**Industrial Bank Co., Ltd.**

**Proposal on the Private Offering of Domestic Preferred Stocks**

**April 2018**

**Statement of the Issuer**

The Company and all members of Board of Directors guarantee the truthfulness, accuracy and integrity of the proposal and will be responsible for false account, misleading statement or material omissions.

Changes of the Company’s operation and income after the offering shall be borne by itself; investors shall be responsible for investment risks arising from these changes.

The proposal is the explanation to the private offering of domestic preferred stocks by the Board of Directors of the Company. Any statement to the contrary is false.

Investors are expected to consult with their own stock brokers, lawyers, professional accountant or other senior consultants if they have any problems.

The matters mentioned in this proposal do not represent the substantive judgment, confirmation or approval of those related to this Offering by the competent authority, which are yet to be approved by authorities for their validation and completion.

**Special Warning:**

1. The Proposal on Private Offering of Domestic Preferred Stocks has been reviewed and approved by the 8th Meeting of the 9th Board of Directors, which still need to be approved by the General Meeting of Shareholders, during which common shareholders and preferred shareholders will vote by different share categories. Furthermore, the Offering may be performed only if it is approved by CBIRC and ratified by CSRC according to relevant laws and regulations.

2. Quantity and scale: The total number of private stocks offered will not exceed 300 million shares with the total amount no more than RMB 30 billion. General Meeting of Shareholders is required to empower Board of Directors to determine the specific amount within the above scope as required by authorities.

3. Par value and price: The preferred stocks are offered at a par value per share of RMB 100.

4. Issuing method: The private stock will be offered privately in one or more times according to relevant regulations after being approved by CBIRC, CSRC and other regulatory authorities. Preferred stocks adopting batch offering shall be issued for the first time within 6 months from the date of CSRC's approval. The number of shares of the first issuance shall be more than 50% of total amount of offer, while the rest shall be issued within 24 months. All the articles for offering in installment are the same except for dividend rate of par value.

5. Issuing target: At most 200 qualified investors satisfying the requirements of the Administration Measures of Preferred Stocks Pilot and other laws and regulations.

China Tobacco and its affiliates (China Tobacco Jiangsu, China Tobacco Henan, China Tobacco Hunan, Zhuzhou Tobacco, Hengyang Tobacco, Shaoyang Tobacco, Yongzhou Tobacco, Chenzhou Tobacco, Hunan Tobacco Leaf, China Tobacco Sichuan, Chengdu Tobacco, China Tobacco Guangxi, China Tobacco Gansu, Lanzhou Tobacco and Zhongwei Capital) subscribed the privately offered preferred stocks. Based on Share Subscription Agreements concluded by and between the above subscribed parties and the Company, the subscriptions information is as follows:

| **No.** | **Issuing Target** | **Number of Subscribed Preferred Stocks (Shares)** | **Subscription Cost (RMB 100 million)** |
| --- | --- | --- | --- |
| 1 | China Tobacco Jiangsu | 15,000,000 | 15 |
| 2 | China Tobacco Henan | 5,000,000 | 5 |
| 3 | China Tobacco Hunan | 1,000,000 | 1 |
| 4 | Zhuzhou Tobacco | 1,000,000 | 1 |
| 5 | Hengyang Tobacco | 1,000,000 | 1 |
| 6 | Shaoyang Tobacco | 2,000,000 | 2 |
| 7 | Yongzhou Tobacco | 1,000,000 | 1 |
| 8 | Chenzhou Tobacco | 2,000,000 | 2 |
| 9 | Hunan Tobacco Leaf | 2,000,000 | 2 |
| 10 | China Tobacco Sichuan | 15,000,000 | 15 |
| 11 | Chengdu Tobacco | 5,000,000 | 5 |
| 12 | China Tobacco Guangxi | 5,000,000 | 5 |
| 13 | China Tobacco Gansu | 5,000,000 | 5 |
| 14 | Lanzhou Tobacco | 5,000,000 | 5 |
| 15 | Zhongwei Capital | 15,000,000 | 15 |
| **Total** | **80,000,000** | **80** |

The above planned subscribed parties promise not to participate in the quotation of the dividend rate of this preferred stocks offering and they accept the fact that the Company and sponsor institution (main underwriter) determine the final rate based on the procedure and requirements of CSRC and other authorities.

Except for the above subscribed parties, the Board of Directors will negotiate with sponsor institution (main underwriter) to determine other targets based on the authorization of General Meeting of Shareholders and CSRC’s regulations.

All issuing targets subscribe domestic preferred stocks offered in cash.

6. Duration: The preferred shares issued this time has no expiration term.

7. Dividend rate and confirmation principle: The preferred shares issued this time shall be subject to an interest period every five years starting from the payment deadline, and the dividend yield shall be the same within each period.

The dividend rate of the first interest period shall be determined by the Board of Directors of the Company in accordance with the authorization of the General Meeting of Shareholders, combined with the national policy, market conditions, company specific conditions and investor requirements, etc. at the time of issuance, by means of inquiry or others approved by authorities. And it will not be higher than the average annual Return on Equity Weighted Average (ROEWA) of the common shareholders of the Company in the last two fiscal years before the insurance.

Dividend rate of this Offering is the sum of base rate and basic interest margin:

Dividend rate = base rate + basic interest margin.

The base rate is the average level of government bond yields 20 trading days (excluding the same day) before preferred stocks issue payment deadline or the base rate adjustment under five-year repayment period. The base rate will be adjusted every five years since the payment deadline of this Offering of preferred stocks.

The base interest margin is dividend rate of the first interest period deducted from the base rate. The basic interest margin will be determined without adjustment since the insurance.

8. Dividend distribution: According to CBIRC’s qualification requirements on other tier 1 capital instruments, the Company has the right to cancel the dividend distribution of this preferred stocks offering, without breaching the contract. Canceling dividend of preferred stocks will just constitute the restriction on the income distribution of common stock without other imposing other limitations to the Company. The Company will take into full consideration of the interest of preferred shareholders when exercising the above rights.

The Company will notify preferred shareholders 10 workdays before interest payment date of canceling their dividend distributions.

9. Accumulative methods of dividend: The preferred stocks of this Offering are subject to non-cumulative dividend payment, i.e. dividends unpaid in full to the preferred shareholders do not accrue to the next interest year.

10. Articles of compulsory share conversion: According to the provisions of CBIRC, when the trigger event for compulsory share conversion occurs, the preferred stocks of the company shall be reported to CBIRC for review and determination according to its requirements, and will be fully converted to the common share (A share) of the company based on the compulsory share conversion price. If preferred stocks are converted into common shares (A share), it will not be restored to preferred stocks under any circumstance.

The compulsory share conversion price of this Offering of preferred stocks is the average price for the exchange of common shares (A share) twenty days before the date of the announcement of the resolution passed by the Board of Directors of this Offering, which is RMB 16.50/share.

Since the date that this preferred stocks issuing scheme is passed by the Board of Directors, when the company share is changed due to the distribution of stock dividend, transfer or addition of share capital, equity offering (excluding the share capital increased due to the share conversion caused by the financing tools with common share conversion provisions issued by the company) or share allotment, the share conversion price shall be accordingly adjusted.

The mandatory share conversion price of the preferred stocks will not be adjusted for the Company’s distributing cash dividends of common shares.

Change of control power over the Company caused by converting preferred stocks into common shares shall comply with relevant provisions of CSRC.

11. Articles of conditional redemption: According to CBIRC’s qualification requirements on other tier 1 capital instruments, the redemption right of the preferred stocks issued this time is owned by the Company. The Company exercises conditional redemption right to obtain the approval of CBRC as a precondition. The preferred shareholders have no right to request the company to redeem the preferred stocks, nor holding the expectation. Five years after the date of offering, the Company is entitled to carry out the right of redemption to get back all or part of the preferred stocks with CBIRC’s approval.

12. Use of raised fund: Capital raised through this Offering after deducting offering expense is used to supplement Tier 1 capital of the Company after being approved by authorities.

13. The Company’s private offering of preferred stocks to China Tobacco Jiangsu, China Tobacco Henan, China Tobacco Hunan, Zhuzhou Tobacco, Hengyang Tobacco, Shaoyang Tobacco, Yongzhou Tobacco, Chenzhou Tobacco, Hunan Tobacco Leaf, China Tobacco Sichuan, Chengdu Tobacco, China Tobacco Guangxi, China Tobacco Gansu, Lanzhou Tobacco and Zhongwei Capital constitute the related transactions, which has to go through related approval procedure. When Board of Directors of the Company reviewed related proposals regarding related transactions involved in the Offering, related directors have avoided the voting; When the General Meeting of Shareholders reviewed proposals regarding related transactions involved in the Offering, related shareholders shall avoid the voting.

14. The Company actively executes the requirements of CSRC’s Notification on Further Executing Matters Related with Cash Dividends of Listed Companies and Supervision Guidance No. 2 for Listed Companies - Cash Dividends, defines profit distribution especially the cash dividends policy in Articles of Association and draws up Medium-term Shareholder Return Plan according to relevant regulations, explicating the dividend plan and its formulation, execution and adjustment from 2018 to 2020.

(1) The Company's profit distribution situation in recent three years

The Company's profit distribution situation of common shares in recent three years is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Item** | **2017** | **2016** | **2015** |
| Number of dividends each 10 shares (Yuan) (tax included) | 6.50 | 6.10 | 6.10 |
| Amount of cash dividends (1 million) (tax included) | 13,503 | 12,672 | 11,622 |
| Net profit of annual dividend belonging to shareholders of parent company (1 million Yuan) | 57,200 | 53,850 | 50,207 |
| Ratio of net profit ratio attributable to shareholders of the parent company | 23.61% | 23.53% | 23.15% |
| The ratio of cash dividends to annual profit distribution | 100.00% | 100.00% | 100.00% |
| Proportion of recent-thee-year accumulated cash dividend to the net profit attributable to shareholders of the parent company | 70.32% |

Note: 2017 profit distribution plan was reviewed and approved in the 8th Meeting of the 9th Board of Directors, still requiring the review and approval of 2017 Annual General Meeting of Shareholders.

The Company's profit distribution situation of preferred shares in recent three years is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Item** | **2017** | **2016** | **2015** |
| Distribution amount (1 million Yuan) | 1,482 | 1,482 | 1,147 |
| Distribution proportion | 100.00% | 100.00% | 100.00% |

Note: Distribution proportion=dividend amount paid/agreed current year dividend amount\*100%; 2017 profit distribution plan was reviewed and approved in the 8th Meeting of the 9th Board of Directors, still requiring the review and approval of 2017 Annual General Meeting of Shareholders.

