Advanced New Technologies Co., Ltd.	China	ZL201710397591.4	May 31, 2017
55	A Method and Apparatus for Processing Login Information (一種登錄信息處理方法及設備)	Advanced New Technologies Co., Ltd.	China	ZL201710574655.3	July 14, 2017
56	A Method and Device for Business Verification (一種業務校驗的方法及裝置)	Advanced New Technologies Co., Ltd.	China	ZL201710096987.5	February 22, 2017

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No.	Patent name	Owner	Place of registration	Registration number	Date of application
57	A Method for Processing Business Data, Methods and Devices for Business Processing (一種業務數據處理方法、業務處理方法及設備)	Advanced New Technologies Co., Ltd.	China	ZL201710575017.3	July 14, 2017
58	A Method and Device for Business Processing (一種業務處理的方法及裝置)	Advanced New Technologies Co., Ltd.	China	ZL201710133969.X	March 8, 2017
59	A Method and Device for Writing Block Chain Business Data and Methods for Determining Business Subset (寫入區塊鏈業務數據的方法和裝置及業務子集確定方法)	Advanced New Technologies Co., Ltd.	China	ZL201710116539.7	February 28, 2017
60	A Method and Device for Writing Business Data into a Blockchain System (一種向區塊鏈系統中寫入業務數據的方法和裝置)	Advanced New Technologies Co., Ltd.	China	ZL201710379983.8	May 25, 2017
61	A Consensus Method and Device (一種共識方法及裝置)	Advanced New Technologies Co., Ltd.	China	ZL201710142252.1	March 10, 2017
62	Methods and Devices for Managing Standby Letter of Credit (管理備用信用狀的方法及裝置)	Alipay Labs (Singapore) Pte. Ltd.	Singapore	10202000208R	January 9, 2020
63	Methods and Devices for Facilitating Split Invoice Financing (信貸額拆分發票融資的方法及裝置)	Alipay Labs (Singapore) Pte. Ltd.	Singapore	10202000214W	January 9, 2020

As of July 31, 2020, the following patent applications of our Group had passed the patent examination pending registration and are considered to be material in relation to the business of our Group:

No.	Patent name	Owner	Place of registration	Application number	Date of application
1	Methods, Devices and Apparatus for Transaction Processing (交易處理方法、裝置及設備)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	202010140398.4	March 3, 2020
2	Methods, Devices and Apparatus for Resources Access (資源訪問方法、裝置及設備)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	202010140438.5	March 3, 2020

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No.	Patent name	Owner	Place of registration	Application number	Date of application
3	Methods and Devices for Updating Public Key Set at Blockchain Nods (用於更新區塊鏈節點處的公鑰集合的方法及裝置)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	202010180640.0	March 16, 2020
4	Methods and Devices for Calling Contracts* (調用合約的方法及裝置)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	202010190860.1	March 18, 2020
5	Blockchain-based Methods, Devices and Systems for Vehicles data processing (基於區塊鏈的車輛數據處理方法、裝置及系統)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	202010253592.3	April 2, 2020
6	A Storage Method, Device and Apparatus of Verifiable Claims (一種可驗證聲明的存儲方法、裝置及設備)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	202010277236.5	April 10, 2020
7	Asset Type Consistency Evidence Generation, Transaction, Transaction Verification Methods and Systems (資產類型一致性證據生成、交易、交易驗證方法及系統)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	202010409786.8	May 15, 2020
8	Methods and Devices for Calling Intelligent Contracts (調用智能合約的方法及裝置)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	202010411844.0	May 15, 2020
9	A Data Storage Method, Data Recovery Method, Device and Apparatus (一種數據的存儲方法、數據的恢復方法、裝置及設備)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	202010440642.9	May 22, 2020
10	Blockchain-based Methods for Business Processing, Methods, Devices and Apparatus for Business Processing (基於區塊鏈的業務處理方法、業務處理方法、裝置及設備)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	202010478313.3	May 29, 2020
11	A Method for Synonymous Modification of Text and Determination of Text Creator (一種對文本進行同義修改、確定文本創作者的方法)	Alipay (Hangzhou) Information Technology Co., Ltd.	China	202010478444.1	May 29, 2020

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No.	Patent name	Owner	Place of registration	Application number	Date of application
12	A Processing Method, Device and Information Publishing System for Publishing Information (一種發佈信息的處理方法、裝置及信息發布系統)	Advanced New Technologies Co., Ltd.	China	201610130265.2	March 8, 2016
13	A Method and Device of Data Processing (一種數據處理方法及裝置)	Advanced New Technologies Co., Ltd.	China	201710085752.6	February 17, 2017
14	A Database State Determination Method, Consistency Verification Method and Device (一種數據庫狀態確定方法、一致性驗證方法及裝置)	Advanced New Technologies Co., Ltd.	China	201710377721.8	May 25, 2017
15	A Variety of Block Chain Network Data Processing Methods, Devices and Servers (多重區塊鏈網絡數據處理方法、裝置及服務器)	Advanced New Technologies Co., Ltd.	China	201710498932.7	June 27, 2017
16	Methods and Devices for Providing Decentralized Identity Verification (提供去中心化身份核實方法及裝置)	Alipay Labs (Singapore) Pte. Ltd.	Singapore	10202000215R	January 9, 2020
17	Methods and Devices for Mitigating Invoice Financing Fraud (減少發票融資欺詐方法及裝置)	Alipay Labs (Singapore) Pte. Ltd.	Singapore	10202000181P	January 8, 2020
18	Methods and Devices for Mitigating Invoice Financing Fraud (減少發票融資欺詐方法及裝置)	Alipay Labs (Singapore) Pte. Ltd.	Singapore	10202000173W	January 8, 2020
19	Methods and Devices for Protecting and Verifying State Transition of Record (保護及核實記錄的狀態轉移方法及裝置)	Alipay Labs (Singapore) Pte. Ltd.	Singapore	10202004057Y	May 4, 2020

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(b) Trademarks

As of July 31, 2020, our Group had registered the following trademarks which we consider to be material in relation to the business of our Group:

No.	Trademark	Class	Registered owner	Place of registration	Registration number	Date of registration	Date of expiration
1		9	Advanced New Technologies Co., Ltd.	China	14687133	April 28, 2016	April 27, 2026
2		36	Advanced New Technologies Co., Ltd.	China	14687130	May 28, 2016	May 27, 2026
3		42	Advanced New Technologies Co., Ltd.	China	14687126	October 21, 2015	October 20, 2025
4	蚂蚁金服	9	Advanced New Technologies Co., Ltd.	China	13631558	February 21, 2015	February 20, 2025
5	蚂蚁金服	36	Advanced New Technologies Co., Ltd.	China	13602490	March 7, 2016	March 6, 2026
6	蚂蚁金服	42	Advanced New Technologies Co., Ltd.	China	13602810	August 28, 2015	August 27, 2025
7		9	Advanced New Technologies Co., Ltd.	China	14688356	August 21, 2015	August 20, 2025
8		36	Advanced New Technologies Co., Ltd.	China	14688350	August 28, 2015	August 27, 2025
9		42	Advanced New Technologies Co., Ltd.	China	14688342	August 21, 2015	August 20, 2025
10	ANT FINANCIAL	9	Advanced New Technologies Co., Ltd.	China	15384224	November 21, 2016	November 20, 2026
11	ANT FINANCIAL	36	Advanced New Technologies Co., Ltd.	China	15356402	November 14, 2016	November 13, 2026
12		9	Advanced New Technologies Co., Ltd.	China	7823883	March 28, 2011	March 27, 2021
13		36	Advanced New Technologies Co., Ltd.	China	7823895	March 7, 2011	March 6, 2021
14		42	Advanced New Technologies Co., Ltd.	China	7826459	January 28, 2011	January 27, 2021
15	Alipay	9	Advanced New Technologies Co., Ltd.	China	7463733	January 21, 2011	January 20, 2021
16	alipay	9	Advanced New Technologies Co., Ltd.	China	4580577	January 21, 2008	January 20, 2028

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No.	Trademark	Class	Registered owner	Place of registration	Registration number	Date of registration	Date of expiration
17	alipay	36	Advanced New Technologies Co., Ltd.	China	4580579	October 14, 2008	October 13, 2028
18	alipay	42	Advanced New Technologies Co., Ltd.	China	4580582	October 14, 2008	October 13, 2028
19	支付宝	9	Advanced New Technologies Co., Ltd.	China	10766351	June 28, 2013	June 27, 2023
20	支付宝	36	Advanced New Technologies Co., Ltd.	China	10766489	June 28, 2013	June 27, 2023
21	支付宝	42	Advanced New Technologies Co., Ltd.	China	10766315	September 7, 2013	September 6, 2023
22	支付宝 Alipay.com	9	Advanced New Technologies Co., Ltd.	China	5273374	April 28, 2009	April 27, 2029
23	支付宝	9	Advanced New Technologies Co., Ltd.	China	4384835	February 28, 2009	February 27, 2029
24	支付宝	36	Advanced New Technologies Co., Ltd.	China	4384851	October 7, 2008	October 6, 2028
25	支付宝	42	Advanced New Technologies Co., Ltd.	China	4384845	October 7, 2008	October 6, 2028
26	余额宝	9	Advanced New Technologies Co., Ltd.	China	12734569	December 7, 2014	December 6, 2024
27	余额宝	36	Advanced New Technologies Co., Ltd.	China	12705393	October 21, 2014	October 20, 2024
28	余额宝	42	Advanced New Technologies Co., Ltd.	China	12705561	October 21, 2014	October 20, 2024
29	蚂蚁财富	9	Advanced New Technologies Co., Ltd.	China	16609841	December 7, 2016	December 6, 2026
30	蚂蚁财富	36	Advanced New Technologies Co., Ltd.	China	16610258	December 7, 2016	December 6, 2026
31	蚂蚁财富	42	Advanced New Technologies Co., Ltd.	China	16685431	October 21, 2016	October 20, 2026
32		36	Advanced New Technologies Co., Ltd.	China	23856116	December 7, 2018	December 6, 2028
33		42	Advanced New Technologies Co., Ltd.	China	23857092	May 14, 2019	May 13, 2029
34	蚂蚁小贷	9	Advanced New Technologies Co., Ltd.	China	15534368	December 21, 2016	December 20, 2026
35	蚂蚁小贷	9	Advanced New Technologies Co., Ltd.	China	23020375	June 21, 2018	June 20, 2028

