



中州证券

Central China Securities Co., Ltd.

(a joint stock company incorporated in 2002 in Henan Province, the People's Republic of China with limited liability under the Chinese corporate name “中原证券股份有限公司” and carrying on business in Hong Kong as “中州证券”)
Stock Code: 01375

ANNUAL REPORT 2017



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IMPORTANT

The Board, Supervisory Committee and Directors, Supervisors and senior management of the Company undertake that this annual report is true, accurate, complete and without any false record, misrepresentation or material omission and are severally and jointly liable therefor.

This report has been deliberated and approved at the 49th meeting of the fifth session of the Board and the 20th meeting of the fifth session of the Supervisory Committee where all directors and supervisors were present respectively. No Directors, Supervisors or senior management declared that they could not guarantee nor had any objection to the truthfulness, accuracy and completeness of this report.

The annual financial report for 2017 prepared by the Company in accordance with the International Financial Reporting Standards and China's Accounting Standard for Business Enterprises has been audited by PricewaterhouseCoopers and ShineWing Certified Public Accountants (Special General Partnership) respectively with respective standard unqualified auditing reports produced for the Company. All amounts set out in this report are stated in RMB unless otherwise stated.

The person in charge of the Company and the chief financial officer Mr. Jian Mingjun, Chief Accountant Mr. Li Zhaoxin and Officer-in-charge of the accounting institution (the head of financial division) Mr. Guo Liangyong declare that they undertake the financial reports in this report are true, accurate and complete.

The Company's profit distribution plan approved by the Board for the second half of 2017 shall be a cash dividend of RMB0.35 for every 10 shares (tax inclusive) which is subject to approval of the general meeting of the Company. The Company has distributed the interim dividends of RMB0.73 for every 10 shares (tax inclusive) for 2017 in October 2017.

The forward-looking statements in this report such as future plans and development strategies do not constitute an actual commitment of the Company to investors. Investors and related persons should understand the difference between plans, forecasts and commitments and be aware of the investment risks.

There is no appropriation of fund by the controlling shareholder and its related (connected) parties for non-operating purpose during the Reporting Period.

There is no provision of external guarantee in violation of the stipulated decision making procedure during the Reporting Period.

This report has been prepared by the Company in both Chinese and English languages. When there are any discrepancies in interpretation between the Chinese version and English version of this report, the Chinese version shall prevail.

MATERIAL RISK ALERT

The Company's business is largely dependent on the Chinese economy and market condition as most assets of the Company are located in China and the income is mainly derived from domestic security market. The operating results of the Company and the performance of the security market are strongly correlated. The security market is relatively cyclical and volatile as it may be affected by a number of factors, including macroeconomic performance and policies, the level of market development, fluctuations in financial market and investors' actions.

In the face of intense competition in China's securities industry, the Company's business may be materially and adversely affected if it fails to compete effectively. The challenges from internet finance in recent years have already led to a declining commission rate of the Company's brokerage business. The commission rates of securities brokerage business may continue to go downward, the trading volume in and the activity of the market can hardly remain at a high level continuously, and the spreads of capital-based intermediary business may further narrow down, all of which may adversely affect the Company's profit growth. As the capital market reform continues to develop, the Company's investment banking business will be challenging in terms of customer base expansion, pricing and ability in distribution, which may cause adverse impact on the income of the Company's investment banking business. Besides, along with the intensified competitions in the asset management industry and deleveraging of the financial sector, the asset under management of the Company may be reduced, which may result in a negative impact on the asset management fees or performance rewards charged by the Company. Since the performance of the Company's investment and trading business and that of domestic security market are closely related, it may be difficult for the Company to effectively defend itself from market risks in the event of extreme security market condition and inadequate hedging strategies. Against the backdrop of continuous industry innovation, the Company has been committed to providing its customers with new products and services in order to strengthen its competitive position in the industry. However, business innovation leads to new risk exposures to the Company. Moreover, the Company's operation relies on the management and professionals. Due to keen market competition for this kind of talents, failure in attracting or retaining these talents may have adverse impact on the Company's business.

The Company has received a Class A regulatory rating from CSRC for three consecutive years. However, the Company does not rule out the possibility of the risks of downward adjustment of regulatory rating in the future, which would result in the limitations of the Company's ability to commence pilot programs and new businesses. The Company manages risks according to internal risk management framework and procedures, but certain risk management measures are based on historical market data or past experience which may fail to predict future risks accurately, especially those on extreme market events lacking effectiveness. The Company has further exposure to various risks, such as failure of information technologies, which would result in adverse impact on business operation. Any force majeure may have material adverse impact on the Company's business, financial conditions and operating results.

For the risks in the Company's operation, investors are advised to carefully read the relevant parts in Section 4 III. "(IV) Potential risks" in this report.

SECTION 1 DEFINITIONS

I. DEFINITIONS

In this report, unless the context otherwise requires, the following terms and expressions have the meaning set forth below:

DEFINITIONS OF COMMON TERMS

The Company, Company, Parent Company or Central China Securities	Central China Securities Co., Ltd.
The Group or Group	the Company and its subsidiaries
Board	the board of Directors of the Company
Director(s)	director(s) of the Company
Supervisory Committee	the Supervisory Committee of the Company
Supervisor(s)	supervisor(s) of the Company
Listing Rules	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
Model Code	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
Corporate Governance Code	Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules
SFC	the Securities and Futures Commission of Hong Kong
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
This report	this annual report
SSE	the Shanghai Stock Exchange

SECTION 1 DEFINITIONS

SSE Composite Index	composite stock price index of the SSE
Domestic shares	ordinary shares in issue of the Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as fully paid in Renminbi
Wind Info	Wind Info Co., Ltd. (上海萬得信息技術股份有限公司)
A shares	domestic listed ordinary shares with a nominal value of RMB1.00 each in the share capital of the Company, which are listed and traded on the SSE
H shares	overseas listed foreign ordinary shares with a nominal value of RMB1.00 each in the share capital of the Company, which are listed and traded on the Main Board of the Hong Kong Stock Exchange
Reporting Period	1 January 2017 to 31 December 2017
End of the Reporting Period	31 December 2017
PRC or China	the People's Republic of China, for the purpose of this report, excluding Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan
State Council	the State Council of the PRC (中華人民共和國國務院)
CSRC	the China Securities Regulatory Commission (中國證券監督管理委員會)
Ministry of Finance	the Ministry of Finance of the PRC (中華人民共和國財政部)
NDRC	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
CSF	China Securities Finance Corporation Limited (中國證券金融股份有限公司)
CPCHPC	Henan Provincial Committee of the Communist Party of China (中國共產黨河南省委員會)
Henan Branch of the CSRC	Henan Branch of the China Securities Regulatory Commission (中國證券監督管理委員會河南監管局)
Henan SASAC	State-owned Assets Supervision and Administration Commission of Henan Provincial People's Government (河南省人民政府國有資產監督管理委員會)

SECTION 1 DEFINITIONS

Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Henan Investment Group	Henan Investment Group Co., Ltd. (河南投資集團有限公司)
Anyang Iron & Steel Group	Anyang Iron & Steel Group Co., Ltd. (安陽鋼鐵集團有限責任公司)
Pingmei Shenma	China Pingmei Shenma Energy & Chemical Group Co., Ltd. (中國平煤神馬能源化工集團有限責任公司)
Anyang Economic Development	Anyang Economic Development Group Co., Ltd. (安陽經濟開發集團有限公司)
Jiangsu SOHO Holdings	Jiangsu SOHO Holdings Group Co., Ltd. (江蘇省蘇豪控股集團有限公司)
Shenhua Group	Henan Shenhua Group Co., Ltd. (河南神火集團有限公司)
Jiaozuo Economic and Technology Development	Jiaozuo Economic and Technology Development Co., Ltd. (焦作市經濟技術開發有限公司)
Shenzhen Rising	Shenzhen Rising Investment Development Co., Ltd. (深圳市廣晟投資發展有限公司)
Hebi Construction and Investment	Hebi Construction & Investment Group Co., Ltd. (鶴壁市經濟建設投資集團有限公司)
Henan Securities	Henan Securities Co., Ltd. (河南證券有限責任公司)
China Bond Insurance	China Bond Insurance Co., Ltd. (中債信用增進投資股份有限公司)
Central China Futures	Central China Futures Co., Ltd. (中原期貨股份有限公司)
ZDKY Venture Capital	Zhongding Kaiyuan Venture Capital Management Co., Ltd. (中鼎開源創業投資管理有限公司)

SECTION 1 DEFINITIONS

Taiping Fund	Taiping Fund Management Co., Ltd. (太平基金管理有限公司), which is held by the Company as to 8.5% as at the end of the Reporting Period
ZZKY Venture Capital	Henan Zhongzheng Kaiyuan Venture Capital Fund Management Co., Ltd. (河南中證開元創業投資基金管理有限公 司)
Central China Blue Ocean or CCBO	Central China Blue Ocean Investment Management Company Limited (中州藍海投資管理有限公司)
Central China International	Central China International Financial Holdings Company Limited (中州國際金融控股有限公司)
Equity Exchange Co.	Central China Equity Exchange Co., Ltd. (中原股權交易中心股 份有限公司)
Central China Micro-lending	Henan Central China Micro-lending Company Limited (河南省 中原小額貸款有限公司)
Zhongyuan Trust	Zhongyuan Trust Co., Ltd. (中原信託有限公司)
Articles of Association	the prevailing valid Articles of Association of the Company
Company Law	the Company Law of the PRC (中華人民共和國公司法)
Securities Law	the Securities Law of the PRC (中華人民共和國證券法)
RMB	the lawful currency of China – Renminbi, with the basic unit of “yuan”
HK\$	Hong Kong dollars and cents, the lawful currency of Hong Kong
ZYKC Venture Capital	Henan Zhongyuan Kechuang Venture Capital Investment Fund (limited partnership) (河南省中原科創風險投資基金(有限合 夥))

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

I. INFORMATION ABOUT THE COMPANY

Chinese name of the Company	中原证券股份有限公司
Chinese abbreviation of the Company	中原证券
English name of the Company	CENTRAL CHINA SECURITIES CO., LTD.
English abbreviation of the Company	CCSC
Legal representative of the Company	Jian Mingjun
President of the Company	Jian Mingjun

Registered Capital and Net Capital of the Company

Unit: Yuan Currency: RMB

	At the End of the Reporting Period	At the End of Last Year
Registered capital	3,923,734,700	3,223,734,700
Net capital	7,837,072,661.73	10,217,177,777.68

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

Qualifications for Each Individual Business of the Company

1. Securities brokerage
2. Securities investment consulting
3. Financial advisory services relating to securities trading and securities investment activities
4. Proprietary trading of securities
5. Financial advisory services for merger, acquisition and restructuring of listed companies
6. Securities asset management
7. Entrusted investment management business
8. Stock underwriting business as a lead underwriter
9. Entrusted internet securities business
10. Sponsorship of offering and listing of securities
11. Proxy sale of open-end securities investment funds
12. "SSE 50ETF" participant of securities dealer business
13. Buyout repurchase of T-bonds on SSE
14. IPO enquiry and placing
15. Sponsorship of equity division reform
16. Warrant trading
17. Clearing participants of China Securities Depository and Clearing Corporation Limited
18. Foreign exchange business
19. National inter-bank funding business
20. Trading on Integrated Electronic Platform of Fixed-income Securities of SSE as a primary dealer
21. Investment through block trading system as a qualified investor
22. Trading of inter-bank bonds
23. Intermediary introduction business for futures companies
24. Agency system host securities dealer business

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

25. Host securities dealer business of Third Board business
26. Passed the globally recognised standard ISO/IEC 20000 for IT service management field
27. Direct investment business
28. Margin financing and securities lending business
29. Proxy sale of financial products
30. Underwriting of private placement bonds for small and medium-sized enterprises
31. Exchange-quoted bond repurchase business
32. Agreed repurchase type securities trading business
33. Fund business
34. Capital refinancing business
35. Agency service for registration of pledge of securities
36. Securities-backed lending
37. Securities refinancing and lending business
38. Shanghai-Hong Kong Stock Connect business
39. Market-making business on the NEEQ
40. Piloting of issuing short-term corporate bonds
41. Piloting of OTC market business
42. Piloting of internet securities business
43. Option brokerage business on SSE
44. Market-making business on quotation system of inter-institutional private products
45. Shenzhen-Hong Kong Stock Connect business

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

II. CONTACT PERSONS AND CONTACT METHODS

	Secretary of the Board	Representative of securities affairs
Name	Zhu Qiben	Xu Changyu
Address	19F, Zhongyuan Guangfa Finance Building, 10 Business Outer Ring Road, Zhengdong New District, Zhengzhou City, Henan Province, China (postcode: 450018)	19F, Zhongyuan Guangfa Finance Building, 10 Business Outer Ring Road, Zhengdong New District, Zhengzhou City, Henan Province, China (postcode: 450018)
Tel	0371-69177590	0371-69177590
Fax	0371-69177590	0371-69177590
Email address	zhuqb@ccnew.com	xucy@ccnew.com

III. BASIC PROFILE

Registered address of the Company	10 Business Outer Ring Road, Zhengdong New District, Zhengzhou City, Henan Province, China
Postcode of the registered address of the Company	450018
Office address of the Company	10 Business Outer Ring Road, Zhengdong New District, Zhengzhou City, Henan Province, China
Postcode of the office address of the Company	450018
Website of the Company	http://www.ccnew.com
Email address	investor@ccnew.com
Principal place of business in Hong Kong	18F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

IV. INFORMATION DISCLOSURE AND PLACE FOR INSPECTION

Designated media for disclosure of the Company's information	China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily
Website designated by CSRC for publishing annual report	http://www.sse.com.cn
Website designated by the Hong Kong Stock Exchange for publishing annual report	http://www.hkexnews.hk
Place for inspection of the Company's annual report	19F, 10 Business Outer Ring Road, Zhengdong New District, Zhengzhou City, Henan Province, China

V. SHARES OF THE COMPANY

Type of shares	Place of listing	Stock abbreviation	Stock code
A Shares	SSE	中原证券	601375
H Shares	Hong Kong Stock Exchange	中州证券	01375

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

VI. OTHER INFORMATION OF THE COMPANY

(I) Development history of the Company, primarily includes reorganisation, capital increase, share expansion etc. in previous years

On 25 October 2002, according to CSRC's Reply Concerning Approval of Opening of Central China Securities Co., Ltd. (Zheng Jian Ji Gou Zi [2002] No. 326) (《關於同意中原證券股份有限公司開業的批覆》(證監機構字[2002]326號)), Henan Finance Securities Company Limited and the Securities branch of Anyang Trust & Investment Company Limited merged and reorganized into one, which later joined other qualified companies to form Central China Securities Co., Ltd. after increase in capital and share. The Company was registered with Henan Administration for Industry & Commerce on 8 November 2002 with a registered capital of RMB1,033,790,000. After incorporation, the Company, according to the said CSRC's reply, acquired the securities branch and securities services department (which were originally under Henan Securities Co., Ltd.) and other securities-related assets.

On 26 June 2006, subject to the Reply Concerning Alteration of Name of Hebi Development Construction & Investment Company (He Bian Ban [2005] No. 3) (《關於鶴壁市經濟發展建設投資公司更名的批覆》(鶴編辦[2005]3號)) and approval by the fourth general meeting of the Company, the Company's shareholder "Hebi Development Construction & Investment Company" changed its name into "Hebi Construction & Investment Co., Ltd.".

On 12 October 2006, according to Notice Concerning Entrusting Anyang Economic Technology Development Co., Ltd. with External Control of the Securities branch Originally under Anyang Trust & Investment Company Limited As the Owner published by People's Government of Anyang City (《關於委託安陽市經濟技術開發公司以所有人身份對外管理原安陽市信託投資公司證券營業部的通知》) and the resolution of the Company's first extraordinary general meeting in 2006, the 1.018% equity held by the Company's former shareholder Anyang Trust & Investment Company Limited was merged into Anyang Economic Technology Development Co., Ltd., after which Anyang Economic Technology Development Co., Ltd. holds 2.661% equity in the Company.

On 15 January 2008, according to the CSRC's Reply Concerning Approval of Change of Registered Capital of Central China Securities Co., Ltd. (Zheng Jian Xu Ke [2008] No. 94) (《關於核准中原證券股份有限公司變更註冊資本的批覆》(證監許可[2008]94號)), the Company was approved to increase its registered capital from RMB1,033,790,000 to RMB2,033,515,700 with equity structure remaining unchanged. The Company also proportionately increased share capital and cash capital of its shareholders.

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

On 10 June 2008, according to CSRC's Reply Concerning Approval of Equity Change of Central China Securities Co., Ltd. (Zheng Jian Xu Ke [2008] No. 781) (《關於核准中原證券股份有限公司股權變更的批覆》(證監許可[2008]781號)), Henan Investment Group Co., Ltd. was approved to receive 196,704,200 shares of the Company (accounting for 9.673% of the registered capital) held by Henan Construction Investment Corporation and 715,253,600 shares of the Company (accounting for 35.173% of the registered capital) held by Henan Economic and Technology Development Co., Ltd., after which Henan Investment Group Co., Ltd. holds 911,957,800 shares of the Company in aggregate (accounting for 44.846% of the Company's registered capital).

On 23 December 2010, according to the Letter Concerning Alteration of Name of Anyang Economic Technology Development Co., Ltd. of the shareholder (《關於安陽市經濟技術開發公司變更名稱的函》), Anyang Economic Technology Development Co., Ltd., and the resolution of the Company's fifth extraordinary general meeting in 2010, "Anyang Economic Technology Development Co., Ltd." changed its name into "Anyang Economic Development Group Co., Ltd."

On 1 June 2011, according to the No-Objection Letter Concerning Approval of Change of Shareholders Holding Less Than 5% of Equity of Central China Securities Co., Ltd. (Yu Zheng Jian Han [2011] No. 111) (《關於同意中原證券股份有限公司變更持有5%以下股權股東的無異議函》(豫證監函[2011]111號)) issued by the Henan Branch of the CSRC, Jiangsu Silk Group Co., Ltd., Guangzhou Liby Investment Co., Ltd., Jiangsu Huiyou Woollen Sweater Co., Ltd., Shenzhen Rising Investment Development Co., Ltd., Zhangjiagang Free-trade Science & Technology Co., Ltd., China Pingmei Shenma Energy & Chemical Group Co., Ltd., Henan Jinlong Industrial Co., Ltd. and Shandong Weihai Huanqiu Fishing Tackle Industrial Co., Ltd. respectively received from Xuji Group Co., Ltd. 30,000,000 shares, 20,000,000 shares, 10,000,000 shares, 10,000,000 shares, 10,000,000 shares, 83,159,600 shares, 16,000,000 shares and 15,000,000 shares of the Company (accounting for 1.475%, 0.983%, 0.492%, 0.492%, 0.492%, 4.089%, 0.787% and 0.738% of the Company's registered capital, respectively).

On 30 May 2011, upon approval by State-owned Assets Supervision and Administration Commission of People's Government of Jiangsu Province and Administration for Industry and Commerce of Jiangsu Province, Jiangsu Silk Group Co., Ltd. changed its name into Jiangsu SOHO Holdings Group Co., Ltd.

On 22 September 2011, according to CSRC's Reply Concerning Approval of Change of Shareholders Holding More Than 5% of Equity of Central China Securities Co., Ltd. (Zheng Jian Xu Ke [2011] No. 1534) (《關於核准中原證券股份有限公司變更持有5%以上股權的股東的批覆》(證監許可[2011]1534號)), Bohai Industrial Investment Fund Management Co., Ltd. (on behalf of Bohai Industrial Investment Fund) was qualified to hold more than 5% of equity of Central China Securities Co., Ltd. as a shareholder and was approved to receive 608,000,000 shares (accounting for 29.899% of the Company's registered capital) of Central China Securities Co., Ltd. held by Xuji Group Co., Ltd.

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

On 6 April 2012, according to the No-Objection Letter Concerning Change of Shareholders Holding Less Than 5% of Equity of Central China Securities Co., Ltd. (Yu Zheng Jian Han [2012] No. 41) (《關於中原證券股份有限公司變更持有5%以下股權股東的無異議函》(豫證監函[2012]41號)) issued by the Henan Branch of the CSRC, Xuchang Superlift Construction Materials Science & Technology Co., Ltd. was approved to receive 24,000,000 shares (accounting for 1.18% of the Company's registered capital) of the Company held by Xuji Group Co., Ltd.

On 1 May 2012, according to the Letter Concerning Change of Company Name of Hebi Construction & Investment Co., Ltd. of the shareholder Hebi Construction & Investment Co., Ltd. (《關於鶴壁市經濟建設投資總公司變更公司名稱的函》) and the resolution of the Company's second extraordinary general meeting in 2012, the shareholder "Hebi Construction & Investment Co., Ltd." changed its name into "Hebi Construction & Investment Group Co., Ltd."

On 22 April 2014, CSRC issued Reply on Approving Central China Securities Co., Ltd. Offering Overseas Listed Foreign Shares (Zheng Jian Xu Ke [2014] No. 438) (《關於核准中原證券股份有限公司發行境外上市外資股的批覆》(證監許可[2014]438號)) to approve Central China Securities offering no more than 598,100,000 overseas listed foreign shares, which are all ordinary shares, with a par value of RMB1 each. On 25 June 2014, shares issued overseas by the Company were listed on the main board of Hong Kong Stock Exchange (stock abbreviation: 中州證券; stock code: 01375). According to the Reply Concerning Management and Transfer of State-owned Equities of Central China Securities Co., Ltd. (Guo Zi Chan Quan [2013] No. 1070) (《關於中原證券股份有限公司國有股權管理及國有股轉持有關問題的批覆》(國資產權[2013]1070號)) by State-owned Assets Supervision and Administration Commission of the State Council, after the Company completed this issuance, state-owned shareholders Henan Investment Group, Anyang Iron & Steel Group, Pingmei Shenma, Anyang Economic Development, Jiangsu SOHO Holdings, Shenhua Group, Jiaozuo Economic and Technology Development, Shenzhen Rising and Hebi Construction and Investment transferred their respective 40,994,778 shares, 8,842,345 shares, 3,738,231 shares, 2,432,074 shares, 1,348,575 shares, 884,166 shares, 678,113 shares, 449,525 shares and 442,193 shares (59,810,000 shares in total) to National Council for Social Security Fund. On 28 October 2014, the Company completed the change of the registered capital with the Henan Administration for Industry & Commerce, with the registered capital rising to RMB2,631,615,700.

On 15 June 2015, according to the resolution of the Company's second extraordinary general meeting in 2015, first domestic share class meeting and first H Share class meeting and upon approval by the CSRC's Reply Concerning Approval of Additional Issue of Overseas Listed Foreign Shares of Central China Securities Co., Ltd. (Zheng Jian Xu Ke [2015] No. 1728) (《關於核准中原證券股份有限公司增發境外上市外資股的批覆》(證監許可[2015]1728號)) and by the Hong Kong Stock Exchange, the non-public issuance of 592,119,000 H Shares was completed by the Company in August 2015 with a face-value of RMB1 each at an issue price of HK\$4.28 per H Share. On 14 August 2015, the Company completed the change of the registered capital with the Henan Administration for Industry & Commerce, with the registered capital increased to RMB3,223,734,700.

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

On 18 November 2016, according to the resolution of the Company's third extraordinary general meeting in 2016, second domestic share class meeting and second H Share class meeting and the Reply Concerning Approval of Initial Public Offering of Shares of Central China Securities Co., Ltd. (Zheng Jian Xu Ke [2016] No. 2868) (《關於核准中原證券股份有限公司首次公開發行股票的批覆》(證監許可[2016]2868號)) issued by the CSRC, the Company was approved to issue no more than 700,000,000 RMB ordinary shares, with a par value of RMB1 each. According to the Implementing Measures for the Transfer of Some State-owned Shares from the Domestic Securities Market to the National Social Security Fund (Cai Qi [2009] No. 94) (《境內證券市場轉持部份國有股充實全國社會保障基金實施辦法》(財企[2009]94號)) and the Reply Concerning Proposal for Management of State-owned Equities and Transfer of State-owned Shares in Relation to the Issuance of A Shares by Central China Securities Co., Ltd. (Yu Guo Zi Chan Quan [2015] No. 26) (《關於中原證券股份有限公司發行A股國有股權管理方案及國有股轉持的批覆》(豫國資產權[2015]26號)) by State-owned Assets Supervision and Administration Commission of Henan Province, based on the 700,000,000 shares to be issued under this issuance, state-owned shareholders Henan Investment Group, Anyang Iron & Steel Group, Pingmei Shenma, Anyang Economic Development, Jiangsu SOHO Holdings, Shenhua Group, Jiaozuo Economic and Technology Development, Shenzhen Rising and Hebi Construction and Investment transferred their respective 47,979,175 shares, 10,348,840 shares, 4,375,124 shares, 2,846,433 shares, 1,578,336 shares, 1,034,804 shares, 793,645 shares, 526,112 shares and 517,531 shares (70,000,000 shares in total) to National Council for Social Security Fund.