(2) The application situation of the Company's undistributed profit in recent three years

All of the Company's undistributed profit in recent three years have been used to replenish Tier 1 core capital and assist in its sustainable and healthy development of businesses.

(3) Common shareholders return in the next three years

In order to establish a continuous, stable and scientific return mechanism for shareholders and maintain a constant and steady shareholders return policy, the Company formulates Medium-term Shareholder Return Plan based on relevant laws and regulations, its practical operation situation and demands for future development. Please refer to the Medium-term Shareholder Return Plan for details of the Company’s shareholders return plan in the next three years (2018-2020).

15. Commitment and analysis of Board of Directors on the impact of this Offering on common shareholders’ spot returns

(1) After this Offering, since the holders of preferred stocks will get profit distribution prior to common shareholders according to agreed dividend rate, on the premise that utilization effectiveness of raised capital is not taken into account, basic and diluted earnings per share of the Company in the short run may have a certain level of decline. Spot returns of common shareholders after raising fund have the risk of being diluted. All investors are suggested to conduct rational investment and pay attention to investment risks.

(2) In the process of analyzing the effect of this Offering on the dilution of spot return, the analysis of the net profit attributable to the shareholders of the parent company is not the prediction of the Company's profit. The specific measures for filling the return to handle the risk of dilution of the immediate return do not guarantee the company's future profits. Investors shall not make investment decisions based on it, or else the company will not be liable for compensation for the losses they make. The Company will continuously disclose the completion of measures on fulfilling diluted spot return and performance of commitment matters made by related subjects in regular report.

(3) Considering that this Offering is likely to cause spot returns of common shareholders to be diluted, the Company will adopt effective measures to improve management and use efficiency of raised capital, further enhance its business development ability and profitability, reduce the impact of this Offering on common shareholders’ return as much as possible, and protect the legitimate interest of shareholders especially the minority ones. Measures involve: Strengthen capital planning management and keep sufficient and stable capital; improve the capital utilization efficiency, and reasonably deploy resources; accelerate transformation innovation to promote the continuous development of the Company’s business; continuously improve sustainable, stable and scientific shareholders’ return mechanism.

16. The Company has no actual controller before this Offering, which will remain the same after it. Therefore, this Offering does not involve the changes of control power over the Company.

**Definition**

Unless specified in this proposal, the following abbreviation has the corresponding meaning:

|  |  |  |
| --- | --- | --- |
| The Company and the Issuer | refer to | Industrial Bank Co., Ltd. |
| The proposal  | refers to | Industrial Bank Co., Ltd. Private Offering of Domestic Preferred Stock Plan reviewed and approved by the 8th meeting of the 9th Board of Directors held on April 24, 2018. |
| This Offering/The Offering of Preferred Stocks | refers to | The Private Offering of Domestic Preferred Stock Plan reviewed and approved by the 8th meeting of the 9th Board of Directors held on April 24, 2018. |
| Board of Directors of this Offering | refers to | The 8th Meeting of the 9th Board of Directors of Industrial Bank Co., Ltd. |
| Planned subscribed parties | refer to | China National Tobacco (Jiangsu) Corporation, China National Tobacco (Henan) Corporation, China National Tobacco (Hunan) Corporation, Hunan Provincial Tobacco (Zhuzhou) Corporation, Hunan Provincial Tobacco (Hengyang) Corporation, Hunan Provincial Tobacco (Shaoyang) Corporation, Hunan Provincial Tobacco (Yongzhou) Corporation, Hunan Provincial Tobacco (Chenzhou) Corporation, Hunan Tobacco Redrying Co., Ltd., China National Tobacco (Sichuan) Corporation, Sichuan Provincial Tobacco (Chengdu) Corporation, China National Tobacco (Guangxi) Corporation, China National Tobacco (Gansu) Corporation, Gansu Provincial Tobacco (Lanzhou) Corporation and Zhongwei Capital Holdings Limited |
| China Tobacco Jiangsu | refers to | China National Tobacco (Jiangsu) Corporation |
| China Tobacco Henan | refers to | China National Tobacco (Henan) Corporation |
| China Tobacco Hunan | refers to | China National Tobacco (Hunan) Corporation |
| Zhuzhou Tobacco | refers to | Hunan Provincial Tobacco (Zhuzhou) Corporation |
| Hengyang Tobacco | refers to | Hunan Provincial Tobacco (Hengyang) Corporation |
| Shaoyang Tobacco | refers to | Hunan Provincial Tobacco (Shaoyang) Corporation |
| Yongzhou Tobacco | refers to | Hunan Provincial Tobacco (Yongzhou) Corporation |
| Chenzhou Tobacco | refers to | Hunan Provincial Tobacco (Chenzhou) Corporation |
| Hunan Tobacco Leaf | refers to | Hunan Tobacco Redrying Co., Ltd. |
| China Tobacco Sichuan | refers to | China National Tobacco (Sichuan) Corporation |
| Chengdu Tobacco | refers to | Sichuan Provincial Tobacco (Chengdu) Corporation |
| China Tobacco Guangxi | refers to | China National Tobacco (Guangxi) Corporation |
| China Tobacco Gansu | refers to | China National Tobacco (Gansu) Corporation |
| Lanzhou Tobacco | refers to | Gansu Provincial Tobacco (Lanzhou) Corporation |
| Zhongwei Capital | refers to | Zhongwei Capital Holdings Limited |
| Capital Administration Measures | refers to | Capital Administration Measures for Commercial Banks (Trial) issued by CBRC in June 2012 |
| Articles of Association | refers to | Articles of Association of Industrial Bank Co., Ltd.  |
| Medium-term Capital Management Plan | refers to | Medium-term Capital Management Plan of Industrial Bank Co., Ltd. (2018-2020) |
| Medium-term Shareholder Return Plan | refers to | Medium-term Shareholder Return Plan of Industrial Bank Co., Ltd. (2018-2020) |
| Tier 1 core capital | refers to | Paid-in capital or common shares; capital reserve; surplus reserve; general risk preparation; undistributed profit; accountable capital of minority shareholders according to the stipulation of Capital Administration Measures |
| Other Tier 1 capital | refers to | Other Tier 1 capital instruments and their premium; accountable capital of minority shareholders according to the stipulation of Capital Administration Measures |
| Tier 1 capital | refers to | Tier 1 core capital and other Tier 1 capital according to the stipulation of Capital Administration Measures |
| Tier 2 capital | refers to | Tier 2 capital instruments and their premium; over-loan loss reserves according to the stipulation of Capital Administration Measures |
| Adequacy ratio of Tier 1 core capital | refers to | The ratio between Tier 1 core capital held by commercial bank satisfying Capital Administration Measures and risk-weighted asset |
| Adequacy ratio of Tier 1 capital | refers to | The ratio between Tier 1 capital held by commercial bank satisfying Capital Administration Measures and risk-weighted asset |
| Adequacy ratio of capital | refers to | The ratio between the capital held by commercial bank satisfying Capital Administration Measures and risk-weighted asset |
| State Council | refers to | State Council of the People's Republic of China |
| The Ministry of Finance | refers to | The Ministry of Finance of the People's Republic of China |
| CBRC | refers to | China Banking Regulatory Commission |
| CBIRC | refers to | China Bank Insurance Regulatory Commission |
| CSRC | refers to | China Securities Regulatory Commission |
| Yuan | refers to | RMB |

Note: Unless otherwise specified, financial data and indicators in this plan are based on consolidated statement

**(I) Purpose of this Offering of Preferred Stocks**

**(I) To adapt to increasingly strict capital regulatory requirements**

According to the capital supervision spirit defined in Basel III Accord, CBRC issued Capital Administration Measures in June 2012 and officially implemented it on January 1, 2013, increasing the standard on domestic commercial bank’s capital supervision. Under the background of improving finance management, the People's Bank of China has implemented a Macro Prudential Assessment System (MPA) since 2016. It guides banking financial institutions to strengthen self-discipline and self-discipline management from seven aspects: Capital and leverage, asset and liability, liquidity, pricing behavior, asset quality, cross-border financing risks, and implementation of credit policies, wherein macro-prudential capital adequacy ratio is one of the core indicators to determine the evaluation results. CBRC issued the Notification of Adjusting Supervision Requirements of Commercial Banks' Loan Loss Preparation in March 2018, requiring all supervision departments to determine supervision requirements of banks’ loan loss preparation within 120% - 150% provision coverage and 1.5% - 2.5% loan provision rate according to the principles of “Same Policy for Same Category” and “One Policy for One Bank”. It makes clear that banks with high capital adequacy ratio may have lower requirements, which enhances the significance of capital adequacy ratio in the development of commercial banks’ businesses.

For the purpose of satisfying increasingly high requirements on capital supervision, strengthening and standardizing the Company’s capital management, maintaining adequate capital and high capital quality, and effectively supporting its businesses development, the Company stipulates Medium-term Capital Management Plan of Industrial Bank Co., Ltd. (2018-2020) based on relevant supervision regulations and its future development plan. With no obvious fluctuation appearing in economic and financial developments, the Company's goals from 2018 to 2020 for capital adequacy ratio are: adequacy ratio of Tier 1 core capital is no lower than 8%; adequacy ratio of Tier 1 capital is no lower than 9%; total capital adequacy ratio is no lower than 11%; and efforts will be made to enable the capital adequacy ratio for the following several years to be higher than the average level of similar banks so as to maintain a good market image of the Company as a bank with adequate capital. According to the requirements of Capital Administration Measures, the Company is under the pressure of capital supplementation, with initial calculation after comprehensively considering the growth of net profit and risk-weighted asset, dividend proportion and capital expenditure, and other factors.

**(II) Improve the economic capability of entity service to support the Company’s stable, harmonious and healthy development**

The global economy as a whole has shown a synchronous recovery since 2017, with sustained economic expansion and moderate inflation. China's economy has also been on a steady and better course than expected. With constantly optimized economic structure, new growth drivers have been accelerated, and quality and efficiency have been significantly improved, thus achieving steady and sound development. In terms of policy, China will continue to implement steady monetary policy to keep reasonable and stable liquidity, surrounding three tasks of serving equity economy, preventing and controlling financial risks and deepening financial reform. China is in a critical period of economic restructuring and transformation. Good credit support from banks is still required for sustainable and healthy development of real economy.