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No.	Trademark	Class	Registered owner	Place of registration	Registration number	Date of registration	Date of expiration
36	蚂蚁小贷	36	Advanced New Technologies Co., Ltd.	China	15508919	December 21, 2016	December 20, 2026
37	蚂蚁小贷	42	Advanced New Technologies Co., Ltd.	China	15509364	November 28, 2015	November 27, 2025
38	蚂蚁小贷	42	Advanced New Technologies Co., Ltd.	China	23032841	February 28, 2018	February 27, 2028
39		9	Advanced New Technologies Co., Ltd.	China	16337110	April 7, 2016	April 6, 2026
40		36	Advanced New Technologies Co., Ltd.	China	16301296	March 28, 2016	March 27, 2026
41		42	Advanced New Technologies Co., Ltd.	China	16301618	April 28, 2016	April 27, 2026
42	花呗	9	Advanced New Technologies Co., Ltd.	China	15825679	January 28, 2016	January 27, 2026
43	花呗	36	Advanced New Technologies Co., Ltd.	China	15787292	January 28, 2016	January 27, 2026
44	花呗	42	Advanced New Technologies Co., Ltd.	China	15787544	February 21, 2016	February 20, 2026
45		9	Advanced New Technologies Co., Ltd.	China	17199353	January 14, 2018	January 13, 2028
46		36	Advanced New Technologies Co., Ltd.	China	17199350	May 14, 2017	May 13, 2027
47		42	Advanced New Technologies Co., Ltd.	China	17199346	September 21, 2017	September 20, 2027
48	蚂蚁花呗	9	Advanced New Technologies Co., Ltd.	China	16954622	July 14, 2016	July 13, 2026
49	蚂蚁花呗	36	Advanced New Technologies Co., Ltd.	China	16919180	July 7, 2016	July 6, 2026
50	蚂蚁花呗	42	Advanced New Technologies Co., Ltd.	China	16919490	July 7, 2016	July 6, 2026
51		42	Advanced New Technologies Co., Ltd.	China	15824574	January 21, 2017	January 20, 2027
52	芝麻信用	9	Advanced New Technologies Co., Ltd.	China	13811509	December 21, 2016	December 20, 2026

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No.	Trademark	Class	Registered owner	Place of registration	Registration number	Date of registration	Date of expiration
53	芝麻信用	9	Advanced New Technologies Co., Ltd.	China	20018761	February 7, 2018	February 6, 2028
54	芝麻信用	9	Advanced New Technologies Co., Ltd.	China	23020567	February 28, 2018	February 27, 2028
55	芝麻信用	36	Advanced New Technologies Co., Ltd.	China	13811840	March 14, 2015	March 13, 2025
56	芝麻信用	42	Advanced New Technologies Co., Ltd.	China	13812162	August 7, 2015	August 6, 2025
57	芝麻信用	42	Advanced New Technologies Co., Ltd.	China	23032964	February 28, 2018	February 27, 2028
58	 芝麻信用 信用是金 信用是金	9	Advanced New Technologies Co., Ltd.	China	16690668	June 28, 2018	June 27, 2028
59	 芝麻信用 信用是金 信用是金	36	Advanced New Technologies Co., Ltd.	China	16690666	October 28, 2016	October 27, 2026
60	 蚂蚁金融云 Ant Financial Cloud	9	Advanced New Technologies Co., Ltd.	China	16539003	January 21, 2018	January 20, 2028
61	 蚂蚁金融云 Ant Financial Cloud	36	Advanced New Technologies Co., Ltd.	China	16539001	November 28, 2017	November 27, 2027
62	 蚂蚁金融云 Ant Financial Cloud	42	Advanced New Technologies Co., Ltd.	China	16538999	November 28, 2017	November 27, 2027
63		9	Advanced New Technologies Co., Ltd.	China	16539012	May 21, 2016	May 20, 2026
64		36	Advanced New Technologies Co., Ltd.	China	16539009	May 21, 2016	May 20, 2026
65		42	Advanced New Technologies Co., Ltd.	China	16539005	May 21, 2016	May 20, 2026
66	蚂蚁区块链	9	Advanced New Technologies Co., Ltd.	China	19809279	July 28, 2018	July 27, 2028
67	蚂蚁区块链	36	Advanced New Technologies Co., Ltd.	China	19809513	August 21, 2017	August 20, 2027
68	蚂蚁区块链	42	Advanced New Technologies Co., Ltd.	China	19809552	July 28, 2018	July 27, 2028

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No.	Trademark	Class	Registered owner	Place of registration	Registration number	Date of registration	Date of expiration
69	蚂蚁链	9	Advanced New Technologies Co., Ltd.	China	22770006	February 14, 2019	February 13, 2029
70	蚂蚁链	36	Advanced New Technologies Co., Ltd.	China	22770539	February 21, 2018	February 20, 2028
71	蚂蚁链	42	Advanced New Technologies Co., Ltd.	China	22770940	April 14, 2018	April 13, 2028
72	ALIPAY	9, 35, 42	Advanced New Technologies Co., Ltd.	European Union	004469052	November 26, 2010	June 3, 2025
73	Alipay logo 	9, 35, 36, 38, 42	Advanced New Technologies Co., Ltd.	European Union	008513475	February 1, 2010	August 27, 2029
74	ANT FINANCIAL	9, 16, 35, 36, 38, 39, 41, 42, 45	Advanced New Technologies Co., Ltd.	European Union	013532155	June 12, 2015	December 5, 2024
75	ALIPAY CONNECT	9, 36, 42	Advanced New Technologies Co., Ltd.	European Union	017971103	February 23, 2019	October 19, 2028
76	ALIPAY (series) a. ALIPAY b. alipay c. Alipay d. AliPay	9, 35, 36, 38, 39, 41, 42	Advanced New Technologies Co., Ltd.	Hong Kong, China	302032307	September 15, 2011	September 14, 2021
77	ANT FINANCIAL (series) a) ANT FINANCIAL b) ANT FINANCIAL c) Ant Financial d) ant financial	9, 16, 35, 36, 38, 39, 41, 42, 45	Advanced New Technologies Co., Ltd.	Hong Kong, China	303210542	November 21, 2014	November 20, 2024
78	ALIPAY CONNECT (series) a) ALIPAY CONNECT b) Alipay Connect c) Alipay connect d) alipay connect	9, 36, 42	Advanced New Technologies Co., Ltd.	Hong Kong, China	304706884	October 19, 2018	October 18, 2028
79	ANT FINANCIAL	9, 16, 35, 36, 38, 39, 41, 42, 45	Advanced New Technologies Co., Ltd.	India	2860107	December 9, 2014	December 9, 2024

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No.	Trademark	Class	Registered owner	Place of registration	Registration number	Date of registration	Date of expiration
80	ALIPAY	9	Advanced New Technologies Co., Ltd.	Singapore	T04/22040I	December 15, 2004	December 15, 2024
81	ALIPAY	36	Advanced New Technologies Co., Ltd.	Singapore	T04/22042E	December 15, 2004	December 15, 2024
82	ALIPAY	42	Advanced New Technologies Co., Ltd.	Singapore	T04/22045Z	December 15, 2004	December 15, 2024
83	ANT FINANCIAL (series) ANT FINANCIAL ANT FINANCIAL Ant Financial ant financial	9, 16, 35, 36, 38, 39, 41, 42, 45	Advanced New Technologies Co., Ltd.	Singapore	40201401200X	December 3, 2014	December 3, 2024
84	ALIPAY CONNECT (series) ALIPAY CONNECT Alipay Connect Alipay connect alipay connect	9, 36, 42	Advanced New Technologies Co., Ltd.	Singapore	40201821669T	October 22, 2018	October 22, 2028
85	ALIPAY	9	Advanced New Technologies Co., Ltd.	Korea	40-0646254	January 6, 2006	January 6, 2026
86	ALIPAY	36	Advanced New Technologies Co., Ltd.	Korea	41-0134150	June 29, 2006	June 29, 2026
87	ALIPAY	42	Advanced New Technologies Co., Ltd.	Korea	41-0128104	February 20, 2006	February 20, 2026
88	ANT FINANCIAL	9, 16, 35, 36, 38, 39, 41, 42, 45	Advanced New Technologies Co., Ltd.	Korea	45-0064218	April 12, 2016	April 12, 2026
89	ALIPAY	9, 35, 36, 38, 39, 42	Advanced New Technologies Co., Ltd.	United States	3761346	March 16, 2010	March 16, 2030
90	ANT FINANCIAL	16, 36, 39, 41, 45	Advanced New Technologies Co., Ltd.	United States	5583176	October 16, 2018	October 16, 2028
91	LIBRA	36	Advanced New Technologies Co., Ltd.	European Union (EUTM)	014843361	March 15, 2016	November 27, 2025
92	LIBRA	36	Advanced New Technologies Co., Ltd.	Hong Kong, China	301295947	March 2, 2009	March 1, 2029
93	LIBRA	36	Advanced New Technologies Co., Ltd.	Singapore	T09/02657J	March 13, 2009	March 13, 2029

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(c) Copyrights

As of July 31, 2020, our Group owned the following copyrights which we consider to be material in relation to the business of our Group:

No.	Registration number	Copyright name	Version/ type	Owner	Place of registration	Date of registration
1	2006SR01629	Alipay Online Payment System (支付寶網絡支付系統)	V2.0	Alipay China	China	February 15, 2006
2	2008SR17958	Alipay Seller Credit System Software (支付寶賣家信貸系統軟件)	V1.0	Alipay China	China	September 3, 2008
3	2013SR150977	Alipay Big-data based Real-time Multidimensional Analytics Software (支付寶大數據實時多維分析軟件)	V1.0	Alipay China	China	December 20, 2013
4	2014SR199756	Alipay Risk Data Mart Software (支付寶風險數據集市軟件)	V1.0	Alipay China	China	December 18, 2014
5	2015SR152863	Ant Financial Big-data based AI Software Suite (螞蟻金服大數據人工智能套件軟件)	V0.5.18	Alipay China	China	August 7, 2015
6	2015SR153030	Ant Financial Big-data based Data Developer Software Suite (螞蟻金服大數據數據開發者套件軟件)	V1.4.14	Alipay China	China	August 7, 2015
7	2015SR156774	Ant Financial Big-data based Smart Business Software Suite (螞蟻金服大數據商業智能套件軟件)	V1.5.12	Alipay China	China	August 13, 2015
8	2015SR166944	Ant Shield AntiFraud Software (螞蟻盾反欺詐軟件)	V1.0	Alipay China	China	August 27, 2015
9	2017SR703204	Alipay Virtual Reality Payment Software (支付寶虛擬現實支付軟件)	V2.0	Alipay China	China	December 19, 2017
10	2018SR1032481	Ant Blockchain Proof Platform Software (螞蟻區塊鏈存證平台軟件)	V0.6	Alipay China	China	December 18, 2018
11	2018SR1030278	Ant Financial AI-based Customer Service Robot Software (螞蟻金服智能客服機器人軟件)	V2.1	Alipay China	China	December 18, 2018
12	2018SR1061157	Alipay Face Scan Payment Software for iOS (支付寶刷臉支付iOS版軟件)	V1.3	Alipay China	China	December 24, 2018