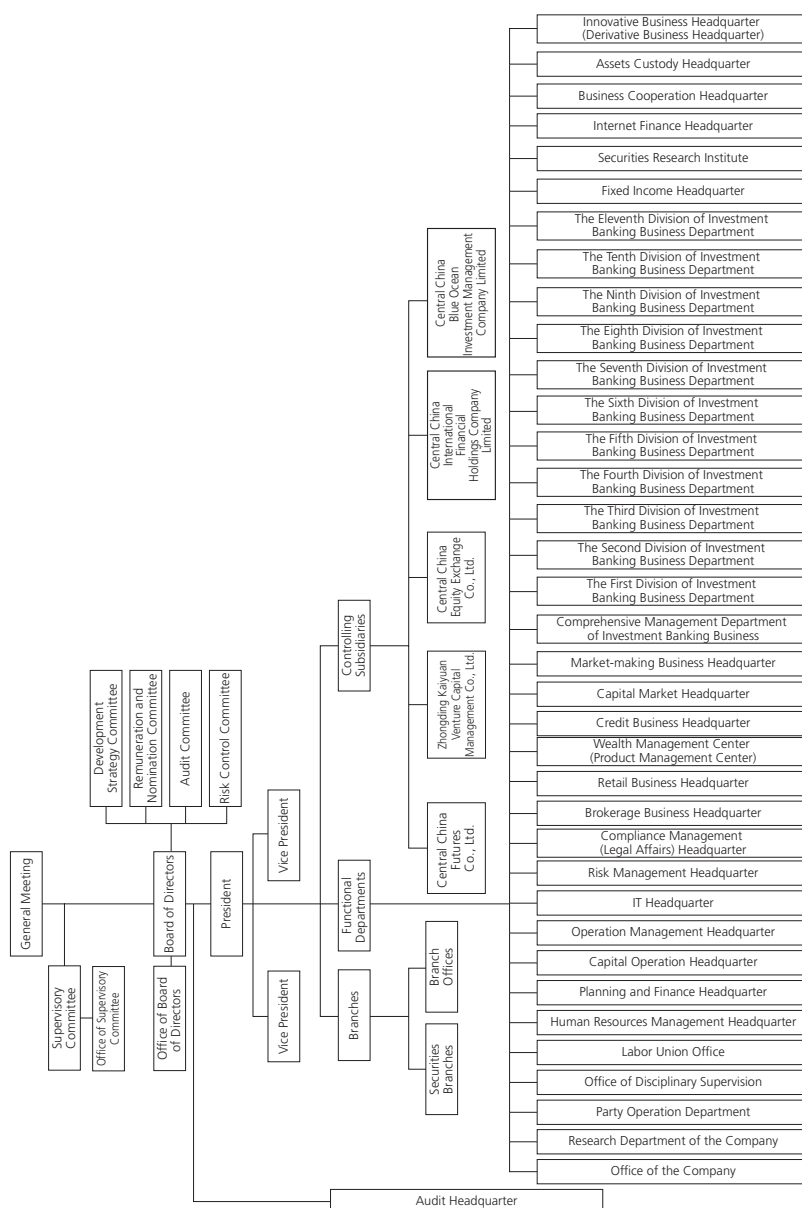
On 3 January 2017, A Shares of the Company were listed on SSE.

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

(II) Status of the Company's organizational structure

The Company operates in accordance with the relevant laws and regulations including the Company Law, the Securities Law and Guidelines for the Internal Control of Securities Companies (《證券公司內部控制指引》) and the requirements of the Articles of Association, thus scientific and effective corporate governance has been established. The Company has also established a corporate governance structure that balances the power between the general meeting, the board of directors and the supervisory committee, in which the general meeting is the corporate authoritative body, the board of directors is the decision-making authority and the supervisory committee is the supervision authority.

1. Organizational structure diagram of the Company



SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

2. Major subsidiaries controlled by the Company

As of the end of the Reporting Period, the Company had 4 domestic subsidiaries and 1 overseas subsidiary, as detailed below:

(1) Central China Futures Co., Ltd.

Office address: 4F, Zhongyuan Guangfa Finance Building, No. 10 Business Outer Ring Road, Zhengdong New District, Zhengzhou, Henan Province

Country of incorporation/registered address: China/4F, Zhongyuan Guangfa Finance Building, 10 Business Outer Ring Road, Zhengdong New District, Zhengzhou City, Henan Province

Date of incorporation: 18 April 1993

Registered capital: RMB330 million

Shareholding ratio: 51.357%

Legal representative: Yang Zhongxian

Contact No.: 0371-68599199

Main businesses: commodity futures brokerage; financial futures brokerage; futures investment consulting. asset management.

Type of legal person: joint stock company limited

(2) Zhongding Kaiyuan Venture Capital Management Co., Ltd.

Office address: 20F, Hailian Building, No. 20 Business Outer Ring Road, Zhengdong New District, Zhengzhou City, Henan Province

Country of incorporation/registered address: China/Room 501-11, Building 1, No. 18 Courtyard, Lize Road, Fengtai District, Beijing

Date of incorporation: 8 February 2012

Registered capital: RMB2,000 million

Shareholding ratio: 100%

Legal representative: Yang Feng

Contact No.: 0371-69177108

Main businesses: use equity fund or establish direct investment fund to invest equity or creditor's rights in enterprises or other investment funds related to equity or creditor's rights; provide customers with investment advisory service related to equity or creditor's rights; and other businesses as approved by CSRC.

Type of legal person: limited company

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

(3) Central China International Financial Holdings Company Limited

Office address: Suites 1505 and 1508, Two Exchange Square, 8 Connaught Place, Central, Hong Kong

Country of incorporation/registered address: Hong Kong, China/Suites 1505 and 1508, Two Exchange Square, 8 Connaught Place, Central, Hong Kong

Date of incorporation: 29 October 2014

Issued share capital: HK\$500 million

Shareholding ratio: 100%

Contact No.: 00852-25001375

Main businesses: an investment holding company acting as the platform for overseas businesses of the Company, carrying out operational businesses through its underlying subsidiaries.

(4) Central China Blue Ocean Investment Management Company Limited

Office address: West to Laodong Road and north to Hongteng Road, Weidu Industry Cluster Area, Xuchang City

Country of incorporation/registered address: China/West to Laodong Road and north to Hongteng Road, Weidu Industry Cluster Area, Xuchang City

Date of incorporation: 25 March 2015

Registered capital: RMB3,000 million

Shareholding ratio: 100%

Legal representative: Chen Junyong

Contact No.: 0371-86503971

Main businesses: financial product investment, security investment and investment management with its own capital.

Type of legal person: limited company

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

(5) Central China Equity Exchange Co., Ltd.

Office address: 6F, Zhongke Building, No. 23 Business Outer Ring Road, Zhengdong New District, Zhengzhou City, Henan Province

Country of incorporation/registered address: China/No. 23 Business Outer Ring Road, Zhengdong New District, Zhengzhou City

Date of incorporation: 29 June 2015

Registered capital: RMB350 million

Shareholding ratio: 35%

Legal representative: Zhao Jizeng

Contact No.: 0371-61775086

Main businesses: registration, custody, listing, transfer and financing services in equity, creditor's rights and other equity asset for enterprises, investment and asset management; financial advisory, enterprise promotion, enterprise demonstration and training and consultancy services.

Type of legal person: joint stock company limited

3. Branch offices

As of the end of the Reporting Period, the Company had 25 branch offices, as detailed below:

No.	Branch office	Address	Date of incorporation	Person in charge	Contact No.
1	Central China Securities Co., Ltd. Nanyang Branch Office	No. 170 Renmin Road, Nanyang City, Henan Province	2003/5/20	Yang Qing	0377-63205303
2	Central China Securities Co., Ltd. Zhumadian Branch Office	No. 196 Jiefang Road, Zhumadian City, Henan Province	2003/4/23	Dong Baojun	0396-2989099
3	Central China Securities Co., Ltd. Xinxiang Branch Office	No. 250, Renmin Road, Xinxiang City, Henan Province	2003/4/29	Deng Feng	0373-2068736
4	Central China Securities Co., Ltd. Anyang Branch Office	Financial Securities Building, North Hongqi Road, Beiguan District, Anyang City, Henan Province	2003/5/8	Chen Mingwei	0372-2095699

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

No.	Branch office	Address	Date of incorporation	Person in charge	Contact No.
5	Central China Securities Co., Ltd. Jiaozuo Branch Office	No.1838 Middle Jiefang Road, Jiaozuo City, Henan Province	2003/6/2	Ding Qingming	0391-3288118
6	Central China Securities Co., Ltd. Luohe Branch Office	No. 337-8 Huanghe Road, Yancheng District, Luohe City, Henan Province	2003/6/9	Luo Donghai	0395-3183866
7	Central China Securities Co., Ltd. Shanghai 1st Branch Office	No. 261 West Dalian Road, Shanghai	2003/8/29	Shen Ruowei	021-65080598
8	Central China Securities Co., Ltd. Hebi Branch Office	Southeast Corner, Intersection of Qibin Road and Xinghe Street, Qibin District, Hebi City, Henan Province	2004/5/26	Li Weijie	0392-3299909
9	Central China Securities Co., Ltd. Zhoukou Branch Office	3F (facing the street), Office Building of Henan Netcom Zhoukou Branch, No. 81, Middle Section of Qiyi Road, Zhoukou City, Henan Province	2006/4/26	Li Hui	0394-8288680
10	Central China Securities Co., Ltd. Xinyang Branch Office	5F, Hongyunxinxin Square Office Building, No. 136 Zhongshan Road, Shihe District, Xinyang City, Henan Province	2006/7/26	Chen Lei	0376-6210378
11	Central China Securities Co., Ltd. Kaifeng Branch Office	Yindi Business Plaza, Intersection of Daliang Road and Xihuan Road, Kaifeng City, Henan Province	2006/8/11	Guo Zhijun	0371-23899816

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

No.	Branch office	Address	Date of incorporation	Person in charge	Contact No.
12	Central China Securities Co., Ltd. Shanghai Branch Office	Room 01-17, 18F, No. 1600 Century Avenue, China (Shanghai) Pilot Free Trade Zone	2009/7/2	Wang Xiaogang	021-50588666
13	Central China Securities Co., Ltd. Zhengzhou Branch Office	10 Business Outer Ring Road, Zhengzhou Section (Zhengdong), Henan Pilot Free Trade Zone	2011/3/10	Li Huafeng	0371-60155208
14	Central China Securities Co., Ltd. Beijing Branch Office	Room 1-907, 8-9F, No. 1, 168 Guang'anmen Outer Street, Xicheng District, Beijing	2011/9/16	Xu Haijun	0371-65585650
15	Central China Securities Co., Ltd. Yellow River Golden Triangle Demonstration Area Branch Office	Securities Tower, Middle Liufeng Road, Sanmenxia, Henan Province	2013/11/20	Wang Jing	0398-2830400
16	Central China Securities Co., Ltd. Luoyang Branch Office	No. 30, West Kaixuan Road, Xigong District, Luoyang City, Henan Province	2013/11/28	Song Fei	0379-63915178
17	Central China Securities Co., Ltd. Puyang Branch Office	No. 203, Middle Jianshe Road, Puyang City, Henan Province	2014/4/21	Yu Chunyan	0393-8151517
18	Central China Securities Co., Ltd. Shangqiu Branch Office	Office Building of Labour Union, No. 96, Shenhua Avenue, Shangqiu City, Henan Province	2014/4/24	Su Wenfeng	0370-2580966

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

No.	Branch office	Address	Date of incorporation	Person in charge	Contact No.
19	Central China Securities Co., Ltd. Xuchang Branch Office	No. 669, Yingchang Avenue, Weidu District, Xuchang City, Henan Province	2014/6/12	Liu Zhigang	0374-2663273
20	Central China Securities Co., Ltd. Shenzhen Branch Office	Room 201, Block A, No.1, Qianwan Road 1, Qianhaishen Port Cooperative District, Shenzhen City, Guangdong Province (settled in Shenzhen Qianhai Commerce Secretariat Co., Ltd. (深圳市前海商務秘書有限公司)); Operating premises: Room 1908, 19F, Xinhua Insurance Mansion, Mintian Road, Futian District	2015/5/14	Jiang Huijun	0755-83801055
21	Central China Securities Co., Ltd. Pingdingshan Branch Office	1/F, Capital Guest House, West Zhongxing Road Bridge, Zhanhe District, Pingdingshan City, Henan Province	2015/6/30	Wen Yiyao	0375-4801728
22	Central China Securities Co., Ltd. Sichuan Branch Office	No. 4, 2F, Block 13, No. 1000 Jincheng Avenue, Gaoxin District, Chengdu	2017/2/3	Li Yang	028-86051566
23	Central China Securities Co., Ltd. Jiangsu Branch Office	Room 1205-1206, No. 168 Lushan Road, Jianye District, Nanjing City	2017/9/5	Liu Aiwu	025-83696336
24	Central China Securities Co., Ltd. Hainan Branch Office	Room 2007, 20F, Hainan Plaza, No. 5 Guoxing Avenue, Meilan District, Haikou City, Hainan Province	2017/9/12	Dong Peng	0898-66515090
25	Central China Securities Co., Ltd. Shanghai Asset Management Branch Office	Room 1216, 14F, Block 1, No. 1600 Century Avenue, China (Shanghai) Pilot Free Trade Zone	2017/12/20	Zhang Aimin	021-50588666

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

(III) NUMBER AND DISTRIBUTION OF SECURITIES BRANCHES OF THE COMPANY

As of the end of the Reporting Period, the Company had 88 securities branches in 13 provinces, autonomous regions and municipalities, including 2 in Beijing, 2 in Shanghai, 2 in Zhejiang, 2 in Guangdong, 1 in Hubei, 2 in Hunan, 1 in Jiangsu, 1 in Shaanxi, 3 in Shandong, 1 in Hebei, 1 in Tianjin, 1 in Shanxi and 69 in Henan. See the following table for details:

No.	Securities branch	Address	Person in charge
1	Central China Securities Co., Ltd. Zhengzhou Wei Wu Road Securities Branch	2-3F, Wing Building, West of Main Tower of Integrated Office Building, No. 37 Wei Wu Road, Jinshui District, Zhengzhou City, Henan Province	Zhao Zhenxu
2	Central China Securities Co., Ltd. Zhengzhou Tongbai Road Securities Branch	No. 43 Tongbai Road, Zhongyuan District, Zhengzhou City, Henan Province	Xin Zhihong
3	Central China Securities Co., Ltd. Zhengzhou Business Outer Ring Road Securities Branch	Room 303-306, 3F, No. 10 Business Outer Ring Road, Zhengdong New District, Zhengzhou City, Henan Province	Li Huafeng
4	Central China Securities Co., Ltd. Zhengzhou Zijingshan Road Securities Branch	20F, Post Office Tower, No. 61 Zijingshan Road, Guancheng Hui District, Zhengzhou City, Henan Province	Jia Yingkui
5	Central China Securities Co., Ltd. Zhengzhou Jingsan Road Securities Branch	No. 25 Jingsan Road, Jinshui District, Zhengzhou City, Henan Province	Li Kaihui
6	Central China Securities Co., Ltd. Zhengzhou Weier Road Securities Branch	3F, Business Building, Jingwei Apartment, No. 30 Weier Road, Jinshui District, Zhengzhou City, Henan Province	Yue Youliang
7	Central China Securities Co., Ltd. Zhengzhou Guoji Road Securities Branch	Room Shang-15, 1-2F, Building 32, Sennavis II Area of Provence, No. 168 Guoji Road, Jinshui District, Zhengzhou City, Henan Province	Zuo Kexin

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

No.	Securities branch	Address	Person in charge
8	Central China Securities Co., Ltd. Xinzheng Xinhua Road Securities Branch	No. 4-5, 1F, Building 1, Xinhua Community, Xinhua Road, Xinzheng City, Henan Province	Feng Yongjun
9	Central China Securities Co., Ltd. Xinmi East Avenue Securities Branch	No. 17, East Avenue, Xinmi City, Zhengzhou City, Henan Province	Zhang Yonghong
10	Central China Securities Co., Ltd. Gongyi Songshan Road Securities Branch	No. 119-8 Songshan Road, Gongyi City, Zhengzhou City, Henan Province	Niu Zhihong
11	Central China Securities Co., Ltd. Zhong Mou Guang Hui Street Securities Branch	Shop on 1F (facing the street), Southeast of the intersection of Guang Hui Street and Wansheng Road, Zhong Mou County, Zhengzhou City	Li Shuaijun
12	Central China Securities Co., Ltd. Dengfeng Shaolin Avenue Securities Branch	No. 38 Shaolin Avenue, Dengfeng City, Henan Province	Wang Tianpeng
13	Central China Securities Co., Ltd. Dengzhou North Wenhua Road Securities Branch	No. 91 North Wenhua Road, Dengzhou City, Henan Province	Ma Xue
14	Central China Securities Co., Ltd. Nanyang East Fanli Road Securities Branch	Building 2, Rulin Yuzhu Garden, East Fanli Road, Nanyang City, Henan Province	Zhao Xiaoyu
15	Central China Securities Co., Ltd. Nanyang Wuyi Road Securities Branch	East Wuyi Road, Guanzhuang Working Area, Nanyang City, Henan Province	Wang Qingfeng
16	Central China Securities Co., Ltd. Xixia Century Avenue Securities Branch	Intersection of Baiyu Road and Century Avenue, Xixia County, Nanyang City, Henan Province	Zhang Wandong

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

No.	Securities branch	Address	Person in charge
17	Central China Securities Co., Ltd. Neixiang Yongshun Road Securities Branch	Yongshun Road, Tuandong Town, Neixiang County, Henan Province	Zhang Hui
18	Central China Securities Co., Ltd. Pingdingshan Lingyun Road Securities Branch	Shop 207, 2F, Building 20, Jiujiu Lvshuyuan, West to Middle Lingyun Road, Xinhua District, Pingdingshan City, Henan Province	Li Jiangong
19	Central China Securities Co., Ltd. Pingdingshan Xinhua Road Securities Branch	Guangsha Huishang Plaza, Middle Xinhua Road, Pingdingshan City, Henan Province	Zheng Wenchao
20	Central China Securities Co., Ltd. Ruzhou Fengxue Road Securities Branch	2F, Business Department of Industrial and Commercial Bank of China, No. 3 Fengxue Road, Ruzhou City, Henan Province	Shi Lin
21	Central China Securities Co., Ltd. Luohe Changjiang Road Securities Branch	No. 29 Changjiang Road, Yuanhui District, Luohe City, Henan Province	Wu Jun
22	Central China Securities Co., Ltd. Linying Yinghe Road Securities Branch	Shops A6-8, Longting Shoufu Community, Middle Yinghe Road, Linying County, Henan Province	Zhao Jun
23	Central China Securities Co., Ltd. Puyang Kaizhou Road Securities Branch	1F, China Unicom Building, southwest of the intersection of Zhongyuan Road and Kaizhou Road, Puyang City, Henan Province	Wu Zhigao
24	Central China Securities Co., Ltd. Puyang Zhongyuan Road Securities Branch	No. 18 Zhongyuan Road, Puyang City, Henan Province	Zhang Yunpeng
25	Central China Securities Co., Ltd. Qingfeng Chaoyang Road Securities Branch	No. 240 Chaoyang Road, Qingfeng County, Puyang City, Henan Province	Wang Xiangxin

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

No.	Securities branch	Address	Person in charge
26	Central China Securities Co., Ltd. Puyang County Yumin Road Securities Branch	East to the Middle Yumin Road, Puyang County, Henan Province	Chang Shaoyong
27	Central China Securities Co., Ltd. Anyang Zhonghua Road Securities Branch	Building 7, Guangsha New Garden, Zhonghua Road, Anyang City, Henan Province	Tian Liqi
28	Central China Securities Co., Ltd. Anyang Wenfeng Avenue Securities Branch	West Wenfeng Avenue, Yindu District, Anyang City, Henan Province	Li Zhimin
29	Central China Securities Co., Ltd. Linzhou Xinglin Street Securities Branch	Northwest Angle, Intersection of Zhenlin Road and Xinglin Street, Kaiyuan District, Linzhou City, Henan Province	Fu Hongbin
30	Central China Securities Co., Ltd. Hua County Wenming Road Securities Branch	No. 2, Building B28, Huatong Century City, Wenming Road, Hua County, Henan Province	Chen Limin
31	Central China Securities Co., Ltd. Neihuang Zaoxiang Avenue Securities Branch	Room 8, Shuimuqinghua Shop, Zaoxiang Avenue, Neihuang County, Henan Province	Zhang Yabing
32	Central China Securities Co., Ltd. Tangyin Renmin Road Securities Branch	Area A of Shangri-La, Southwest Angle, Intersection of Renmin Road and Zhonghua Road, Tangyin County, Anyang City, Henan Province	Wu Xinsheng
33	Central China Securities Co., Ltd. Xinxiang Xiangyang Road Securities Branch	No. 107 Store, No.1 Xinshang International Building, Intersection of Xiangyang Road and Zhenzhong Road, Xinxiang City, Henan Province	Yang Tao
34	Central China Securities Co., Ltd. Changyuan Renmin Road Securities Branch	No. 3 Store, Yilong Ginza Apartment, Renmin Road, Changyuan County, Henan Province	Qiu Fei
35	Central China Securities Co., Ltd. Huixian Sumen Avenue Securities Branch	South to the Middle Sumen Avenue, Huixian City, Henan Province	Zhang Xiaodong

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No.	Securities branch	Address	Person in charge
36	Central China Securities Co., Ltd. Weihui Bigan Avenue Securities Branch	No. 152 Bigan Avenue, Weihui City, Xinxiang City, Henan Province	Wei Dong
37	Central China Securities Co., Ltd. Yuanyang Huanghe Avenue Securities Branch	East to Shengshi Elegant Garden (盛世佳苑) 2-2-1, South to Huanghe Avenue, Yuanyang County, Henan Province	Zhang Lefei
38	Central China Securities Co., Ltd. Xun County Huanghe Road Securities Branch	200m East to the North of the Intersection of Huanghe Road and Liyang Road, Xun County, Henan Province	Lu Bin
39	Central China Securities Co., Ltd. Qi County Qihe Road Securities Branch	No. 306 Qihe Road, Qi County	Wang Nan
40	Central China Securities Co., Ltd. Xuchang Liancheng Avenue Securities Branch	No. 114, Liancheng Avenue, Weidu District, Xuchang City, Henan Province	Li Jianxin
41	Central China Securities Co., Ltd. Changge Baqi Road Securities Branch	Middle Baqi Road, Changge City, Henan Province	Wang Jun
42	Central China Securities Co., Ltd. Yuzhou Fudong Road Securities Branch	Middle Fudong Road, Yuzhou City, Xuchang City, Henan Province	Wang Zhiquan
43	Central China Securities Co., Ltd. Yanling Cuiliu Road Securities Branch	1F, Linjie Building, West to 4F County Government, Cuiliu Road, Development Zone, Yanling County, Henan Province	Zhang Weilin
44	Central China Securities Co., Ltd. Xiangcheng Zhongxin Road Securities Branch	East Zhongxin Road, Xiangcheng County (opposite to Bureau of Finance), Henan Province	Ji Guangjun
45	Central China Securities Co., Ltd. Gushi Hongsu Road Securities Branch	3F, Century Mansion, Chen Yuanguang Plaza, Intersection of North Chengliao Road and Hongsu Road, Gushi County, Xinyang City, Henan Province	Li Xiaohong

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

No.	Securities branch	Address	Person in charge
46	Central China Securities Co., Ltd. Guangshan Xinglong Road Securities Branch	No. 60 Xinglong Road, Xian Shan Office, Guangshan County, Henan Province	Li Mingbao
47	Central China Securities Co., Ltd. Mengzhou West Hanyu Street Securities Branch	No. 292, West Hanyu Street, Mengzhou City, Henan Province	Zhen Rongxing
48	Central China Securities Co., Ltd. Qinyang Jianshe Road North Securities Branch	Jianshe Road North, Qinyang City, Jiaozuo City, Henan Province	Ma Jie
49	Central China Securities Co., Ltd. Wuzhi Xinghua Road Securities Branch	3F, Northwest Angle, Intersection of Heping Road and Xinghua Road, Wuzhi County, Henan Province	Wei Siyun
50	Central China Securities Co., Ltd. Jiyuan Jishui Street Securities Branch	3F, Block C, Times Plaza, Jishui Street, Jiyuan City, Henan Province	Wang Yupeng
51	Central China Securities Co., Ltd. Lankao Yulu Avenue Securities Branch	East to North Yulu Avenue, Lankao County, Henan Province	Li Ming
52	Central China Securities Co., Ltd. Lingbao Hangu Road Securities Branch	Intersection of Hangu Road and Jingshan Road, Lingbao City	Li Jinfeng
53	Central China Securities Co., Ltd. Mianchi Huimeng Road Securities Branch	(1F of People's Bank of China, Mianchi Branch) Middle Huimeng Road, Mianchi County, Henan Province	Zhang Xueyun
54	Central China Securities Co., Ltd. Shangqiu Nanjing Road Securities Branch	3F, Block A, Yingtian International Plaza, West Gui'de Road, South Nanjing Road, Suiyang District, Shangqiu City, Henan Province	Zhang Zhongmin