Meanwhile, under the intensifying competition in domestic banking industry, commercial bank’s capital strength will become more significant to its development. Expanding capital supplement channels, improving capital quality and increasing capital adequacy ratio will help the Company strengthen its risk resistance, adhere to prudent operation, and continuously promote reform of institutional mechanisms and adjustment of business structure, and support the Company's stable, harmonious and healthy development to increase the capability of serving the real economy.

**(III) Continuously optimize the Company’s capital structure**

In recent years, the company has been continuously strengthening and standardizing bank capital management. Its capital replenishment is mainly based on profit accumulation, with improving profitability and increasing internal accumulation as an important way to improve the capital adequacy level. Meanwhile, it makes rational use of external channels to supplement capital according to the regulatory provisions and capital market conditions.

According to related provisions in Capital Administration Measures, commercial bank’s Tier 1 capital is classified into Tier 1 core capital and other Tier 1 capital. Commercial banks may improve Tier 1 capital adequacy by supplementing others, whose quantity is 1% of weighted risk assets. Article design and investors become mature along with the offering of preferred stocks, with increasing market acceptance. Offering preferred stocks to supplement Tier 1 capital will contribute to the Company continuously improve capital structure and increase shareholders’ return.

Given all these, supplementing Tier 1 Capital through this Offering of preferred stocks will contribute to improving the Company’s capital adequacy level, optimizing the capital structure of the company, maintaining a stable, healthy and harmonious development, and enhancing the economic capability of entity service, which is taken as the optimum capital supplement method in current period.

**II. Scheme of this Offering of Preferred Stocks**

**(I) Types of Preferred Stocks of this Offering**

The preferred stocks issued this time satisfy the regulations of Instructions of the General Office of the State Council on Develop Preferred Stock Pilot, the Administration Measures of Preferred Stock Pilot, the Capital Administration Measures, and the Instructions on Supplementing Tier 1 Capital with Preferred Stock Offered by Commercial Banks.

**(II) Quantity and Scale**

The total number of private stocks offered will not exceed 300 million shares with the total amount no more than RMB 30 billion. General Meeting of Shareholders is required to empower Board of Directors to determine the specific amount within the above scope as required by authorities.

**(III) Par value and price**

The preferred stocks are offered at a par value per share of RMB 100.

**(IV) Issuing method**

The private stock will be offered privately in one or more times according to relevant regulations after being approved by CBIRC, CSRC and other regulatory authorities. Preferred stocks adopting batch offering shall be issued for the first time within 6 months from the date of CSRC's approval. The number of shares of the first issuance shall be more than 50% of total amount of offer, while the rest shall be issued within 24 months. All the articles for offering in installment are the same except for dividend rate of par value.

**(V) Issuing Target**

At most 200 qualified investors satisfying the requirements of the Administration Measures of Preferred Stocks Pilot and other laws and regulations.

China Tobacco and its affiliates (China Tobacco Jiangsu, China Tobacco Henan, China Tobacco Hunan, Zhuzhou Tobacco, Hengyang Tobacco, Shaoyang Tobacco, Yongzhou Tobacco, Chenzhou Tobacco, Hunan Tobacco Leaf, China Tobacco Sichuan, Chengdu Tobacco, China Tobacco Guangxi, China Tobacco Gansu, Lanzhou Tobacco and Zhongwei Capital) subscribed the privately offered preferred stocks. Based on Share Subscription Agreements concluded by and between the above subscribed parties and the Company, the subscriptions information is as follows:

| **No.** | **Planned subscribed parties** | **Number of Subscribed Preferred Stocks (Shares)** | **Subscription Cost (RMB 100 million)** |
| --- | --- | --- | --- |
| 1 | China Tobacco Jiangsu | 15,000,000 | 15 |
| 2 | China Tobacco Henan | 5,000,000 | 5 |
| 3 | China Tobacco Hunan | 1,000,000 | 1 |
| 4 | Zhuzhou Tobacco | 1,000,000 | 1 |
| 5 | Hengyang Tobacco | 1,000,000 | 1 |
| 6 | Shaoyang Tobacco | 2,000,000 | 2 |
| 7 | Yongzhou Tobacco | 1,000,000 | 1 |
| 8 | Chenzhou Tobacco | 2,000,000 | 2 |
| 9 | Hunan Tobacco Leaf | 2,000,000 | 2 |
| 10 | China Tobacco Sichuan | 15,000,000 | 15 |
| 11 | Chengdu Tobacco | 5,000,000 | 5 |
| 12 | China Tobacco Guangxi | 5,000,000 | 5 |
| 13 | China Tobacco Gansu | 5,000,000 | 5 |
| 14 | Lanzhou Tobacco | 5,000,000 | 5 |
| 15 | Zhongwei Capital | 15,000,000 | 15 |
| **Total** | **80,000,000** | **80** |

The above planned subscribed parties promise not to participate in the quotation of the dividend rate of this preferred stocks offering and they accept the fact that the Company and sponsor institution (main underwriter) determine the final rate based on the procedure and requirements of CSRC and other authorities.

Except for the above subscribed parties, the Board of Directors will negotiate with sponsor institution (main underwriter) to determine other targets based on the authorization of General Meeting of Shareholders and CSRC’s regulations.

All issuing targets subscribe domestic preferred stocks offered in cash.

**(VI) Duration**

The preferred shares issued this time has no expiration term.

**(VII) Articles of dividend distribution**

**1. Dividend rate and confirmation principle**

The preferred shares issued this time shall be subject to an interest period every five years starting from the payment deadline, and the dividend yield shall be the same within each period.

The dividend rate of the first interest period shall be determined by the Board of Directors of the Company in accordance with the authorization of the General Meeting of Shareholders, combined with the national policy, market conditions, company specific conditions and investor requirements, etc. at the time of issuance, by means of inquiry or others approved by authorities. And it will not be higher than the average annual Return on Equity Weighted Average (ROEWA) of the common shareholders of the Company in the last two fiscal years before the insurance.

Dividend rate of this Offering is the sum of base rate and basic interest margin:

Dividend rate = base rate + basic interest margin.

The base rate is the average level of government bond yields 20 trading days (excluding the same day) before preferred stocks issue payment deadline or the base rate adjustment under five-year repayment period. The base rate will be adjusted every five years since the payment deadline of this Offering of preferred stocks.

The base interest margin is dividend rate of the first interest period deducted from the base rate. The basic interest margin will be determined without adjustment since the insurance.

**2. Dividend payment conditions**

(1) On the premise of ensuring that the capital adequacy ratio meets the regulatory requirements, the company may distribute dividends to the preferred shareholders if the company has undistributed profits under the financial statements of the parent company after making up for the losses according to law, withdrawing the statutory reserve fund and general preparations. The preferred stocks offered this time, in the past and in the future have the same priority on dividend distribution, while the dividend of preferred shareholders is distributed prior to that of common shareholders. Dividend payment of preferred stocks has no relation with the rating of the Company itself, which also does not adjust along with changing rating.

(2) The Company has the right to cancel the dividend distribution of preferred stocks under any circumstance, without breaching the contract. The company is free to dispose of the canceled earnings to cover other debts due. Canceling dividend will just constitute the restriction on the income distribution of common stock without other limitations to the Company. The Company will take into full consideration of the interest of preferred shareholders when exercising the above rights.

The Company will notify preferred shareholders 10 workdays before interest payment date of canceling their dividend distributions. If the company cancels all or part of the dividend of preferred stocks of a certain fiscal year, it shall not pay the dividend of common share for the current fiscal year.

**3. Payment method of dividend**

The Company will pay the dividend in cash.

Interest of this Offering of preferred stocks will be paid once in each fiscal year in cash, with the interest starting date is payment deadline of this Offering. Taxes payable on the dividends received by the preferred shareholders shall be borne by themselves in accordance with relevant laws and regulations.

**4. Accumulative methods of dividend**

The preferred stocks of this Offering are subject to non-cumulative dividend payment, i.e. dividends unpaid in full to the preferred shareholders do not accrue to the next interest year.

**5. Surplus Profit Distribution**

The shareholders of this Offering will no longer participate in the surplus profit distribution together with the common shareholders after obtaining the distribution in accordance with the agreed dividend rate of par value.

**(VIII) Articles of compulsory share conversion**

**1. Trigger event for compulsory share conversion**

(1) When the Company’s Tier 1 core capital ratio is reduced to 5.125%, the preferred stocks of the company shall be reported to CBIRC for review and determination according to its requirements, and will be fully converted to the common share (A share) of the company based on the compulsory share conversion price. If preferred stocks are converted into common share (A share), it will not be restored to preferred stocks under any circumstance;

(2) When the trigger event for Tier 2 capital instruments issued by the Company occurs, the preferred stocks of the company shall be reported to CBIRC for review and determination according to its requirements, and will be fully converted to the common share (A share) of the company based on the compulsory share conversion price. If preferred stocks are converted into common share (A share), it will not be restored to preferred stocks under any circumstance. Among them, trigger event for Tier 2 capital instruments refers to the early one of the following two situations: ① CBIRC firmly believe that the Company cannot survive without share conversion or deduction; ② related departments consider that the Company cannot survive without capital injection in public sectors or offering equal effective support.

**2. Price and adjustment method of compulsory share conversion**

The compulsory share conversion price of this Offering of preferred stocks is the average price for the exchange of common shares (A share) twenty days before the date of the announcement of the resolution passed by the Board of Directors of this Offering, which is RMB 16.50/share.

Since the date that this preferred stocks issuing scheme is passed by the Board of Directors, when the company share is changed due to the distribution of stock dividend, transfer or addition of share capital, equity offering (excluding the share capital increased due to the share conversion caused by the financing tools with common share conversion provisions issued by the company) or share allotment, the share conversion price shall be adjusted based on the following formula:

Bonus share or transferred or added share capital: P1=P0/（1+n）;

Equity offering or placing: P1=P0\*(N+Q\*(A/M))/(N+Q)

Wherein: P0 is non-adjusted effective compulsory share conversion price, n is the rate of paying stock or the rate of conversion into share capital, Q is the quantity of equity offering or placing, N is the total number of common shares of the company before equity offering or placing, A is the price of equity offering or placing, M is the closing price of common shares (A share) one day before the newly added shares from equity offering or placing are issued, P1 is the adjusted effective compulsory share conversion price.

When the above-mentioned changes in the company's shares and shareholders' rights and interests occur, the compulsory share conversion price of preferred shares will be adjusted successively, and the corresponding information will be disclosed in accordance with the regulations.

The mandatory share conversion price of the preferred stocks will not be adjusted for the Company’s distributing cash dividends of common shares.