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No.	Registration number	Copyright name	Version/ type	Owner	Place of registration	Date of registration
13	2019SR1374272	Alipay Automatic Machine Learning Software (支付寶自動機器學習軟件)	V1.0	Alipay China	China	December 16, 2019
14	2019SR1431827	Alipay Next-generation Security Infrastructure Software (支付寶下一代安全基礎設施軟件)	V1.0	Alipay China	China	December 26, 2019
15	2019SR0376820	Ant Financial Yuque Software (螞蟻金服語雀軟件)	V1.0	Alipay (Hangzhou) Information Technology Co., Ltd.	China	April 23, 2019
16	2018SR1032450	Ant Financial Comprehensive Risk Management Platform Software (螞蟻金服全面風險管理系統平台軟件)	V1.0	Ant Zhixin (Hangzhou) Information Technology Co., Ltd.	China	December 18, 2018
17	2016SR400668	Ant Shengxin Insurance Platform Software (螞蟻勝信保險平台軟件)	V1.0	Ant Shengxin (Shanghai) Information Technology Co., Ltd.	China	December 28, 2016
18	2019SR1421587	Ant Blockchain Distributed Digital Identity Software (螞蟻區塊鏈分布式數字身份軟件)	V1.0	Ant Blockchain Technology (Shanghai) Co., Ltd.	China	December 24, 2019
19	2019SR0526762	Ant Blockchain Traceability Service Software (螞蟻區塊鏈溯源服務軟件)	V1.0	Ant Blockchain Technology (Shanghai) Co., Ltd.	China	May 27, 2019
20	2020SR0065977	OceanBase Database Software (OceanBase數據庫軟件)	V2.2	Ant Financial Services (Hangzhou) Network Technology Co., Ltd.	China	January 14, 2020
21	2015SR244328	Ant Wealth Fund Product Hub Software (螞蟻財富基金產品中心軟件)	V1.0	Ant Wealth (Shanghai) Financial Information Service Co., Ltd.	China	December 4, 2015
22	2015SR247440	Ant Wealth Fund Trading Hub Software (螞蟻財富基金交易中心軟件)	V1.0	Ant Wealth (Shanghai) Financial Information Service Co., Ltd.	China	December 7, 2015
23	2015SR247409	Ant Wealth Yu'eobao Product Consignment Software (螞蟻財富餘額寶代銷產品軟件)	V1.0	Ant Wealth (Shanghai) Financial Information Service Co., Ltd.	China	December 7, 2015
24	2015SR278179	Ant Cloud Finance Release Deployment Management Software (螞蟻雲金融發佈部署管理軟件)	V1.0	Beijing Ant Cloud Financial Information Service Co., Ltd.	China	December 24, 2015
25	2019SR1387682	Ant Fitech Cloud App Engine Software (螞蟻金融科技雲應用引擎軟件)	V1.0	Beijing Ant Cloud Financial Information Service Co., Ltd.	China	December 18, 2019

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No.	Registration number	Copyright name	Version/ type	Owner	Place of registration	Date of registration
26	2019SR0462712	Ant Smart Marketing Platform Software (螞蟻智能營銷平台軟件)	V1.0	Beijing Ant Cloud Financial Information Service Co., Ltd.	China	May 14, 2019
27	2015SR276415	Ant Huabei Payment Software (螞蟻花呗支付軟件)	V1.0	Chongqing Ant Shangcheng Small Loan Co., Ltd.	China	December 24, 2015
28	2015SR278205	Zhima Credit Core System Software (芝麻信用核心系統軟件)	V1.0	Zhima Credit Management Co., Ltd.	China	December 24, 2015
29	2017SR725641	Zhima Credit Credit Loan Software (芝麻信用信用借還軟件)	V2.0	Zhima Credit Management Co., Ltd.	China	December 25, 2017
30	國作登字-2015-F-00228729	Zhima Credit LOGO Plan 4 (芝麻信用LOGO方案4)	Artwork	The Company	China	September 15, 2015
31	國作登字-2019-F-00862766	Ant Forest Trees (螞蟻森林大樹)	Artwork	The Company	China	August 13, 2019
32	國作登字-2019-F-00874915	Logo of Ant Financial (螞蟻金服logo)	Artwork	The Company	China	August 28, 2019
33	國作登字-2018-F-00627077	Alipay AR Scanning Official Guide Sign (支付寶AR掃一掃官方引導標示)	Artwork	Alipay China	China	September 27, 2018
34	國作登字-2019-F-00874912	New blue logo of Alipay (支付寶新藍色logo)	Artwork	Alipay China	China	August 28, 2019

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(d) Domain Names

As of July 31, 2020, our Group had registered the following domain names which we consider to be material in relation to the business of our Group:

No.	Domain name	Registrant	Registration date	Expiration date
1	antgroup.com	The Company	July 31, 2009	July 31, 2022
2	antfinancial.com	The Company	November 14, 2013	November 14, 2021
3	antfin.com	The Company	November 14, 2013	November 14, 2021
4	alipay.com	Alipay China	October 8, 2004	October 8, 2021
5	alipay.net	Alipay China	November 30, 2004	November 30, 2022
6	xin.xin	Zhima Credit Management Co., Ltd.	September 9, 2015	September 9, 2022
7	zmxy.com.cn	Zhima Credit Management Co., Ltd.	September 16, 2014	September 16, 2022
8	antfortune.com	Ant Wealth (Shanghai) Financial Information Service Co., Ltd.	April 5, 2015	April 5, 2021
9	antcloud.com.cn	Beijing Ant Cloud Financial Information Service Co., Ltd.	February 14, 2014	February 14, 2022

APPENDIX VII

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C. Further Information About Our Directors, Supervisors and Substantial Shareholders

1. Interests of Our Directors, Supervisors and the Chief Executive

Immediately following completion of the H Share [REDACTED] and the A Share [REDACTED] and assuming the [REDACTED] are not exercised, the interests or short positions of our Directors, Supervisors and the chief executive of our Company in the Shares, underlying Shares and debentures of our Company or any associated corporations, within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Hong Kong Listing Rules, will be as follows:

(a) Interests in Our Company

Name of Director/Supervisor	Nature of Interest	Number of Shares directly or indirectly held	Approximate percentage of shareholding in the relevant class of Shares after the completion of the H Share [REDACTED] and the A Share [REDACTED]	Approximate percentage of shareholding in the total share capital of our Company after the completion of the H Share [REDACTED] and the A Share [REDACTED]
Mr. Eric Jing ⁽²⁾	Interest of a party to an agreement	up to [REDACTED] Shares ⁽¹⁾	[REDACTED]% ⁽¹⁾	[REDACTED]% ⁽¹⁾
		[REDACTED]	[REDACTED]	[REDACTED]
Mr. Simon Hu ⁽²⁾	Interest of a party to an agreement	up to [REDACTED] Shares ⁽¹⁾	[REDACTED]% ⁽¹⁾	[REDACTED]% ⁽¹⁾
		[REDACTED]	[REDACTED]	[REDACTED]
Ms. Fang Jiang ⁽²⁾	Interest of a party to an agreement	up to [REDACTED] Shares ⁽¹⁾	[REDACTED]% ⁽¹⁾	[REDACTED]% ⁽¹⁾
		[REDACTED]	[REDACTED]	[REDACTED]
Mr. Joe Tsai ⁽³⁾	Beneficial owner	[REDACTED] H Shares	[REDACTED]% ⁽¹⁾	[REDACTED]%
Ms. Quan Yu ⁽⁴⁾	Beneficial owner	[REDACTED] H Shares	[REDACTED]% ⁽¹⁾	[REDACTED]%

APPENDIX VII

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Note:

- (1) These [REDACTED] Shares are held by Hangzhou Junhan and Hangzhou Junao. [REDACTED].
- (2) Mr. Jack Ma held a 34% equity interest in Hangzhou Yunbo and each of Mr. Eric Jing, Mr. Simon Hu and Ms. Fang Jiang held a 22% equity interest in Hangzhou Yunbo. Pursuant to the articles of association of Hangzhou Yunbo and the Concert Party Agreement, all matters relating to our Company including the exercise of the voting power in respect of the Shares held by Hangzhou Junhan and Hangzhou Junao, the nomination of directors and supervisors to our Company by them and the increase or decrease of their interests in our Company shall be decided by the general meetings of Hangzhou Yunbo, with a majority of more than two-thirds of the votes by the shareholders. As such, Mr. Jack Ma has veto right over all such matters and if any resolution relating to any such matter proposed at a general meeting of Hangzhou Yunbo is not carried, the other shareholders of Hangzhou Yunbo shall cast their votes in accordance with the decision of Mr. Jack Ma and pass and sign the relevant resolution. Therefore, Mr. Jack Ma can, through his control over resolutions passed at the general meetings of Hangzhou Yunbo which relate to the exercise of right by Hangzhou Junhan and Hangzhou Junao as Shareholders, effectively exercise control over the Shares held by Hangzhou Junhan and Hangzhou Junao and accordingly, has ultimate control over our Company. However, although Mr. Jack Ma has control over the Shares held by Hangzhou Junhan and Hangzhou Junao, Mr. Jack Ma’s indirect economic interests in our Company is limited to his interests as a limited partner of Hangzhou Junhan and the corresponding interests in the Shares held by Hangzhou Junhan. See “Relationship with Controlling Shareholders — Our Controlling Shareholders” of this document for details.

According to the SFO, each of Mr. Eric Jing, Mr. Simon Hu and Ms. Fang Jiang is deemed to be interested in up to [REDACTED] Shares held by Hangzhou Junhan and Hangzhou Junao in aggregate.

- (3) Mr. Joe Tsai is entitled to receive up to [REDACTED] H Shares pursuant to awards to be granted to him under the 2020 H Share Equity Incentive Plan to replace the awards granted to him under the Pre-[REDACTED] Offshore ESOP Plan.
- (4) Ms. Quan Yu is entitled to receive up to [REDACTED] H Shares pursuant to awards to be granted to her under the 2020 H Share Equity Incentive Plan to replace the awards granted to her under the Pre-[REDACTED] Offshore ESOP Plan.

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2. Interests of the Substantial Shareholders

(a) *Interests in Our Company*

Save as disclosed in the section headed “Substantial Shareholders”, our Directors and chief executive are not aware of any other person (other than a Director or chief executive of the Company) who, immediately following the completion of the H Share [REDACTED] and the A Share [REDACTED] (and the [REDACTED] of any additional Shares pursuant to the [REDACTED]), will have an interest or short position in the Shares or the underlying Shares which would fail to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Company.