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

No.	Securities branch	Address	Person in charge
55	Central China Securities Co., Ltd. Yongcheng Zhongyuan Road Securities Branch	Intersection of Zhongyuan Road and Guangming Road, Yongcheng City, Shangqiu City, Henan Province	Zhong Yahui
56	Central China Securities Co., Ltd. Minquan Boai Road Securities Branch	Shop 6, Building 11, Middot, at the intersection of Qiushui Road and Boai Road, Minquan County, Henan Province	Wang Peng
57	Central China Securities Co., Ltd. Xiayi Kongzu Avenue Securities Branch	Shop of No. 595 Kongzu Avenue, Xiayi County, Henan Province	Chen Haibin
58	Central China Securities Co., Ltd. Luyi Ziqi Avenue Securities Branch	No. 301, East Unit, 3F, Su Shang Xin Commercial Building (蘇商鑫都城), Intersection of Xianyuan Road and Ziqi Avenue, Luyi County	Li Yong
59	Central China Securities Co., Ltd. Xihua Fengmu Road Securities Branch	Middle Fengmu Road, Xihua County, Henan Province	Zhang Yang
60	Central China Securities Co., Ltd. Shenqiu Jixiang Road Securities Branch	South of East Jixiang Road, Huaidian Town, Shenqiu County, Henan Province	Ma Guang
61	Central China Securities Co., Ltd. Luoyang Kaiyuan Avenue Securities Branch	Building 1, No. 260 Kaiyuan Avenue, Luoyang City, Henan Province	Zhang Ruiping
62	Central China Securities Co., Ltd. Luoyang West Zhongzhou Road Securities Branch	No. 26 West Zhongzhou Road, Jianxi District, Luoyang City, Henan Province	Shi Guofeng
63	Central China Securities Co., Ltd. Yichuan Yugang Avenue Securities Branch	No. 170 Yugang Avenue, Chengguan Town, Yichuan County, Luoyang City, Henan Province	Gao Jingxian

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

No.	Securities branch	Address	Person in charge
64	Central China Securities Co., Ltd. Xin'an Cihe Road Securities Branch	North Jianhe Road, Xincheng West District, Xin'an County, Henan Province	Wang Haiyun
65	Central China Securities Co., Ltd. Xiping Xiping Avenue Securities Branch	No. 158 Xiping Avenue, Xiping County, Henan Province	Li Guangxi
66	Central China Securities Co., Ltd. Shanghai Chongming Chenjia Town Securities Branch	Room 107, No. 2 Lane 4999 Yingchen Highway, Chenjia Town, Chongming County, Shanghai City	Shao Min
67	Central China Securities Co., Ltd. Shanghai Hunan Road Securities Branch	1-2F, No. 2589 Hunan Road, Pudong New Area, Shanghai City	Zhang Zhenming
68	Central China Securities Co., Ltd. Shenzhen Mintian Road Securities Branch	Rooms 1903, 1905, 1906 and 1908, Xinhua Insurance Mansion, the southwest of crossroad between Shennan Avenue and Mintian Road, Futian District, Shenzhen City, Guangdong Province	Jia Zhonghe
69	Central China Securities Co., Ltd. Guangzhou West Tiyu Road Securities Branch	Room 3802, 3803, 3804, 3805, Tower B, No. 191 West Tiyu Road, Tianhe District, Guangzhou City (for office use only)	Xiong Peili
70	Central China Securities Co., Ltd. Qingdao Xianxialing Road Securities Branch	B Area of Jin Ling Sunzone, No. 16 Xianxialing Road, Laoshan District, Qingdao City, Shandong Province	Zhou Jianjun
71	Central China Securities Co., Ltd. Jinan Jiefang Road Securities Branch	Rooms 301-305, Building 5, No. 159 Jiefang Road, Lixia District, Jinan City, Shandong Province	Chen Yongli
72	Central China Securities Co., Ltd. Jinan Gongyenan Road Securities Branch	Room 103, Building 1, Wealth Center of China Railway, No. 59 Gongyenan Road, Hi-tech Zone, Jinan City, Shandong Province	Kong Qingli

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

No.	Securities branch	Address	Person in charge
73	Central China Securities Co., Ltd. Beijing Jiuxianqiao Road Securities Branch	A158, 1F, No. 51 Building, No. 14 Jiuxianqiao Road, Chaoyang District, Beijing City	Xia Qun
74	Central China Securities Co., Ltd. Beijing Guang'anmen Outer Street Securities Branch	Room 1-908, 1-909, 8F, Building 1, No. 168, Guang'anmen Outer Street, Xicheng District, Beijing City	Zheng Shuzhen
75	Central China Securities Co., Ltd. Hangzhou Xintang Road Securities Branch	Room 301, 3F, Building 2, Xincheng Shidai Plaza, No. 111 Xintang Road, Jianggan District, Hangzhou City, Zhejiang Province	Cao Jianbo
76	Central China Securities Co., Ltd. Tianjin Zhangzizhong Road Securities Branch	Room 702, No. 2 Zhangzizhong Road, Haihe Huading Mansion, Hongqiao District, Tianjin City	Lv Yaodong
77	Central China Securities Co., Ltd. Shijiazhuang Zhongshan West Road Securities Branch	Shop 2A003, 2F ZhongDian Information Plaza, No. 356 Zhongshan West Road, Qiaoxi District, Shijiazhuang City, Hebei Province	Chang Hongxin
78	Central China Securities Co., Ltd. Xi'an Weiyang Road Securities Branch	23F, Block A, Zhongdeng Building, No.138 Weiyang Road, Jingkai District, Xi'an City, Shaanxi Province	Wang Lin
79	Central China Securities Co., Ltd. Changsha North Chezhan Road Securities Branch	Building 5 of Panorama, No. 70 North Chezhan Road, Furong District, Changsha City, Hunan Province	Jiang Wang
80	Central China Securities Co., Ltd. Jishou Century Avenue Securities Branch	Room 106, Building 62, Two China Railway Real Estate Shijishanshui, Ganzhou Century Avenue, Jishou City, Hunan Province	Xiang Qingfeng
81	Central China Securities Co., Ltd. Zhangjiagang Jiannong Road Securities Branch	No. 7 Jiannong Road, Building 10 of Gang Cheng Hua Fu, Yangshe Town, Zhangjiagang City, Jiangsu Province	Chen Xiaogang

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

No.	Securities branch	Address	Person in charge
82	Central China Securities Co., Ltd. Wuhan Luoshi Road Securities Branch	Room 12, 13, 14, 7F, Starlight, South Lake, Intersection of South Luoshi Road and Wenhui Road, Hongshan District, Wuhan City	Cheng Xiwen
83	Central China Securities Co., Ltd. Yuncheng North Huaidong Road Securities Branch	1F, Tianyu Commercial Building, No. 9 North Huaidong Road, Yuncheng City	Tang Feng
84	Central China Securities Co., Ltd. Wugang Wenzhou Road Securities Branch	East to north section of Wenzhou Road, Wugang City, Pingdingshan City, Henan Province (opposite to the local taxation bureau)	Du Zhen
85	Central China Securities Co., Ltd. Yiwu North Chouzhou Road Securities Branch	Room 201, 202, No. 955 North Chouzhou Road, Yiwu City, Zhejiang Province	Qiu Xiaoxiao
86	Central China Securities Co., Ltd. Huangchuan Hangkong Road Securities Branch	Building 3, Cao Street, South Hangkong Road, Huangchuan County	Li Xiang
87	Central China Securities Co., Ltd. Yucheng Songshan Road Securities Branch	1-2F, Shop 109-110, Building 5, Royal Pearl River, North to Songshan Road, Chengguan Town, Yucheng County	Ma Zhongliang
88	Central China Securities Co., Ltd. Yanshi Yingbin Road Securities Branch	Room 301, Building 1, Yuehai International, No. 41 Hua Xia Road, Yiluo Subdistrict Office, Yanshi City	Huang Erbin

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

VII. OTHER RELEVANT DATA

Domestic accountant engaged by the Company	Name	ShineWing Certified Public Accountants (Special General Partnership)
	Office address	8F, Fu Hua Mansion, No.8 ChaoYang Men Beidajie, Dongcheng District, Beijing City
	Names of signing accountants	Yan Fanqing and Chao Xiaoyan
Overseas accountant engaged by the Company	Name	PricewaterhouseCoopers
	Office address	22/F, Prince's Building, Central, Hong Kong
	Names of signing accountants	Yip Siu Fun (葉少寬)
Sponsor performing the duty of continuous supervision during the Reporting Period	Name	Changjiang Financing Services Co. Limited
	Office address	21F, Chang Tai International Finance Building, No. 1589 Century Avenue, China (Shanghai) Pilot Free Trade Zone
	Names of signing sponsors	Gu Yuanfeng and Zhang Junqing
	Term of continuous supervision	6 July 2017 – 31 December 2019
Legal advisors as to PRC Law	Beijing Junzhi Law Firm	
Legal advisors as to Hong Kong Law	Li & Partners	
A Share Registrar	China Securities Depository and Clearing Corporation Limited, Shanghai Branch	
H Share Registrar	Computershare Hong Kong Investor Services Limited	
Unified social credit code	91410000744078476K	

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

VIII. MAJOR AWARDS IN 2017

In June 2017, the party committee of the Company was awarded “Outstanding Grassroots Party Organization” of the 2016-2017 Provincial Financial Enterprises by the Financial Work Commission of Henan Provincial Committee.

In September 2017, the Company was listed on the Honor Roll for Social Responsibility Performance by Securities Companies (《證券公司履行社會責任光榮榜》) of Securities Association of China and was also ranked fifth on the Honor Roll for “One Company for One County” Pair-up Assistance for provision of aid for 4 counties in poverty.

In September 2017, the Company was awarded “Special Contribution Award (特殊貢獻獎)” in the Choir Tournament of Henan State-owned Enterprises for “Celebrating 19th CPC National Congress” (“喜迎十九大”河南國有企業群眾性合唱比賽) by State-owned Assets Supervision and Administration Commission of Henan Provincial People’s Government.

In November 2017, the Company was awarded the “Listed Companies with Best Investment Value during the 13th Five-year Plan Period (十三五最具投資價值上市公司)” at the 2017 Hong Kong International Financial Forum and the 7th “Golden Bauhinia” Award Ceremony of China Securities.

In January 2018, the Company was awarded “2017 Innovative Securities Company (2017年度創新證券公司)” at the Huaxia Organization Investment Forum and the 11th “Golden Cicada” Award Ceremony (華夏機構投資者年會暨第十一屆“金蟬獎”頒獎盛典).

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

IX. PRINCIPAL ACCOUNTING DATA AND FINANCIAL INDEXES

(I) Principal accounting data and financial indexes for the recent three years

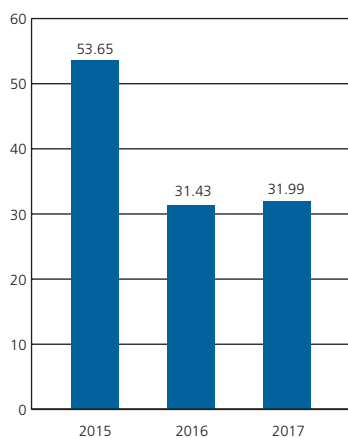
Item	2017	2016	Growth of this period from last period	2015
Operating results (RMB'000)				
Revenue and other income	3,199,060	3,143,028	1.8%	5,365,260
Profit before income tax	680,109	974,567	-30.2%	1,890,969
Profit for the year attributable to shareholders of the Company	441,983	718,646	-38.5%	1,405,501
Net cash inflow/outflow from operating activities	-1,596,902	1,772,788	N/A	-6,372,772
Earnings per share (RMB/share)				
Basic earnings per share	0.11	0.22	-50.0%	0.49
Diluted earnings per share	0.11	0.22	-50.0%	0.49
Profitability index				
Weighted average return on net assets (%)	4.24%	8.89%	Down by 4.65 percentage points	20.54%

Item	31 December 2017	31 December 2016	Growth of the end of this period from the end of last period	31 December 2015
Scale merit (RMB'000)				
Total assets	40,661,468	40,384,574	0.7%	41,651,249
Total liabilities	29,209,349	28,837,804	1.3%	32,774,795
Accounts payable to brokerage clients	7,526,503	10,368,090	-27.4%	14,867,251
Equity attributable to shareholders of the Company	10,169,852	10,582,117	-3.9%	8,161,581
Total share capital ('000 shares)	3,923,735	3,923,735	0.00%	3,223,735
Net asset value per share attributable to the Company's shareholders (RMB/share)				
	2.59	2.70	-4.1%	2.53
Gearing ratio (%)¹	65.0	61.5	Up by 3.5 percentage points	66.9

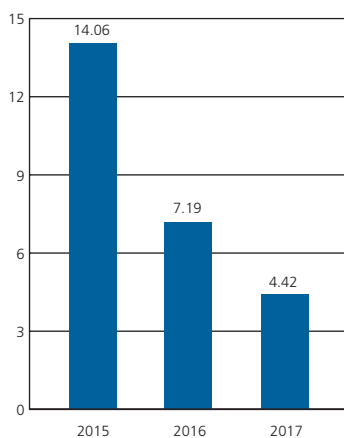
¹ Gearing ratio = (total liabilities – accounts payable to brokerage clients – accounts payable to underwriting clients)/(total assets – accounts payable to brokerage clients – accounts payable to underwriting clients)

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

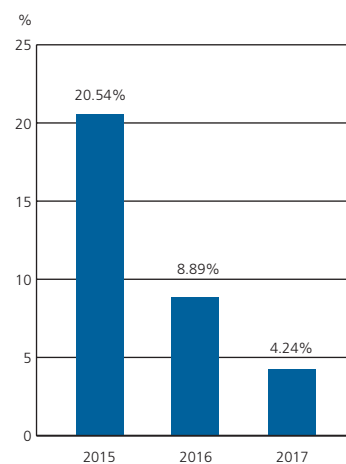
**Revenue and other income
(RMB100 million)**



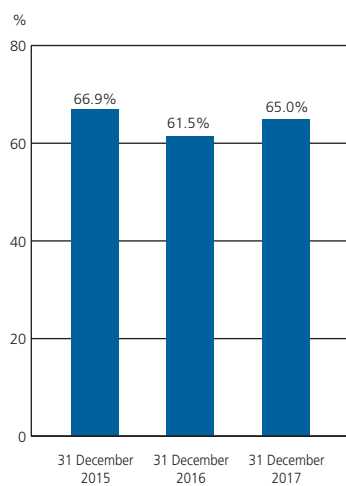
**Profit for the year attributable to shareholders of the Company
(RMB100 million)**



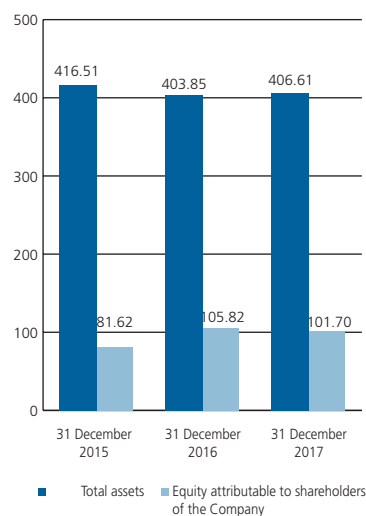
Weighted average return on net assets



Gearing ratio



**Scale merit
(RMB100 million)**



SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

(II) Principal accounting data and financial indexes for the recent five years

Earnings (RMB'000)

Item	2017	2016	2015	2014	2013
Revenue and other income	3,199,060	3,143,028	5,365,260	2,341,061	1,434,599
Total expenses	2,518,951	2,150,498	3,439,869	1,554,704	1,096,364
Profit before income tax	680,109	974,567	1,890,969	754,771	338,235
Profit for the year attributable to shareholders of the Company	441,983	718,646	1,405,501	562,290	252,937

Assets (RMB'000)

Item	31 December 2017	31 December 2016	31 December 2015	31 December 2014	31 December 2013
Total assets	40,661,468	40,384,574	41,651,249	28,269,242	13,649,605
Total liabilities	29,209,349	28,837,804	32,774,795	22,412,446	9,474,323
Accounts payable to brokerage clients	7,526,503	10,368,090	14,867,251	9,659,833	4,994,071
Equity attributable to shareholders of the Company	10,169,852	10,582,117	8,161,581	5,786,707	4,091,342
Total share capital ('000 shares)	3,923,735	3,923,735	3,223,735	2,631,616	2,033,516

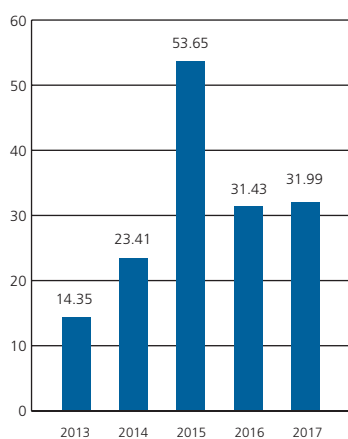
Key financial indexes

Item	2017	2016	2015	2014	2013
Basic earnings per share (RMB/share)	0.11	0.22	0.49	0.24	0.12
Diluted earnings per share (RMB/share)	0.11	0.22	0.49	0.24	0.12
Weighted average return on net assets (%)	4.24	8.89	20.54	11.41	6.40

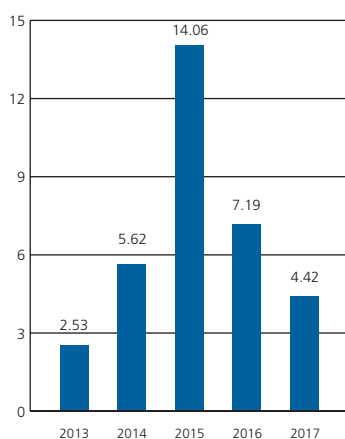
Item	31 December 2017	31 December 2016	31 December 2015	31 December 2014	31 December 2013
Gearing ratio (%)	65.0	61.5	66.9	68.5	51.8
Net asset value per share attributable to the Company's shareholders (RMB/share)	2.59	2.70	2.53	2.20	2.01

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

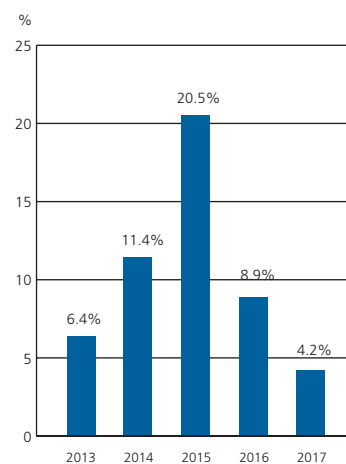
Revenue and other income (RMB100 million)



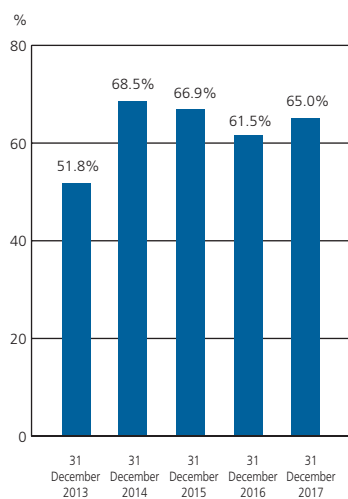
Profit for the year attributable to shareholders of the Company (RMB100 million)



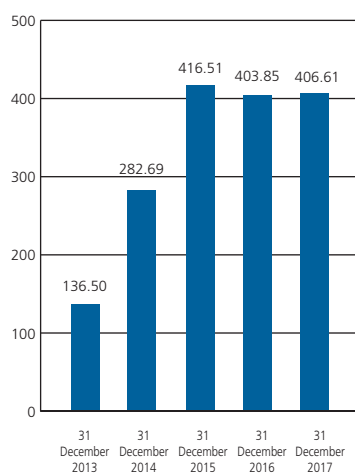
Weighted average return on net assets



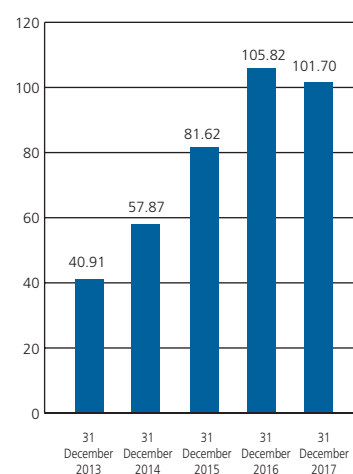
Gearing ratio



Total assets (RMB100 million)



Equity attributable to shareholders of the Company (RMB100 million)



SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

(III) NET CAPITAL OF THE COMPANY AND RELATED RISK CONTROL INDEX

Unit: RMB

Item	At the End of the Reporting Period	At the End of Last Year
Net capital	7,837,072,661.73	10,217,177,777.68
Net assets	10,066,054,127.25	10,431,615,497.58
Sum of various risk capital provisions	2,118,425,002.87	2,299,419,875.69
Total on- and off-balance sheet assets	28,955,919,340.53	26,738,489,965.46
Risk coverage ratio (%)	369.95	444.34
Capital leverage ratio (%)	18.71	29.26
Liquidity coverage ratio (%)	794.42	2,053.26
Net stable funding ratio (%)	144.98	158.58
Net capital/net assets (%)	77.86	97.94
Net capital/liabilities (%)	42.27	63.20
Net assets/liabilities (%)	54.30	64.52
Proprietary equity securities and its derivatives/net capital (%)	7.75	22.34
Proprietary non-equity securities and its derivatives/net capital (%)	127.46	55.29
Amount of margin financing (securities lending inclusive)/net capital (%)	132.78	81.85

Note: During the Reporting Period, the Company's risk control indexes, such as net capital, are in compliance with the regulatory requirements.

X. DIFFERENCES OF ACCOUNTING DATA UNDER DOMESTIC AND OVERSEAS ACCOUNTING STANDARDS

The consolidated financial statements prepared by the Company in accordance with International Financial Reporting Standards and the consolidated financial statements prepared in accordance with China's Accounting Standards for Business Enterprises show no difference in the profit for the year in 2017 and 2016 and the total equity as at 31 December 2017 and 31 December 2016.

SECTION 3 SUMMARY OF THE COMPANY'S BUSINESS

I. PARTICULARS OF THE PRINCIPAL BUSINESSES ENGAGED BY THE COMPANY, OPERATING MODELS AND INDUSTRIAL STATUS DURING THE REPORTING PERIOD

(I) Principal businesses engaged by the Company and operating models during the Reporting Period

The Company is principally engaged in the brokerage business, investment banking business, investment management business, proprietary trading business and offshore business.

The brokerage business of the Company refers to the Company's business of trading of stocks, funds, bonds and futures on behalf of the customers based on their engagement in return for customers' commission. In recent years, the Company proactively grasped opportunities and continued to promote the transformation from provision of channeling services to value-added wealth management services. The Company actively adjusted the structure of its securities brokerage business, accelerated the transformation of its brokerage branches towards becoming an integrated security and finance platform and continued to enhance its comprehensive ability in serving customers.

The investment banking business of the Company mainly includes the securities underwriting and sponsorship business, the underwriting business of products with fixed income, the financial consultancy business, and host brokerage business for the New Third Board. In recent years, the Company continuously improved its investment banking business system. By virtue of the advantage of the resource of the Henan Province, the Company has focused on serving the Henan capital market and kept on improving the nationwide business layout in order to create with full strength the "Central China Investment Banking" brand. Through these efforts, the Company has achieved positive progress and outstanding results in areas such as IPO, refinancing, merger, acquisition and restructuring and New Third Board recommendation business.

SECTION 3 SUMMARY OF THE COMPANY'S BUSINESS

The Company's investment management business is mainly comprised of asset management business, private fund management business, equity investment and financial asset investment business. For asset management business, the Company fully leveraged its extensive experience in the industry to strengthen team building works and enhance operation efficiency, with a view to providing customers with diversified and customized product offerings. In respect of private fund management business, the Company controlled risks strictly, strengthened management and deepened its cooperation with local governments and advanced investment institutions with a view to promote the establishment of funds, expediting the existing operation of ZYKC Venture Capital and supporting the development of the real economy. With a focus on both revenue in the current period and revenue in mid-to-long term for equity investment and financial assets investment, the Company pushed ahead with both equity investment and financial assets investment.

The scope of investment of the proprietary trading business includes publicly offered stocks, bonds, funds, derivatives and other financial products approved by the CSRC. During the development process, the securities proprietary business of the Company has adhered to the principles of value investing and "flexible allocation and stable operation (靈活配置·穩健操作)", resulting in the effective control of investment risks. In 2017, the proprietary business actively explored the new management model, while equity investment recorded revenue over operational phases. On the basis that all risks are under control for bond investment business, the Company adopted effective measures to better response to the market impact.

On the basis of the Type 1, Type 2, Type 4, Type 5, Type 6 and Type 9 licenses granted by the SFC, as well as the money lender's licence issued by the Court of Hong Kong, the business scope of the Company's overseas business covers comprehensive capital market services, including securities brokerage, margin financing, futures brokerage, investment banking, asset management, securities research, stock-secured financing and proprietary investment, etc. In 2017, the market of securities and derivatives in Hong Kong was buoyant with active trading activities, which recorded a number of new highs, including the substantial increase of 35.99% of Hang Seng Indexes and increase in the number of listing by way of IPO. Amid this favourable environment of the capital market, the overseas business of the Company capitalized on various business opportunities to continuously enhance its capital strength by completing the establishment of a platform for companies seeking to be listed and the introduction of strategic investors, thereby establishing a comprehensive international business chain and achieving relatively rapid development in various business aspects. Within about two years since its official commencement of operation, the ranking in terms of securities trading raised from 353 as at the end of 2016 to 153 as at the end of the Reporting Period [Source: Hong Kong Stock Exchange]. It demonstrated the continuous enhancement of its profitability with an increase of 177.23% in the net profit for the year as compared to that of 2016.

SECTION 3 SUMMARY OF THE COMPANY'S BUSINESS

(II) Development stage and cyclical characteristic of the Company's industry and its industry position during the Reporting Period

The securities industry is a typical cyclical industry that the industry performance is closely related to the overall environment of the capital market and the macro-economy. Since the beginning of 1990s in the 20th century, the Chinese securities market has gone through over 20 years of development and gradually developed from an immature and unregulated market into a mature and soundly regulated market. The industry also expanded from its original scale and has now become a major industry of China's national economy with great contribution to the promotion of national economic growth. Following the regulated development of the securities market in China, the securities industry also recorded steady growth.

