Investor’s Newsletter（October 9, 2019）

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CPIC（SH601601，HK02601）

Stock Data (ending Sept. 30, 2019)

Total equity base (in million)	9,062
A-share	6,287
H-share	2,775
Total Cap (in RMB million)	292,103
A-share	219,217
H-share (in HKD million)	79,929
6-month highest/lowest	
A-share (in RMB)	40.02/32.11
H-share (in HKD)	34.30/28.05

IR Calendar

2019.10.31
CPIC Investor Day
Shanghai

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- **CPIC seeks to issue and list GDRs**

On September 23, CPIC announced its plan to issue GDRs (Global Depository Receipts) on the London Stock Exchange. If successfully concluded, this may be the first such issuance by an insurance company since the launch of the Shanghai London Stock Connect, and CPIC will be listed in both Shanghai, Hong Kong and London exchanges.

The Shanghai London Stock Connect has two directions, i.e., eastward and westward. Eastward business refers to the issuance of China Depository Receipts by firms listed on London Stock Exchange on the Main Board of Shanghai Stock Exchange. The GDR issuance CPIC has announced is westward business. The Company states in its public announcements that “in response to the Shanghai SOE reform, and to support Shanghai’s effort to become an international financial center, further optimize its shareholder structure and improve corporate governance, and to promote internationalization, the Company plans to issue GDRs and list them on the London Stock Exchange.” The underlying A shares represented by the GDRs shall not exceed 629mn shares, or 10% of the A-share equity base. The proceeds from the issuance, after deducting the issuance fees, are intended to promote internationalization and replenish capital of the Company.

Q&A about CPIC's GDR Issuance

1. CPIC's solvency is strong. So why issue GDRs at this moment?

If history is a guide, the issuance promises to be of strategic importance for the Company. Each step we took on the capital market, including the A-share listing in 2007, H-share listing in 2009 and the H-share private placement in 2012, all laid a solid foundation for next round of development of the Company. The new Board of Directors launched Transformation 2.0 in an all-around way, aspiring for industry leadership in healthy and steady development. In particular, in the context of the deepening of SOE reform and the Shanghai's effort to build itself into an international financial center, the issuance of GDR can effectively support our long-term strategy. To be specific, its rationale is as follows.

First, optimizing shareholder structure and improving governance. The issuance will help to diversify our shareholder mix, and in particular, increase the proportion of long-term institutional investors. We will also take this opportunity to bring in strategic investors with profound insurance industry insights or global influence, step up strategic co-operation when possible, enhance decision-making of the board, thus improving governance continuously.

Second, enhancing our global visibility and paving the way for internationalization. With the successful conclusion of the issuance, the Company will be listed in Shanghai, Hong Kong and London exchanges, meaning more trading hours and increased visibility on world capital markets. At the same time, the issuance will improve our direct access to global investors, put in place a platform to raise USD-denominated funds, and facilitate our internationalization effort.

The environment for the issuance is also supportive and presents a window of opportunity. In June 2019, the Shanghai London Stock Connect Program was officially launched. Overseas and domestic rules for GDR have been issued, and the supporting systems for the depository service, conversion and trading are all in place.

2. What are the size of the issuance and the pricing mechanism?

As for the size of issuance, under the framework of the General Mandate for the issuance of new shares approved at the 2018 General Shareholder's Meeting (GSM), the additional underlying A shares represented by the GDRs to be issued shall not exceed 628,670,000 shares (including securities issued upon the exercise of any over-allotment option, if any), or 10% of the A-share equity base prior to the issuance. The number of underlying A shares to be issued will be adjusted according to relevant regulations in the event of ex-entitlement arising from bonus issue, capitalization issue or rights issue, etc. during the period from the date of board approval to the issuance date. The final number of shares to be issued will be determined by the board or persons authorized by the board as approved at the GSM in the light of laws and regulations, regulatory approvals and market conditions.