(b) *Interests in Other Members of Our Group*

So far as our Directors are aware, as at the date of this Document, the following persons (excluding us) are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

<u>Name of member of our Group</u>	<u>Name of shareholder</u>	<u>Approximate % of interest</u>
Cathay Insurance	Cathay Century Insurance Co., Ltd.	24.50%
Cathay Insurance	Cathay Life Insurance Co., Ltd.	24.50%
Ant Funds Sales	Hundsun Technologies Inc.	24.10%
Tianhong	Tianjin Trust Co., Ltd.	16.80%
Tianhong	Inner Mongolia Junzheng Energy Chemical Group Co., Ltd.	15.60%
Ant Bank (Macao) Limited.	Star N Cloud Network Intelligence Company Limited	33.30%
AFSTH Holding Co., Ltd.	Thaweepool Srihong	50.01%

3. Particulars of Service Contracts

Each of our executive and non-executive Directors and Supervisors entered into a service contract, and each of our independent non-executive Directors entered into a letter appointment, with our Company on August 23, 2020 for a term commencing from their respective dates of appointment to the end of the current session of the Board, subject to termination in accordance with its terms. The service contracts may be renewed in accordance with our Articles of Association and the applicable rules.

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Save as disclosed above, none of the Directors or Supervisors has entered, or has proposed to enter, into a service contract with any member of the Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

4. Directors’ and Supervisors’ Remuneration

For the financial years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, the total remuneration, consisting of salaries, allowances and benefits, pension scheme contributions and other social welfare and share-based payment compensation, paid to our Directors amounted to approximately RMB219 million, RMB269 million, RMB186 million and RMB87 million, respectively.

For the financial years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, the total remuneration, consisting of salaries, allowances and benefits, pension scheme contributions and other social welfare and share-based payment compensation, paid to our Supervisors amounted to approximately RMB15 million, RMB10 million, RMB8 million and RMB7 million, respectively.

It is estimated that remuneration and benefits in kind equivalent to approximately RMB162 million and RMB14 million will be paid and granted to our Directors and Supervisors, respectively, by us in respect of the financial year ending December 31, 2020 under arrangements in force as at the date of this document.

Save as disclosed above, none of our Directors or Supervisors received other remuneration or benefits in kind from us.

5. Disclaimers

- (i) Save as disclosed in the subsection headed “1. Interests of our Directors, Supervisors and the chief executive” above, none of our Directors or Supervisors or chief executive has any interests or short positions in our Shares, underlying Shares and debentures of our Company or any associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to our Company and the Hong Kong Stock Exchange once the H Shares are [REDACTED] on the Hong Kong Stock Exchange;
- (ii) save for Mr. Eric Jing and Mr. Joe Tsai who are also directors of Alibaba, and Mr. Simon Hu, Ms. Fang Jiang, Mr. Li Cheng and Mr. Hong Xu who are officers of Alibaba, none of our Directors or Supervisors is a director or employee of a company which has an interest in the share capital of the Company which, once the H Shares are [REDACTED] on the Hong Kong Stock Exchange, would have to be disclosed pursuant to Division 2 and 3 of Part XV of the SFO. Please refer to the section headed “Directors, Supervisors and Senior Management” in this document for details;
- (iii) save in connection with [REDACTED], none of our Directors nor any of the parties listed in the paragraph headed “Qualifications of Experts” of this appendix is interested in our promotion, or in any assets which have, within the

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two years immediately preceding the date of this document, been acquired or disposed of by or leased to us or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of our subsidiaries;

- (iv) save in connection with [REDACTED], none of our Directors nor any of the parties listed in the paragraph headed “Qualifications of Experts” of this appendix is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to our business;
- (v) save in connection with [REDACTED], none of the parties listed in paragraph headed “Qualifications of Experts” of this appendix is interested legally or beneficially in any of our shares or our securities; or has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our shares or any of our securities; and
- (vi) save for (i) Mr. Joe Tsai, who owned an approximate 1.6% equity interest of Alibaba as of July 2, 2020; (ii) each of our other executive Directors, non-executive Directors and Supervisors, together with his or her associates (where applicable), owned an insignificant number of shares of Alibaba; and (iii) Mr. Fred Hu, who had an insignificant interest in Alibaba, as disclosed in the section headed “Business — Customers and Suppliers” in this document, none of our Directors or Supervisors or their associates (as defined in the Hong Kong Listing Rules) has any interest in any of the five largest customers or the five largest suppliers of our Group.

D. Employees Equity Incentive Plans

1. Pre-[REDACTED] Employee Equity Incentives

In 2018, we restructured our offshore equity incentives with Ant International, one of our subsidiaries, issuing non-voting Ant International Class B shares as our offshore equity incentives. At the same time, Ant International implemented the Pre-[REDACTED] Offshore ESOP Plan in 2018 under which awards in the form of restricted share units and share appreciation rights have been granted, with Ant International Class B shares as the underlying shares.

Further details of the Pre-[REDACTED] Offshore ESOP Plan are as follows:

- (1) The participants in the Pre-[REDACTED] Offshore ESOP Plan include employees, directors, supervisors and consultants of (i) our Company; (ii) our subsidiaries and associates in which we hold 20% or more voting power; and (iii) Alibaba and its subsidiaries.
- (2) All the restricted share units and share appreciation rights under the Pre-[REDACTED] Offshore ESOP Plan were granted between April 27, 2018 and August 17, 2020. The purchase prices of the restricted share units granted under the Pre-[REDACTED] Offshore ESOP Plan are between par value and RMB35.28, and the base price of the share appreciation rights granted under the Pre-[REDACTED] Offshore ESOP Plan is between RMB1.23 and RMB8.68.

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- (3) The restricted share units and share appreciation rights under the Pre-[REDACTED] Offshore ESOP Plan shall vest in accordance with the following schedule: (i) for regular performance grants, 25% shall vest on each of the first through fourth anniversaries of the vesting commencement date as set out in the grant letter to the grantee; (ii) for regular on-hire grants, 50% shall vest upon the first vesting date as set out in the award agreement with the grantee and 25% shall vest on each of the first and second anniversaries of the first vesting date; and (iii) for any other grants, the vesting schedule will be set out in the specific award agreement with the relevant grantee.

In order to provide liquid stock to support our offshore equity incentive plan, our Board and our Shareholders adopted the 2020 H Share Equity Incentive Plan on August 6, 2020 and August 21, 2020, respectively, to grant Awards to replace the awards granted under the Pre-[REDACTED] Offshore ESOP Plan, and all Ant International Class B shares in issue prior to our H Share [REDACTED] will be redeemed and the same number of H Shares will be issued. The awards granted under the Pre-[REDACTED] Offshore ESOP Plan will be replaced with Awards granted under the 2020 H Share Equity Incentive Plan and no more awards will be granted under the Pre-[REDACTED] Offshore ESOP Plan upon the 2020 H Share Equity Incentive Plan becoming effective on the date of our H Share [REDACTED]. The entitlements of grantees under the Pre-[REDACTED] Offshore ESOP Plan will be carried forward so that the same number of H Shares as the previous Ant International Class B shares underlying the awards granted under the Pre-[REDACTED] Offshore ESOP Plan will be set aside to cover the obligations under the replacement Awards granted under the 2020 H Share Equity Incentive Plan. Ant International Class B shares issued to individuals will be transferred to BOCI Trustee (Hong Kong) Limited (or its wholly owned special purpose holding vehicles), acting as trustee or nominee, and then redeemed as part of the Class B Redemption and Subscription and H Shares will be issued to BOCI Trustee (Hong Kong) Limited (or its wholly owned special purpose holding vehicles). See the section headed “History and Development — Redemption of Ant International Class B shares and subscription of H Shares by holders of Ant International Class B shares.”

Specifically, the awards granted under the Pre-[REDACTED] Offshore ESOP Plan will be carried forward as follows:

- (a) unvested restricted share units granted under the Pre-[REDACTED] Offshore ESOP Plan will be replaced by unvested restricted share units granted under the 2020 H Share Equity Incentive Plan, with substantially similar terms and conditions as the original grants, including any vesting conditions and purchase price payable, except that grantees will receive H Shares instead of Ant International Class B shares;
- (b) unvested share appreciation rights granted under the Pre-[REDACTED] Offshore ESOP Plan will be replaced by unvested restricted share units granted under the 2020 H Share Equity Incentive Plan, with H Shares being the underlying shares, and with substantially similar vesting conditions and base price as provided under the original grants; and

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- (c) vested but unexercised share appreciation rights granted under the Pre-[REDACTED] Offshore ESOP Plan will be carried forward and replaced by restricted share units under the 2020 H Share Equity Incentive Plan which will vest on the date of the [REDACTED] of our H Shares, upon which H Shares will be allocated to such grantees, subject to them paying the applicable purchase price and applicable taxes. The number of H Shares allocated to a grantee may be reduced if he/she elects to satisfy the applicable purchase price by deducting the corresponding number of H Shares on the basis of H Share [REDACTED] price or otherwise fails to pay the applicable purchase price or applicable tax within a stipulated time period from the date of the [REDACTED] of our H Shares.

2. 2020 H Share Equity Incentive Plan

On August 6, 2020 and on August 21, 2020, our Board and our Shareholders adopted the 2020 H Share Equity Incentive Plan, respectively, and our Shareholders authorized our Board as the Administrator to select grantees and determine vesting conditions during the term of the 2020 H Share Equity Incentive Plan. On August 6, 2020 and on August 23, 2020, our Supervisors and independent non-executive Directors reviewed, and gave their views that the 2020 H Share Equity Incentive Plan promotes sustainability of the Group and is beneficial to Shareholders as a whole. The principal terms of the 2020 H Share Equity Incentive Plan are summarized as follows:

(a) Purpose

The purpose of the 2020 H Share Equity Incentive Plan is to replace the Pre-[REDACTED] Offshore ESOP Plan in order to provide liquid stock to support our offshore equity incentive plan.

(b) Eligible Participants

The eligible participants in the 2020 H Share Equity Incentive Plan include employees, directors, supervisors and consultants of (i) our Company; (ii) our subsidiaries and associates in which we hold 20% or more voting power; and (iii) Alibaba and its subsidiaries (the “Eligible Participants”). For the avoidance of doubt, the Company’s independent Directors are Eligible Participants under the 2020 H Share Equity Incentive Plan.

(c) Awards

Awards in the form of restricted share units (“Restricted Share Units”), share appreciation rights (“Share Appreciation Rights”) and/or restricted shares (“Restricted Shares”) (collectively “Awards”) may be granted under the 2020 H Share Equity Incentive Plan, details of which are set out below:

(i) Restricted Share Units

Restricted Share Units give grantees the right to receive one H Share for each Restricted Share Unit, subject to vesting and other conditions. Restricted Share Units are granted at such purchase price as set out in the award agreement with the relevant grantee.

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Until the H Shares are transferred to the holders of Restricted Share Units, no right to vote or other rights as a Shareholder shall exist with respect to holders of Restricted Share Units. Notwithstanding the foregoing, with respect to Restricted Share Units granted to replace awards granted under the Pre-[REDACTED] Offshore ESOP Plan, the right to receive dividends with respect to a share arises upon the vesting of the underlying Restricted Share Unit, irrespective of whether, or when, such share is transferred to the relevant holder.