Currently, the Company is the only securities company that was registered by legal persons in Henan Province. After over 10 years of development, the Company has developed itself into a comprehensive securities company with distinctive advantages in the region. The Company was classified into Grade "A" under Class "A" in the 2017 classification and evaluation of securities companies by the CSRC.

SECTION 3 SUMMARY OF THE COMPANY'S BUSINESS

II. SIGNIFICANT CHANGES OF THE COMPANY'S MAJOR ASSETS DURING THE REPORTING PERIOD

The major assets of the Company include: cash and bank balance (including cash held for brokerage clients), clearing settlement funds, advances from margin customers, financial assets held under resale agreements, financial assets held for trading and available-for-sale financial assets. For details of changes of the major assets during the Reporting Period, please refer to Section 4 II. (1) "4. Analysis on principal components of consolidated statement of financial position" in this report.

Of which: overseas assets amounted to RMB3,058 million, accounting for 7.52% of the total assets.

SECTION 3 SUMMARY OF THE COMPANY'S BUSINESS

III. ANALYSIS ON CORE COMPETITIVENESS DURING THE REPORTING PERIOD

1. Advantage with shares listed in both Shanghai and Hong Kong

On 3 January 2017, the Company was listed on the SSE and thus became the eighth securities company whose shares are listed in both A-share and H-share markets among 113 securities companies across China. Accordingly, the Company has the platform for smooth and direct financing both in Shanghai and Hong Kong and for capital operation, which has vigorously expanded the channels for replenishing net capital and operating capital.

2. Advantage of “six-in-one” whole industry chain service

Currently, the Company has established the “six-in-one” whole industry chain in which Equity Exchange Co. acts as the first part of the chain and covered businesses such as the Fourth-board Market, investment, the New Third Board, IPO and refinancing, providing integrated services of the capital market for enterprises in the real economy and basically forming its own core competitive advantages.

3. Unique advantage of Henan

Henan is where the six national strategies are implemented, namely the Central Plains Economic Zone, Zhengzhou Airport Integrated Experimental Zone, the National Core Producing Area of Grains, Zheng – Luo New National Independent Innovation Demonstration Zone, Henan Free Trade Zone and China (Zhengzhou) Cross-Border E-Commerce Pilot Zone. The Central Plains Urban Agglomeration, one of the nation-level urban agglomerations, is also under rapid development. The total GDP of Henan continues to rank fifth across China and it is also the province with the largest population across China, which provides huge room for development of the financial industry. The Company is the only securities company that was registered by legal persons in Henan Province. After 15 years of efforts in Henan, the Company has established good working relationship with local governmental authorities and most of the enterprises with advantages in the province, and thus its business development enjoyed distinctive advantages from being based in Henan.

SECTION 3 SUMMARY OF THE COMPANY'S BUSINESS

4. Attaching importance to social responsibility performance

The Company proactively took the Policy on Profit Distribution by Listed Companies (關於上市公司利潤分配政策) issued by the CSRC into practice and it has completed six cash dividend distribution since its listing in Hong Kong in 2014, with an accumulated amount distributed of RMB2.8 billion in aggregate. Meanwhile, the Company continued to make external donations and proactively participated in poverty alleviation by rolling out targeted poverty alleviation programs in Shangcai, Tongbai, Gushi and other under-privileged counties at national-level, which gained the Company a positive social image.

5. Positive corporate culture

Through its long operation and development history, the Company has established its corporate culture founded on “integrity and kindness, faithfulness and generosity, stringency and perseverance, pragmatism and effectiveness”, which vigorously strengthened the Company's cohesion and loyalty, thereby ensuring and promoting the implementation of the Company's development strategies, so as to enhance the competitiveness of the Company.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

I. DISCUSSION AND ANALYSIS ON OPERATING CONDITIONS

(I) GENERAL OPERATING CONDITIONS

In 2017, the Company closely adhered to the working principles established at the beginning of the year and successfully completed a series of work, including the listing of A shares, acceptance of reporting materials of Central China Life Insurance by the China Insurance Regulatory Commission and disclosure thereof in advance, and Equity Exchange Co. recorded posting of over 2,000 companies, which enabled Equity Exchange Co. to rank 12th in terms of number of listing as compared to the last fourth in terms of time of establishment across China.

In the face of a challenging market condition, the Company's brokerage business focused on enhancing both quality and efficiency, exploring potentials of traditional businesses and promoting synergic development of wealth management and integrated financial service by adhering to the principle of "increasing market share while maintaining revenue", with a view to further transforming towards "one-stop" integrated financial service platform. As for investment banking business, various works were completed under the business lines of this segment throughout the year, including 1 IPO project application, and 1 refinancing project has been examined and approved, 10 projects of corporate bonds and others have been approved by the stock exchanges, 25 companies were listed on the New Third Board and the Fixed Income Headquarter completed 3 issuance projects of special bonds and etc. The development of proprietary trading business, asset management business and other innovative business also achieved considerable progress. The Company further refined the development of its risk management and compliance system, conducted comprehensive inspection on compliance and risk control, practically enhancing the risk management ability. The Company has been classified into Grade "A" of securities companies by CSRC for three consecutive years.

In 2018, Central China Securities will expedite the expansion of various businesses including brokerage, investment banking, investment and asset management and broaden its international network with a focus on "enhancing professional abilities, ensuring compliant operation and enhancing both quality and efficiency" by adhering to the principle of "one strategy", implementing "four layouts" and strengthening "three aspects of security" on the condition of maintaining stringent control over risks, with a view to achieving rapid growth of the Company's operating results and bringing better returns to its investors and contributing to the community.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

(II) ANALYSIS OF PRINCIPAL OPERATIONS

1. Brokerage business

During the Reporting Period, the revenue and other income generated from brokerage business amounted to RMB1,686 million, representing an increase of 2.4% as compared with last year.

(1) Securities brokerage

In 2017, the trading amount of shares and funds in Shanghai and Shenzhen stock market reached RMB122.17 trillion, representing a drop of 12.09% over corresponding period last year. [Source: Wind Info]

During the Reporting Period, the Company actively seized the opportunities for listing and development, with a view to continuously promote business transformation, vigorously develop corporate brokerage business and gradually adjust its business structure. At the end of the Reporting Period, the trading volume of A shares and funds amounted to RMB1,268.14 billion, with market share of 0.52%; the balance for margin financing and securities lending amounted to RMB5.742 billion; credit transaction volume amounted to RMB98.503 billion; and the number of accumulated credit accounts opened was 41,595, representing an increase of 3.92% as compared to the end of 2016.

During the Reporting Period, by optimizing branch network, the Company ensured the smooth implementation of various bearer services and gradually expanded the covered areas. As at the end of the Reporting Period, the total number of customers of the Company was 1,722,700, representing an increase of 4.3% as compared to the end of 2016.

During the Reporting Period, adhering to the goal of transformation towards wealth management business, the Company focused on the development of its investment advisory business to proactively transform from a traditional channeling services provider to a wealth manager. During the Reporting Period, the Company continuously enriched the value-added services under the investment advisory business. Through investment advisory competitions and online and offline trainings, the Company has strengthened the professional training for its investment advisors and enhanced their comprehensive capabilities, optimized the requirements and procedures for standardized services of investment advisors and enhanced the service experience of customers. By implementing pilot programs for investment advisory business at certain brokerage branches, the Company aimed at gradually exploring a more definite business model for investment advisory business which would be “customer-oriented”, upon which it would facilitate systematic establishment of a relevant platform for commencing investment advisory business, with a view to enhancing the efficiency of business development and promoting transformation towards provision of wealth management services instead of traditional channeling services.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Items	2017/ 31 December 2017	2016/ 31 December 2016
A Share fund transaction volume (in RMB100 million)	12,686.14	16,291
Number of securities brokerage clients ('0,000)	172.27	165.2
Balance for margin financing and securities lending (in RMB100 million)	57.42	58.93
Credit transaction volume (in RMB100 million)	985.03	1,293.54
Credit account	41,595	40,028

(2) Futures brokerage

The Company commenced futures brokerage business through Central China Futures. In 2017, amid the environment of deleveraging and stringent regulation, leveraging product types with advantages, Central China Futures promoted transformation of the marketing and service model of futures brokerage business along the whole industry chain starting from the integration of futures brokerage business and innovative business. Such efforts were paid off with 1 new branch established and 1 under development, which helped to contribute to building the characteristics of the Group's business to a larger extent. Besides, Central China Futures has obtained the qualifications for trading futures of commodity and crude oil, actively expanding the business model of "warehouse receipts services + futures arbitrage". During the Reporting Period, Central China Futures had more than 3,000 customers newly added for the year with 22,000 customers served in total. Its operating income and total profit amounted to RMB394 million and RMB29.16 million, representing a year-on-year increase of 294.69% and 13.28%, respectively, and its return on net assets amounted to 5.3%.

(3) Distribution of financial products

The Company made dedicated efforts in establishing a one-stop integrated financial service platform, continuously enriched its financial product lines and promoted its wealth management services with a focus on financial product allocation, so as to promote the transformation towards wealth management for its product sales.

As for perfecting the product lines, the Company continued to improve its product lines of "Cash Management, Fixed Income, Equity Investment, Alternative Investment" through agency sale of external financial products and development of its proprietary products, with a view to providing customers with diversified product offerings.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Moreover, through means such as investor education, the Company guided non-professional customers to transform from individual stock trading to financial product allocation, and guided customers to make investments rationally, developing their concepts of asset allocation and wealth management.

During the Reporting Period, the total agency sale of public fund product of the Company amounted to RMB599 million, which was broadly the same as compared to RMB584 million in 2016. The total agency sale of bank wealth management product amounted to approximately RMB1,667 million, representing a substantial increase of 119% as compared to RMB760 million in 2016. Sales of beneficiary certification products amounted to RMB1,045 million, representing a substantial increase as compared to RMB10.27 million in 2016.

2. Investment banking business

During the Reporting Period, the revenue and other income generated from investment banking business amounted to RMB89 million, representing a drop of 69.9% compared with last year.

(1) Equity financing and financial advisory

In 2017, there were 438 companies in total that completed the initial offering in Shanghai and Shenzhen Stock Exchange, with financing amount of RMB240.977 billion; 388 listed companies completed the refinancing offering, with financing amount of RMB994.119 billion, representing a year-on-year decrease of 41.81%. There were 1,467 new listed companies in the New Third Board market, with financing amount of RMB133.625 billion, representing a year-on-year decrease of 70.86% and 3.93% respectively. [Source: Wind Info].

As at the end of the Reporting Period, the Company had 1 IPO project under approval. During the Reporting Period, the Company completed 15 financial advisory projects. The Company actively recommended listing in the New Third Board and private offer business. 25 new companies were listed in the New Third Board, 21 targeted financing in the New Third Board were completed, involving financing amount of RMB365 million.

Items	2017	2016	Year-on-year increase/ decrease
Lead underwriting amount (in RMB100 million)	0	36.49	N/A
Number of lead underwriting companies	0	6	N/A
Number of financial advisory projects	15	22	-31.82%
Number of New Third Board listing projects	25	45	-44.44%
New Third Board targeted financing (times)	21	31	-32.26%

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

(2) Debt financing

During the Reporting Period, the Company completed 3 enterprise bond project, 1 corporate bond project and 1 financial bond project. The amount of the fixed income projects underwritten was RMB4.83 billion.

Items	2017		2016	
	Amount of lead underwriting project (in RMB100 million)	Number of offerings	Amount of lead underwriting project (in RMB100 million)	Number of offerings
Corporate bond	4.5	1	77.2	9
Enterprise bond	28.8	3	28.3	2
Financial bond	15	1	–	–
Total	48.3	5	105.5	11

3. Investment management business

During the Reporting Period, the revenue and other income generated from investment and asset management business amounted to RMB260 million, representing an increase of 35.2% over last year.

(1) Asset Management

In 2017, a diversified range of wealth management products were provided to investors under asset management business of the Company, which included, among others, cash management, equity, bonds and MOM products. The design capabilities and investment management capabilities of various types of products were thus demonstrated, which got rid of over-reliance on a single market. For the provision of services to real economy, the cooperation of investment and financing between investors and borrowers were facilitated through product offerings.

During the Reporting Period, 44 products in the total amount of RMB21.045 billion were managed by the Company under asset management business. Of which, 25 products were under collective management, 17 products were under targeted management and 2 products were under specific management. The amount of products under collective management was RMB6.749 billion, representing an increase of RMB2.12 billion or 45.82% over 2016. The amount of products under targeted management was RMB13.253 billion, representing an increase of RMB6.958 billion or 110.53% over 2016. 2 products in the amount of RMB1.043 billion were under specific asset management scheme.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

(2) Private fund management

The Company commenced private fund management business through ZDKY Venture Capital. During the Reporting Period, ZDKY Venture Capital controlled risks strictly, strengthened management and deepened its cooperation with local governments and advanced investment institutions with a view to promoting the establishment of funds, expediting the existing operation of ZYKC Venture Capital and supporting the development of the real economy. During the Reporting Period, the Company proposed the establishment of 2 private funds with a total amount under management of RMB523.5 million. ZYKC Venture Capital completed 6 investments with a total investment of RMB98 million.

(3) Equity investment and financial assets investment

The Company commenced equity investment and financial assets investment through Central China Blue Ocean. During the Reporting Period, Central China Blue Ocean, with a focus on both revenue in the current period and revenue in mid-to-long term, pushed ahead with both equity investment and financial assets investment by completing 18 equity investment projects, 1 entrusted loans project and 10 financial products investment project in total.

4. Proprietary trading

During the Reporting Period, the revenue and other income generated from proprietary trading business amounted to RMB461 million, representing an increase of 26.8% over last year.

In 2017, the A share market experienced shocks with obvious divergent developments. As at the end of the Reporting Period, SSE Composite Index, Shenzhen Stock Exchange Component Index, Shenzhen Stock Exchange Small and Medium Enterprise Index, Shenzhen Stock Exchange Growth Enterprise Index, CSI 300 Index and SSE 50 Index closed at 3,307.17, 11,040.45, 7,554.86, 1,752.65, 4,030.85 and 2,860.44, representing increases of 6.56%, 8.48%, 16.73%, decrease of 10.67%, increases of 21.78% and 25.08%, respectively. [Source: Wind Info]

In the face of serious diversified structure of the market, equity investment has always placed the utmost priority on stringent risk control by taking initiative to avoid high-valued types of products without safety margins. Besides, it also proactively increase its positions in blue chips and explored new business management models, which helped to avoid the risks arising from market divergence to a certain extent and record revenue in different phases of development. In response to the market trends, investment with fixed income would make appropriate allocation of its positions to be well-prepared for long-term control and prevention of credit risks as well as stringent control over liquidity risks, while refining its operation upon reasonable assumptions of trends such as capital, fundamental factors, etc., with a view to reducing financing costs and enhancing revenue.

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5. Overseas business

During the Reporting Period, the revenue and other income generated from overseas business amounted to RMB267 million, representing an increase of 173.6% as compared with last year.

In 2017, the average daily trading amount and the total amount of funds raised in the Hong Kong securities market increased by 31.86% and 18.34% respectively as compared to the same period of 2016, while the number of newly listed companies increased by 38.1% year-on-year [Source: Hong Kong Stock Exchange]. Against such backdrop, Central China International developed a comprehensive international business chain by seizing the favourable opportunities for business development and actively explored business models and profit models that suit its own development characteristics by leveraging the synergy with the Company. During the Reporting Period, upholding the direction of internationalization, marketization and professionalization, Central China International adhered to its three major goals of “Platform Optimization, Business Enhancement and Profit Multiplication”, with a view to continuously strengthening the establishment of fundamental platforms and achieving balanced development of major businesses, while enhancing management of compliance and risk control, thereby maintaining rapid growth for various businesses. As at the end of the Reporting Period, the number of brokerage business accounts reached 5,268, representing an increase of 24.19% as compared to the end of last year. The market value of client positions amounted to HK\$8.363 billion, and the accumulated share transaction volume amounted to HK\$11.315 billion, which is 13.08 times of that in the whole year of 2016. On the basis that all risks are under control and predictable, Central China International developed capital-based intermediary business by leveraging customers’ demand for investment and financing brought by the growth of accounts of the brokerage business. As at the end of the Reporting Period, the balance of margin financing amounted to HK\$841 million, representing an increase of 195.09% as compared to the end of last year. With breakthrough in fixed income business, Central China International completed the establishment of 9 asset management products with customer’s assets under management significantly increased to HK\$5 billion. For investment banking business, the Company has contracted and reserved a number of projects. For instance, the Company acted as the sole sponsor and main underwriter for the IPO project in respect of the listing on GEM board of XiangXing International (象興國際) in Hong Kong, participated in the IPO project in respect of the listing on the Main Board of Zhongyuan Bank (中原銀行) as the joint bookrunner in Hong Kong, participated in the IPO project in respect of the listing on the main board of Shandong Trust (山東信託) as the vice lead manager in Hong Kong and acted as the global coordinator and joint bookrunner for the project in respect of the issuance of preference shares of Zhengzhou Bank (鄭州銀行) and Jinzhou Bank (錦州銀行).

6. Headquarters and others

(1) Securities-backed lending and securities repurchase

During the Reporting Period, the Company’s securities-backed lending recorded substantial growth in both revenue and size. The average daily transaction over the year of securities-backed lending made with its own funds logged RMB3,017 million, up by 38.52% compared with that of 2016, and interest income came to about RMB168 million, up by 9.80% as compare with that of 2016. As at the end of the Reporting Period, the initial transaction amount to be repurchased amounted to RMB4,602 million, representing an increase of 93.93% as compared with the end of 2016, with an average performance guarantee percentage of to-be-completed transactions of 228.45%.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

As at the end of the Reporting Period, 798 new accounts were opened for securities repurchase business transaction, down by 3.27% as compared to the end of 2016. The initial transaction amount recorded during the Reporting Period amounted to RMB65 million, up by 14.04% as compared to that of 2016. The transaction amount repurchased amounted to RMB38 million, down by 34.21% as compared to that of 2016, while the balance to be repurchased amounted to RMB15 million.

(2) Market-making business on New Third Board

During the Reporting Period, the market-making business on New Third Board faced systematic risks of continuous index fall and sluggish trading market. Against such backdrop, the Company actively adjusted its business strategy, reduced new investment projects, divested the existing projects gradually and strictly controlled trading risks. Through these measures, the number of market-making entities recorded net decrease and the business scale was depressed.

As at the end of the Reporting Period, the Company has 114 market-making stocks on the New Third Board, ranked 23rd in the industry in terms of number of market-making entities.

(3) Innovative business

Internet finance

During the Reporting Period, the Company cooperated with 3,525 new customers through internet advertisements, which accounted for 5.7% of the total accounts of the Company. The sale of product on the internet amounted to RMB3,397 million, representing a year-on-year increase of 256%.

OTC market

During the Reporting Period, the Company strengthened the management of compliance and risk control as well as appropriateness by revising and perfecting the system and procedures of OTC market, thereby ensuring compliant and normal operation of the OTC market. It also continued to promote the establishment of OTC market with enhancement in the business functions of “up.ccnew.com” and the mobile app “Cai Sheng Bao (財升寶)”, facilitating the development of business in the OTC market. Besides, the Company proactively promote product diversification in the OTC market through the issuance of 131 series of beneficiary certificates on rolling basis with a total issue size of RMB2.5 billion. Such measure enriched the product lines in an effective manner and provided an effective tool for business transformation and customer base expansion of the brokerage business.

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Stock option

The Company proactively seized the market opportunities for business development. By strengthening team building and launching various promotional activities such as “King of Options (權王爭霸賽)”, the Company effectively improved the professional ability of its business personnel and increased the customers’ transaction volume, thus achieving rapid growth of stock option business and gradual enhancement of its influence. During the Reporting Period, the number of accounts newly opened of stock option business of the Company amounted to 513 with a trading volume of options contracts of 969,000 and income of RMB3.595 million. The Company was ranked 28th and 33rd in the industry in terms of market shares in the number of customers and trading volume throughout the year, respectively. [Source: SSE]

(4) Equity Exchange Co.

The Company commenced the business of the Fourth Board through Equity Exchange Co.. During the Reporting Period, Equity Exchange Co. facilitated new financing of RMB1,716 million for various enterprises and assisted one enterprise to change its listing to New Third Board. Equity Exchange Co. has set up “One Market Two Boards”. As at the end of the Reporting Period, the number of listed enterprises exceeded 2,000. There were 355 member units of various kinds, which was composed of 162 recommended institution members, 193 professional service members, 190 custodian enterprises with 26.319 billion entrusted shares.

(5) Research business

During the Reporting Period, the Company’s Securities Research Institute released 588 research reports, organized 243 morning meetings and issued morning meeting products, and provided about 270 service items to support the development of the Company’s major businesses actively, which provided important research support for the Company’s decision-making.

During the Reporting Period, the Company’s Securities Research Institute provided support to various researches organized by the competent authorities, including the Financial Service Office of Henan Province, Henan SASAC, Henan Branch of the CSRC and Henan Provincial Government, and compiled various targeted research reports with the contents of which covering various aspects, such as the existing development condition and future development trends of Chinese securities industry, the development of capital market in Henan, the development of local financial institutions and analysis on the Company’s competitiveness.

(6) Micro-lending business

The Company commenced micro-lending business through Central China Micro-lending. As at the end of the Reporting Period, the balance of loans amounted to RMB1,228 million, which was mainly invested in enterprises engaging in industrial and agriculture-related businesses, small and micro-sized companies and other entities and enterprises, with a view to supporting the development of the real economy in Henan Province. During the Reporting Period, the interest income amounted to RMB44.2127 million.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

II. PRINCIPAL OPERATIONS DURING THE REPORTING PERIOD

As at the end of 2017, the total assets of the Group amounted to RMB40,661.5 million, and equity attributable to shareholders of the Company were RMB10,169.9 million. In 2017, the Group realized revenue and other income of RMB3,199.1 million, representing an increase of 1.8% as compared to that of 2016. Profit attributable to shareholders of the Company was RMB442.0 million, representing a decrease of 38.5% as compared to that of 2016. The weighted average return on net assets was 4.24%, representing a decrease of 4.65 percentage points as compared to that of 2016.

(1) Analysis on Financial Statements

1. Details of principal items in the consolidated statement of profit or loss

In 2017, the Group recorded total revenue and other income of RMB3,199.1 million, representing an increase of 1.8% as compared with 2016. Of such total, securities brokerage recorded RMB706.3 million, representing a decrease of 25.1% as compared with 2016; Margin financing and securities lending recorded RMB532.1 million, representing a decrease of 6.8% as compared with 2016; futures brokerage recorded RMB447.2 million, representing an increase of 238.0% as compared with 2016; investment banking recorded RMB88.5 million, representing a decrease of 69.9% as compared with 2016; investment and asset management recorded RMB259.9 million, representing an increase of 35.2% as compared with 2016; proprietary trading recorded RMB461.4 million, representing an increase of 26.8% as compared with 2016; overseas business recorded RMB267.3 million, representing an increase of 173.6% as compared with 2016; headquarters and others recorded RMB588.0 million, representing an increase of 12.1% as compared with 2016.

In 2017, the Group's total expenses was RMB2,519.0 million, representing a decrease of 17.1% as compared with 2016.