When the company may undergo share repurchase, company merger, division or any other circumstances that may change the category and quantity of company's share and shareholders' equity, which may affect the interests of the shareholders of this Offering, the company will adjust the compulsory share conversion price under specific situations with fair, just and sound principles of protecting the rights and interests of the shareholders of this Offering. The content and operation method of adjusting compulsory share conversion price will be formulated in accordance with relevant national laws and regulations.

**3. Compulsory share conversion rate and confirmation principle**

The company will, in accordance with the relevant requirements of the CBIRC, ask its Board of Directors (or its authorized person), as approved by the General Meeting of Shareholders, to confirm the total amount of the preferred stocks required for the compulsory conversion, and convert the full amount of the preferred shares that have been issued and existed at that time. The number of such transfer shall be calculated as:

Q=V0/P, removing the integral multiple of one share.

Among that, VO is the full amount of the preferred shares that have been issued and survived at that time; P refers to the conversion price corresponding to this Offering of the preferred stocks.

When the trigger event occurs, the preferred stocks already issued and survived will be converted in full into common shares (A share) according to conversion price and the total amount of par value.

Change of control power over the Company caused by converting preferred stocks into common shares shall comply with relevant provisions of CSRC.

**4. Term of compulsory share conversion**

The compulsory conversion period of this Offering is from the first trading day after the completion of the preferred stocks offering to the date when the preferred stocks are all redeemed or converted.

**5. Ownership of dividends in the year of compulsory share conversion**

Any unpaid dividend payable of compulsory converted share will not be paid. At the same time, the common shares of the company increased due to the compulsory conversion of preferred shares shall enjoy the same rights and interests as the original ones. All the listed common shareholders (including those formed by the conversion of preferred shares) on the equity rights registration day of common share dividend distribution shall participate in the distribution process and enjoy the same rights and interests.

**6. Authorization of compulsory share conversion**

The Company invites the General Meeting of Shareholders to authorize the Board of Directors, which transfers the authorization to the Chairman and the President to carry out all relevant matters concerning the compulsory conversion of preferred stocks under the framework and principles reviewed and approved by the General Meeting of Shareholders and according to related laws and regulations and market situation when the trigger event of this conversion occurs, including but not limited to offering corresponding common shares, modifying relevant terms in the Articles of Association and handle approval matters of authorities and industrial and commercial registration of changes.

**(IX) Articles of conditional redemption**

**1. Subject exercising the right of redemption**

The redemption right of the preferred stocks issued this time is owned by the Company. The Company exercises conditional redemption right to obtain the approval of CBIRC as a precondition. The preferred shareholders have no right to request the company to redeem the preferred stocks, nor holding the expectation.

**2. Redemption conditions and period**

Five years after the date of this Offering of preferred stocks, the Company is entitled to carry out the right of redemption to get back all or part of the preferred stocks after being approved by CBIRC. The redemption date shall be after that on which the preferred stocks dividend of the previous interest year is issued at the time of the company's declaration of redemption. The redemption period of the preferred stocks is from the day of Offering to the date when the preferred stocks are all redeemed or converted 5 years later.

The Company has to meet the following requirements when exercising the right of redemption:

(1) Replace the redeemed preferred stocks with equal or superior capital instruments only when the earning power is sustainable;

(2) Or the capital level after redemption is higher than the requirements on capital supervision stipulated by CBIRC.

If the preferred stocks of this Offering do not satisfy the standards of other Tier 1 capital instruments any more due to the changes of supervision policy, the Company is entitled to redeem all or part of the preferred stocks after being approved by CBIRC.

**3. Price and pricing principle of redemption**

Redemption price of this Offering is par value of preferred stocks plus accrued dividend of the interest year of announcement day when the Company declares the redemption. Calculation formula of accrued dividend is: IA=B×i×t/365

IA: Refers to accrued dividend of the interest year of announcement day when the Company declares the redemption

B: Total par value of the preferred stocks to be redeemed held by the shareholders of them;

i: Dividend rate of the current year;

t: Number of interests days, i.e. the actual calendar days from the first day of the interest year of the announcement of the company's redemption to the date of redemption (calculating the first but not the last).

**4. Authorization of conditional redemption**

The Company invites the General Meeting of Shareholders to authorize the Board of Directors, which transfers the authorization to the Chairman and the President to carry out all relevant matters concerning the redemption under the framework and principles reviewed and approved by the General Meeting of Shareholders and CBIRC, and according to related laws and regulations and market situation

**(X) Pay-back order and method of liquidation**

The shareholders of this Offering will be paid back after the depositor, general creditor and junior debit holder (including but not limited to junior debit, hybrid capital bond, Tier 2 capital instruments, etc.) but prior to common shareholders; the shareholders of this Offering are in the same order, together with the shareholders of the previous and future Offering. The arrangement of pay-back order of the shareholders of this Offering and the Company's possible holders of other Tier 1 capital instrument in the future shall abide by related supervision regulations.

The Company's pay-back order of liquidation:

1. Pay the expense of liquidation;

2. Pay employees' salaries, social insurance expenditure and statutory compensation;

3. Pay taxes owned;

4. Pay off the Company’s debts.

After paying off the left assets based on preceding clause, the Company will distribute according to the shares category and ratio held by the shareholders.

The Company's shareholders of the preferred stocks shall have priority over common ones in the distribution of the remaining property, and pay off the total amount of the dividend that has neither been canceled nor paid out in the current year and the par value of preferred stocks. The part that cannot be paid off shall be distributed according to the shareholding ratio of shareholders.

**(XI) Restriction of voting right**

The shareholders do not participate in the General Meeting of Shareholders and have no voting right with the shares the hold except for the following matters:

1. Modify the contents related with the preferred stocks in the Articles of Association;

2. The Company reduces its registration capital once or accumulatively of more than 10%;

3. The Company's combination, separation, dissolution or form changing;

4. Issue preferred stocks;

5. Other situations stipulated in laws, administrative and department regulations, and Articles of Association.

Where the Company holds a General Meeting of Shareholders to handle the above matters, it shall notify the preferred shareholders in accordance with the procedures of notifying common ones stipulated in the Company Law of the People's Republic of China and the Articles of Association. The preferred shareholders are entitled to attend the meeting and vote with common ones on the above matters, and they have one right of vote with each of their preferred stocks, but the preferred stocks held by the Company have no voting right.

In addition to being passed by over 2/3 of the voting rights of common shareholders (include those with restored voting rights) attending the meeting, the above matters shall be approved by over 2/3 of the voting rights of those of preferred stocks (exclude those with restored voting rights) showing up.

**(XII) Restoration of voting right**

**1. Restoration articles of voting right**

After the Offering of preferred stocks and during their duration, if the Company fails to pay the dividend of preferred stocks in three accumulative or two consecutive fiscal years as agreed since the next day after the General Meeting of Shareholders' approval on the proposal of distributing profits without following the agreement, the preferred shareholders shall have the right to participate in the meeting to vote together with common ones. Each of the preferred stocks have the voting right specified in Articles of Association, and the common shares voting rights they hold are calculated with the following formula:

N=V/Pn,

in which: V is the total amount of par value of preferred stocks held by corresponding shareholders; simulated share conversion price Pn is ex-right effective stimulated conversion price of the average price for the exchange of common shares (A share) twenty days before the date of the announcement of the resolution passed by the Board of Directors of this Offering. Restored voting rights remove the integral multiple of one share with Rounding Down methods.

**2. Adjustment method of compulsory share conversion price when the voting rights are restored**

Since the date that this preferred stock issuing scheme is passed by the Board of Directors, when the company share is changed due to the distribution of stock dividend, transfer or addition of share capital, equity offering (excluding the share capital increased due to the share conversion caused by the financing tools with common share conversion provisions issued by the company) or share allotment, the share conversion price at the time of voting right restoration shall be adjusted based on the following formula:

Bonus share or transferred or added share capital: Pn=P0/(1+n);

Equity offering or placing: P1=P0\*(N+Q\*(A/M))/(N+Q);

Wherein: P0 is non-adjusted effective simulated share conversion price, n is the rate of paying stock or the rate of conversion into share capital, Q is the quantity of equity offering or placing, N is the total number of common shares of the company before equity offering or placing, A is the price of equity offering or placing, M is the closing price of common shares (A share) one day before the newly added shares from equity offering or placing are issued, Pn is the adjusted effective simulated share conversion price.

When the above-mentioned changes in the company's shares and shareholders' rights and interests occur, the simulated share conversion price of preferred shares when the voting rights restore will be adjusted successively, and the corresponding information will be disclosed in accordance with the regulations.

The share conversion price of the preferred stocks when the voting rights restore will not be adjusted for the Company’s distributing cash dividends of common shares.

When the company may undergo share repurchase, company merger, division or any other circumstances that may change the category and quantity of company's share and shareholders' equity, which may affect the interests of the shareholders of this Offering, the company will adjust the simulated share conversion price when the voting rights restore under specific situations with fair, just and sound principles of protecting the rights and interests of the shareholders of this Offering. The content and operation method of adjusting simulated share conversion price when the voting rights restore will be formulated in accordance with relevant national laws and regulations.

**3. Release of restoration articles**

If, after the restoration of voting rights, the Company has paid the dividend of preferred stocks in the current year in full, the voting rights obtained by the corresponding shareholders under the terms of the restoration of voting rights shall terminate as of the date of full payment, unless otherwise specified by law. If the restoration terms are triggered again later, the voting rights of preferred shareholders can be restored.

**(XIII) Rating arrangement**

The specific rating arrangement of this Offering will be determined according to relevant laws and regulations and the situation of target market.

**(XIV) Guarantee situation**

This Offering of Preferred Stocks has no guarantee situation.

**(XV) Transfer arrangement**

This Offering of Preferred Stocks has no restricted stock trade period.

The Preferred Stocks can be transferred on transaction platform specified by Shanghai Stock Exchange after the Offering.

**(XVI) Use of raised fund**

Capital raised through this Offering after deducting offering expense is used to supplement Tier 1 capital of the Company after being approved by authorities.

**(XVII) Valid term of this offering**

Resolution on this Offering is effective within 24 months following the date when it is reviewed and approved by general meeting.