(ii) Share Appreciation Rights

Grantees of Share Appreciation Rights receive the appreciation in value of our H Shares from the time of grant to the time of exercise of the Award, in the form of cash or other property (including any securities) or a combination of both as the Administrator may determine in its sole discretion. The appreciation is measured by the difference in the market price of the H Shares at the time of exercise and the base price set out in the award agreement with individual grantees. The base price is determined and can be adjusted in the absolute discretion of the Administrator provided that the base price may not in any circumstances be less than RMB1.00, being the par value of our H Shares and any adjustment shall not result in a material adverse impact to the grantee.

If a Share Appreciation Right is to be settled in H Shares, the H Shares shall be transferred to the grantee upon exercise of the Share Appreciation Right.

Until the H Shares are transferred to grantees of the Share Appreciation Rights upon exercise, no right to vote as a Shareholder shall exist. Holders of Share Appreciation Rights shall be entitled to receive any dividend or other distributions, the record date of which falls on or after the exercise of the relevant Share Appreciation Rights.

(iii) Restricted Shares

Grantees of Restricted Shares receive H Shares at a purchase price and such H Shares are subject to restrictions and vesting requirements as the Administrator shall determine and set out in the relevant award agreement.

From the date on which the Restricted Shares are granted to the grantees, such grantees shall be entitled to vote or receive any dividend or other distributions as a Shareholder with respect to such Restricted Shares provided, that the Restricted Shares will only be transferred to the grantees upon the release of restrictions on such Restricted Shares.

(d) Administration

The implementation of the 2020 H Share Equity Incentive Plan shall be determined by the Board (the “Administrator”). To the extent permitted by applicable laws and regulations, the Administrator may delegate the authority to grant or amend Awards or to take other administrative actions pursuant the 2020 H Share Equity Incentive Plan to a committee of one or more members of the Board or one or more directors, officers or employees of the Company.

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Subject to the provisions of the 2020 H Share Equity Incentive Plan, the Administrator shall have the power and authority in its discretion, among others, to select the Eligible Participants to whom Awards may from time to time be granted thereunder, determine the terms and conditions of any Award granted (such terms and conditions to include, the minimum period for which an Award must be held or performance targets (if any) to be achieved before the Award can be exercised, cancellation, forfeiture and other similar matters), determine whether the Shares subject to the Award should continue to be held by the Holding Vehicle following vesting or exercise of the Award and to interpret the terms of the 2020 H Share Equity Incentive Plan.

(e) Term of the 2020 H Share Equity Incentive Plan

The 2020 H Share Equity Incentive Plan becomes effective, and awards granted under the Pre-[REDACTED] Offshore ESOP Plan shall be replaced by awards granted under the 2020 H Share Equity Incentive Plan, on the date of our H Share [REDACTED] (the “Effective Date”) in order to achieve the continuation and consistency of the Pre-[REDACTED] Offshore ESOP Plan. The 2020 H Share Equity Incentive Plan shall continue in effect for a term of ten (10) years from the Effective Date unless sooner terminated pursuant to the 2020 H Share Equity Incentive Plan.

(f) Grant of Awards and Maximum Number of H Shares

Apart from the Awards granted to replace awards granted under the Pre-[REDACTED] Offshore ESOP Plan, further awards may be granted under the 2020 H Share Equity Incentive Plan. The maximum aggregate number of H Shares which may be subject to Awards under the 2020 H Share Equity Incentive Plan and offshore incentives granted prior to the adoption of the 2020 H Share Equity Incentive Plan is 285,620,000. The Eligible Participants to whom Awards may be granted from time to time shall be determined by the Administrator in accordance with the procedures set out by the 2020 H Share Equity Incentive Plan in compliance with applicable laws and regulations at such base price (in the case of Share Appreciation Right) or purchase price (in the case of a Restricted Share or Restricted Share Unit), if any, as the Administrator may decide.

(g) Term of Awards

The term of each Award shall be stated in the award agreement provided that the term shall be no more than ten (10) years from the date of grant.

(h) Vesting of Awards

The vesting schedule for Awards granted under the 2020 H Share Equity Incentive Plan to replace awards granted under the Pre-[REDACTED] Offshore ESOP Plan shall be substantially similar as that under the Pre-[REDACTED] Offshore ESOP Plan. The vesting schedule for other Awards granted under the 2020 H Share Equity Incentive Plan shall be the same as that under the Post-[REDACTED] H Share Equity Incentive Plan.

(i) Transferability of Awards

Except pursuant to a domestic relations order or certain other circumstances as the Administrator deems appropriate, and save for transfer of vested Awards upon a grantee’s death, Awards and any interest therein will not be transferable or assignable by the grantee.

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(j) Restriction of Transfer of H Shares Received and Lock Up Period

In order to avoid conflicts of interest and insider dealing concerns, apart from any blackout period imposed under application laws and regulations, the transfer of H Shares received pursuant to the Awards granted under the 2020 H Share Equity Incentive Plan is also subject to the Company’s internal policy applicable to H Shares transferred under the plan.

The H Shares transferred to grantees upon our H Share [REDACTED] as part of the Class B Redemption and Subscription and the H Shares received by grantees upon vesting of Awards under the 2020 H Share Equity Incentive Plan within one year of our H Share [REDACTED] are generally subject to a lock up period of one year from the date of our H Share [REDACTED], and H Shares received by grantees upon vesting of Awards under the 2020 H Share Equity Incentive Plan after one year of our H Share [REDACTED] are not subject to any lock up; provided that H Shares can only be transferred during open window periods as announced by the Company from time to time.

(k) Cancellation of Awards

Unless otherwise determined by the Administrator, upon the termination of engagement of a grantee, all unvested Awards will be cancelled. The Administrator shall be entitled to, among other things, cancel part of or all Awards (vested or unvested) granted to a grantee, and to require the grantee to pay the Company part of or all income or proceeds from the holding or disposal of H Shares received pursuant to the Awards granted under the 2020 H Share Equity Incentive Plan if any of the following circumstances shall occur: (i) termination for cause; (ii) commission of competitive offence; (iii) manager nonfeasance; or (iv) breach of confidentiality undertakings.

(l) Amendment and Termination

The Board in its sole discretion may terminate or amend the 2020 H Share Equity Incentive Plan at any time, provided that to the extent necessary and desirable to comply with applicable laws or stock exchange rules, the Company shall obtain Shareholder approval of any 2020 H Share Equity Incentive Plan amendment or termination in such a manner and to such a degree as required.

As of the Latest Practicable Date, a total of 259,355,840 Ant International Class B shares will be redeemed and the same number of H Shares will be issued to BOCI Trustee (Hong Kong) Limited or its wholly owned special purpose vehicle, acting as trustee or nominee, out of which 138,835,571 H Shares will be allocated to individuals who have been issued or who are entitled to receive Ant International Class B shares prior to our H Share [REDACTED], 84,144,577 H Shares will be allocated to meet the obligations of granted but unvested RSUs, granted but unvested SARs and vested but unexercised SARs, and 36,375,692 H Shares will be available for future grants of Awards under the 2020 H Share Equity Incentive Plan.

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The table below shows the details of Ant International Class B shares already issued or allocated to and the outstanding restricted share units and share appreciation rights granted to our Directors and Supervisors under the Pre-[REDACTED] Offshore ESOP Plan which will be replaced by the Awards under the 2020 H Share Equity Incentive Plan, which will take effect on the date of our H Share [REDACTED]:

Name	Address	Position	Date of grant	Base price/Purchase price (RMB)	Number of H Shares allocated to replace Ant International Class B shares already issued or allocated/as a percentage of the total issued Shares immediately after completion of the H Share [REDACTED] and the A Share [REDACTED] ⁽¹⁾	Number of H Shares underlying granted but unvested share appreciation rights/as a percentage of the total issued Shares immediately after completion of the H Share [REDACTED] and the A Share [REDACTED] ⁽¹⁾	Number of H Shares underlying granted but unvested share appreciation rights/as a percentage of the total issued Shares immediately after completion of the H Share [REDACTED] and the A Share [REDACTED] ⁽¹⁾	Number of H Shares underlying vested but unexercised share appreciation rights/as a percentage of the total issued Shares immediately after completion of the H Share [REDACTED] and the A Share [REDACTED] ⁽¹⁾
Mr. Joe Tsai	26/F Tower One Times Square 1 Matheson Street Causeway Bay Hong Kong ⁽²⁾	Non-executive Director	July 10, 2020	class B par value	98,400/[REDACTED]%	N/A	N/A	N/A
Ms. Quan Yu	1-2-401 Shanshui renjiashijiagu Xihu District Hangzhou, Zhejiang The People's Republic of China	Supervisor	April 27, 2018 to July 10, 2020	class B shares par value to RMB35.2	1,828,777/[REDACTED]%	121,830/[REDACTED]%	N/A	N/A
					1,927,177/[REDACTED]%	121,830/[REDACTED]%	N/A	N/A

Notes:

(1) Assuming the [REDACTED] are not exercised.

(2) This is the Director's business address.

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The table below shows the details of the Ant International Class B shares already issued or allocated to, and the outstanding restricted share units and share appreciation rights granted to, employees and consultants of members of the Group and members of the Alibaba Group (other than Directors, Supervisors and senior management of our Group) under the Pre-[REDACTED] Offshore ESOP Plan which will be replaced by the Awards under the 2020 H Share Equity Incentive Plan, which will take effect on the date of our H Share [REDACTED]:

Total number of grantees	Dates of grant	Base Price/ Purchase price (RMB)	Number of H Shares allocated to replace Ant International Class B shares already issued or allocated/as a percentage of the total issued Shares immediately after completion of the H Share [REDACTED] and the A Share [REDACTED] ⁽¹⁾	Number of H Shares underlying granted but unvested restricted share units/as a percentage of the total issued Shares immediately after completion of the H Share [REDACTED] and the A Share [REDACTED] ⁽¹⁾	Number of H Shares underlying granted but unvested share appreciation rights/as a percentage of the total issued Shares immediately after completion of the H Share [REDACTED] and the A Share [REDACTED] ⁽¹⁾	Number of H Shares underlying vested but unexercised share appreciation rights/as a percentage of the total issued Shares immediately after completion of the H Share [REDACTED] and the A Share [REDACTED] ⁽¹⁾
1,267	April 27, 2018 to August 17, 2020	class B shares par value to RMB35.28	136,908,394/ [REDACTED]%	64,925,751/ [REDACTED]%	9,904,561/ [REDACTED]%	9,192,435/ [REDACTED]%

Note:

(1) Assuming the [REDACTED] are not exercised.