In 2017, the Group recorded net profit attributable to shareholders of the Company of RMB442.0 million, representing a decrease of 38.5% as compared with 2016. Basic earnings per share amounted to RMB0.11, representing a decrease of 50.0% as compared with 2016. Weighted average return on net assets was 4.24%, representing a decrease of 4.65 percentage points as compared with 2016.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Summary of financial results

In 2017, the Group's profit before income tax amounted to RMB680.11 million, representing a decrease of 30.2% as compared to 2016. The key financial results are as follows:

Unit: in RMB million

Item	2017	2016	Changes	YOY growth rates
Revenue				
Commission and fee income	1,141.5	1,502.7	-361.2	-24.0%
Interest income	1,269.5	1,148.4	121.1	10.5%
Net investment gains	414.9	417.2	-2.3	-0.6%
Other income and gains	373.1	74.8	298.3	398.8%
Total revenue and other income	3,199.1	3,143.0	56.1	1.8%
Total expenses	2,519.0	2,150.5	368.5	17.1%
Profit before income tax	680.1	974.6	-294.5	-30.2%
Income tax expense	158.9	227.8	-68.9	-30.2%
Profit for the year	521.2	746.7	-225.5	-30.2%
Profit attributable to shareholders of the Company	442.0	718.6	-276.6	-38.5%

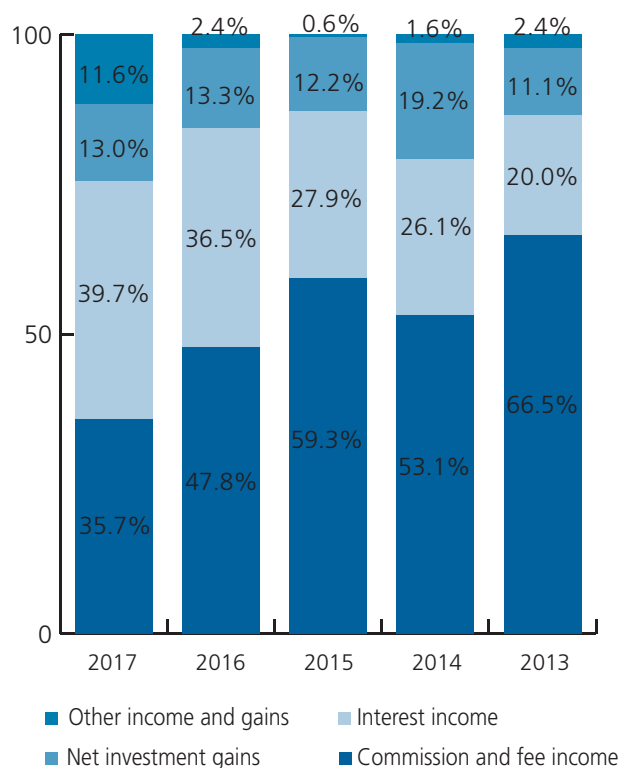
SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Revenue structure

In 2017, total revenue and other income of the Group amounted to RMB3,199.1 million, representing an increase of 1.8% as compared to 2016. Among which, the proportion of commission and fee income was 35.7%, representing a decrease of 12.1 percentage points as compared to 2016. The proportion of interest income was 39.7%, representing an increase of 3.2 percentage points as compared to 2016. The proportion of net investment gains was 13.0%, representing a decrease of 0.3 percentage point as compared to 2016; the proportion of revenue and other income was 11.6%, representing an increase of 9.2 percentage points as compared to 2016. The revenue structures of the Group in the past five years are as follow:

Item	2017	2016	2015	2014	2013
Commission and fee income	35.7%	47.8%	59.3%	53.1%	66.5%
Interest income	39.7%	36.5%	27.9%	26.1%	20.0%
Net investment gains	13.0%	13.3%	12.2%	19.2%	11.1%
Other income and gains	11.6%	2.4%	0.6%	1.6%	2.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Bar chart below sets forth the comparison of structures:



SECTION 4 REPORT OF THE BOARD OF DIRECTORS

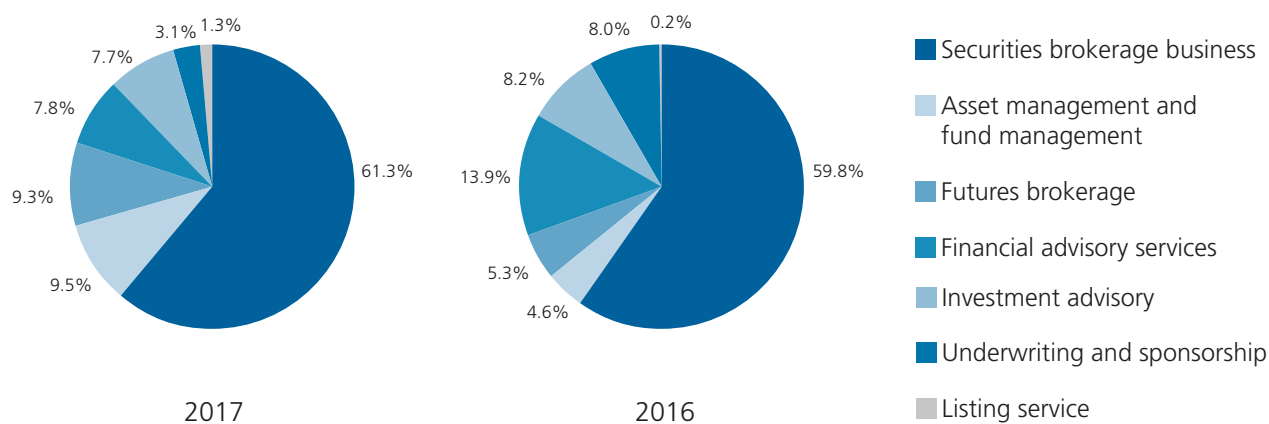
Commission and fee income

In 2017, the Group's commission and fee income consists of the following:

Unit: in RMB million

Item	2017	2016	Changes	YoY growth rate
Commission and fee income				
Securities brokerage business	700.6	898.3	-197.7	-22.0%
Asset management and fund management	108.2	68.9	39.3	57.0%
Futures brokerage	105.9	79.3	26.6	33.5%
Financial advisory services	88.6	209.2	-120.6	-57.6%
Investment advisory	88.0	123.5	-35.5	-28.7%
Underwriting and sponsorship	35.7	120.6	-84.9	-70.4%
Listing service	14.5	2.9	11.6	400.0%
Total commission and fee income	1,141.5	1,502.7	-361.2	-24.0%
Commission and fee expenses	221.0	243.0	-22.0	-9.1%
Net commission and fee income	920.5	1,259.7	-339.2	-26.9%

The Group's commission and fee income consists of:



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In 2017, net commission and fee income of the Group amounted to RMB920.5 million, representing a year-on-year decrease of RMB339.2 million or 26.9%. The decrease was primarily attributable to the decrease in commission and fee generated from securities brokerage business, financial advisory fee and underwriting and sponsorship fee.

Commission and fee income generated from securities brokerage business decreased by RMB197.7 million or 22.0% year-on-year, primarily attributable to a decrease in trade volume due to the sluggish securities market in 2017.

Asset and fund management fee income increased by RMB39.3 million or 57.0% year-on-year, mainly because the Company recorded growth in its asset management business and thus an increase in management fee income.

Commission and fee income from futures brokerage increased by RMB26.6 million or 33.5% year-on-year, mainly due to the fact that the change of the model of marketing services of futures brokerage business was successful to a certain extent, which has resulted in the number of clients served.

Financial advisory fee income generated from investment banking business decreased by RMB120.6 million or 57.6% year-on-year, primarily attributable to the decrease in the New Third Board recommendation listing and private placement business.

Underwriting and sponsorship fee income generated from investment banking business decreased by RMB84.9 million or 70.4% year-on-year, primarily because of the decrease in the income from securities brokerage business.

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Interest income

In 2017, net interest income of the Group amounted to RMB461.0 million, representing an increase of RMB142.7 million or 44.8% as compared to 2016. The Group's net interest income for 2017 consists of the following:

Unit: in RMB million

Item	2017	2016	Changes	YoY growth rate
Interest income				
Interest income from financial assets held under resale agreements	483.2	295.9	187.3	63.3%
Interest income from margin financing and securities lending	439.5	495.2	-55.7	-11.2%
Interest income from bank deposits	261.1	314.7	-53.6	-17.0%
Interest income from loans and advances to clients	85.6	42.3	43.3	102.4%
Others	0.1	0.3	-0.2	-66.7%
Total interest income	1,269.5	1,148.4	121.1	10.5%
Interest expenses	808.5	830.1	-21.6	-2.6%
Net interest income	461.0	318.3	142.7	44.8%

Interest income from financial assets held under resale agreements increased by RMB187.3 million or 63.3% year-on-year, primarily attributable to the increase in interest income from reverse repurchase business.

Interest income from margin financing and securities lending decreased by RMB55.7 million or 11.2% year-on-year, primarily attributable to the decrease of daily average size of margin financing and securities lending business.

Interest income from bank deposits decreased by RMB53.6 million or 17.0% year-on-year, primarily attributable to the decrease in interest income of the deposits of its own funds.

Interest income from loans and advances to clients increased by RMB43.3 million or 102.4% year-on-year, primarily attributable to the increase in interest income of micro-lending business of subsidiaries.

Interest expenses decreased by RMB21.6 million or 2.6% year-on-year, primarily attributable to the decrease in costs of active financing activities.

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Net investment gains

In 2017, net investment gains of the Group amounted to RMB414.9 million, representing a decrease of RMB2.3 million or 0.6% as compared to 2016. The Group's net investment gains for 2017 consist of the following:

Unit: in RMB million

Item	2017	2016	Changes	YoY growth rate
Net investment gains				
Realised gains from disposal of available-for-sale financial assets	98.4	7.4	91.0	1229.7%
Dividends and interest income from available-for-sale financial assets	142.9	58.8	84.1	143.0%
Net losses from financial assets held for trading	-267.5	-88.8	-178.7	N/A
Dividends and interest income from financial assets held for trading	314.7	373.4	-58.7	-15.7%
Net realised losses from derivative financial instruments	-3.2	-18.9	15.7	N/A
(Losses)/gains from disposal of subsidiaries	-0.2	41.0	-41.2	N/A
Gains from disposal of associates	58.8	-	58.8	N/A
Dividends and interest income from financial instruments designated as at fair value through profit or loss	78.7	18.0	60.7	337.2%
Financial assets designated as at fair value through profit or loss	6.3	27.1	-20.8	-76.8%
Financial liabilities designated as at fair value through profit or loss	-20.6	-13.5	-7.1	N/A
Share of profits or losses of associates	6.6	12.7	-6.1	-48.0%
Total	414.9	417.2	-2.3	-0.6%

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Operating expenses

In 2017, operating expenses of the Group (excluding commission and fee expenses and interest expenses) amounted to RMB1,489.4 million, representing an increase of RMB412.1 million or 38.3% as compared to 2016. The Group's operating expenses primarily consist of the following:

Unit: in RMB million

Item	2017	2016	Changes	YoY growth rate
Operating expenses				
Staff costs	716.5	711.3	5.2	0.7%
Depreciation and amortisation	71.2	66.3	4.9	7.4%
Other operating expenses	625.8	326.7	299.1	91.5%
Impairment losses	75.9	-27.0	102.9	N/A
Total	1,489.4	1,077.3	412.1	38.3%

Staff costs increased by RMB5.2 million or 0.7% year-on-year, primarily attributable to the increase in provision for remuneration by subsidiaries based on results.

Depreciation and amortisation increased by RMB4.9 million or 7.4% year-on-year, primarily attributable to the increase of amortisation to intangible assets.

Other operating expenses increased by RMB299.1 million or 91.5% year-on-year, primarily attributable to the increase in costs of sale of bulk commodity trading.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Impairment losses increased by RMB102.9 million year-on-year, primarily attributable to the increase in provision for impairment of margin accounts receivable and available-for-sale financial assets. Details are as follows:

Unit: in RMB million

Item	2017	2016	Changes	YoY growth rate
Impairment losses				
Margin accounts receivable	50.2	4.1	46.1	1,124.4%
Financial assets held under resale agreements	9.3	2.3	7.0	304.3%
Loans and advances to clients	8.3	10.5	-2.2	-21.0%
Available-for-sale financial assets	7.0	-45.1	52.1	N/A
Accounts receivable	1.1	1.1	0.0	0.0%
Total	75.9	-27.0	102.9	N/A

2. Public welfare contributions

During 2017, the Group contributed RMB2.3 million in total in public welfare areas including environmental protection projects, disaster relief donations, education subsidies and charity donations.

Unit: in RMB million

Item	Amount during the period
Expenses in relation to donation or sponsorship	2.3

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3. Cash flows

Excluding the effect of changes in client margin deposit, the net decrease in cash and cash equivalents amounted to RMB1,642.4 million, which was because the cash inflows generated from financing activities was less than the cash outflows arising from operating activities and investment activities of the Group for the year.

Among which:

- (1) Net cash flow arising from operating activities for 2017 amounted to RMB-1,596.9 million, as compared to RMB1,772.8 million in 2016. The net cash outflow of operating activities in 2017 was mainly attributable to: cash outflow of RMB3,304.6 million due to an increase in the financial assets held under resale agreements; cash outflow of RMB1,091.3 million due to increase in financial assets designated as at fair value through profit or loss. The above cash outflows have been partially offset by the cash inflow of RMB1,308.1 million caused by a decrease in financial assets held for trading and the cash inflows of RMB1,676.9 million caused by an increase in financial assets held under resale agreements.
- (2) Net cash used in investment activities amounted to RMB-490.1 million in 2017, as compared with RMB-187.7 million in the corresponding period in 2016, mainly attributable to the increase in net cash outflows as a result of available-for-sale financial assets.
- (3) Net cash arising from financing activities amounted to RMB444.6 million in 2017, as compared with RMB917.1 million in the corresponding period in 2016. The net cash inflow from financing activities in 2017 were primarily attributable to the cash inflow of RMB2,497.6 million from issuance of short-term notes, cash inflow of RMB2,500.0 million from issuance of bonds and the cash inflow of RMB1,468.3 million from bank loans. The abovementioned cash inflow was partially offset by the cash outflow of RMB3,400.0 million from redemption of subordinated bonds, cash outflow of RMB1,543.7 million from redemption of short-term notes and cash outflow of RMB784.0 million from dividend payments.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

4. Analysis on principal components of consolidated statement of financial position

As at the end of 2017, total assets of the Group amounted to RMB40,661.5 million, up by 0.7% as compared to RMB40,384.6 million as at the end of 2016. Total liabilities amounted to RMB29,209.3 million, up by 1.3% as compared to RMB28,837.8 million as at the end of 2016. Equity attributable to shareholders of the Company amounted to RMB10,169.9 million, down by 3.9% as compared to RMB10,582.1 million as at the end of 2016.

The asset structure of the Group remained stable with sound asset quality and liquidity. As at the end of 2017, the total assets of the Group comprised of: cash assets, which primarily included cash and bank balances (including cash held for brokerage clients), clearing settlement funds and refundable deposits, amounted to RMB11,248.1 million, representing 27.7% of our total assets. Margin assets, which primarily included margin accounts receivable and financial assets held under resale agreements, amounted to RMB15,560.0 million, representing 38.3% of our total assets. Financial investment assets, which primarily included investment in associates and investment in financial assets, amounted to RMB12,519.3 million, representing 30.8% of our total assets. Other operating assets, which primarily included property and equipment, investment properties and intangible assets, amounted to RMB1,320.9 million, representing 3.2% of our total assets. Assets classified as held for sale amounted to RMB13.2 million, representing 0.03% of our total assets. In 2017, the Group has made corresponding impairment provision for margin accounts receivable, financial assets held under resale agreements, loans and advances to customers and available-for-sale financial assets. There is no evidence showing that other assets may be subject to significant impairment.

Our gearing ratio increased. As at the end of 2017, the total self-owned liabilities of the Group after deducting accounts payable to brokerage clients and accounts payable to underwriting clients amounted to RMB21,248.4 million, representing an increase of RMB2,778.7 million or 15.04% as compared to RMB18,469.7 million as at the end of 2016. Calculated by assets and liabilities after deducting accounts payable to brokerage clients and accounts payable to underwriting clients, the gearing ratio as at the end of 2017 was 65.0%, up by 3.5 percentage points from 61.5% as at the end of 2016.

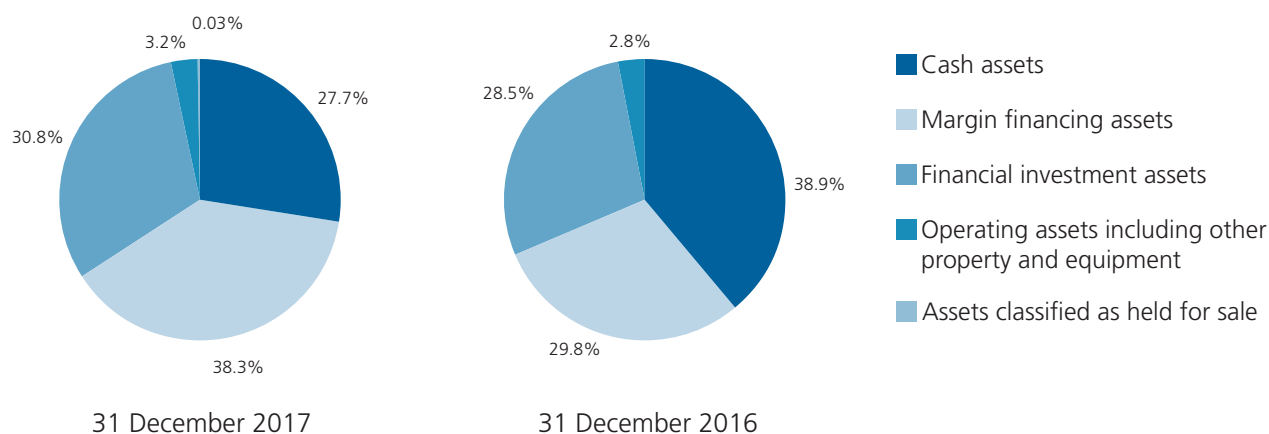
SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Changes in the major asset items of the Group are as follows:

Unit: in RMB million

Item	31 December 2017	31 December 2016	Changes	YoY growth rate
Total assets				
Cash assets	11,248.1	15,677.5	-4,429.4	-28.3%
Margin financing assets	15,560.0	12,031.0	3,529.0	29.3%
Financial investment assets	12,519.3	11,510.9	1,008.4	8.8%
Operating assets including other property and equipment	1,320.9	1,165.2	155.7	13.4%
Assets classified as held for sale	13.2	-	13.2	N/A
Total	40,661.5	40,384.6	276.9	0.7%

Total assets of the Group consist of:



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Cash assets

As at the end of 2017, cash assets of the Group decreased by RMB4,429.4 million or 28.3% year-on-year, representing 27.7% of the Group's total assets. The following table sets forth the composition of the Group's cash assets:

Unit: in RMB million

Item	31 December 2017	31 December 2016	Changes	YoY growth rate
Cash assets				
Cash and bank balances (including cash held for brokerage clients)	8,637.1	12,090.4	-3,453.3	-28.6%
Clearing settlement funds	2,350.2	3,097.0	-746.8	-24.1%
Refundable deposits	260.8	490.1	-229.3	-46.8%
Total	11,248.1	15,677.5	-4,429.4	-28.3%

Changes in cash assets were primarily reflected in cash and bank balances (including cash held for brokerage clients), decreased by RMB3,453.3 million year-on-year, representing a decrease of 28.6%, which was primarily attributable the decrease in cash held for brokerage clients under the influence of the market condition, and the receipt of proceeds from IPO at the end of 2016.

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Margin financing assets

As at the end of 2017, margin financing assets of the Group increased by RMB3,529.0 million or 29.3% year-on-year, representing 38.3% of the Group's total assets. The following table sets forth the composition of the Group's margin financing assets:

Unit: in RMB million

Item	31 December 2017	31 December 2016	Changes	YoY growth rate
Margin financing assets				
Margin accounts receivable	6,353.0	6,119.3	233.7	3.8%
Financial assets held under resale agreements	9,207.0	5,911.7	3,295.3	55.7%
Total	15,560.0	12,031.0	3,529.0	29.3%

Margin accounts receivable increased by RMB233.7 million year-on-year, representing an increase of 3.8% as compared to the end of 2016, which was primarily attributable to the increase in the scale of margin financing of subsidiaries.

Financial assets held under resale agreements increased by RMB3,295.3 million year-on-year, representing an increase of 55.7% as compared to the end of 2016, which was primarily attributable to the increase in scale of the securities-backed lending business.

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Financial investment assets

As at the end of 2017, financial investment assets of the Group increased by RMB1,008.4 million or 8.8% year-on-year, representing 30.8% of the Group's total assets. The following table sets forth the composition of the Group's financial investment assets:

Unit: in RMB million

Item	31 December 2017	31 December 2016	Changes	YoY growth rate
Financial investment assets				
Investment in associates	492.9	370.4	122.5	33.1%
Available-for-sale financial assets	2,948.5	2,583.3	365.2	14.1%
Financial assets held for trading	6,120.9	7,522.3	-1,401.4	-18.6%
Financial assets designated as at fair value through profit or loss	1,501.6	514.8	986.8	191.7%
Loans and advances to customers	1,271.9	520.1	751.8	144.5%
Derivative financial assets	59.9	–	59.9	N/A
Investment classified as receivables	83.6	–	83.6	N/A
Receivables from other financial institutions	40.0	–	40.0	N/A
Total	12,519.3	11,510.9	1,008.4	8.8%

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Available-for-sale financial assets

As at the end of 2017, the available-for-sale financial assets of the Group increased by RMB365.2 million or 14.1% year-on-year, representing 7.3% of the Group's total assets. The composition of the Group's available-for-sale financial assets was as follows:

Unit: in RMB million

Item	31 December 2017	31 December 2016	Changes	YoY growth rate
Available-for-sale financial assets				
Debt investment	1,007.6	60.0	947.6	1579.3%
Equity investment	163.9	251.1	-87.2	-34.7%
Collective asset management schemes	217.3	272.3	-55.0	-20.2%
Targeted asset management schemes	427.9	100.0	327.9	327.9%
Specified asset management schemes	238.4	320.1	-81.7	-25.5%
Wealth management products	–	158.0	-158.0	-100.0%
Investment funds	151.3	28.0	123.3	440.4%
Trust schemes	515.0	–	515.0	N/A
Other investment	227.1	1,393.8	-1,166.7	-83.7%
Total	2,948.5	2,583.3	365.2	14.1%

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Financial assets held for trading

As at the end of 2017, the financial assets held for trading of the Group decreased by RMB1,401.4 million or 18.6% year-on-year, representing 15.1% of the Group's total assets. The composition of the Group's financial assets held for trading was as follows:

Unit: in RMB million

Item	31 December 2017	31 December 2016	Changes	YoY growth rate
Financial assets held for trading				
Debt securities	4,873.5	5,739.8	-866.3	-15.1%
Equity securities	658.9	822.9	-164.0	-19.9%
Investment funds	588.6	863.7	-275.1	-31.9%
Others	–	95.8	-95.8	-100.0%
Total	6,120.9	7,522.3	-1,401.4	-18.6%

Financial assets designated as at fair value through profit or loss

As at the end of 2017, the financial assets designated as at fair value through profit or loss increased by RMB986.8 million or 191.7% year-on-year, representing 3.7% of the Group's total assets. The composition of the Group's financial assets designated as at fair value through profit or loss was as follows:

Unit: in RMB million

Item	31 December 2017	31 December 2016	Changes	YoY growth rate
Financial assets designated as at fair value through profit or loss				
Convertible bonds	744.0	493.4	250.6	50.8%
Investment in non-listed companies	312.1	–	312.1	N/A
Others	445.5	21.4	424.1	1981.8%
Total	1,501.6	514.8	986.8	191.7%

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Operating assets including other property and equipment

As at the end of 2017, operating assets including other property and equipment of the Group amounted to RMB1,320.9 million, up by RMB155.7 million or 13.4% year-on-year, representing 3.2% of the Group's total assets. The composition of the Group's operating assets including other property and equipment was as follows:

Unit: in RMB million

Item	31 December 2017	31 December 2016	Changes	YoY growth rate
Operating assets including other property and equipment				
Property and equipment and investment properties	260.1	265.0	-4.9	-1.8%
Intangible assets	164.4	155.6	8.8	5.7%
Deferred tax assets	161.3	117.9	43.4	36.8%
Other current assets and other non-current assets	713.7	605.2	108.5	17.9%
Goodwill	21.4	21.5	-0.1	-0.5%
Total	1,320.9	1,165.2	155.7	13.4%

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Liability structure

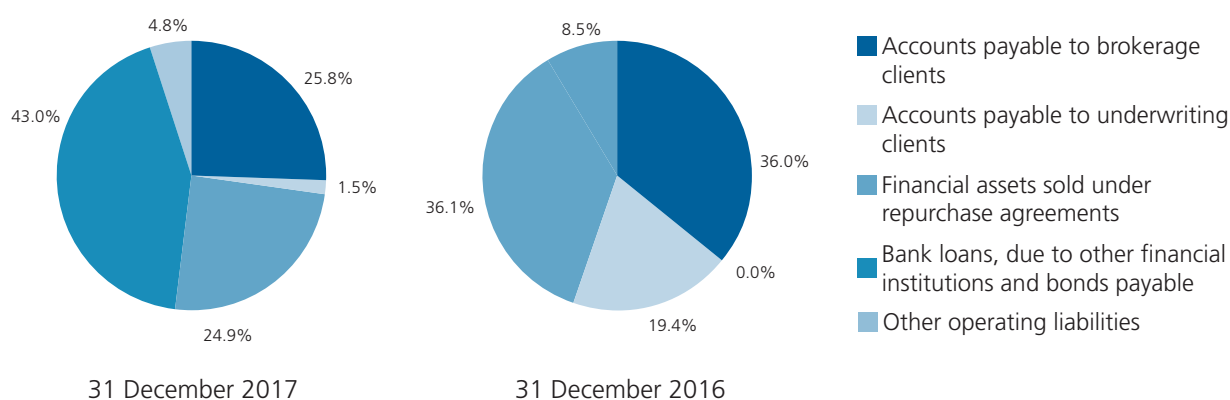
As at the end of 2017, total liabilities of the Group amounted to RMB29,209.3 million, representing a year-on-year increase of RMB371.5 million or 1.3%. As at the end of 2017, accounts payable to brokerage clients amounted to RMB7,526.5 million, representing a decrease of 27.4% as compared to the end of 2016. The decrease was primarily attributable to the decrease in capital of client from brokerage business. Accounts payable to underwriting clients amounted to RMB434.4 million, mainly resulting from the increase in outstanding payable for agency underwriting. Financial assets sold under repurchase agreements amounted to RMB7,284.9 million, representing an increase of 29.9% as compared to the end of 2016. The increase was primarily attributable to the increase in scale of securities-backed lending business. Bank loans, due to other financial institutions and bonds payable amounted to RMB12,560.2 million, representing an increase of 20.5% as compared to the end of 2016. The increase was primarily attributable to the increase in scale of borrowings of subsidiaries and the increase in amount due to other financial institutions from margin financing. Other operating liabilities amounted to RMB1,403.3 million, representing a decrease of 42.5% as compared to the end of 2016. The decrease was primarily attributable to the decrease in financial liabilities designated as at fair value through profit or loss. Major changes in the Group's liabilities are as follows:

Unit: in RMB million

Item	31 December 2017	31 December 2016	Changes	% of Changes
Liabilities				
Accounts payable to brokerage clients	7,526.5	10,368.1	-2,841.6	-27.4%
Accounts payable to underwriting clients	434.4	–	434.4	N/A
Financial assets sold under repurchase agreements	7,284.9	5,608.0	1,676.9	29.9%
Bank loans, due to other financial institutions and bonds payable	12,560.2	10,420.5	2,139.7	20.5%
Other operating liabilities	1,403.3	2,441.2	-1,037.9	-42.5%
Total	29,209.3	28,837.8	371.5	1.3%

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

The Group's total liabilities consist of:



Bank loans, due to other financial institutions and bonds payable

Unit: in RMB million

Item	31 December 2017	31 December 2016	Changes	YoY growth rate
Bank loans, due to other financial institutions and bonds payable				
Due to banks and non-bank financial institutions	3,199.7	1,116.4	2,083.3	186.6%
Bonds payable and short-term notes payable	9,360.5	9,304.1	56.4	0.6%
Total	12,560.2	10,420.5	2,139.7	20.5%

Due to banks and non-bank financial institutions increased by RMB2,083.3 million year-on-year, representing an increase of 186.6%. The increase was attributable to the increase in scale of borrowings of subsidiaries and amount due to other financial institutions from margin financing.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Bonds payable and short-term notes payable increased by RMB56.4 million year-on-year, representing an increase of 0.6%. The increase was primarily attributable to the increase in the scale of issuance of beneficiary certificates.