As for the pricing, the issuance price as calculated based on the conversion rate between the GDRs and the underlying A shares will comply with applicable laws and regulations and the Listing Rules of Hong Kong Stock Exchange. The issuance price will be determined after due consideration of the interests of the Company's existing shareholders, demand of investors and the risks of issuance, in accordance with international practice and the Provisional Rules on Shanghai London Stock Connect and other relevant regulatory requirements, through an order demand and book-building process, and based on the domestic and overseas market conditions at the time of issuance. Given the sound fundamentals of the Company, we are confident of achieving a reasonable price.

3. When do you expect to finish the issuance?

The Company will select the appropriate timing and market window to complete the issuance within the validity period to be approved by the GSM. The specific timing will be determined by the board or persons authorized by the board which will be approved at the GSM, taking into consideration domestic and international market conditions and subject to the progress of obtaining approvals of overseas and domestic regulatory authorities.

As for the above-mentions validity period, the board has approved a period of 12 months from the date of approval by the GSM as a special resolution, during which period relevant resolutions will remain valid.

4. How will you use the proceeds from the issuance? You mentioned "promoting internationalization" in your announcements. Any concrete plans?

As we disclosed in the GSM Circular on September 24, the proceeds from the issuance, after deducting the issuance fees, are intended to promote internationalization and replenish capital of the Company.

We expect this issuance to facilitate our internationalization effort, which may include cross-border M&A or other types of investment in both developed market and emerging markets, and in particular, in the context of national strategies like the Belt and Road Initiative.

In the implementation of internationalization, we will stay focused on insurance, and prudently select targets to ensure that they are aligned with our strategic needs and can deliver synergy. At the same time, we will strictly abide by laws and regulations of China and target countries, follow internal governance requirements, and support the fulfillment of our business objectives to maximize shareholder's value. Currently we have no deals or plans which require disclosure, and going forward, should there be any major transactions coming up, we will make disclosure in a timely manner in compliance with laws and regulations.

5. What is the difference between GDR and your A share or H share? What is special about subscribing to your GDRs compared with buying your A or H shares on the secondary market?

GDR refers to Global Depository Receipt, which is a stock certificate typically issued and traded on off-shore exchanges. The GDRs we intend to issue will represent underlying A shares and be traded on London Stock Exchange. The Company's A shares and H shares are listed and traded on Shanghai Stock Exchange and Hong Kong Stock Exchange respectively.

Compared with A or H shares, GDRs are different in the following aspects.

1）It will be denominated in US dollars, while our A shares are denominated in RMB yuan and H shares in Hong Kong dollars.

2）The GDRs will be offered globally to qualified investors under relevant domestic regulations, different from investors of both the A share market, which predominantly includes domestic investors, and the H-share market.

3）Pending its issuance and admission, the Company's GDRs will be traded during hours of the local stock market, different from either the A or H-share market.

4）Upon the expiry of the 120-day lock-up period from the date of its issuance, the GDRs will be fungible with its underlying domestic A shares, subject to relevant domestic and overseas regulations.

5）The shareholder rights of GDR investors will be specified in the Depository Agreement and disclosed in the GDR Prospectus.

Investors can choose from either A shares, H shares or GDRs of the Company to benefit from its growth and development.

6. What do you think of the dilution effect on ROE or EPS by this issuance?

The GDR is a new rights issue, and on a static basis, will lead to short-term dilution of financial indicators such as EPS or ROE. But the effective use of the proceeds will boost the Company's profitability, and in turn improve EPS or ROE. If the issuance successfully comes through, we will take all possible steps to allocate the funds and improve the return, including promoting our internationalization effort, in a bid to boost the EPS and ROE.

7. Your capital position will be even stronger with this issuance. Will this impact your shareholder dividend policy?

We are committed to generating sustainable returns for our shareholders while increasing the Company's value steadily. Since our listing in 2007, DPS has been on steady increase. At the 2019 Interim Results Announcement, we disclosed OPAT to better reflect the long-term nature of our business. Going forward, when determining the level of dividend, we will gradually move towards OPAT as the main basis, while also considering accounting profits and solvency. Overall, we have confidence to maintain a stable shareholder dividend level.