**(XVIII) Authorization matters about this private stock offering**

To ensure the smooth progress of this Offering of preferred stocks, the Company asked the General Meeting of Shareholders to authorize the Board of Directors, which transferred the authorization to Mr. Gao Jianping, the Chairman, Mr. Tao Yiping, the Director and President, Mr. Chen Xinjian, the Director and Secretary of Board, and Ms. Huang Wanru, the general manager of Board Office to handle matters concerned this Offering of preferred stocks within the scope of authorization. Details of authorization:

1. Determine specific terms and scheme of this Offering before it occurs, formulate and carry out a final plan within the scope allowable to laws and regulations, CSRC's stipulations and the Articles of Association, according to the requirements of authorities and combining with the practical situation of the Company, including but not limited to confirming the quantity and scale, method and target of this Offering, specific clauses of dividend distribution, rating arrangement, special fund account and others concerned the plan, as well as determining the time of Offering, issuing once or in batched (including but not limited to specific offering times, quantity and scale, etc.);

2. Amend, adjust and supplement the Offering proposal of preferred stocks if China has new regulations, related authorities issue new requirements on policy or the market changes, except for those required to be voted again by the General Meeting of Shareholders specified by laws, regulations and Articles of Association;

3. Make, modify, sign and submit the proposal and listed application materials of this Offering based on the authorities' requirements, conduct related procedures and handle the information disclosure matters involved in this Offering according to supervision requirements;

4. Sign, alter, add, submit, execute, terminate and issue all agreements, contracts and documents related with this Offering (including but not limited to sponsor and underwrite agreement, agreement and system related with raising fund, subscription agreement, announcement and other disclosure documents signed with investors);

5. Employ such intermediary organs as sponsor institution (main underwriter) to handle those related matters;

6. Make appropriate and necessary amendment on terms related with this Offering according to authorities' opinions and results of this Offering after it is completed, apply to relevant government departments and regulators for approval or record, execute industrial and commercial registration of changes at industry and commerce administration authorities and other governmental sectors and add share registration, listing, custody and other matters;

7. Within the allowable range of laws and regulations, the terms of this Offering shall be amended, adjusted and supplemented in accordance with the opinions of relevant authorities and the actual situation of the Company, and the relevant provisions of the Articles of Association shall be adjusted accordingly;

8. Execute the supplement measures of diluted spot returns of this Offering according to requirements of relevant laws, regulations and authorities;

9. Handle matters concerned this Offering.

The above authorization is effective within 24 months following the date when it is reviewed and approved by general meeting.

**III. Main Risks of this Offering of Preferred Stocks**

When evaluating this Offering of preferred stocks, investors shall carefully consider the following risk factors except for other materials offered in the proposal:

**(I) Risks with which issuer and common shareholders confronted**

**1. Risk of reducing dividends**

Under the premise of ensuring that the capital adequacy ratio meets the regulatory requirements, the company may distribute dividends to the preferred shareholders if the company has undistributed profits under the financial statements of the parent company after making up for the losses according to law, withdrawing the statutory reserve fund and general preparations. The order of dividend distributions to preferred shareholders shall be prior to that of common ones. If the company cancels all or part of the dividend of preferred stocks of a certain fiscal year, it shall not pay the dividend of common share for the current fiscal year. After the dividends of preferred stocks have been paid, common shareholders may be at risk of reducing or no distributive profit.

Assume that the total scale of this Offering is RMB 30 billion, and the full dividend for one interest year has been completed in 2017. Without considering the efficiency of the use of raised funds, if the annual dividend yield is 5% (just indicative calculation, which does not represent the company's expected dividend yield of the preferred stocks), the profit that the Company can distribute to common shareholders in 2017 will be reduced by RMB 1.5 billion, accounting for approximately 99% of the net profit of RMB 55.718 billion belonging to common shareholders of parent company in 2017.

**2. Risk of diluting rights and interests**

According to regulations of supervision institutions, the preferred stocks of this Offering have set clauses for restoration of voting right and compulsory conversion. When restoration of voting right of preferred stocks' shareholders or compulsory conversion occur, the rights and interests of original common shareholders of the Company may be diluted.

(1) Restoration of voting rights of preferred shareholders

After the Offering of preferred stocks and during their duration, if the Company fails to pay the dividend of preferred stocks in three accumulative or two consecutive fiscal years as agreed since the next day after the General Meeting of Shareholders' approval on the proposal of distributing profits without following the agreement, the preferred shareholders shall have the right to participate in the meeting to vote together with common ones. Each of the preferred stocks have the voting right specified in Articles of Association, and the common shares voting rights they hold are calculated with the method agreed in the Offering proposal.

If the total scale of this Offering is RMB 30 billion, calculated with the average price for the exchange of common shares (A share) twenty days before the date of the announcement of the resolution passed by the Board of Directors of this Offering, which is RMB 16.50/share, the shares for which the Company enjoy the voting rights will increase 1818 million shares after the voting rights of preferred shareholders are restored.

(2) Compulsory share conversion

1) When the Company’s Tier 1 core capital ratio is reduced to 5.125%, the preferred stocks of the company shall be reported to CBIRC for review and determination according to its requirements, and will be fully converted to the common share (A share) of the company based on the compulsory share conversion price. If preferred stocks are converted into common share (A share), it will not be restored to preferred stocks under any circumstance;

2) When the trigger event for Tier 2 capital instruments issued by the Company occurs, the preferred stocks of the company shall be reported to CBIRC for review and determination according to its requirements, and will be fully converted to the common share (A share) of the company based on the compulsory share conversion price. If preferred stocks are converted into common share (A share), it will not be restored to preferred stocks under any circumstance. Among them, trigger event for Tier 2 capital instruments refers to the early one of the following two situations: ① CBIRC firmly believe that the Company cannot survive without share conversion or deduction; ② related departments consider that the Company cannot survive without capital injection in public sectors or offering equal effective support.

The quantity of compulsory share conversion will be calculated through the method agreed in the proposal. If compulsory conversion is triggered, the total amount of the Company's common shares will increase accordingly, which may have dilution impact on ROE of common shareholders and the income form each share of common ones.

If the total scale of this Offering is RMB 30 billion, calculated with the average price for the exchange of common shares (A share) twenty days before the date of the announcement of the resolution passed by the Board of Directors of this Offering, which is RMB 16.50/share. The total common shares of the Company will approximately increase 1818 million shares when the conditions of triggering compulsory conversion are satisfied.

**3. The common shareholders are in the last position of pay-back order of liquidation**

The Company's shareholders of the preferred stocks shall have priority over common ones in the distribution of the remaining property, and pay off the total amount of the dividend that has neither been canceled nor paid out in the current year and the par value of preferred stocks. The part that cannot be paid off shall be distributed according to the shareholding ratio of shareholders.

The pay-back order of liquidation of the preferred stocks offered this time is prior to that of the Company's common shares. During the liquidation, the common shareholders can only participate in the distribution of residual property after the Company pays off: (1) Liquidation expenses; (2) Employees' salaries, social insurance expenditure and statutory compensation; (3) Taxes owned; (4) the Company's debts; (5) the dividend that has neither been canceled nor paid out in the current year and the par value of preferred stocks offered.

**4. Accounting and tax risks**

According to the Accounting Standards for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments, Accounting Standards for Business Enterprises No. 37 - Presentation of Financial Instruments and Regulations on the Division of Financial Liabilities and Equity Instruments and Relevant Accounting Treatment, etc., this Offering of preferred stocks as equity instruments and the financial calculations involved in this plan are all based on financial accounting. Any changes of policies causing the failure of calculating the preferred stocks as equity instruments may influence the accounting confirmation of this Offering.

The dividends issued by this Offering of preferred stocks come from the Company's distributable profit, which are not at the top of income list, while may have the risks of changing due to taxation policies adjustment in the future.

**5. Risk of failing to being approved of the proposal on this Offering of preferred stocks**

This Offering of preferred stocks still need to be approved by the General Meeting of Shareholders, during which common shareholders and those of preferred stocks will carry out classified voting. It is possible for this Offering failing to get the approval of the General Meeting of Shareholders.

Furthermore, this Offering of preferred stocks still need to be approved by CBIRC and ratified by CSRC. The chance and final time of getting the approval of authorities are uncertain.

**6. Risk of changing of capital identification policy**

According to CBIRC's current stipulations, this Offering of preferred stocks satisfies the requirements of other Tier 1 capital. During the existence of the preferred stocks in the future, it is not excluded that the preferred stocks issued this time may no longer meet the relevant regulations at that time due to such factors as changes in supervision policies, and thus may not be possible to be included in Tier 1 capital, which may lead to a reduction in the company’s capital and has a negative impact on capital adequacy ratio, business development and risk resistance.

**(II) Risks related with the original preferred shareholders**

The number of preferred stocks will increase accordingly after this Offering. The amount of shares of previous offering is 260 million. If this Offering is approved by relevant supervision institutions and done successfully, the number of the Company's preferred stocks will be up to 560 million, assessing on the upper limit of offering 300 million shares. The original preferred shareholders may be faced with the following risks:

**1. Risk of reducing dividends**

Payable dividend of preferred stocks after this Offering will increase. If the Company's net profit of a certain year of the parent company cannot cover the dividends of previous and this Offering of preferred stocks, the dividend obtained by the original preferred shareholders may be decreased.

**2. Risk of diluting rights and interests of original preferred shareholders and voting rights**

This Offering will increase the amount of the Company's outstanding preferred stocks, and the voting rights of original preferred shareholders will be diluted when involving the matters to be approved by voting of them. Furthermore, when compulsory conversion and restoration of voting rights occur, proportion of common shares held by the original shareholders after conversion and the voting rights ratio after restoration will also be diluted.

**3. Risk of liquidation**

The preferred shareholders of this and original Offering are at the same position of liquidation. If the company is liquidated for dissolution or bankruptcy, which causes the remaining assets allocated to the preferred shareholders are insufficient to pay the original and the current preferred shareholders the dividends that have not been canceled and undistributed in the current year and the total par value of the preferred stocks, the amount of liquidation received by the original preferred shareholders will be reduced.

**(III) Risks related with the investors of this Offering**

**1. Dividends of preferred stocks cannot be accumulated or participate in the distribution of surplus profit**

According to CBIRC's standard requirements on other Tier 1 capital instrument, the preferred stocks of this Offering are subject to non-cumulative dividend payment, i.e. dividends unpaid in full to the preferred shareholders do not accrue to the next interest year. Therefore, preferred shareholders may at the risk of dividend loss.

Moreover, the shareholders of this Offering will no longer participate in the surplus profit distribution together with the common shareholders after obtaining the distribution in accordance with the agreed dividend rate of par value. So the preferred shareholders may not be able to enjoy the extra profit from the Company's business development in the future.

**2. Risks that the real dividend rate may be lower than that of par value**

Under the premise of ensuring that the capital adequacy ratio meets the regulatory requirements, the company may distribute dividends to the preferred shareholders if the company has undistributed profits under the financial statements of the parent company after making up for the losses according to law, withdrawing the statutory reserve fund and general preparations.