Other operating liabilities

Unit: in RMB million

Item	31 December 2017	31 December 2016	Changes	% of Changes
Other operating liabilities				
Accrued staff costs	422.5	472.1	-49.6	-10.5%
Other current liabilities	609.1	732.2	-123.1	-16.8%
Deferred income tax liabilities	10.4	28.7	-18.3	-63.8%
Financial liabilities designated as at fair value through profit or loss	361.4	1,208.2	-846.8	-70.1%
Derivative financial liabilities	0.5	0.1	0.4	400.0%
Total	1,403.9	2,441.2	-1,037.4	-42.5%

Accrued staff costs decreased by RMB49.6 million or 10.5% year-on-year, primarily attributable to the decrease in the provision for staff costs payable.

Other current liabilities decreased by RMB123.1 million year-on-year, primarily attributable to the decrease in interests payable.

Financial liabilities designated as at fair value through profit or loss decreased by RMB846.8 million year-on-year, primarily attributable to the maturities of structured entities included in the scope of consolidation.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Equity items

As at the end of 2017, total equity of the Group amounted to RMB11,452.1 million, representing a decrease of 0.8% as compared to the end of 2016. The changes in the Group's equity were as follows:

Unit: in RMB million

Item	31 December 2017	31 December 2016	Changes	YoY growth rate
Share capital	3,923.7	3,923.7	0.0	0.0%
Reserves	5,846.1	5,734.1	78.9	1.4%
Retained earnings	400.0	891.2	-491.2	-55.1%
Non-controlling interests	1,282.3	964.7	317.6	32.9%
Total	11,452.1	11,546.8	-94.7	-0.8%

5. Segment results

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

We have six principal business lines: (i) brokerage; (ii) investment banking; (iii) investment and asset management; (iv) proprietary trading; (v) overseas business; and (vi) headquarters and others. We report financial results for our business lines in eight business segments. We report financial results for our brokerage business in three segments: (i) securities brokerage, (ii) margin trading and securities lending and (iii) futures brokerage. We report financial results for our other innovative business in the headquarters and others. The following discussions of our segment revenue and other income, segment expenses and segment results include our inter-segment revenue and inter-segment expenses.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

The following table sets forth the Group's segment revenue and other income (including intersegment revenue) for the years indicated:

Item	2017		2016		Changes	
	(in RMB million)	%	(in RMB million)	%	(in RMB million)	%
Securities brokerage	706.3	22.1	942.5	30.0	-236.2	-25.1
Margin financing and securities lending	532.1	16.6	570.9	18.2	-38.8	-6.8
Futures brokerage	447.2	14.0	132.3	4.2	314.9	238.0
Investment banking	88.5	2.8	293.8	9.3	-205.3	-69.9
Investment and asset management	259.9	8.1	192.3	6.1	67.6	35.2
Proprietary trading	461.4	14.4	364.0	11.6	97.4	26.8
Offshore business	267.3	8.3	97.7	3.1	169.6	173.6
Headquarters and others	588.0	18.4	524.4	16.7	63.6	12.1
Inter-segment eliminations	-151.6	-4.7	25.1	0.8	-176.7	N/A
Total	3,199.1	100.0	3,143.0	100.0	56.1	1.8

The following table sets forth the Group's segment expenses (including inter-segment expenses) for the years indicated:

Item	2017		2016		Changes	
	(in RMB million)	%	(in RMB million)	%	(in RMB million)	%
Securities brokerage	567.8	22.5	616.8	28.7	-49.0	-7.9
Margin financing and securities lending	230.8	9.2	349.7	16.3	-118.9	-34.0
Futures brokerage	418.1	16.6	106.6	5.0	311.5	292.2
Investment banking	120.7	4.8	166.6	7.8	-45.9	-27.6
Investment and asset management	85.4	3.4	76.2	3.5	9.2	12.1
Proprietary trading	486.4	19.3	314.1	14.6	172.3	54.9
Offshore business	174.1	6.9	67.7	3.1	106.4	157.2
Headquarters and others	440.1	17.5	460.4	21.4	-20.3	-4.4
Inter-segment eliminations	-4.4	-0.2	-7.6	-0.4	3.2	N/A
Total	2,519.0	100.0	2,150.5	100.0	368.5	17.1

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The following table sets forth the Group's segment results (profit/loss before income tax) for the years indicated, which is calculated as segment revenue and other income (including inter-segment revenue) minus segment expenses (including inter-segment expenses):

Item	2017		2016		Changes	
	(in RMB million)	%	(in RMB million)	%	(in RMB million)	%
Securities brokerage	138.4	20.3	325.8	33.4	-187.4	-57.5
Margin financing and securities lending	301.3	44.3	221.3	22.7	80.0	36.2
Futures brokerage	29.1	4.3	25.7	2.6	3.4	13.2
Investment banking	-32.2	-4.7	127.1	13.0	-159.3	-125.3
Investment and asset management	174.5	25.7	116.1	11.9	58.4	50.3
Proprietary trading	-25.0	-3.7	49.9	5.1	-74.9	-150.1
Offshore business	93.3	13.7	30.0	3.1	63.3	211.0
Headquarters and others	147.9	21.7	64.0	6.6	83.9	131.1
Inter-segment eliminations	-147.2	-21.6	32.7	3.4	-179.9	N/A
Non-continuing operations	-	-	-18.0	-1.8	18.0	-100.0
Total	680.1	100.0	974.6	100.0	-294.5	-30.2

6. Contingent liability, capital commitment and capital pledge

Please see notes 55 to the Independent Auditor's Report of this report, and it forms part of this Report of the Board of Directors.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

(II) Analysis on investments

1. Overall analysis on external equity investments

As at the end of the Reporting Period, the Group has investments in associates of RMB493 million, representing an increase of RMB122 million or 35.05% as compared to the end of last year. For details of the investment in subsidiaries, please refer to note 23 to the Independent Auditor's Report of this report, and these form part of this Report of the Board of Directors.

(1) Material equity investments

Please refer to note 22 to the Independent Auditor's Report of this report, and it forms part of this Report of the Board of Directors.

(2) Material non-equity investments

During the Reporting Period, there was no material non-equity investment.

2. Use of proceeds

As approved by Zheng Jian Xu Ke [2016] No. 2868 Document of the CSRC, the Company completed the issuance of A shares at an issue price of RMB4 per share on 22 December 2016. The issue size is 700 million shares with a total of RMB2.8 billion raised. The actual net proceeds, after deducting the underwriting fee, sponsor fee and other expenses in relation to the issuance, amounted to RMB2,669.8117 million.

As at the end of the Reporting Period, the proceeds were fully utilised. The balance of interests from the proceeds of RMB6,900 (less than RMB5 million and 5% of the net proceeds) were transferred by the Company for permanent supplement of working capital upon cancellation of account. For details of the above issues, please refer to the overseas regulatory announcement "Special Report on the Deposit and the Actual Use of Proceeds for 2017 of Central China Securities Co., Ltd. (《中原证券股份有限公司2017年度募集资金存放與實際使用情況的專項報告》)" of the Company published on HKEXnews of the Hong Kong Stock Exchange on the same date of this report.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

(III) Analysis on major holding companies

Central China Futures: Central China Futures has a registered capital of RMB330 million and was held as to 51.357% equity interests by Central China Securities. As at the end of the Reporting Period, the total assets and net assets of Central China Futures amounted to RMB1,014 million and RMB406 million respectively. During the Reporting Period, Central China Futures recorded operating income of RMB394 million and net profit of RMB21.3584 million.

ZDKY Venture Capital: ZDKY Venture Capital has a registered capital of RMB2 billion and was held as to 100% equity interests by Central China Securities. As at the end of the Reporting Period, the total assets and net assets of ZDKY Venture Capital amounted to RMB1,206 million and RMB936 million respectively. During the Reporting Period, ZDKY Venture Capital recorded operating income of RMB131 million and net profit of RMB80.4835 million. Income from principal business amounted to RMB131 million and profit from principal business amounted to RMB107 million.

Central China International: Central China International has a registered capital of HK\$500 million and was held as to 100% equity interests by Central China Securities. As at the end of the Reporting Period, the total assets and net assets of Central China International amounted to HK\$3,658 million and HK\$1,114 million respectively. During the Reporting Period, Central China International recorded operating income of HK\$308 million and net profit of HK\$90 million. Income from principal business amounted to HK\$301 million and profit from principal business amounted to HK\$260 million.

The main reasons for the faster growth of operating results of Central China International as compared with last year were as follows: Firstly, trading in the Hong Kong securities market was active. In 2017, Hong Kong Hang Seng Index increased by 35.99% as compared to 2016 and the average daily turnover of stock increased by 56% as compared to 2016, providing a sound market environment for the business development of Central China International. Secondly, Central China International continued to enhance its capital strengths. As compared with 2016, in 2017, Central China International completed the establishment of platform for Central China International Financial Group Limited, a subsidiary of the Company, introduced a new shareholder to Central China International Financial Group Limited and completed the capital increase, pursuant to which the registered capital increased to HK\$1 billion, thereby providing a stable source of funding for its business development. Thirdly, it cooperated closely with the headquarters of the Company and focused on fulfilling the demand of enterprises in Henan Province and domestic customers of the Company for overseas investment and financing, which has brought about stable incremental revenue. Fourthly, it has strengthened the building of a market-oriented team, at the same time seizing favourable market opportunities to rapidly push ahead with business development in aspects such as investment banking, asset management, investment, etc., and has therefore achieved rapid growth in business scale.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Central China Blue Ocean: Central China Blue Ocean has a registered capital of RMB3 billion and a paid-up capital of RMB2.326 billion. It was held as to 100% equity interests by Central China Securities. As at the end of the Reporting Period, the total assets and net assets of Central China Blue Ocean amounted to RMB2,944 million and RMB2,713 million respectively. During the Reporting Period, Central China Blue Ocean recorded operating income of RMB113 million and net profit of RMB78.7474 million. Income from principal business amounted to RMB113 million and profit from principal business amounted to RMB76.0647 million.

The significant growth of the results of Central China Blue Ocean was attributable to: Firstly, in 2017, its paid-up capital increased from RMB330 million to RMB2,326 million, demonstrating a significant increase in the amount of investment. Secondly, it has formulated and effectively implemented an appropriate investment strategy, thereby realising the organic integration of both revenue in the current period and revenue in the long term. Thirdly, its cadre staff worked aggressively, pragmatically and efficiently.

Equity Exchange Co.: Equity Exchange Co. has a registered capital of RMB350 million and was held as to 35% equity interests by Central China Securities. As at the end of the Reporting Period, the total assets and net assets of Equity Exchange Co. amounted to RMB467 million and RMB358 million respectively. During the Reporting Period, Equity Exchange Co. recorded operating income of RMB44.6339 million and net profit of RMB18.1475 million.

(IV) Structured entities controlled by the Company

As at the end of the Reporting Period, the Group consolidated 6 structured entities, which included asset management schemes and partnerships. As for asset management schemes that the Group served as manager, and partnership that the Group served as general partner or investment manager, after taking comprehensive considerations of its investment decision-making rights and exposure of variable returns, the Group has determined that it has control over some of the asset management schemes and some of the partnerships and will include these schemes and partnerships in its scope of consolidation.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

(V) Others

1. Newly establishment and disposal of operation branches, branch offices and subsidiaries of the Company and impact on results during the Reporting Period

During the Reporting Period, the Group set up 4 new securities branch offices and 6 new securities branches in China. The Group completed the relocation of 2 securities branch offices and 6 securities branches within the same city, and the capital increase, disposal and change of 4 subsidiaries. All of these changes will facilitate the optimization of the Group's network as well as the enhancement of the Company's customer service capability and the comprehensive strength of its subsidiaries.

(1) Establishment of and changes in operation branches

Newly established securities branches:

Details of the 6 newly established securities branches during the Reporting Period are set out as follows:

No.	Name	Region
1	Central China Securities Co., Ltd., Yuncheng North Huaidong Road securities branch	Yuncheng, Shanxi
2	Central China Securities Co., Ltd., Wugang Wenzhou Road securities branch	Pingdingshan City, Henan
3	Central China Securities Co., Ltd., Yiwu North Chouzhou Road securities branch	Jinhua, Zhejiang
4	Central China Securities Co., Ltd., Huangchuan Hangkong Road securities branch	Xinyang, Henan
5	Central China Securities Co., Ltd., Yucheng Songshan Road securities branch	Shanqiu, Henan
6	Central China Securities Co., Ltd., Yanshi Yingbin Road securities branch	Luoyang, Henan

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Relocation of securities branches:

The Company is constantly adjusting and optimizing its branch network. During the Reporting Period, the Company relocated a total of 6 securities branches within the same city, namely Pingdingshan Lingyun Road securities branch, Wuhan Luoshi Road securities branch, Lingbao Hangu Road securities branch, Luyi Ziqi Avenue securities branch, Guangzhou Tiyu West Road securities branch and Qi County Qihe Road securities branch.

(2) Establishment of branch offices

During the Reporting Period, the Company set up 4 new branch offices, namely Sichuan branch office, Jiangsu branch office, Hainan branch office and Shanghai asset management branch office. For details, please see VI. (II) “3. Branch offices” under Section 2. During the Reporting Period, the Company completed the relocation of Pingdingshan branch office and Zhengzhou branch office within the same city.

(3) Establishment and Changes of Subsidiaries

Central China International:

On 11 May 2017, the Company convened the 35th meeting of the fifth session of the Board, during which it has considered and approved the Resolution on Capital Increase into Central China International Financial Holdings Company Limited (《關於對中州國際金融控股有限公司實施增資的議案》), which agreed that the Company shall increase capital contribution of HK\$500 million (equivalent to approximately RMB442.71 million) in cash to Central China International. Upon completion of the capital increase, the registered capital of Central China International will increase to HK\$1,000 million. As at the end of the Reporting Period, the Company has not implemented the capital increase into Central China International.

ZDKY Venture Capital:

On 17 April 2017, the Company convened the 33rd meeting of the fifth session of the Board, during which it has considered and approved the Resolution on Adjustment of Shareholding Structure and Capital Increase into Zhongding Kaiyuan Venture Capital Management Co., Ltd. (《關於中鼎開源創業投資管理有限公司股權結構調整及增資的議案》), which agreed to carry out adjustment to the shareholding structure of and capital increase into ZDKY Venture Capital. On 13 October 2017, the registered capital of ZDKY Venture Capital changed from RMB1,380 million to RMB895 million and the Company's shareholding in ZDKY Venture Capital changed from 64.86% to 100%. On 2 November 2017, the registered capital of ZDKY Venture Capital changed from RMB895 million to RMB2,000 million. For details of capital reduction of ZDKY Venture Capital and exit of other shareholders of ZDKY Venture Capital, please refer to the Company's announcement dated 29 June 2017 published on HKEXnews of the Hong Kong Stock Exchange.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Central China Blue Ocean:

On 17 April 2017, the Company convened the 33rd meeting of the fifth session of the Board, during which it has considered and approved the Resolution on Capital Increase into Central China Blue Ocean Investment Management Company Limited (《關於對中州藍海投資管理有限公司實施增資的議案》), which agreed to increase the registered capital of Central China Blue Ocean from RMB500 million to RMB3,000 million. As at the end of the Reporting Period, the Company made allocation of RMB2.326 billion in aggregate to Central China Blue Ocean since its establishment.

On 3 November 2017, the registered address of Central China Blue Ocean changed to West to Laodong Road and north to Hongteng Road, Weidu Industry Cluster Area, Xuchang City.

Equity Exchange Co.:

On 30 October 2017, the Company convened the 43rd meeting of the fifth session of the Board, during which it has considered and approved the Resolution on the Transfer of 60% Equity Interests Held in Henan Zhongzheng Kaiyuan Venture Capital Fund Management Co., Ltd. by Central China Equity Exchange Co., Ltd., a Subsidiary of the Company, By Way of Agreement (《關於控股子公司中原股權交易中心股份有限公司將所持河南中證開元創業投資基金管理有限公司60%股權進行協議轉讓的議案》), which agreed that, through internal asset restructuring, Equity Exchange Co. shall transfer its 60% equity interests held in ZZKY Venture Capital to ZDKY Venture Capital by way of agreement at a price not lower than the assessed price. On 28 December 2017, Equity Exchange Co. entered into an equity transfer agreement with ZDKY Venture Capital, pursuant to which Equity Exchange Co. disposed its 60% equity interests held in ZZKY Venture Capital to ZDKY Venture Capital at a consideration of RMB37.0556 million.

2. Standardization of accounts and specific explanation

Taking standardized management of accounts as an important foundation, the Company focused on the normalization, standardization and systematism of account management and kept perfecting the long-effective mechanism of standardized management of accounts. In 2017, according to the requirements of relevant regulations of China Securities Depository and Clearing Corporation Limited and the Company, the Company effectively implemented various measures for standardized management of accounts, conscientiously carried out work such as conducting self-inspection on implementation of account real-name system, handling dormant accounts under "one-person-multiple-account" policy, launching corporate information verification system and commencing verification of registered information of corporate accounts, and continued to carry out basic work such as standardization of stock account information and completion of customer information so as to ensure that the account information is true, accurate, complete and valid.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

During the Reporting Period, various branches logged no risk disposal accounts and work like standardization of unqualified accounts and activation of dormant accounts had been progressing in an orderly way. Specifically, the Company standardized 29 unqualified cash accounts and 30 unqualified securities accounts (as of the end of the period, there were 1,171 unqualified cash accounts and 1,239 unqualified securities accounts); and activated 1,677 dormant cash accounts and added 16,760 dormant securities accounts under “one-person-multiple-account” policy (as of the end of the period, there were 396,776 dormant cash accounts and 668,241 dormant securities accounts). Besides, as of the end of the period, the Company had 6 cash accounts and 12 securities accounts frozen by the court. See the following table for details:

Type of account		Number of accounts at the end of 2016 (RMB account)	Change	Number of accounts at the end of 2017 (RMB account)
Dormant accounts	Cash account	398,453	-1,677	396,776
	Securities account	651,481	16,760	668,241
Unqualified accounts	Cash account	1,200	-29	1,171
	Securities account	1,269	-30	1,239
Judicially frozen accounts	Cash account	4	2	6
	Securities account	6	6	12
Risk disposal accounts	Cash account	0	0	0
	Securities account	0	0	0

3. Business innovation

Under the stringent regulatory environment, business innovation of the Company was conducted on the premise of compliance. The Company optimized the risk management measures for new businesses and new products and imposed stringent requirement on the review and approval procedure as well as internal control over innovative business development. It has also formulated and strictly implemented specific risk control indicators for each of the business. Meanwhile, it has also explored opportunities for business development to actively nurture innovative business.

During the Reporting Period, the internet finance business continued to step up efforts in expanding the advertising cooperation, enhancing customer viscosity, promoting product sales and deepening the building of Central China e-financing. It has also expedited the consolidation of the performance, function and content of “Central China Cai Sheng Bao (中原財升寶)”, its comprehensive mobile financial platform, at the same time actively pushing ahead with the overall planning of internet-related proposal for brokerage business and exploration of smart services and products. OTC securities proprietary business will further broaden the Company’s scope of investment in respect of proprietary business, thereby enhancing its investment ability with its own funds.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

III. DISCUSSION AND ANALYSIS ON THE FUTURE DEVELOPMENT OF THE COMPANY

(I) Industry landscape and development trend

According to Securities Association of China, as at the end of 2017, there were a total of 131 securities companies in the PRC, generating a total operating income of RMB311.328 billion and total net profit of RMB112.995 billion. Currently, there are a large number of securities companies in the PRC, however, the overall scale still lag far behind the countries where capital markets are more developed.

Currently, the principal business of the securities companies in the PRC remains highly concentrated in areas such as brokerage, credit and proprietary businesses and thus has a high level of homogeneity. During recent years, with the rapid emergence of alternative investment business, private fund business and international business, securities companies have shown initial signs of differentiated development. However, there is no substantial improvement in the profit model that is highly dependent on the conditions of the secondary markets in general.

During recent years, the securities companies rapidly expanded their scale of capital and enhanced their own comprehensive strengths by way of capital increase, share expansion, offering and listing, etc.. The securities industry has changed from fragmented operations at low level to centralized development, especially for business areas such as asset management and investment banking, resulting in an increasing level of concentration in the industry. Leveraging their advantages of strong capital strengths, sound branch network, broad customer base and large number of business reserves, as well as early development of innovative businesses, the leading companies in the industry have gradually differentiate themselves from their peers and established their competitive advantages.

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With continuous development of internet technology, many industries are carrying out in-depth integration with internet. Individual securities company achieved extraordinary development through internet finance, which has drawn high attention of the industry; while internet finance will have a more profound impact on certain business areas of the securities industry. In order to cope with the influence of online securities dealers, the securities companies actively embraced the internet era by cooperating with internet companies and establishing their own internet finance platforms. This, however, has led to new homogeneity problems, hence, the overall result was unsatisfactory. The development of their own profit model with the use of internet finance will be a key factor for traditional securities companies to realise business transformation and upgrade.

Gradual easing of license requirement for securities business has become an inevitable trend. Other financial institutions, represented by commercial banks, have already expanded their presence into non-banking business. As compared with banking institutions, securities companies were obviously disadvantaged in terms of branch network and client resources, etc., and the competition in the industry will further intensify in general. Meanwhile, the opening-up of domestic securities industry has accelerated. Looking forward, the securities companies in the industry will face direct competition from foreign-invested securities companies in all aspects, and the competition landscape of the industry will become more complicated in general. Meanwhile, some domestic securities companies with stronger financial strengths have already implemented the “Go Global” strategy and took the lead to commence international business. International business will gradually become an important step for securities companies to establish diversified income streams and differentiated competitive advantages in the future.

(II) Development strategies of the Company

The Company will fully leverage its advantages of dual listing in both Shanghai and Hong Kong and center on the fundamental requirement of the real economy for financial services. On the premise of stringent control over risks, the Company will establish Central China Securities as a modern, international and large-scale financial holding group by taking the dual drive of “investment banking + investment” with securities as its principal operations and expand its businesses across regional equity transaction markets and insurance business in three to five years, thereby bringing the Company’s comprehensive strengths and economic benefits to top the list of securities companies across China.

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(III) Operating plan

In 2018, on the premise of strict control of risks, the Company will strive to achieve rapid growth of operating results by adhering to “One Strategy”, implementing “Four Layouts”, strengthening “Three Aspects of Security” and striving excellence in “Six Major Tasks”.

1. Adhering to “One Strategy”: Firmly adhering to the transformation direction and business development strategy of “strengthening fundamental businesses such as investment banking, investment and brokerage to strive for development of innovative business” of the Company.
2. Implementing “Four Layouts”: In respect of the layout for profitability, the Company will reinforce the development of the headquarter in Henan, accelerate the building of Shanghai center, foster the building of Beijing center and speed up the building of Hong Kong center with a focus on brokerage and the Fourth-board businesses, proprietary and asset management businesses, investment banking and innovative businesses as well as international business, respectively. Meanwhile, it will accelerate the development of its subsidiaries, with a view to enriching the offerings of the four layouts.
3. Strengthening “Three Aspects of Security”: Strengthening its efforts in party-building work, promoting anti-corruption behavior of the party and providing guarantee on compliance and risk control as well as cadre team with a view to ensuring the sustainable and healthy development of the Company.
4. Striving excellence in “Six Major Tasks”: Strengthening its efforts in party-building work and promoting anti-corruption behavior of the party on a continuous basis with a view to providing strong political protection for the Company’s transformation and development. The Company will enhance the level of compliance and risk control in a pragmatic manner, so as to ensure the healthy development of the Company. Besides, it will comprehensively implement the four layouts in order to build diversified and stable profit centers, while optimizing the incentive and restriction mechanism and building of cadre team, with a view to enhancing the internal drivers for the Company’s transformation and development. In addition, the Company will exert strenuous efforts in improving professional ability and support of headquarters to keep up with the pace of industry development in full force, and it will reinforce the development of corporate culture, with a view to foster sustainable, rapid and healthy development of the Company.