3. Post-[REDACTED] H Share Equity Incentive Plan

On August 6, 2020 and on August 21, 2020, our Board and our Shareholders adopted the Post-[REDACTED] H Share Equity Incentive Plan, respectively, and our Shareholders authorized our Board as the Administrator to select grantees, determine vesting conditions and implement the Post-[REDACTED] H Share Equity Incentive Plan during its term. Pursuant to the Post-[REDACTED] H Share Equity Incentive Plan, we may grant Awards under the Post-[REDACTED] H Share Equity Incentive Plan to incentivize directors, employees, consultants and supervisors of members of our Group following the [REDACTED] of our H Shares.

On August 6, 2020 and on August 23, 2020, our Supervisors and independent non-executive Directors reviewed, and gave their views that the Post-[REDACTED] H Share Equity Incentive Plan promotes the sustainability of the Group and is beneficial to Shareholders as a whole, respectively.

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The Post-[REDACTED] H Share Equity Incentive Plan is not a share option scheme and is not subject to the provisions of Chapter 17 of the Hong Kong Listing Rules.

The principal terms of the Post-[REDACTED] H Share Equity Incentive Plan are summarized as follows:

(a) Purpose

The purpose of the Post-[REDACTED] H Share Equity Incentive Plan is to attract and retain the services of the Eligible Participants.

(b) Eligible Participants

The eligible participants in the Post-[REDACTED] H Share Equity Incentive Plan include employees, directors, supervisors and consultants of our Company, our subsidiaries and other entities selected and determined by the Administrator as permitted by applicable laws and regulations (the “Eligible Participants”). For the avoidance of doubt, the Company’s independent Directors are Eligible Participants under the Post-[REDACTED] H Share Equity Incentive Plan.

(c) Awards

Subject to the provisions of the Post-[REDACTED] H Share Equity Incentive Plan, the Administrator (as defined below) may grant awards in the form of restricted share units (“Restricted Share Units”), share appreciation rights (“Share Appreciation Rights”) and/or restricted shares (“Restricted Shares”) (collectively “Awards”), details of which are set out below:

(i) Restricted Share Units

Restricted Share Units give grantees the right to receive one H Share for each Restricted Share Unit upon vesting. Restricted Share Units are granted at such purchase price as may be determined by the Administrator, provided that the purchase price per Restricted Share Unit shall not be less than RMB1.00, being the par value of our H Shares. Until the H Shares are transferred to the holders of Restricted Share Units, no right to vote or receive any dividend or other distributions as a Shareholder shall exist with respect to holders of Restricted Share Units.

(ii) Share Appreciation Rights

Grantees of Share Appreciation Rights receive the appreciation in value of our H Shares from the time of grant to the time of exercise of the Award, in the form of cash or other property (including any securities) or a combination of both as the Administrator may determine in its sole discretion. The appreciation is measured by the difference in the market price of the H Shares at the time of exercise and the base price set out in the award agreement with individual grantees. The base price is determined and can be adjusted in the absolute discretion of the Administrator provided that the base price may not in any circumstances be less than RMB1.00, being the par value of our H Shares and any adjustment shall not result in a material adverse impact to the grantee.

If a Share Appreciation Right is to be settled in H Shares, the H Shares shall be transferred to the grantee upon exercise of the Share Appreciation Right.

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Until the H Shares are transferred to grantees of the Share Appreciation Rights upon exercise, no right to vote or receive dividend or other distributions as a Shareholder shall exist.

(iii) Restricted Shares

Grantees of Restricted Shares receive H Shares at a purchase price and such H Shares are subject to restrictions and vesting requirements as the Administrator shall determine and set out in the relevant award agreement.

From the date on which the Restricted Shares are granted to the grantees, such grantees shall be entitled to vote or receive any dividend or other distributions as a Shareholder with respect to such Restricted Shares provided, that the Restricted Shares will only be transferred to the grantees upon the release of restrictions on such Restricted Shares.

(d) Administration

The implementation of the Post-[REDACTED] H Share Equity Incentive Plan shall be determined by the Board (the “Administrator”). To the extent permitted by applicable laws and regulations, the Administrator may delegate the authority to grant or amend Awards or to take other administrative actions pursuant the Post-[REDACTED] H Share Equity Incentive Plan to a committee of one or more members of the Board or one or more directors, officers or employees of the Company.

Subject to the provisions of the Post-[REDACTED] H Share Equity Incentive Plan, the Administrator shall have the power and authority in its discretion, among others, to select the Eligible Participants to whom Awards may from time to time be granted thereunder, determine the terms and conditions of any Award granted (such terms and conditions to include, the minimum period for which an Award must be held or performance targets (if any) to be achieved before the Award can be exercised, cancellation, forfeiture and other similar matters), determine whether the Shares subject to the Award should continue to be held by the Holding Vehicle following vesting or exercise of the Award, and to interpret the terms of the Post-[REDACTED] H Share Equity Incentive Plan.

(e) Term of the H Share Equity Incentive Plan

The Post-[REDACTED] H Share Equity Incentive Plan will become effective on the date of our H Share [REDACTED] (the “Effective Date”) and shall continue in effect for a term of ten (10) years from the Effective Date unless earlier terminated pursuant to the Post-[REDACTED] H Share Equity Incentive Plan.

(f) Grant of Awards and Grant Price

The Eligible Participants to whom Awards be granted from time to time shall be determined by the Administrator in accordance with the procedures set out by the Post-[REDACTED] H Share Equity Incentive Plan in compliance with applicable laws and regulations at such base price (in the case of a Share Appreciation Right) or purchase price (in the case of a Restricted Share or Restricted Share Unit), if any, as the Administrator may decide. All Awards granted will be evidenced by an award agreement setting forth the number of H Shares subject to the underlying Award and the terms and conditions of the Award.

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(g) Maximum Number of H Shares

The maximum number of H Shares underlying the Awards that may be granted under the Post-[REDACTED] H Share Equity Incentive Plan is 92,000,000 H Shares, representing [REDACTED]% and [REDACTED]%, respectively, of the total number of H Shares in issue and total number of Shares in issue immediately after the completion of the H Share [REDACTED] and the A Share [REDACTED] (assuming the [REDACTED] are not exercised). The Company intends to issue such maximum number of new H Shares at par value of RMB1.00 per H Share as approved by the Shareholders on August 21, 2020, subject to receiving all regulatory approvals.

(h) Term of Awards

The term of each Award shall be stated in the award agreement provided that the term shall be no more than ten (10) years from the date of grant.

(i) Vesting of Awards and Vesting Conditions

Awards granted under the Post-[REDACTED] H Share Equity Incentive Plan shall vest periodically upon certain conditions being met. Subject to applicable laws and regulations, the vesting of Awards may be accelerated or delayed as the Administrator may determine or in accordance with the award agreement. The vesting of Awards shall be determined by the Administrator in accordance with any applicable laws and regulations.

Unless different vesting provisions are set forth in the applicable award agreements (which will be the case for all Awards granted under the 2020 H Share Equity Incentive Plan to replace awards granted under the Pre-[REDACTED] Offshore ESOP Plan), the following vesting conditions shall apply to all Awards granted under the Post-[REDACTED] H Share Equity Incentive Plan or the 2020 H Share Equity Incentive Plan, except that all Awards granted thereunder to independent Directors shall not be subject to the following vesting conditions:

- (i) the Company meeting any one of the following performance targets (a) growth in revenue, (b) growth in business measured by growth in numbers of active users or merchants or (c) growth in number of patents owned; and
- (ii) the grantee meeting individual performance targets as determined by the Administrator.

Unless otherwise determined by the Administrator, any Awards that are scheduled to vest in such period (subject to meeting performance targets) but are otherwise not vested or not fully vested due to vesting conditions not being met shall lapse automatically and shall not be deferred to the next applicable period.

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(j) Transferability of Awards

Except pursuant to a domestic relations order or certain other circumstances as the Administrator deems appropriate, and save for transfer of vested Awards upon a grantee’s death, awards and any interest therein will not be transferable or assignable by the grantee.

(k) Restriction of Transfer of H Shares Received and Lock Up Period

In order to avoid conflicts of interest and insider dealing concerns, apart from any blackout period imposed under application laws and regulations, the transfer of H Shares received pursuant to the Awards granted under the Post-[REDACTED] H Share Equity Incentive Plan is also subject to the Company’s internal policy on permitted transfer periods applicable to H Shares transferred under the plan.

(l) Cancellation of Awards

Unless otherwise determined by the Administrator, upon the termination of engagement of a grantee, all unvested Awards will be cancelled. The Administrator shall be entitled to, among other things, cancel part of or all Awards (vested or unvested) granted to a grantee, and to require the grantee to pay the Company part of or all income or proceeds from the holding or disposal of H Shares received pursuant to the Awards granted under the Post-[REDACTED] H Share Equity Incentive Plan if any of the following circumstances shall occur: (i) termination for cause; (ii) commission of competitive offence; (iii) manager nonfeasance; or (iv) breach of confidentiality undertakings.

(m) Amendment and Termination

The Board in its sole discretion may terminate or amend the Post-[REDACTED] H Share Equity Incentive Plan at any time, provided that to the extent necessary and desirable to comply with applicable laws or stock exchange rules, the Company shall obtain Shareholder approval of any Post-[REDACTED] H Share Equity Incentive Plan amendment or termination in such a manner and to such a degree as required.

4. Share Economic Rights Plan

A share economic rights plan (“Share Economic Rights Plan”) was adopted by our Board and shareholders in January 2014, and amended in 2015, pursuant to which Hangzhou Junhan, our Controlling Shareholder, may grant awards in the form of share economic rights (“SERs”) to incentivize eligible participants under the plan. On July 5, 2018 and June 28, 2020, our Company issued 560,000,000 and 254,380,000 Domestic Shares to Hangzhou Junhan, respectively, to fund the Share Economic Rights Plan.

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Further details of the Share Economic Rights Plan and the SERs granted thereunder are set out as follows:

(a) Eligible Participants

The participants in the Share Economic Rights Plan include employees, directors and consultants of (i) our Group; (ii) Alibaba and its subsidiaries; (iii) other entities in which (i) or (ii) hold 20% or more voting power, and such other persons as determined by the administrator (the “Eligible Participants”).

(b) SERs

Grantees under the Share Economic Rights Plan are granted rights to receive cash benefits at the time of vesting. The monetary amount of SERs is generally tied to the value of our Group and is determined with reference to our valuation, the base price at the time of grant and accumulated dividends declared post-vesting. Grantees shall not be deemed as shareholders of the Company or entitled to any voting rights over the shares of the Company or any other shareholder rights.

(c) Administration

The Share Economic Rights Plan is administered by core management members authorized by our Board to serve as the administrator of the scheme, with the power to determine the scope of intended grantees, the grant arrangement, the time and method of realization by grantees of SERs, interpretation of the incentive plan and all other material matters.

(d) Granting of SERs and Vesting

The term of each SER shall be no more than ten (10) years from the grant date. The grant date of SER refers to the date on which the administrator makes its decision to grant or any other date as determined by the administrator.