According to CBIRC’s qualification requirements on other Tier 1 capital instruments, the Company has the right to cancel the dividend distribution of this preferred stock under any circumstances, without breaching the contract. The company is free to dispose of the canceled earnings to cover other debts due. Canceling dividend will just constitute the restriction on the income distribution of common stock without other limitations to the Company, which means the investors may be at risk of the Company canceling dividend distribution of this Offering.

If the Company's management efficiency deteriorates due to the impact of natural environment, economic situation, national policies and its own management and other relevant factors, which may affect the level of the Company's capital adequacy or after-tax profit, investors may face the risk that the company cannot pay the agreed preferred stocks dividend.

All of the above situations may result in the real dividend rate lower than that of par value.

**3. Risk of restricted preferred shareholders' voting rights**

According to the scheme of this offering of preferred stocks, the shareholders do not participate in the General Meeting of Shareholders and have no voting right with the shares they hold except for the following matters: Modify the contents related with the preferred stocks in the Articles of Association; reduces its registration capital once or accumulatively of more than 10%; the Company's combination, separation, dissolution or form changing; the Offering of preferred stocks; other situations stipulated in laws, administrative and department regulations, and Articles of Association. Therefore, the preferred shareholders may be confronted with risks related with restricted voting rights.

**4. Price fluctuations and transaction risks of preferred stocks market**

The preferred stocks of this Offering can be transferred on transaction platform specified by Shanghai Stock Exchange, whose transfer price may fluctuate due to diversified factors, including national macroeconomic situation, economic and financial policies, market interest rate, Company's operating situation, profitability, development prospects and supply and demand relations, and investors' psychological expectations.

In the meantime, the number of investors of this Offering of preferred stocks after transaction or transfer cannot exceed 200, the transaction may not be active and the liquidity may be insufficient.

**5. Risk of redeeming**

Five years after the date of this Offering, the Company is entitled to carry out the right of redemption to get back all or part of the preferred stocks with CBIRC’s approval. Therefore, the preferred stocks may be at risk of being redeemed by the Company according to its situation of operation and capital adequacy, under the condition of being approved by CBIRC.

If the preferred stocks of this Offering do not satisfy the standards of other Tier 1 capital instruments any more due to the changes of supervision policy, the Company is entitled to redeem all or part of the preferred stocks after being approved by CBIRC.

**6. The risk of compulsory conversion into common shares**

According to CBIRC’s qualification requirements on other Tier 1 capital instruments, when the trigger event of this conversion occurs, the preferred stocks offered this time will be fully converted to the common share (A share) of the Company based on the compulsory share conversion price after being approved and determined by CBIRC, which will not be restored to preferred stocks under any circumstance.

Since the preferred stocks investors cannot expect the time of triggering the compulsory conversion of shares when purchasing this Offering, the actual time of occurrence may not be compatible with the practical investment willingness and capital use plan of them, and the conversion is unrecoverable. Investors will face the risk of reducing expected returns and uncertain holding periods. Meanwhile, when the compulsory conversion happens, the market price of the Company's common shares may largely rise and fall, which will bring risks to the market value and investors' profit of common shares after conversion.

**7. Related rights of the securities issued in the future may be superior to that of this Offering**

The Company may issue new securities according to the changes of supervision policies, its related rights may be superior to that of this Offering, including but not limited to dividend payment order and pay-back order of liquidation during its dissolution, bankruptcy and liquidation, which thus has adverse effect on related rights of this Offering's preferred shareholders.

**8. Risk of changing of supervision policy**

If the preferred stocks of this Offering do not satisfy the standards of other Tier 1 capital instruments any more since the authorities launch new capital supervision requirements or make significant modification on the current ones, the Company may change contents concerned preferred stocks in the Articles of Association according to the supervisory requirements at that time or redeem all or part of the preferred stocks after being approved by CBIRC.

**IV. Utilization of Capital Raised through this Offering**

**(I) Amount and Utilization of Capital Raised though this Offering**

The total preferred shares issued through the planned private Offering will not exceed 300 million shares, amounting to no more than RMB 30 billion. Capital raised will all be used to supplement Tier 1 capital of the Company after excluding relevant issuance cost, so as to increase capital adequacy ratio.

**(II) Rationality of Capital Raised through this Offering**

**1. Effectively satisfying the Company’s requirements on other Tier 1 capital**

The Company stipulated Medium-term Capital Management Plan combining with the supervision requirements of CBRC 's Capital Administration Measures and business development in the future, proposing that with no obvious fluctuation appearing in economic and financial developments, the Company's goals from 2018 to 2020 for capital adequacy ratio are: adequacy ratio of Tier 1 core capital is no lower than 8%; adequacy ratio of Tier 1 capital is no lower than 9%; total capital adequacy ratio is no lower than 11%. Supplement space exists in other Tier 1 capital between Tier 1 capital and Tier 1 core capital, whose amount is 1% of weighted risk assets.

The Company plans to issue preferred stocks to supplement other Tier 1 capital while enhance the accumulation of its own capital, so as to consolidate capital basis, improve business development and deepening transformation to better serve the entity economy.

Please refer to “V. Board of Directors’ Discussion and Analysis on Impacts of this Offering on the Company” of this proposal for the analysis of impact of this Offering on the Company’s industry supervision indexes.

**2. No significant impact on the distribution of common shares cash dividend and original preferred shareholders’ dividends**

The Company always pay high attention to return on shareholders and establish sustainable, stable and scientific return mechanism for common shareholders through Articles of Association and Medium-term Shareholder Return Plan to maintain the consistency and stability of profit distribution policies. Proportions of cash bonus of the Company for common shareholders in 2015, 2016 and 2017 are 23.15%, 23.53% and 23.61% respectively, with the dividend paid to original preferred shareholders of RMB 1.147 billion, RMB 1.482 billion and RMB 1.482 billion.

Net profit of the Company for 2017 which was attributable to shareholders of parent company amounted to RMB 57.2 billion, and that belongs to common shareholders is RMB 55.718. After this Offering, the annual increase in the dividend yield of preferred stocks accounts for a low proportion of the company's profit. The preferred stocks of this Offering will not constitute a large impact on the distribution of common shareholders' cash dividends and original preferred shareholders' dividends.

**V. Board of Directors’ Discussion and Analysis on Impacts of this Offering on the Company**

**(I) Accounting treatment methods related with this Offering of preferred stocks**

According the Ministry of Finance's Regulations on the Division of Financial Liabilities and Equity Instruments and Relevant Accounting Treatment and the proposal of this Offering, this Offering of preferred stocks are calculated as equity instruments and its dividends will be handled as after-tax profit distribution, which will be paid after income tax.

**(II) Tax treatment of the dividends of this Offering of preferred stocks**

The dividends issued by this Offering of preferred stocks come from the Company's distributable profit, which are not at the top of income list, which will not influence the Company’s tax.

**(III) The impact of this Offering on the Company’s financial data and indexes**

According to the scheme of this offering of preferred stocks, the total scale of this Offering will not exceed RMB 30 billion, and the dividend rate will be finally determined at the time of issuing. Up to the date of this proposal’s disclosure, the final scale and dividend rate of this Offering has not been confirmed, assuming that the scale of this Offering is RMB 30 billion, and when the dividend rate is 5% (just indicative calculation, which does not represent the company's expected dividend yield of the preferred stocks) without considering the expenditure and utilization effectiveness of preferred stocks raised fund, the impacts of this Offering on principal financial data and indexes are as follows:

List as RMB one million unless otherwise specified

|  |  |
| --- | --- |
| **Primary Financial Data & Financial Index** | **Calculation ex-date: December 31, 2017** |
| **Before issuance** | **After issuance** |
| Capital of common stock | 20,774 | 20,774 |
| Total shareholders’ equity | 422,752 | 451,252 |
| Ratio of net profit ratio attributable to the common shareholders of the parent company | 55,718 | 54,218 |
| Basic earnings per share attributable to common shareholders of parent company (RMB) | 2.74 | 2.67 |
| ROEWA attributable to common shareholders of parent company (%) | 15.35 | 14.97 |

Note: Assuming the full amount distribution of dividends of preferred stocks has been already completed in 2017 for a fiscal year, and the dividend of preferred stocks will be distributed together with 2016 common shares cash dividends

**1. Influence on the Company’s common shares**

Considering the included subjects of preferred stocks differ from that of common ones, the preferred stocks of this Offering will not influence common ones. However, if compulsory conversion happens in the future, the preferred stocks of this Offering will be totally converted into common ones, and thus increasing the number of common shares of the Company.

**2. Impact on basic earnings per share and ROEWA which are attributable to common shareholders of parent company**

Since the holders of preferred stocks will get profit distribution prior to common shareholders according to agreed dividend rate, on the premise that utilization effectiveness of raised capital is not taken into account, basic and diluted earnings per share of the Company in the short run will have a certain level of decline. The Company’s capital adequacy level will be further improved after this Offering, which may contribute to maintaining a rapid and steady development of various businesses and promoting its profitability and core competitiveness.

**(IV) Impact of this Offering on the Company's capital supervision index**

Capital raised through this Offering will be applied to supplement Tier 1 capital of the Company after receiving, improving adequacy ratio of Tier 1 capital and its level, and strengthening the Company’s risk resistance. Assuming that the scale of this Offering is RMB 30 billion and without considering the expenditure and utilization effectiveness of preferred stocks raised fund, the impacts of this Offering on principal financial data and indexes are as follows:

List as RMB one million unless otherwise specified

|  |  |
| --- | --- |
| **Capital supervision index** | **Calculation ex-date: December 31, 2017** |
| **Before issuance** | **After issuance** |
| Tier 1 core capital | 392,199 | 392,199 |
| Other Tier 1 capital | 25,935 | 55,935 |
| Tier 2 capital | 109,057 | 109,057 |
| Net capital | 526,117 | 556,117 |
| Total weighted risk assets | 4,317,263 | 4,317,263 |
| Adequacy ratio of Tier 1 core capital (%) | 9.07 | 9.07 |
| Adequacy ratio of Tier 1 capital (%) | 9.67 | 10.36 |
| Adequacy ratio of capital (%) | 12.19 | 12.88 |

Note: Calculated according to the methods specified in Capital Administration Measures and assume that weighted risk assets remain the same before and after this Offering

**(V) Analysis of the Company’s cash dividend situation and payment capability of preferred stocks dividends in recent three years**

The Company establishes sustainable, stable and scientific return mechanism for common shareholders through Articles of Association and Medium-term Shareholder Return Plan. The formulation and execution of cash dividends policy is transparent and in compliance with the regulations of Articles of Association and the requirements of the General Meeting of Shareholders. The dividend standard and ratio are specific and clear with the approval of independent directors. In addition, minority shareholders can participate in the General Meeting of Shareholders and execute their voting rights. The Company offers Internet voting for their convenience. Formulation and execution of the Company’s profit distribution policies comprehensively protect all shareholders’ legal rights and interests, and they are entitled to enjoy those undistributed profit.