(IV) Potential Risks

Major risks include: credit risk, market risk, liquidity risk, operational risk, compliance risk, etc. To fully uncover its operational risks and control them within a reasonable range, the Company measured risks by such means as duration analysis, sensitivity analysis and scenario analysis and differentiated, prevented and managed various risks by screening, classification, analysis, etc. in order to achieve the Company’s strategic development goal and maximize the interests of the shareholders and the Company. Specific details are set out as follows:

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1. Credit risk and polices

Credit risks refer to risks of losses arising from a borrower or counterparty's failure to perform an agreement as agreed. Since full margin settlement for brokerage can practically avoid relevant credit risks, currently the Company's credit risk mainly comes from bond investment, margin financing and securities lending, securities-backed lending and securities repurchases, specifically in the following aspects: (1) default or ratings downgrade of investment targets; (2) a counterparty's default; (3) margin financing and securities lending customers' failure to duly repay loans or securities; and (4) receivables' becoming bad debts.

With regard to credit risk management in bond investment, the Company, via credit rating, assessed the credit risks of investment products of different credit ratings in terms of investment product, issuer and counterparty; risk supervision and control include classification management of various investment products and counterparties as well as daily monitoring on credit of position investment products. As stipulated by the Company, all transactions beyond the authorized trading volume shall be reported to the Risk Management Headquarters as well as the upper authority for examination and approval. Then the Risk Management Headquarters would examine the transaction and settlement methods, credit rating of the counterparty and other aspects concerning the investment product and point out any transaction risk. As for the credit risk of receivables, the Company has fully made provision for bad debts according to the debtor's business operation, cash flow and bad debt provision policies.

With regard to credit risk management of margin financing and securities lending and securities repurchases, the Company, by formulating various strict regulations and measures, controlled credit risk in these businesses in such steps as credit investigation, credit granting, marking to market and closed position, including strict customer entry barrier, credit investigation and credit standards and credit granting by the headquarters only, strict requirements on collateral, discount rate, deposit ratio and collateral ratio, daily marking for margin financing and securities lending, mandatory closing position when agreed level has been met, and subsequent asset claims against customers in case the capital or securities from the mandatory closing of the securities companies was not adequate to settle the Company's debts arising from margin financing and securities lending provided to the customers. The Company also implemented customer credit rating through a special rating template and reviews on the results and the template.

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With regard to credit risk management of securities-backed lending, the Company has established a stringent client selection and project risk assessment system. Branches are responsible for the preliminary review of project information provided by clients in order to understand clients' identities, income, and investment experience and risk appetite. The business departments of the headquarters will then compile a due diligence report on a "case-by-case" basis and submit to the relevant decision committee for risk assessment, in addition to daily marking and dynamic monitoring of the ratio of performance to collateral. The Risk Management Headquarters of the Company is responsible for risk monitoring after the account has been approved, which mainly includes such risk control indicators as business scale, concentration per client, concentration per stock, ratio of closing performance to collateral, to ensure effective prevention against credit risk.

As for margin financing and securities lending, securities-backed lending and securities repurchases, the Company has made provision for bad debts as at the end of the period.

2. Market risk and policies

Market risk refers to the possibility of losses or reduced income due to general or local changes in the market. It consists of risk of price fluctuations of equity assets, interest rate risk, exchange rate risk, etc. Price risk mainly refers to the risk of losses in the company due to unfavorable changes in the price of securities like stocks brought by fluctuations in the securities market. Quantitatively, market price fluctuations of financial instruments held for trading will impact the Group's profit; and the market price fluctuations of available-for-sale financial instruments will impact shareholders' equity of the Company in the same proportion. Interest rate fluctuation risk refers to the risk of fluctuations in the Company's financial position and cash flow due to interest rate changes in the market. In particular, the interest-bearing assets susceptible to market interest rate changes are mainly bank deposits, settlement reserves, guarantee deposits paid and bond investments. Exchange rate risk refers to the possibilities that the Company may suffer losses from operating activities which involve holding or using foreign exchange due to change in exchange rate. The Company has had relatively few foreign currency assets susceptible to exchange rate fluctuations.

To prevent market risks, the Company took the following measures: (1) followed a strict investment authorization system. The management of the Company is responsible for breaking down and allocating business size and risk limits for stock proprietary trading and bond proprietary trading during the year within the authorization granted by the Board, while the Risk Management Headquarters is responsible for monitoring relevant indexes and warning of risks; (2) established a multi-index risk monitoring and evaluation system. A quantitative index system was established to measure and evaluate risks in proprietary businesses by such means or tools as restriction on concentrated investment, scenario analysis, stress test, sensitivity analysis, etc.; (3) controlled trading procedures in an all-round way. The Company monitored various indexes via the investment management system, controlled the quota, bond rating and concentration ratio of proprietary bond trading in advance and responsively evaluated and reported business risks brought by market changes.

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3. Liquidity risk and policies

Liquidity risk refers to the risk which the Company is unable to obtain sufficient funds in time at reasonable costs in order to repay maturing debts, comply with other payment obligations and satisfy the funding needs for carrying on normal business.

In view of the liquidity risk, the Company controls investment size of its proprietary business in a rational manner by diversifying share investments, paying attention to liquidity risk management, setting small quotas against all marketable securities within the same type of investments, thereby maintains liquidity risk at a relatively low level. Based on conditions such as business development, financing ability and control index of liquidity risks, the Company has rationally determined the scale of debt financing and term of financing, strengthened its real time monitoring and management of significant amount of funds so as to achieve centralised allocation and coordination of capital and avoid liquidity risks resulted from centralised maturity of debts. The Company also made use of various financing methods and channels in a comprehensive manner to timely satisfy the Company's liquidity needs. Moreover, the Company used net capital and liquidity-based monitoring system for monitoring risk control indicators, and used stress tests to assess the impact of business activities on net capital and liquidity.

4. Operational risk and policies

Operational risk refers to risk of financial loss resulting from improper operation of transaction process or management system.

In view of operational risk management, the Company's employees in various business risk control posts control and report the frontline risks involved in the businesses in their charge and ensure the respective independence of both functional departments and frontline business departments. The Risk Management Headquarters of the Company join hands with relevant departments to monitor the operational risk profile of brokerage business, proprietary business, fixed income business and others if and when appropriate, and has formulated a brokerage risk management manual and other business risk control system. In view of adopting quantitative management, the Company has decreased the technological and artificial risks and improved the risk management efficiency through stringent operational control procedure for risks not quantifiable.

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5. Compliance risk and polices

Compliance risk refers to the risk of legal sanction, being subjected to supervisory measure, self-discipline penalty, loss of property or reputation on companies arising from violation of laws, regulations or rules due to the operation and management or practices of the Company or its personnel.

Compliance risks of the Company include the risk of operational non-compliance of brokerage business, such as acceptance of discretionary entrustment of client, engagement of personnel without qualification for dealing with securities in marketing activities, the shareholding in a single stock in proprietary business and asset management business exceeding the specified proportion under regulatory requirements, failure to meet due diligence obligations of sponsors for investment banking business, failure to complete filing procedures for consultation on foreign investment in investment advisory business, etc.

The Company conducted effective management and control on the legal compliance risk through legal compliance review, legal compliance monitoring, legal compliance examination, legal compliance supervision and legal compliance training.

IV. PROFIT DISTRIBUTION AND PROFIT DISTRIBUTION PROPOSAL

For changes of the Group's reserves and distributable reserves during the Reporting Period, please see the Consolidated Statement of Changes in Equity and note 42 in the Independent Auditor's Report of this report. Please refer to Section 5 "I. PROPOSAL OF PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE FUND INTO CAPITAL FOR ORDINARY SHARES" in this report, and these form part of this Report of the Board of Directors.

V. DIRECTORS

Please refer to Section 8, and it forms part of this Report of the Board of Directors.

VI. DIRECTORS' INTERESTS IN THE BUSINESS COMPETING WITH THE COMPANY

Directors of the Company have no interest in business competing with the Company.

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VII. PERMITTED INDEMNITY PROVISION

Please see Section 9 I, (2) "1. Composition of the Board" in this report, and it forms part of this Report of the Board of Directors.

VIII. INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As of 31 December 2017, based on the information acquired by the Company and the knowledge of the directors, the directors, supervisors and senior management officers have the following (i) interests and short positions (including the interests or short positions considered or deemed to have according to such provisions of the SFO) which shall be notified to the Company and the Hong Kong Stock Exchange in accordance with Divisions 7 and 8 of Part XV under the SFO, or (ii) interests or short positions which shall be recorded in the interests register in accordance with section 352 of the SFO, or (iii) interests or short positions which shall be notified to the Company and the Hong Kong Stock Exchange in accordance with the requirements of the Model Code in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO):

Name	Class of shares	Nature of interest	Number of shares held (shares)	Percentage of total number of issued shares (%)	Percentage of the Company's total issued H shares (%)	Long positions/ short positions/ shares available for lending
Jian Mingjun	H share	Beneficial owner	750,000	0.019	0.060	Long position
		Beneficiary of a trust	539,754	0.014	0.043	Long position

Except as disclosed above, as of 31 December 2017, no directors, supervisors or their respective spouse or children under the age of 18 have been given the right to purchase the shares or debentures of the Company to obtain benefit, or such persons exercise any such right; or no arrangements have been made by the Company or any of its subsidiaries to entitle such right to the directors, supervisors or their respective spouse or children under the age of 18 in any other body corporate.

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IX. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As of 31 December 2017, to the knowledge of the Directors of the Company after making reasonable inquiries, the following persons (other than Directors, Supervisors or chief executive of the Company) have the following interests or short positions in shares or underlying shares required to be disclosed to the Company in accordance with Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be maintained by the Company under Section 336 of the SFO:

Name of shareholder	Class of Shares	Nature of interest	Number of shares held (shares)	Percentage of the Company's total issued shares (%)	Percentage of the Company's total issued A shares/ H shares (%)	Long positions/ short positions/ shares available for lending
Henan Investment Group	A Share	Beneficial owner	822,983,847	20.975	30.781	Long positions
Bohai Industrial Investment Fund	A Share	Beneficial owner	608,000,000	15.495	22.740	Long positions
Bohai Industrial Investment Fund Management Co., Ltd. (on behalf of the Bohai Industrial Investment Fund)	A Share	Investment manager	608,000,000	15.495	22.740	Long positions
Anyang Iron & Steel Group.	A Share	Beneficial owner	177,514,015	4.524	6.639	Long positions
China Industrial International Trust Limited	H Share	Beneficial owner	80,000,000	2.039	6.400	Long positions
Citigroup	H Share	Approved lending agent	121,687,574	3.101	9.735	Long positions
			15,832,574	0.404	1.267	Shares available for lending
ICBC International Asset Management Limited	H Share	Investment manager	100,605,000	2.564	8.048	Long positions

Save as disclosed above, as at 31 December 2017, the Company was not aware of any other persons (excluding the Directors, Supervisors and chief executive of the Company) having the interests or short positions required to be recorded in the register in the shares or underlying shares of the Company under Section 336 of the SFO.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

X. PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Reporting Period, the Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company. For details of repurchase subsequent to the Reporting Period, please refer to XII. (15) "1. Implementation of Repurchase of H Shares" of this section.

XI. NON-COMPETITION UNDERTAKING OF CONTROLLING SHAREHOLDERS

Please refer to Section 9 "VI. EXPLANATION ON ABSENCE OF INDEPENDENCE OR INDEPENDENT OPERATING ABILITY ON BUSINESS, PERSONNEL, ASSETS, INSTITUTIONS AND FINANCE BY THE COMPANY AND ITS CONTROLLING SHAREHOLDERS" in this report, and it forms part of this Report of the Board of Directors.

XII. OTHER DISCLOSURES

(1) Share Capital

Please refer to the Consolidated Balance Sheets and Note 41 in the Independent Auditor's Report of this report, and it forms part of this Report of the Board of Directors.

(2) Pre-emptive rights arrangement

According to the PRC law and the Articles of Association, currently the Company has no pre-emptive rights arrangements.

(3) Sufficiency of Public Float

From the Company's H share listed date to the date of this report, according to the information obtained by the Company and the knowledge of the Directors, the public shareholding of the Company's shares is 25% or above, which is in compliance with the relevant regulations of Rule 8.08 and Rule 13.32 of the Listing Rules.

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(4) Management Contract

During the Reporting Period, the Company entered into no management and administration contracts relating to all or any substantial part of the business of the Company.

(5) Director and Supervisor service contract

No directors and supervisors of the Company entered into any service contract with the Company or its subsidiaries which is not terminable within one year or is not terminable without payment of compensation (other than statutory compensation).

(6) Material interests of Directors and Supervisors in transactions, arrangements or contracts

The Company or its subsidiaries have not entered into any significant transactions, arrangements or contracts entitling substantial interests to the directors or supervisors of the Company or their related entities directly or indirectly in the Reporting Period.

(7) Share option scheme

Please refer to Section 5 “VII. EQUITY INCENTIVE SCHEME, EMPLOYEE STOCK OWNERSHIP PLAN OR OTHER EMPLOYEE INCENTIVES AND THEIR EFFECTS” in this report, and it forms part of this Report of the Board of Directors.

(8) Material relationship with employees, major customers and suppliers

The Company provides services for the various institutional and individual customers engaged in a number of industries. The Company's clients include large, small and medium enterprises, high net worth clients and retail customers. Major customers are located in mainland China. With our future expansion in overseas markets, we are expected to provide services for more overseas customers. Top 5 customers accounted for less than 30% of the operating revenue in total. No customer has a material relationship with the Company.

Due to the nature of the business, the Company does not have a major supplier.

No employee has a material relationship with the Company.

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(9) Tax reduction

A Shareholders

In accordance with the Notice of Implementing Differentiated Individual Income Tax Policy for Stock Dividends of Listed Companies (Caishui [2015] No. 101) (《關於實施上市公司股息紅利差別化個人所得稅政策有關問題的通知》(財稅[2015]101號)) and Notice on Issues Relating to Implementing Differentiated Individual Income Tax Policy for Stock Dividends of Listed Companies (Caishui [2012] No. 85) (《關於實施上市公司股息紅利差別化個人所得稅政策有關問題的通知》(財稅[2012]85號)) issued by the Ministry of Finance, State Administration of Taxation and CSRC, for shares of listed companies obtained by individuals from public offerings or the market, where the holding period is less than one month (inclusive) (from the date of an individual's acquirement of the shares of a listed company from the public offer and transfer market to the date prior to the date of transfer and settlement of such shares), the full amount of dividends shall be counted as taxable income at an effective tax rate of 20%; where the holding period is more than one month and less than one year (inclusive), 50% of the dividends shall be counted as taxable income on a provisional basis at an effective tax rate of 10%; and where the holding period exceeds one year, the dividends shall be temporarily exempted from individual income tax. For dividends distributed by the Listed Company, where the period of individual shareholding is within one year (inclusive), the Listed Company shall not withhold the individual income tax temporarily. When an individual transfers his/her shares, the securities depository and clearing company calculates the actual taxable income according to his/her period for holding shares, and the company withholds tax otherwise through the securities depository and clearing company for the part in excess of the withheld tax. For the dividends obtained from a listed company by a securities investment fund, individual income tax is levied in accordance with the Cai Shui [2012] No. 85 requirements. For shareholders who are resident enterprises, the income tax on their cash dividends shall be payable on their own.

For the shareholders who are Qualified Foreign Institutional Investor (QFII), the Listed Company shall withhold and pay enterprise income tax at a rate of 10% pursuant to the requirements of the Notice Concerning the Relevant Questions on the Withholding and Payment of Enterprise Income Tax Relating to the Payment of Dividends, Bonus and Interest by PRC Resident Enterprises to QFII (Guo Shui Han [2009] No. 47) (《關於中國居民企業向QFII支付股息、紅利、利息代扣代繳企業所得稅有關問題的通知》(國稅函2009[47]號)) by the State Administration of Taxation. QFII shareholders who wish to enjoy tax concessions shall apply to the competent taxation authority for tax rebates (arrangements) according to the relevant rules and regulations after they receive the dividends.

Pursuant to the requirements of the Notices of Ministry of Finance, State Administration of Taxation and CSRC on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect (Cai Shui [2014] No. 81) (《財政部、國家稅務總局、中國證監會關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)), the Listed Company shall withhold an income tax at the rate of 10% on dividends from the A shares of the Company invested by Hong Kong investors (including enterprises and individuals) through the SSE, and apply for withholding via the competent tax authorities (before the Hong Kong Securities Clearing Company Limited is able to provide details such as investor identities and holding periods to the China Securities Depository and Clearing Corporation Limited, the policy of differentiated rates of taxation based on holding periods will temporarily not be implemented). For investors who are tax residents of other countries and whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of lower than 10%, those enterprises and individuals may, or may entrust a withholding agent to, apply to the competent tax authority of the Company for the entitlement of the rate under such tax treaty. Upon approval by the competent tax authority, the paid amount in excess of the tax payable based on the tax rate according to such tax treaty will be refunded.

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H Shareholders

In accordance with the Individual Income Tax Law of the People's Republic of China (《中華人民共和國個人所得稅法》) issued by the Fifth Session of the Standing Committee of the National People's Congress on 10 September 1980, revised on 30 June 2011 and came into effect on 1 September 2011 and the "Regulations for the Implementation of the Individual Income Tax Law of the People's Republic of China" (《中華人民共和國個人所得稅法實施條例》) revised by the State Council on 19 July 2011 and came into effect on 1 September 2011, the dividends paid by the Chinese companies shall be subject to the withholding tax at a rate of 20.0%. Non-Chinese resident foreign individuals shall be imposed 20.0% of personal income tax on the dividends gained from Chinese companies, unless specific exemptions allowed by the tax authorities of the State Council or special deductions in accordance with applicable tax treaty.

According to the Notice on the Management of Personal Income Tax Impose after the Abolition of Guo Shui Fa [1993] No. 045 Document issued by the State Administration of Taxation (Guo Shui Han [2011] No. 348) (《關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)), the dividend received by the overseas resident individual shareholders from the stocks issued by domestic non-foreign-invested enterprises in Hong Kong is subject to the payment of individual income tax according to the items of "interests, dividend and bonus income", which shall be withheld by the responsible withholding parties according to the relevant laws. For domestic non-foreign-invested enterprises making public offering in Hong Kong, the foreign resident individual shareholders are entitled to the associated tax preference according to the taxation agreement signed between their nations and China, and the regulations on taxation arrangements between China, Hong Kong and Macau. The dividends paid by domestic non foreign-invested enterprises which have made the public offering in Hong Kong to non-Chinese citizen H share individual holders shall be imposed personal income tax at the rate of 10.0%, without having to make applications to the Chinese tax authorities. If the tax rate of 10.0% is not applicable, the enterprises should (i) for a foreign citizen who is H share individual holder to receive dividend, if his country has signed income tax treaty at the rate of less than 10.0% with China, non-foreign-invested enterprises which have made public offering in Hong Kong may, on behalf of such holder, apply for lower tax rate preference; upon approved by the tax authorities, the excessive part of withholding tax paid will be refunded; (ii) for a foreign citizen who is H share individual holder to receive dividend, if his country has signed income tax treaty at the rate of higher than 10.0% but less than 20.0% with China, non-foreign-invested enterprises which have made public offering in Hong Kong shall pay withholding tax in accordance with the agreement and no need to make an application; (iii) for a foreign citizen who is H share individual holder to receive dividend, if his country has signed no tax treaty or otherwise, non-foreign-invested enterprises which have made public offering in Hong Kong shall pay withholding tax at the rate of 20.0%.

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According to the Notice on the Withholding Corporate Income Tax on the Dividends Distributed by the Chinese Resident Enterprise to Foreign H Share Non-resident Enterprise Shareholders (Guo Shui Han [2008] No. 897) (《關於中國居民企業向境外H股非居民企業股東派發股利代扣代繳企業所得稅有關問題的通知》(國稅函[2008]897號)) issued by the State Administration of Taxation and effective on 6 November 2008, when the Chinese resident enterprises distribute dividends of 2008 and subsequent years to foreign H share non-resident enterprise shareholders, they shall pay the withholding enterprise income tax at the rate of 10.0%. The withholding tax may be relief under an applicable double taxation treaty.

According to the requirements of Notice on the Tax Policies Concerning the Pilot Program of the Shanghai, Hong Kong Stock Connect (Guo Shui Han [2014] No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)) published by the Ministry of Finance, State Administration of Taxation and China Securities Regulatory Commission, H-share companies shall withhold an individual income tax at the rate of 20% on dividends from the H shares of the Company invested by mainland individual investors on the Hong Kong Stock Exchange through the Shanghai-Hong Kong Stock Connect. For dividends of the shares listed on the Hong Kong Stock Exchange received by mainland securities investment funds through Shanghai-Hong Kong Stock Connect, individual income tax shall be calculated in accordance with the above requirements. For dividends of the shares listed on the Hong Kong Stock Exchange received by mainland enterprise investors through Shanghai-Hong Kong Stock Connect, H share companies shall not withhold income tax of dividends, and mainland enterprise investors shall report and pay the tax amount by themselves. In particular the dividends received by resident enterprises in mainland which hold H share for at least 12 consecutive months could be exempted from enterprise income tax according to the law.

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by the Company.

The shareholders of the Company shall pay the relevant tax and/or are entitled to tax reliefs in accordance with the above requirements.

(10) Reserves

For changes of the Group's reserves and distributable reserves during the Reporting Period, please refer to the Consolidated Statement of Changes in Equity and note 42 in the Independent Auditor's Report of this report, and it forms part of this Report of the Board of Directors.

(11) Employees

Please refer to Section 9 "VI. EMPLOYEES OF THE PARENT COMPANY AND ITS MAJOR SUBSIDIARIES" of this report, and it forms part of this Report of the Board of Directors.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

(12) Property, plants and equipment and investment properties

As at the end of the Reporting Period, for details of the Group's property, plants and equipment and investment properties, please refer to the Consolidated Statement of Financial Position and note 18, note 19 in the Independent Auditor's Report of this report, and it forms part of this Report of the Board of Directors.

(13) Compliance with laws and regulations which have a significant impact on the Company

The Company strictly complies with domestic and overseas laws and regulations and industry standards such as the Listing Rules, SFO, PRC Company Law, Securities Act and regulation of securities companies.

(14) Fulfill Social Responsibilities

Please refer to Section 5 "XI. ACTIVELY FULFILLING SOCIAL RESPONSIBILITIES" in this report, and it forms part of this Report of the Board of Directors.

(15) Subsequent material events

1. Implementation of Repurchase of H Shares

On 22 May 2017, the Company convened the 2016 Annual General Meeting, 2017 First Class Meeting for Holders of A Shares and 2017 First Class Meeting for Holders of H Shares to consider and approve the Resolution of Central China Securities Co., Ltd. Regarding the Repurchase of its H Shares by way of Market Trades, whereby the Company intended to repurchase certain of its H Shares by way of market trades.

On 5 September 2017, the Company received the Acceptance Notice of Administrative Permission Application from the China Securities Regulatory Commission (No.171390) (《中國證監會行政許可申請受理通知書》(171390號)), pursuant to which, the CSRC had, according to law, conducted review on the materials relating to the administrative permission application for the Review and Approval on the Reduction of the Registered Capital of Central China Securities Co., Ltd. as a Securities Company (《中原證券股份有限公司證券公司減少註冊資本審批》) lodged by the Company and opined that the application materials were complete and in compliance with the statutory form, and therefore decided to accept such administrative permission application.

On 24 January 2018, the Company received the CSRC's Reply Concerning Approval of Change of Registered Capital of Central China Securities Co., Ltd. (Zheng Jian Xu Ke [2018] No.144) (《關於核准中原證券股份有限公司變更註冊資本的批覆》(證監許可[2018]144號)), pursuant to which the CSRC has approved the change of the Company's registered capital from RMB3,923,734,700 to not lower than RMB3,798,731,800. As at the date of this report, the Company has repurchased 6,188,000 H Shares on a cumulative basis in February 2018, representing approximately 0.495% and 0.158% of the total number of H Shares and total share capital of the Company as at the end of the Reporting Period, respectively. The maximum and minimum repurchase prices were HK\$3.28 and HK\$3.02 per share, respectively, totaling HK\$19,407,620. For details of the above issues, please refer to the Company's announcement dated 12 February, 13 February, 14 February and 15 February 2018 published on HKEXnews of the Hong Kong Stock Exchange.

The Company has financed the share repurchase with its cash currently available, reflecting the Board has confidence in the prospect of the Company. The Board believed that the share repurchase and the subsequent cancellation of shares repurchased were in the interests of the Company and shareholders as a whole.

SECTION 5 SIGNIFICANT EVENTS

I. PROPOSAL OF PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE FUND INTO CAPITAL FOR ORDINARY SHARES

(I) Establishment, execution or adjustment of cash dividend policy

According to the Articles of Association, the Company may distribute dividends in cash or in shares. The Company shall emphasize on the reasonable investment returns to investors in its profit distribution and shall keep its profit distribution policies consistent and stable. The Company shall fully consider and listen to the opinions of shareholders (especially minority shareholders) and independent Directors, and shall adhere to cash dividend as its primary method of profit distribution. In the absence of significant investment plan, significant cash outlay or any other matters that prohibit profit distribution in accordance with relevant laws, regulations and regulatory documents, the profit distributed by cash dividend each year shall be no less than 20% of the distributable profit realized for that year.