The vesting schedule of SERs granted shall be determined by the administrator. Subject to the term of the SERs and applicable laws and regulations, the administrator may accelerate or delay the vesting of SERs.

The SERs granted under the Share Economic Rights Plan shall generally vest in accordance with the following schedule: (i) for regular performance grants, 25% shall vest on each of the first through fourth anniversaries of the vesting commencement date as set out in the grant letter to the grantee; (ii) for regular on-hire grants, 50% shall vest upon the first vesting date as set out in the grant letter and 25% shall vest on each of the first and second anniversaries of the first vesting date; and (iii) for any other grants, the vesting schedule will be set out in the specific award agreement entered into with the relevant grantee.

(e) Cancellation of SERs

Upon the termination of engagement of a grantee, all unvested SERs will be cancelled. The administrator shall be entitled to unilaterally cancel part of or all SERs granted to a grantee, vested or unvested, and to require the grantee to pay the Company any income or proceeds or other economic benefits received pursuant to the SERs granted under the Share Economic Rights Plan if any of the following circumstances shall occur: (i) termination for cause; (ii) commission of competitive offense; (iii) manager nonfeasance; or (iv) breach of confidentiality undertakings.

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(f) Realization of SERs

A grantee may realize his/her vested SERs by:

(i) Selling of Vested SERs to Hangzhou Junhan

A grantee may, within a period specified by Hangzhou Junhan from time to time (the “Selling Period”), sell his/her vested SERs to Hangzhou Junhan. Hangzhou Junhan is not subject to any obligations to stipulate a Selling Period so that a grantee may sell his/her SERs.

(ii) Repurchase of Vested SERs by Hangzhou Junhan

In the event of death of a grantee, Hangzhou Junhan has the obligation to repurchase the vested SERs from such grantee. Upon (a) the Company kick-starting the process to list its securities on any stock exchange; or (b) termination of engagement of the grantee due to events other than death or any “for cause” events specified under the Share Economic Rights Plan, Hangzhou Junhan may in its sole discretion repurchase the vested SERs from the relevant grantee(s).

Hangzhou Junhan may fund the purchase of SERs by utilizing its internal resources, external financing, dividends or proceeds from the disposal of Shares. For the avoidance of doubt, a grantee shall have no right to demand Hangzhou Junhan to sell the Shares held by it, and as a result the funding to purchase the SERs is not only limited to selling of the Shares held by Hangzhou Junhan.

(g) Transferability of SERs

Unless otherwise provided for in the specific award agreement entered into with the relevant grantee or otherwise agreed by the administrator in writing, a grantee may not offer to sell, sell, transfer, pledge, mortgage or otherwise dispose of the SERs or any interest therein, and such rights shall be free from any enforcement, conservation or similar proceedings.

(h) SERs as of the Latest Practicable Date

The maximum number of SERs that may be granted by Hangzhou Junhan under the Share Economic Rights Plan correspond to approximately 3,079,000,000 Shares, approximately 92% of which had been granted to Eligible Participants as of the Latest Practicable Date.

Hangzhou Junhan will cancel the SERs that have been granted but remain unvested as of September 30, 2020, and the holders of the such cancelled SERs will participate in the Restricted A Shares Incentive Plan or other employee incentive plans of the Company. The transitional arrangement shall have no material impact on the economic benefits of the grantees nor the financial condition of our Company.

Among the SERs cancelled, SERs that correspond to no more than 345,000,000 Shares are held by grantees that meet the qualifications to be granted restricted A Shares under the Restricted A Shares Incentive Plan. Hangzhou Junhan shall transfer 396,000,000 Shares to support the aforementioned transitional arrangement and Restricted A Shares Incentive Plan, as applicable laws and regulations may permit.

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5. RESTRICTED A SHARES INCENTIVE PLAN

Our Board and our Shareholders approved the following principal terms of the Restricted A Shares Incentive Plan on August 6, 2020 and August 21, 2020, respectively, which shall be effective conditional upon the completion of the A Share [REDACTED]. Our Shareholders also authorized our Board to select grantees and determine vesting conditions and implement the Restricted A Shares Incentive Plan during its term. On August 6, 2020 and August 23, 2020, our Supervisors and independent non-executive Directors reviewed, and gave their views that the Restricted A Shares Incentive Plan promotes the sustainability of the Group and is beneficial to Shareholders as a whole.

(a) Purpose

The purpose of the Restricted A Shares Incentive Plan is to establish a long-term incentive mechanism to attract, motivate and retain the services of the Eligible Participants (as defined hereunder) to promote the sustainability of our Group.

(b) Eligible Participants

The eligible participants of the Restricted A Shares Incentive Plan include personnel of our Company, our subsidiaries and other entities as permitted by applicable laws and regulations as our Board thinks fit, including but not limited to directors, senior management, mid-level management, core technical team, junior-level management, technical staff and consultants of such permitted entities and other members deemed by the Board as appropriate to be granted incentives (the “Eligible Participants”).

(c) Restricted A Shares

Our Board may grant Eligible Participants A Shares which are subject to restrictions and vesting requirements as the Board shall determine (“Restricted A Shares”).

(d) Term

The term of the Restricted A Shares Incentive Plan shall commence on the date of first grant of Restricted A Shares to Eligible Participants and end on the date of vesting or cancellation of all such Restricted A Shares, and shall not exceed 10 years.

(e) Maximum Number of A Shares

The maximum number of Restricted A Shares that may be granted under the Restricted A Shares Incentive Plan comprises of (i) up to 822,000,000 A Shares to be issued or repurchased by us or from other source; and (ii) 396,000,000 Shares to be transferred by Hangzhou Junhan.

(f) Administration

The implementation of the Restricted A Shares Incentive Plan shall be determined by the Board (the “Administrator”). Subject to compliance with the terms of the Restricted A Shares Incentive Plan and applicable laws and regulations, the Board may delegate daily administrative and management functions to its authorized representatives.

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(g) Grant of Restricted A Shares and Grant Price

The eligible participants to whom Restricted A Shares be granted from time to time shall be determined by the Board in accordance with the procedures set out by the applicable laws and regulations at a grant price of RMB1.00 or any reasonable price as the Board may decide (but not lower than RMB1.00 or the lowest price stipulated by then-applicable laws and regulations).

(h) Vesting of Restricted A Shares and Vesting Conditions

Restricted A Shares granted under the A Restricted A Shares Incentive Plan shall vest in accordance with the agreed schedule upon certain conditions being met. Subject to applicable laws and regulations, the vesting of Restricted A Shares may be accelerated or delayed as the Board may determine or in accordance with the award agreement. The vesting of Restricted A Shares shall be determined by the Board in accordance with the procedures set out by the applicable laws and regulations.

Subject to relevant procedures set out by applicable laws and regulations, the Restricted A Shares may vest if the following vesting conditions are met (and the definitive assessment arrangements will be carried out in accordance with the appraisal measures adopted by our Board):

- (i) the Company meeting any one of the following performance targets including growth in revenue, growth in business measured by growth in numbers of active users or merchants or growth in number of patents owned; and
- (ii) the grantee meeting individual performance targets as determined by the Board.

Unless otherwise determined by the Board, any Restricted A Shares that remain unvested due to the vesting conditions not being met shall lapse automatically and may not be deferred.

Upon vesting of the Restricted A Shares, the relevant grantees shall irrevocably grant the voting right with respect to such A Shares to the employee representative body or its designated institution. The Company may repurchase the relevant A Shares from the grantee at the same price of grant should he/her fail to grant the voting right with respect to such A Shares. For the avoidance of doubt, all other rights attached to the A Shares vested pursuant to the Restricted A Shares Incentive Plan shall remain vested and exercisable by the relevant grantee.

(i) Cancellation of Restricted A Shares

Upon the termination of engagement of a grantee, all unvested Restricted A Shares will be cancelled. The Board shall be entitled to cancel part of or all unvested Restricted A Shares granted to a grantee and to require the grantee to pay the Company part of or all income or proceeds from the holding or disposal of A Shares received pursuant to the Restricted A Shares Incentive Plan if any of the following circumstances shall occur: (i) termination for cause; (ii) commission of competitive offense; (iii) manager nonfeasance; or (iv) breach of confidentiality undertakings. Subject to compliance with applicable laws and regulations, the Board may authorize the Manager to administer such cancellation.

(j) Transferability of Restricted A Shares

Unless otherwise provided under the Restricted A Shares Incentive Plan, any unvested Restricted A Shares will not be transferable or assignable by the grantee, and may not be used to secure or repay any debts.

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(k) Restriction of Transfer of A Shares Vested and Lock Up Period

In order to avoid conflicts of interest and insider dealing concerns, apart from any blackout period imposed under application laws and regulations, the transfer of any A Shares vested under the Restricted A Shares Incentive Plan is also subject to the Company’s internal policy on permitted transfer periods applicable to A Shares vested under the plan.

(l) Amendment and Termination

Any amendments to, or termination of, the Restricted A Shares Incentive Plan shall be approved by the Board, provided that if required to comply with applicable laws or stock exchange rules, the Company shall obtain Shareholder approval of any Restricted A Shares Incentive Plan amendment or termination.

E. Other Information

1. Estate Duty

Our Directors have been advised that no material liability for estate duty is likely to fall on any member of our Group.

2. Litigation

As of the Latest Practicable Date, no member of our Group was engaged in any litigation, arbitration or claim of material importance and, so far as our Directors are aware, no litigation, arbitration or claim of material importance is pending or threatened by or against any member of our Group, that would have a material adverse effect on its results of operations or financial condition.

3. Joint Sponsors

The Joint Sponsors will be paid by our Company a total fee of US\$2 million to act as sponsors to the Company in connection with the H Share [REDACTED]. Such fee will be shared equally among the Joint Sponsors.

Each of the Joint Sponsors has declared their independence pursuant to Rule 3A.07 of the Hong Kong Listing Rules.

[REDACTED]

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4. Qualifications of Experts

The following are the qualifications of the experts who have given opinions or advice which are contained in this document:

Name	Qualification
Citigroup Global Markets Asia Limited (<i>in alphabetical order</i>)	A licensed corporation to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance) and type 7 (providing automated trading services) of the regulated activities (as defined under the SFO)
J.P. Morgan Securities (Far East) Limited (<i>in alphabetical order</i>)	A licensed corporation to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities (as defined in the SFO)
Morgan Stanley Asia Limited (<i>in alphabetical order</i>)	A licensed corporation under the SFO permitted to engage in type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities (as defined under the SFO)
China International Capital Corporation Hong Kong Securities Limited	A licensed corporation to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts) and type 6 (advising on corporate finance) regulated activities (as defined in the SFO)
Ernst & Young	Certified Public Accountants
Fangda Partners	Legal advisor to the Company as to PRC law
Oliver Wyman, Inc., (Hong Kong Branch)	Industry consultant
Shanghai iResearch Co., Ltd.	Industry consultant

5. Consents of Experts

Each of the experts as referred to in the paragraph headed “Qualifications of Experts” in this appendix has given and has not withdrawn their respective consent to the issue of this document with the inclusion of its report and/or letter and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interest in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

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6. Commissioned Industry Reports

We have commissioned iResearch to conduct market research and prepare a report concerning digital payment and blockchain service industry (the “iResearch Report”), and have commissioned Oliver Wyman to conduct analysis and prepare a report (the “Oliver Wyman Report”) on the digital financial service industry. We believe that iResearch and Oliver Wyman have specialized research capabilities and experience in these industries in China’s market. We have referred to certain information in the “Summary,” “Risk Factors,” “Business” and “Financial Information” sections to provide a more comprehensive presentation of the industries in which we operate.