The Company's cash dividends situation of common shares in recent three years is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Item** | **2017** | **2016** | **2015** |
| Number of dividends each 10 shares (Yuan) (tax included) | 6.50 | 6.10 | 6.10 |
| Amount of cash dividends (1 million) (tax included) | 13,503 | 12,672 | 11,622 |
| Net profit of annual dividend belonging to shareholders of parent company (1 million Yuan) | 57,200 | 53,850 | 50,207 |
| Ratio of net profit ratio attributable to shareholders of the parent company | 23.61% | 23.53% | 23.15% |
| The ratio of cash dividends to annual profit distribution | 100.00% | 100.00% | 100.00% |
| Proportion of recent-thee-year accumulated cash dividend to the net profit attributable to shareholders of the parent company | 70.32% |

Note: 2017 profit distribution plan was reviewed and approved in the 8th Meeting of the 9th Board of Directors, still requiring the review and approval of 2017 Annual General Meeting of Shareholders.

The Company's profit distribution situation of preferred shares in recent three years is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Item** | **2017** | **2016** | **2015** |
| Distribution amount (1 million Yuan) | 1,482 | 1,482 | 1,147 |
| Distribution proportion | 100.00% | 100.00% | 100.00% |

Note: Distribution proportion=dividend amount paid/agreed current year dividend amount\*100%; 2017 profit distribution plan was reviewed and approved in the 8th Meeting of the 9th Board of Directors, still requiring the review and approval of 2017 Annual General Meeting of Shareholders.

The Company has been making continuous profits in the last three years. The net profits belonging to the shareholders of the parent company achieved in 2015, 2016 and 2017 were RMB 50.207 billion, 53.85 billion and 57.2 billion respectively, and the average annual net profit was RMB 53.752 billion. By the end of 2017, the undistributed profit balance under the financial statement of the parent company was RMB 204.005 billion. The proportion of annual dividend of this Offering of preferred stocks is small in the Company's profit level and the accumulated undistributed profit balance, and the company has a good ability to pay dividends of preferred stocks.

With its continuously stable development of businesses, the Company will keep steady financial situation and strong profitability, so as to provide sufficient cash for paying the dividends of this Offering of preferred stocks.

**(VI) Board of Directors’ statement and commitment related with this Offering**

**1. Board of Directors’ statement on the possibility of having other equity financing programs within the next 12 months**

As of the day of announcing the proposal, it is possible for the Company adopting multiple ways to supplement its capital except for the proposal on offering domestic preferred stocks, including equity financing, according to its capital adequacy ratio and regulatory requirements.

**2. Commitment and analysis of Board of Directors on the impact of this Offering on common shareholders’ spot returns**

(1) Analysis for Diluted Spot Returns of this Offering of Preferred Stocks

After this Offering and without considering the utilization effectiveness of raised capital, since the holders of preferred stocks will get profit distribution prior to common shareholders according to agreed dividend rate, on the premise that utilization effectiveness of raised capital is not taken into account, basic and diluted earnings per share of the Company in the short run may have a certain level of decline. Spot returns of common shareholders after raising fund have the risk of being diluted.

The private offering of domestic preferred stocks will be used to supplement the capital to further enhance the Company’s capital strength. In the long term, maintaining current capital operation efficiency will help support the sustainable and healthy development of the Company’s business and play a positive role in sustainable development and profitability increasing.

(2) Measures on Compensation Returns

To compensate the possible diluted spot returns of common shareholders caused by this Offering, the Company will adopt effective measures to improve management and use efficiency of raised capital, further enhance its profitability, reduce the impact of this Offering on common shareholders’ return as much as possible, and protect the legitimate interest of shareholders especially the minority ones. Measures on compensation returns planned by the Company:

①Stress capital planning management and keep sufficient and stable capital The Company will carefully implement and put in place national macro-control policies and regulatory requirements, make dynamic adjustment to the capital planning without delay based on domestic and overseas economic and financial conditions and business development and internal management of the Company, supplement Tier 1 capital and Tier 2 capital in due time by means of endogenous and exogenous methods, improve the capital strength of the Company and ensure the capital level is able to match with future business development and risk condition. The established organization and system structure of new capital accord involves capital adequacy ratio management, internal rating process and authority management, exposure category, release affirmation, model measurements, system verification, rating application, pressure test, data governance, etc. The Company will sustain carrying out internal training and institutional research, further improve the application of new capital accord and cultivate the operation concept of capital constraint risks.

②Improve the capital utilization efficiency, and reasonably deploy resources The Company will actively conduct the intensive capital management, constantly perfect and optimize the risk-weighted asset limit allocation and control management mechanism, rely on return on risk-weighted asset, give overall consideration to risk-weighted asset scales of all outlets and business lines, impel the optimal capital configuration and further improve the endogenous capability of capital; reliably and actively promote the implementation of capital measurement tools, containing Risk-Adjusted Return on Capital (RAROC), model construction for capital measurement, devaluation and pressure test of credit asset risk, asset quality management, risk preference setting, comprehensive evaluation and provision & withdrawal, internal ratings based approach to risk capital allocation management, screening & warning model for credit capital risk, etc.

③Accelerate transformation innovation to promote the continuous development of the Company’s business The Company will quicken transformation innovation, strengthen economic capability of entity service, improve its service increasing capabilities, profitability and brand influence. The specific measures it will take include: Taking the chance of economic transformation and upgrading and the supply-side organizational reform to optimize allocation of financial resources; Putting its focus on provinces and cities involved in "the Belt and Road", the joint development of Beijing, Tianjin and Hebei, and the development of the Yangtze River Economic Belt, and emerging industries, and taking prospective enterprises and projects with powerful motive force as the critical customers and financial services satisfying demands of corporation transformation and upgrading as key products, increasing resources support, serving economic transformation and upgrading and promoting development of real economy. According to the 2018 annual operation objectives disclosed in 2017 Annual Report, the Company is trying to achieve RMB 6,767 billion total asset, increase RMB 400 billion customers' deposit and RMB 350 billion loan balance, with 3% year-on-year growth of shareholders' net profit of parent company by the end of 2018; give full play to its comprehensive operation, innovate financing mode, and strongly implement direct financing businesses, such as perpetual bond, investment-loan linkage, industry fund and asset securitization; develop such unique services as green finance, pension finance, inter-bank platform and asset custody and new profitable offerings to drive the Company transform along the way of "light capital and high efficiency".

④Continuously improve sustainable, stable and scientific shareholders’ return mechanism The company will maintain the continuity and stability of profit distribution policy, balance the relationship between business sustainable development and comprehensive return of common shareholders, and maintain a consistent, rational and stable cash dividend policy.

(3) Commitment matters on compensation returns

Promises of Directors and Senior Management of the Company on taking remedial measures for diluted spot returns of the private offering of preferred stock of the Company:

①Promise not to freely or unfairly export interests to other units or individual, or adopt other measures to impair the interests of the Company.

②Promise to restrict the job-related consumption of directors and senior management.

③Promise not to use assets of the Company to carry out investment or consumption activities irrelevant to duty performance thereof.

④Promise that the remuneration system stipulated by Board of Directors or Remuneration Assessment Committee matches with the implementation of return supplement measures of the Company.

⑤Promise that right conditions for equity incentive of the Company proposed to be released match with the implementation of return supplement measures of the Company if the Company implements the equity incentive.

**VI. Modification of Articles of Association involved in this Offering of preferred stocks**

When issuing preferred stocks in 2014, the Company has already added related contents of preferred stocks in Articles of Association according to the requirements of Instructions of General Office of the State Council on Develop Preferred Stock Pilot, Administration Measures of Preferred Stock Pilot and Instructions on Supplementing Tier 1 Capital with Preferred Stock Offered by Commercial Banks, including terms on preferred shareholders' rights, duties and management of preferred stocks, which has already been approved by 2013 annual general meeting of shareholders and CBRC.

After this Offering, the Company will modify the contents related with this Offering in Articles of Association according to authorities' final approval and actual situation, including the time and document number of approval, quantity, listed time, the total shares of preferred stocks, etc.

The Company has already asked General Meeting of Shareholders to authorize Board of Directors and persons empowered by it to make appropriate and necessary amendment on terms related with this Offering according to authorities' opinions and results of this Offering after it is completed, apply to relevant government departments and regulators for approval or record.

**VII. Basic Information of Issuing Target and Abstract of Share Subscription Agreement with Conditions**

The Company plans to offer private domestic preferred stocks of no more than 300 million shares to at most 200 qualified investors satisfying Administration Measures of Preferred Stock Pilot and other laws and regulations, including China Tobacco Jiangsu, China Tobacco Henan, China Tobacco Hunan, Zhuzhou Tobacco, Hengyang Tobacco, Shaoyang Tobacco, Yongzhou Tobacco, Chenzhou Tobacco, Hunan Tobacco Leaf, China Tobacco Sichuan, Chengdu Tobacco, China Tobacco Guangxi, China Tobacco Gansu, Lanzhou Tobacco and Zhongwei Capital.

The preferred stocks are subscribed by subscribed parties as RMB 100 per stock. China Tobacco Jiangsu, China Tobacco Henan, China Tobacco Hunan, Zhuzhou Tobacco, Hengyang Tobacco, Shaoyang Tobacco, Yongzhou Tobacco, Chenzhou Tobacco, Hunan Tobacco Leaf, China Tobacco Sichuan, Chengdu Tobacco, China Tobacco Guangxi, China Tobacco Gansu, Lanzhou Tobacco and Zhongwei Capital do not participate in the quotation of the dividend rate of this preferred stocks offering and they accept the fact that the Company and sponsor institution (main underwriter) determine the final rate based on the procedure and requirements of CSRC and other authorities.

**(I) Basic Information of Planned Subscribed Parties**

**1. China Tobacco Jiangsu**

Name: China National Tobacco (Jiangsu) Corporation

Address: No. 168, Changjiang Road, Nanjing, Jiangsu

Legal representative: Dong Xiuming

Registered capital: RMB 30.706 million

**2. China Tobacco Henan**

Name: China National Tobacco (Henan) Corporation

Address: No. 15, Commercial Outer Ring, Zhengzhou, Henan

Legal representative: Wu Weidong

Registered capital: RMB 14.722 million

**3. China Tobacco Hunan**

Name: China National Tobacco (Hunan) Corporation

Address: No. 628, Section I, Furong South Road, Tianxin District, Changsha, Hunan

Legal representative: Fan Jianfeng

Registered capital: RMB 111.97 million

**4. Zhuzhou Tobacco**

Name: Hunan Provincial Tobacco (Zhuzhou) Corporation

Address: No. 1377, Taizi Road, Lusong District, Zhuzhou, Hunan

Legal representative: Chen Xintian

Registered capital: RMB 71.33 million

**5. Hengyang Tobacco**

Name: Hunan Provincial Tobacco (Hengyang) Corporation

Address: No.8, Yanan Road, High-tech Industrial Development Zone, Hengyang, Hunan

Legal representative: Qin Jiangshun

Registered capital: RMB 15.7 million

**6. Shaoyang Tobacco**

Name: Hunan Provincial Tobacco (Shaoyang) Corporation

Address: (No.B-01, Baoqing Science and Technology Industrial Park) Caishen Crossing, Shaoyang Avenue, Shuangqing District, Shaoyang, Hunan

Legal representative: Wang Kun

Registered capital: RMB 19.415 million

**7. Yongzhou Tobacco**

Name: Hunan Provincial Tobacco (Yongzhou) Corporation

Address: No. 69, Pearl North Road, Lengshuitan District, Yongzhou, Hunan

Legal representative: Xing Qing

Registered capital: RMB 95.4 million

**8. Chenzhou Tobacco**

Name: Hunan Provincial Tobacco (Chenzhou) Corporation

Address: No. 61, Yanquan North Road, North Lake District, Chenzhou, Hunan

Legal representative: Gao Zhiqiang

Registered capital: RMB 126.16 million

**9. China Tobacco Hunan**

Name: Hunan Tobacco Redrying Co., Ltd.

Address: 4F-5F, Building 2, No.316 Nanling Avenue, Beihu District, Chenzhou, Hunan

Legal representative: Caojian

Registered capital: RMB 2,288.1321 million

**10. China Tobacco Sichuan**

Name: China National Tobacco (Sichuan) Corporation

Address: Unit 1, Building 1, No.936 Century City Road, High-tech District, Chengdu, Sichuan

Legal representative: Li Enhua

Registered capital: RMB 62.4 million

**11. Chengdu Tobacco**

Name: Sichuan Provincial Tobacco (Chengdu) Corporation

Address: No.1 Locust Tree Street, Qingyang District, Chengdu, Sichuan

Legal representative: Yan Zheng

Registered capital: RMB 43.5036 million

**12. China Tobacco Guangxi**

Name: China National Tobacco (Guangxi) Corporation

Address: No.25 Camellia Garden Road, Qingxiu District, Nanning, Guangxi Zhuang Autonomous Region

Legal representative: Wang Quan

Registered capital: RMB 20.802 million

**13. China Tobacco Gansu**

Name: China National Tobacco (Gansu) Corporation

Address: No.715 Donggang West Road, Lanzhou, Gansu

Legal representative: Shi Zengjian

Registered capital: RMB 102.9 million

**14. Lanzhou Tobacco**

Name: Gansu Provincial Tobacco (Lanzhou) Corporation

Address: No.715 Donggang West Road, Chengguan District, Lanzhou, Gansu

Legal representative: Xiang Yang

Registered capital: RMB 58.2 million

**15. Zhongwei Capital**

Name: Zhongwei Capital Holdings Limited

Address: No.1 Zhizhai North Street, Pinggu District, Beijing

Legal representative: Hao Heguo

Registered capital: RMB 14,000 million

**(II) Basic Information of Related Parties**

Before this Offering, China Tobacco held 9.68% of A shares of the Company in total together with China National Tobacco (Fujian) Corporation, China National Tobacco (Guangdong) Corporation, Hunan China Tobacco Investment Management Co., Ltd. and Hashare Investment Management Co., Ltd. China Tobacco and its affiliates were the related legal entities of the Company.

As per Administrative Measures on Related Transactions between Commercial Banks and Internal Personnel and Shareholders, Guideline for Implementation of Related Transactions of Listed Companies of Shanghai Stock Exchange, Articles of Association and Administrative Measures on Related Transactions of Industrial Bank Co., Ltd., the subscriptions of preferred stocks among China Tobacco Jiangsu, China Tobacco Henan, China Tobacco Hunan, Zhuzhou Tobacco, Hengyang Tobacco, Shaoyang Tobacco, Yongzhou Tobacco, Chenzhou Tobacco, Hunan Tobacco Leaf, China Tobacco Sichuan, Chengdu Tobacco, China Tobacco Guangxi, China Tobacco Gansu, Lanzhou Tobacco and Zhongwei Capital constitute related transactions and corresponding approval procedures are performed by such parties. This related transaction will not cause new adding of related parties.

**(III) Share Subscription Agreement with Condition Precedent Signed with Planned Subscribed Parties**

**1. Subject and date of execution of the Agreement**

On April 23, 2018, “Industrial Bank Co., Ltd.” (Party A) signed Stock Subscription Agreement respectively with “China Tobacco Jiangsu, China Tobacco Henan, China Tobacco Hunan, Zhuzhou Tobacco, Hengyang Tobacco, Shaoyang Tobacco, Yongzhou Tobacco, Chenzhou Tobacco, Hunan Tobacco Leaf, China Tobacco Sichuan, Chengdu Tobacco, China Tobacco Guangxi, China Tobacco Gansu, Lanzhou Tobacco and Zhongwei Capital” (Party B).

**2. Mode, Price and Payment Method of Subscription**

China Tobacco Jiangsu agrees to subscribe 15,000,000 shares of Party A’s domestic preferred stocks; China Tobacco Henan agrees to subscribe 5,000,000 shares of Party A’s domestic preferred stocks; China Tobacco Hunan agrees to subscribe 1,000,000 shares of Party A’s domestic preferred stocks; Zhuzhou Tobacco agrees to subscribe 1,000,000 shares of Party A’s domestic preferred stocks; Hengyang Tobacco agrees to subscribe 1,000,000 shares of Party A’s domestic preferred stocks; Shaoyang Tobacco agrees to subscribe 2,000,000 shares of Party A’s domestic preferred stocks; Yongzhou Tobacco agrees to subscribe 1,000,000 shares of Party A’s domestic preferred stocks; Chenzhou Tobacco agrees to subscribe 2,000,000 shares of Party A’s domestic preferred stocks; Hunan Tobacco Leaf agrees to subscribe 2,000,000 shares of Party A’s domestic preferred stocks; China Tobacco Sichuan agrees to subscribe 15,000,000 shares of Party A’s domestic preferred stocks; Chengdu Tobacco agrees to subscribe 5,000,000 shares of Party A’s domestic preferred stocks; China Tobacco Guangxi agrees to subscribe 5,000,000 shares of Party A’s domestic preferred stocks; China Tobacco Gansu agrees to subscribe 5,000,000 shares of Party A’s domestic preferred stocks; Lanzhou Tobacco agrees to subscribe 5,000,000 shares of Party A’s domestic preferred stocks; Zhongwei Capital agrees to subscribe 15,000,000 shares of Party A’s domestic preferred stocks. Final subscribed share amount does not exceed total shares of which the issuance is approved by relevant authorities.

The preferred stocks are subscribed by Party B at a par value per share of RMB 100.

Party B agrees to subscribe the preferred stocks offered by Party A as specified in agreement.

Party B does not participate in the quotation of the dividend rate of this preferred stocks offering and they accept the fact that Party A and sponsor institution (main underwriter) determine the final rate based on the procedure and requirements of CSRC and other authorities.

Party B agrees to transfer all the subscription payment to the designated collection account in cash in accordance with the payment notice issued by Party A and the sponsoring institution (main underwriter) after the agreement takes effect.

**3. Effective conditions and date of the agreement**

The agreement shall be reached on the date when the legal or authorized representatives of both parties sign and affix their official seals.

The agreement will take into effect when the following conditions are all satisfied:

(1) The issuer’s Board of Directors and the General Meeting of Shareholders have approved this Offering and the agreement;

(2) Party B has performed necessary internal procedures and obtained necessary approvals and authorization, which authorize it to subscribe the domestic preferred stocks issued by Party A;

(3) Party B has been approved by relevant authorities to subscribe the domestic preferred stocks issued by Party A (if needed);

(4) Approval of CBIRC has been obtained for the Offering and other administrative licenses involved in the Offering;

(5) CSRC has approved the Offering;

(6) No laws, rules, regulations, directives, orders or notices are issued, enacted or implemented by competent authorities based on which transaction proposed in the Agreement is prohibited.

**(IV) Clause for liabilities for breach of contract**

(1) If there is difference between final subscription quantity of Party B and amount announced by the resolution of relevant meeting of Board of Directors of Party A (or any insufficiency) agreed by the Agreement by reason of approval from competent authorities, Party A will not assume the liabilities for shortage of issuance.

(2) If one party of the Agreement violates the Agreement or fails to perform or completely perform its liabilities due to its faults, the responsibilities arising therefrom shall be undertaken by the breaching party. If one party to the Agreement violates representations or guarantees in the Agreement and further cause the other party to suffer from losses, the breaching party shall assume correspondent compensation liability. If both parties to the Agreement are in breach of the Agreement, both parties shall respectively assume the correspondent liabilities arising from breaches thereof.

(3) If the Agreement is unable to be performed due to force majeure, both parties will assume no legal responsibilities to each other. However, the party which suffers from force majeure shall inform the other party without delay and adopt necessary measures to reduce losses as much as possible.

(4) After Party A's offering is approved by the China Securities Regulatory Commission and this Agreement comes into effect, if Party B fails to neither fulfill its corresponding subscription obligations in accordance with this agreement, nor transfer adequate subscription payment to the designated account in accordance with the payment notice issued by Party A and the sponsoring institution (main underwriter) employed by Party A, or other reasons influencing Party A's offering, Party B will be deemed as breach of contract. Party A has the right to unilaterally inform party B to terminate this agreement after that and require it to pay 5% of its total subscription amount as liquidated damages as agreed herein.

Where the aforementioned liquidated damages are insufficient to make up for Party A's losses, Party B shall further compensate Party A for all losses thus incurred. The liquidated damage and loss compensation agreed herein shall be paid in cash.