The iResearch Report

iResearch is an independent market intelligence provider that provides market research, information and advice to companies in various industries, including digital payment and blockchain service industry. We agreed to pay iResearch a fee of RMB0.98 million for the preparation and use of the iResearch Report. The iResearch Report was compiled using both primary and secondary research conducted in China. The primary research involved expert interviews and company interviews. The secondary research utilized information and statistics published by government departments, industry association, publications and studies by industry experts, public company annual and quarterly reports, iResearch’s other research reports, online resources and data from iResearch’s research database.

iResearch’s projection on the size of each of the related markets in China takes into consideration various factors, including (i) historical market size data, (ii) the public filings of, and other publicly available information regarding, major digital payment and blockchain service companies, and those companies’ projections of the related industries from iResearch’s interviews or communications with them, (iii) the projections of other industry experts, and (iv) iResearch’s views and estimates of industry developments. iResearch has prepared the iResearch Report on the assumptions that (i) the social, economic and political environments of China will remain stable during the forecast period, which ensures a sustainable and steady development of China’s digital payment and blockchain service industry, (ii) the data quoted from authoritative agencies remain unchanged, (iii) related key industry drivers remains relevant and applicable in the forecast period, and (iv) there will be no subversive changes to the related industries. The reliability of the iResearch Report may be affected by the accuracy of the foregoing assumptions and factors.

The Oliver Wyman Report

Oliver Wyman, a global management consulting firm, is a wholly-owned subsidiary of Marsh & McLennan Companies, Inc. with offices in 60 cities across 31 countries. It combines industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation. We agreed to pay Oliver Wyman a fee of US\$1.5 million for the preparation and use of the Oliver Wyman Report. We have extracted certain information from the Oliver Wyman Report in this section and elsewhere in this document, where expressly indicated.

In preparing the report, Oliver Wyman has relied on statistics and information obtained through both primary and secondary research. Primary research includes interviewing industry insiders and recognized third-party industry associations, while secondary research includes reviewing corporate annual reports (including those of the Company), databases of relevant official authorities and professional agencies, independent reports and publications,

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as well as the proprietary database established by Oliver Wyman during the past decades. Information furnished by others, upon which all or portions of Oliver Wyman’s report are based, is believed to be reliable but has not been verified. No warranty is given as to the accuracy of such information. Public information and industry and statistical data are from sources that are deemed to be reliable; however, no representation or warranty is given as to the accuracy or completeness of such information and such information was accepted without verification. Any predictions from the Oliver Wyman report are subject to inherent risks and uncertainties. In particular, actual results could be impacted by future events which cannot be predicted or controlled, including, without limitation, changes in business strategies, the development of future products and services, changes in market and industry conditions, the outcome of contingencies, changes in management, changes in law or regulations. No responsibility is accepted any such future events.

During the forecast period from 2020 to 2025, the forecasts were made by Oliver Wyman on the basis of certain assumptions, including (but not limited to) the following assumptions: 1) the social, economic, and political environment will remain stable during the forecasted period; 2) in specific, Chinese GDP (nominal and real), consumption, disposable income, personal wealth, among other key economic indicators will demonstrate a stable growth trend in the future; 3) data released in public from authoritative agencies remain unchanged; 4) key policies and regulations in the consumer credit, SMB lending, personal investment, and insurance industry remain unchanged; 5) key drivers of the industries remain the same in the forecasting period. The reliability of the report may be affected by the accuracy of all such assumptions and factors.

7. Promoters

The promoters of our Company are as follows:

- (1) Hangzhou Junhan
- (2) Hangzhou Junao
- (3) National Council for Social Security Fund (全國社會保障基金理事會)
- (4) Zhifu (Shanghai) Investment Center (Limited Partnership) (置付(上海)投資中心(有限合夥))
- (5) China Life Insurance (Group) Company (中國人壽保險(集團)公司)
- (6) Shanghai Qihong Investment Center (Limited Partnership) (上海麒鴻投資中心(有限合夥))
- (7) Shanghai Qizhan Investment Center (Limited Partnership) (上海祺展投資中心(有限合夥))
- (8) Shanghai Zhongfu Equity Investment Management Center (Limited Partnership) (上海眾付股權投資管理中心(有限合夥))
- (9) Hainan CCB Capital Conglin Fund Partnership (Limited Partnership) (海南建銀建信叢林基金合夥企業(有限合夥))
- (10) Beijing Jingguan Investment Center (Limited Partnership) (北京京管投資中心(有限合夥))
- (11) Shanghai Yunfeng Xincheng Investment Center (Limited Partnership) (上海雲鋒新呈投資中心(有限合夥))

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- (12) Beijing China Post Investment Center (Limited Partnership) (北京中郵投資中心(有限合夥))
- (13) China Pacific Insurance Co., Ltd. (中國太平洋人壽保險股份有限公司)
- (14) PICC Capital Investment Management Co., Ltd. (人保資本投資管理有限公司)
- (15) New China Life Insurance Company Ltd. (新華人壽保險股份有限公司)
- (16) Shanghai Financial Sector Investment Fund II (I) (Limited Partnership) (上海金融發展投資基金二期(壹)(有限合夥))
- (17) Chunhua Jingxin (Tianjin) Investment Center (Limited Partnership) (春華景信(天津)投資中心(有限合夥))
- (18) Shanghai Jingyi Investment Center (Limited Partnership) (上海經頤投資中心(有限合夥))
- (19) Beijing Innovative Growth Enterprises Management Co., Ltd (北京創新成長企業管理有限責任公司)
- (20) Suzhou Industrial Park National Development Xinyuan Investment Center (Limited Partnership) 蘇州工業園區國開鑫元投資中心(有限合夥) (renamed as Suzhou Industrial Park Xinyuan Guangyi Investment Center (Limited Partnership) (蘇州工業園區鑫元廣毅投資中心(有限合夥)))
- (21) Chunhua Jingxin Jingfu (Tianjin) Investment Center (Limited Partnership) (春華景信景福(天津)投資中心(有限合夥))
- (22) Beijing CICC Alpha V Equity Investment Partnership (Limited Partnership) (北京中金甲子伍號股權投資合夥企業(有限合夥))
- (23) Shanghai Shihong Investment Center (Limited Partnership) (上海蒔泓投資中心(有限合夥))

For details of the promoters of our Company, see “History and Development” in this document. Save as disclosed in this document, within the two years preceding the date of this document, no cash, securities or other benefit has been paid, allotted or given, nor are any such cash, securities or other benefit intended to be paid, allotted or given, to the promoters of our Company in connection with the H Share [REDACTED] or the related transactions described in this document.

8. Preliminary Expenses

Our estimated preliminary expenses are approximately RMB10,000 and have been paid by us.

9. No Material Adverse Change

Our Directors confirm that there has been no material adverse change in our financial or trading position since June 30, 2020.

10. Binding Effect

This document shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (WUMP) Ordinance so far as applicable.

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11. Bilingual Document

The English language and Chinese language versions of this document are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

12. Miscellaneous

- (i) Save as disclosed in “History and Development” and “Statutory and General Information” in this document, within the two years immediately preceding the date of this document, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (iii) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
- (iv) there is no arrangement under which future dividends are waived or agreed to be waived;
- (v) within the two years immediately preceding the date of this document, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any share or loan capital of any member of our Group;
- (vi) there is no contract for hire or hire purchase of plant to or by us for a period of over one year which are substantial in relation to our business;
- (vii) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the twelve (12) months immediately preceding the date of this document;
- (viii) other than the A Shares of our Company are to be [REDACTED] on the STAR Market, no part of the equity or debt securities of our Company, if any, is currently listed on or dealt in on any stock exchange, and no such listing or permission to list on any stock exchange other than the Hong Kong Stock Exchange is currently being or agreed to be sought;
- (ix) we have no outstanding convertible debt securities; and
- (x) the Company currently does not intend to apply for the status of a sino-foreign investment joint stock limited liability company.

APPENDIX VIII DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION

Documents Delivered to the Registrar of Companies

The documents attached to the copy of this document delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) a copy of the [REDACTED];
- (b) the written consents referred to under the section headed “Statutory and General Information — Other Information — Consents of Experts” in Appendix VII; and
- (c) a copy of each of the material contracts referred to in the section headed “Statutory and General Information — Further Information about Our Business — Summary of Material Contracts” in Appendix VII.

Documents Available for Inspection

Copies of the following documents will be available for inspection at the office of Simpson Thacher & Bartlett at 35/F, ICBC Tower, 3 Garden Road, Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this document:

- (a) the Articles of Association;
- (b) the Accountant’s Report and the report on the unaudited pro forma financial information of our Group prepared by Ernst & Young, the texts of which are set out in Appendices I and II;
- (c) the PRC legal opinions issued by Fangda Partners, our legal advisor on PRC law, in respect of certain general corporate matters and property interests of our Group;
- (d) the PRC Company Law, together with its unofficial English translation;
- (e) the PRC Securities Law, together with its unofficial English translation;
- (f) the Mandatory Provisions, together with its unofficial English translation;
- (g) the Special Regulations, together with its unofficial English translation;
- (h) the written consents referred to under the section headed “Statutory and General Information — Other Information — Consents of Experts” in Appendix VII;
- (i) the material contracts referred to in “Statutory and General Information — Further Information about Our Business — Summary of Material Contracts” in Appendix VII;
- (j) the service contracts and the letters of appointment referred to in “Statutory and General Information — C. Further Information about our Directors, Supervisors and Substantial Shareholders — 3. Particulars of Service Contracts” in Appendix VII;

**APPENDIX VIII DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
IN HONG KONG AND AVAILABLE FOR INSPECTION**

- (k) the rules of the Pre-[REDACTED] Offshore ESOP Plan, the 2020 H Share Equity Incentive Plan, the Post-[REDACTED] H Share Equity Incentive Plan, the Share Economic Rights Plan and the Restricted A Shares Incentive Plan;
- (l) the report issued by iResearch, our industry consultant, referred to in “Our Business — Our Opportunities”;
- (m) the report issued by Oliver Wyman, our industry consultant, referred to in “Our Business — Our Opportunities”.