The Board shall, taking into consideration factors such as industry characteristics, the Company's development stage, business operation model, profitability level and whether there are significant capital expenditure arrangements, develop differentiated cash dividend policies to be applicable in the different situations. The cash dividend payout ratio in every profit distribution shall reach a minimum of 20%. In addition to cash dividend distribution, the Company may also distribute its profits by way of stock dividend. However, in the event that no cash dividend is made by the Company during that year, profits shall not be distributed by way of stock dividend alone.

The Board shall, in the light of specific operating data of the Company, the profit margin, the cash flow position, the development stage and the current capital requirements, take into consideration of the opinions of shareholders (especially minority shareholders) and independent Directors, while conducting careful research into and deliberation on the timing, conditions and minimum percentage of cash dividends, conditions of adjustment as well as decision-making procedures, to propose the annual or interim profit distribution plan. Independent Directors shall express specific opinions on these matters.

SECTION 5 SIGNIFICANT EVENTS

On 16 October 2017, the Distribution Plan for Interim Profits for 2017 was considered and approved by the 2017 1st extraordinary general meeting of the Company, which is a cash dividend of RMB0.73 for every 10 Shares (tax inclusive). The distribution of cash dividend above accounted for 214.76% of the net profit attributable to the owners of the parent in the first half of 2017.

In view of long-term development and sustainable reward to investors, the Company made the following distribution plan of profits for the second half of 2017 which approved that based on the total share capital of 3,923,734,700 Shares as of 31 December 2017 as the basis, the Company may distribute cash dividends of RMB0.35 per 10 shares (tax inclusive) to all shareholders whose names appeared on the Company's register of members on the record date thereof, with total cash dividends of RMB137,330,714.50. Cash dividends are dominated and declared in Renminbi, and paid in Renminbi and HK Dollars to holders of A Shares and H Shares, respectively. The actual amount in HK Dollars will be based on the average benchmark rate between Renminbi and HK Dollar published by the People's Bank of China five working days prior to the date of the 2017 annual general meeting to be held to consider the distribution plan of profits for the second half of 2017. The distribution budget plan of profits for the second half of 2017 was considered and approved by the 49th meeting of the 5th session of the Board of the Company and the independent directors have expressed their independent opinions thereon, which is subject to the consideration and approval by the 2017 annual general meeting.

After the distribution plan of profits for the second half of 2017 being considered and approved at the 2017 annual general meeting, the dividends will be paid no later than Monday, 16 July 2018.

The Company will later announce the record date and the book closure date for the distribution of H Share dividends.

The distribution budget plan of profits aforesaid is of high transparency and in compliance with regulations and the Company's Articles of Associations and approval procedures that the criteria and proportions of dividends are definite and clear, the relevant decision-making procedures and mechanisms are complete, the independent Directors have fulfilled their responsibilities and duties and expressed their independent opinions in fully protecting the legitimate rights and interests of minority shareholders.

SECTION 5 SIGNIFICANT EVENTS

(II) Profit distribution scheme or proposal and scheme or proposal on transfer of capital reserve fund into capital of ordinary shares for the recent three years (including the Reporting Period)

Unit: Yuan Currency: RMB

Year of distribution	Amount of dividend for every 10 shares (RMB) (inclusive of tax)	Amount of cash dividends (inclusive of tax)	Net profit for the year attributable to owners of ordinary shares of the Company in the consolidated financial statements during the year of distribution	Percentage of amount of cash dividends in net profit for the year attributable to owners of ordinary shares of the Company in the consolidated financial statements (%)
2017	1.08	423,763,347.60	441,982,592.67	95.88
2016	2.21	797,145,368.70	718,646,243.11	110.92
2015	4.2	1,353,968,574.00	1,405,500,406.97	96.33

SECTION 5 SIGNIFICANT EVENTS

II. PERFORMANCE OF UNDERTAKINGS

Undertakings by undertaking related parties including de facto controller, shareholders, related parties, acquirer and the Company during or lasting within the Reporting Period

Background	Type of undertakings	Undertaking party	Contents of undertakings	Date and duration of undertakings	Any deadline for performance	Whether timely and strictly performed
	Shares subject to lock-up	Henan Investment Group Co., Ltd.	Undertakings by shareholders in relation to voluntary lock-up of shares held	36 months since the date of initial offering of A shares by Central China Securities and listing on the stock exchange	Yes	Yes
Undertaking in relation to the initial public offering	Resolving business competition	Henan Investment Group Co., Ltd.	Undertaking in relation to non-competition	Regarded as long-term since entering into of the non-competition agreement with Central China Securities on 10 March 2014	Yes	Yes
	Shares subject to lock-up	Bohai Industrial Investment Fund Management Co., Ltd. (representing Bohai Industrial Investment Fund)	Undertakings by shareholders in relation to voluntary lock-up of shares held	12 months since the date of initial offering of A shares by Central China Securities and listing on the stock exchange	Yes	Yes
	Shares subject to lock-up	Anyang Iron & Steel Group Co., Ltd.	Undertakings by shareholders in relation to voluntary lock-up of shares held	12 months since the date of initial offering of A shares by Central China Securities and listing on the stock exchange	Yes	Yes
	Shares subject to lock-up	China Pingmei Shenma Energy & Chemical Group Co., Ltd.	Undertakings by shareholders in relation to voluntary lock-up of shares held	12 months since the date of initial offering of A shares by Central China Securities and listing on the stock exchange	Yes	Yes
	Shares subject to lock-up	Anyang Economic Development Group Co., Ltd.	Undertakings by shareholders in relation to voluntary lock-up of shares held	12 months since the date of initial offering of A shares by Central China Securities and listing on the stock exchange	Yes	Yes
	Shares subject to lock-up	Jiangsu SOHO Holdings Group Co., Ltd.	Undertakings by shareholders in relation to voluntary lock-up of shares held	12 months since the date of initial offering of A shares by Central China Securities and listing on the stock exchange	Yes	Yes

SECTION 5 SIGNIFICANT EVENTS

Background	Type of undertakings	Undertaking party	Contents of undertakings	Date and duration of undertakings	Any deadline for performance	Whether timely and strictly performed
	Shares subject to lock-up	Xuchang Superlift Construction Materials Science & Technology Co., Ltd.	Undertakings by shareholders in relation to voluntary lock-up of shares held	12 months since the date of initial offering of A shares by Central China Securities and listing on the stock exchange	Yes	Yes
	Shares subject to lock-up	Guangzhou Liby Investment Co., Ltd.	Undertakings by shareholders in relation to voluntary lock-up of shares held	12 months since the date of initial offering of A shares by Central China Securities and listing on the stock exchange	Yes	Yes
	Shares subject to lock-up	Henan Shenhua Group Co., Ltd.	Undertakings by shareholders in relation to voluntary lock-up of shares held	12 months since the date of initial offering of A shares by Central China Securities and listing on the stock exchange	Yes	Yes
	Shares subject to lock-up	Henan Jinlong Industrial Co., Ltd.	Undertakings by shareholders in relation to voluntary lock-up of shares held	12 months since the date of initial offering of A shares by Central China Securities and listing on the stock exchange	Yes	Yes
	Shares subject to lock-up	Jiaozuo Economic and Technology Development Co., Ltd.	Undertakings by shareholders in relation to voluntary lock-up of shares held	12 months since the date of initial offering of A shares by Central China Securities and listing on the stock exchange	Yes	Yes
	Shares subject to lock-up	Shandong Weihai Huanqiu Fishing Tackle Industrial Co., Ltd.	Undertakings by shareholders in relation to voluntary lock-up of shares held	12 months since the date of initial offering of A shares by Central China Securities and listing on the stock exchange	Yes	Yes
	Shares subject to lock-up	Jiangsu Huiyou Woollen Sweater Co., Ltd.	Undertakings by shareholders in relation to voluntary lock-up of shares held	12 months since the date of initial offering of A shares by Central China Securities and listing on the stock exchange	Yes	Yes
	Shares subject to lock-up	Zhangjiagang Freetrade Science & Technology Co., Ltd.	Undertakings by shareholders in relation to voluntary lock-up of shares held	12 months since the date of initial offering of A shares by Central China Securities and listing on the stock exchange	Yes	Yes
	Shares subject to lock-up	Shenzhen Rising Investment Development Co., Ltd.	Undertakings by shareholders in relation to voluntary lock-up of shares held	12 months since the date of initial offering of A shares by Central China Securities and listing on the stock exchange	Yes	Yes
	Shares subject to lock-up	Hebi Construction & Investment Group Co., Ltd.	Undertakings by shareholders in relation to voluntary lock-up of shares held	12 months since the date of initial offering of A shares by Central China Securities and listing on the stock exchange	Yes	Yes
	Resolving business competition	The Company	Undertaking in relation to non-competition	Regarded as long-term since entering into non-competition agreement with Henan Investment Group on 10 March 2014	Yes	Yes

SECTION 5 SIGNIFICANT EVENTS

III. APPOINTMENT AND DISMISSAL OF ACCOUNTING FIRMS

Unit: 0'000 Currency: RMB

Currently engaged

Name of the domestic accounting firm	ShineWing Certified Public Accountants (Special General Partnership)
Remuneration of the domestic accounting firm	105.00
Term of the audit services provided by domestic accounting firm	6 years
Name of the domestic accounting firm	PricewaterhouseCoopers
Remuneration of the domestic accounting firm	298.00
Term of the audit services provided by domestic accounting firm	4 years

	Name	Remuneration
Accounting firm engaged for internal control audit	ShineWing Certified Public Accountants (Special General Partnership)	30.00

SECTION 5 SIGNIFICANT EVENTS

Explanation of appointment and dismissal of accounting firms

During the Reporting Period, the Company has re-appointed ShineWing Certified Public Accountants (Special General Partnership) as its domestic auditing firm of 2017 for providing domestic auditing services based on China's Accounting Standards for Business Enterprises, with a service term of 1 year. The total audit expenditure was RMB1,350,000, including RMB1,050,000 of annual audit fees and RMB300,000 of internal control audit fees. The Company has re-appointed PricewaterhouseCoopers as its external audit institution of 2017 for providing correlated audit and review services based on International Financial Reporting Standards, with a service term of 1 year. The total expenditure was RMB2.98 million.

IV. MATERIAL LITIGATION AND ARBITRATIONS

There is no material litigation or arbitration of the Company during the year.

V. PUNISHMENT ON AND RECTIFICATION OF THE LISTED COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDERS, DE FACTO CONTROLLER AND ACQUIRER

- (1) On 24 May 2017, the Company received the Decision Letter on Administrative Regulatory Measures of the Henan Branch of the CSRC ([2017] No.10) titled Decision on the Measures including Order of Rectification against Central China Securities Co., Ltd. (《關於中原證券股份有限公司實施責令改正等措施的決定》(編號：河南證監局行政監管措施決定書[2017]10號)). The Company attached high importance to the issue and performed self-inspection, self-correction and arranged rectification measures to rectify and optimize its work on a continuous basis. Pursuant to the requirement of the regulatory authorities, the Company timely submitted a special written rectification report to the Henan Branch of the CSRC, and performed two internal compliance inspections in August and November 2017, the compliance inspection report of which has been submitted to the Henan Branch of the CSRC.
- (2) On 30 November 2017, the Company received an investigation notice from the CSRC (Ji Cha Zong Dui Diao Cha Tong Zi No.171577) (稽查總隊調查通字171577號), which stated that as the Company is alleged to not performed its due diligence duties as the financial advisor for the equity acquisition of Xuzhou Jieneng Technology Development Co., Ltd* (徐州傑能科技發展有限公司) by Tianjin Fengli Innovation Investment Co., Ltd.* (天津豐利創新投資有限公司), the CSRC has decided to initiate investigation proceedings against the Company.

SECTION 5 SIGNIFICANT EVENTS

- (3) On 9 February 2018, the Company received the Decision Letter on Administrative Regulatory Measures of the Henan Branch of the CSRC ([2018] No.1) titled Decision on the Supervisory and Regulatory Measures including Order of Rectification against Central China Securities Co., Ltd. (《關於對中原證券股份有限公司實施責令改正等監督管理措施的決定》(編號：河南證監局行政監管措施決定書[2018]1號)). The Company thoroughly analysed the reasons for the problem, clearly defined the rectification work, refined its rectification measures, strengthened the rectification responsibilities and firmly pushed forward the work in relation to implementation of rectification measures. Meanwhile, with a focus on strengthening its rectification work, the Company adhered to a problem-oriented policy to conduct comprehensive reflection on the overall work of the Company and maximized the results of rectification by seeing the reflection as a lesson and taking the results one step further. On this basis, the Company made strenuous effort in solving the key problems restraining the transformation and development of the Company, which has laid a solid foundation of compliance and risk control for the long term development of the Company.

Save for disclosed above, the Company has not been punished or public censured by CSRC, SAC, Stock Exchange, CFFEX, finance and tax department, foreign exchange department and audit department.

VI. CREDIT-WORTHINESS OF THE COMPANY, ITS CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER DURING THE REPORTING PERIOD

There was no failure of the Group, its controlling shareholder and de facto controller to comply with any effective court rulings or settle any material debts which have fallen due.

VII. EQUITY INCENTIVE SCHEME, EMPLOYEE STOCK OWNERSHIP PLAN OR OTHER EMPLOYEE INCENTIVES AND THEIR EFFECTS

Other incentive measures

On 26 May 2015, Mao Yuan Capital Limited issued a written notice to the Company to propose new resolutions at the extraordinary general meeting and the class meetings regarding the proposed adoption of a Share Option Scheme. The Share Option Scheme had been approved on 2nd extraordinary general meeting 2015, 1st Domestic Share class meeting and 1st H Share class meeting. The Share Option Scheme shall be conditional upon satisfying relevant conditions. The Company will not implement the Share Option Scheme until the conditions for implementation of the Share Option Scheme have been met. Please refer to the Company's 2015 H share annual report and the Company's prospectus in respect of its initial public offering (A Share) issued on 23 March 2016 and 8 December 2016, respectively. For more information, please click: <http://www.hkexnews.hk> and <http://www.sse.com.cn>.

SECTION 5 SIGNIFICANT EVENTS

VIII. CONNECTED PARTIES AND CONNECTED TRANSACTIONS

Non-exempt connected transactions conducted by the Group in accordance with the Listing Rules within the Reporting Period are listed below:

On 28 June 2017, the shareholders of ZDKY Venture Capital passed a shareholders' resolution, pursuant to which ZDKY Venture Capital will carry out the capital reduction whereby the other ZDKY Venture Capital shareholders will withdraw their respective capital contribution in ZDKY Venture Capital at a consideration on the basis of RMB1.17 for every RMB1 of their respective capital contribution. The total consideration in respect of the capital reduction is RMB567,450,000, among which the consideration for the capital reduction in respect of the original capital contribution by Dahe Media and Zhengfa Group are RMB234,000,000 and RMB175,500,000 respectively. The original costs of Dahe Media and Zhengfa Group in respect of their respective capital contribution to ZDKY Venture Capital are RMB200,000,000 and RMB150,000,000 respectively. The capital reduction will be carried out pursuant to the requirements of the Management Rules for the Private Investment Funds Subsidiaries of Securities Companies (《證券公司私募投資基金子公司管理規範》) promulgated by the Securities Association of China. Prior to the above capital reduction, Dahe Media Investment Co., Limited and Zhengzhou Development Investment Group Co., Limited holds 14.49% and 10.87%, respectively, of the equity interest of ZDKY Venture Capital. Whereas ZDKY Venture Capital is a subsidiary of the Company, Dahe Media and Zhengfa Group are substantial shareholders of a subsidiary of the Company and thus connected persons at the subsidiary level of the Group under Rules 14A.06(9) and 14A.07 of the Listing Rules. Therefore, the capital reduction constitutes a connected transaction of the Company. For details of the connected transaction mentioned above, please refer to the announcement of the Company dated 28 June 2017 published on HKEXnews of the Hong Kong Stock Exchange.

On 3 August 2017, Central China Blue Ocean entered into the capital contribution agreement with Henan Investment Group, Zhongyuan Trust, Henan Yicheng Holdings Company Limited and other capital contributors, pursuant to which the capital contributors agreed to establish Henan Asset Management Company Limited with a registered capital of RMB5 billion. Upon completion of the transaction contemplated under the capital contribution agreement, the Group will, through Central China Blue Ocean, hold 10% of the equity interest in Henan Asset Management Company Limited. Henan Investment Group holds approximately 20.975% of the issued share capital of the Company and is the largest substantial shareholder of the Company. Meanwhile, Henan Investment Group holds approximately 46.429% and 100%, respectively, of the equity interest in Zhongyuan Trust and Henan Yicheng Holdings Company Limited, which in turn are the 30%-controlled company and the subsidiary, respectively, of Henan Investment Group, and thus are associates of Henan Investment Group pursuant to Rules 14A.13(3) and 14A.13(1), respectively, of the Listing Rules. Accordingly, Henan Investment Group, Zhongyuan Trust and Henan Yicheng Holdings Company Limited are connected persons of the Company under Rule 14A.07(1) of the Listing Rules. The transaction contemplated under the capital contribution agreement constitutes a connected transaction of the Group under Chapter 14A of the Listing Rules. For details of the connected transaction mentioned above, please refer to the announcement of the Company dated 3 August 2017 published on HKEXnews of the Hong Kong Stock Exchange.

SECTION 5 SIGNIFICANT EVENTS

Central China Blue Ocean and Zhongyuan Trust entered into the fund trust agreements on 6 July 2017 and 10 August 2017 in relation to the entrustment of Zhongyuan Trust (as the entrusted party) by Central China Blue Ocean (as the entrusting party) to provide specific management, utilization and disposition for its fund. The trust principal were RMB50 million (with a term of trust of 24 months), RMB100 million (with a term of trust of 12 months) and RMB200 million (with a term of trust of not more than 30 months), respectively. The trust principal would be used to invest in a third party who is independent of the Company and the connected persons of the Company by Zhongyuan Trust. Henan Investment Group holds approximately 20.975% of the issued share capital of the Company and is the largest substantial shareholder of the Company. Meanwhile, Henan Investment Group holds approximately 46.43% equity interests in Zhongyuan Trust and Zhongyuan Trust is a 30%-controlled company of Henan Investment Group, Zhongyuan Trust is an associate of Henan Investment Group pursuant to Rule 14A.13(3) of the Listing Rules. Accordingly, Zhongyuan Trust is a connected person of the Company under Rule 14A.07(4) of the Listing Rules, and the transactions contemplated under the fund trust agreements constitute connected transactions of the Group under Chapter 14A of the Listing Rules. For details of the connected transaction mentioned above, please refer to the announcement of the Company dated 25 September 2017 published on HKEXnews of the Hong Kong Stock Exchange.

The Company and Zhongyuan Trust entered into a fund trust agreement on 2 November 2017 in relation to the entrustment of Zhongyuan Trust (as the entrusted party) by the Company (as the entrusting party) to provide specific management, utilization and disposal for its fund. The trust principal was RMB100 million (with a term of trust of not more than 36 months). The trust principal would be used to invest in a third party who is independent of the Company and the connected persons of the Company by Zhongyuan Trust. Henan Investment Group holds approximately 20.975% of the issued share capital of the Company and is the largest substantial shareholder of the Company. Meanwhile, Henan Investment Group holds approximately 46.43% equity interests in Zhongyuan Trust and Zhongyuan Trust is a 30%-controlled company of Henan Investment Group. Zhongyuan Trust is an associate of Henan Investment Group pursuant to Rule 14A.13(3) of the Listing Rules. Accordingly, Zhongyuan Trust is a connected person of the Company under Rule 14A.07(4) of the Listing Rules, and the transaction contemplated under the fund trust agreement constitutes a connected transaction of the Group under Chapter 14A of the Listing Rules. For details of the connected transaction mentioned above, please refer to the announcement of the Company dated 2 November 2017 published on HKEXnews of the Hong Kong Stock Exchange.

On 28 December 2017, ZDKY Venture Capital entered into the equity interest transfer agreement with Equity Exchange Co. in relation to the transfer by Equity Exchange Co. of its 60% equity interest in ZZKY Venture Capital to ZDKY Venture Capital at the consideration of RMB37,055,632.57. Henan Investment Group holds approximately 20.98% of the issued share capital of the Company and is the largest substantial shareholder of the Company within the meaning of the Listing Rules. Pursuant to Rule 14A.07(1) of the Listing Rules, Henan Investment Group is a connected person of the Company. At the same time, Henan Investment Group holds 10% equity interest in Equity Exchange Co., which is a subsidiary of the Company. Therefore, Equity Exchange Co. is a connected subsidiary of the Company under Rule 14A.16 of the Listing Rules, and the transaction contemplated under the equity interest transfer agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. For details of the connected transaction mentioned above, please refer to the announcement of the Company dated 28 December 2017 published on HKEXnews of the Hong Kong Stock Exchange.

Set out in note 56 in the Independent Auditor's Report of this report is information about other related parties and related party transactions. Save as disclosed above, the Company confirmed that the related party transactions are not classified as "connected transactions" or "continuing connected transactions", as the case may be, within the meaning of Chapter 14A of the Listing Rules, and are in compliance with the disclosure requirements under Chapter 14A of the Listing Rules.

SECTION 5 SIGNIFICANT EVENTS

IX. IMPORTANT CONTRACTS AND CONTRACT FULFILMENT

(I) Trust, contracting and leasing matters

N/A

(II) Guarantees

Unit: Yuan Currency: RMB

Guarantor	Relationship between guarantor and the listed Party company	External guarantees provided by the Company (excluding the guarantees for subsidiaries)				Guarantee type	Whether counter-guarantee exists	Related parties guarantee or not	Related relationship
		Amount of guaranteed guarantee	Date of provision of guarantee (execution date of agreement)	Commencing date of guarantee	Expiry date of guarantee				
									0
									0
									1,048,448,650.00
									964,857,650.00
									964,857,650.00
									8.43

Guarantees provided by the Company and its subsidiaries for subsidiaries

Total amount of guarantees provided by the Company (including those for subsidiaries)

Total amount of guarantees (A+B)
Percentage of total guarantee over the net assets of the Group (%)

Including:

Amount of guarantees provided to shareholders, de facto controller and their related parties (C)

Portion of amount of debt guarantees directly or indirectly provided for the parties guaranteed with the gearing ratio exceeding 70% (D)

Amount of total guarantee exceeding 50% of net assets (E)

Total amount of the above three types of guarantees (C+D+E)

Explanations on outstanding guarantee which may undertake joint and several liability for repayment

Explanations on guarantees

As at the end of the Reporting Period, the Company provided counter-guarantee for Central China Internationals overseas loans, with the balance of which amounting to RMB964,857,650.00 in total (of which: HK\$915,000,000.00 and RM18200,000,000.00).

SECTION 5 SIGNIFICANT EVENTS

(III) Other material contracts

N/A

X. DESCRIPTION OF OTHER SIGNIFICANT EVENTS

Resignation of Director and President of the Company

On 6 September 2017, the Board of the Company received a written letter of resignation from Mr. Zhou Xiaoquan, the director and president of the Company. Due to personal and health reason, Mr. Zhou Xiaoquan resigned as the director and president of and from the relevant positions held in the Company. Pursuant to the Company Law, the Articles of Association and relevant requirements, Mr. Zhou Xiaoquan's application for resignation shall take effect upon the delivery of the same to the Board of the Company.

On 11 September 2017, the 41st meeting of the fifth session of the Board of the Company considered and approved the Proposal on the Holding of the Position of President by Mr. Jian Mingjun, the Chairman of the Board of the Company (《關於公司董事長菅明軍先生兼任總裁職務的議案》), and agreed that Mr. Jian Mingjun, the chairman of the Company, shall hold the position of President.

For details of the above issues, please refer to the relevant announcements of the Company dated 6 September and 11 September 2017 published on HKEXnews of the Hong Kong Stock Exchange.

SECTION 5 SIGNIFICANT EVENTS

XI. ACTIVELY FULFILLING SOCIAL RESPONSIBILITIES

(I) Poverty Alleviation by the Listed Company

1. Targeted Poverty Alleviation Planning

- (1) According to the relevant requirements of Opinions on the Performance of Social Responsibility Regarding Poverty Alleviation by the Securities Industry (《關於證券行業履行脫貧攻堅社會責任的意見》) issued by Securities Association of China, the Company established leading groups and offices supporting poverty alleviation in a view to supporting the work in relation to poverty alleviation in Henan Province.
- (2) Provide comprehensive poverty alleviation services to under-privileged counties by leveraging the advantage of “six-in-one” whole industry chain. Firstly, the Company demonstrated the influence of Equity Exchange Co. to meet the targeted demand of small and medium enterprises in under-privileged counties for listing and financing. Secondly, the Company demonstrated the advantages of its investment banking business to assist enterprises in under-privileged counties poverty to be listed on the main board and the New Third Board. Thirdly, the Company invested directly in the enterprises in under-privileged counties.
- (3) Establish industrial investment fund with joint efforts. ZDKY Venture Capital and ZZKY Venture Capital commenced in-depth cooperation with under-privileged counties to establish corresponding industrial investment funds that operate on market-oriented principles, thereby providing funding support and assistance to different quality enterprises in under-privileged counties by leveraging the funds’ professional advantages.
- (4) Step up its efforts in charity works and poverty alleviation in under-privileged counties by leveraging the advantage offered by the platform of Henan Foundation for Poverty Alleviation.
- (5) Provide targeted poverty alleviation for under-privileged counties and villages.

SECTION 5 SIGNIFICANT EVENTS

2. Summary of Annual Targeted Poverty Alleviation

(1) “One Company to One County (一司一縣)” Pair-up Assistance

In response to the proposal of implementing the “One Company to One County (一司一縣)” Pair-up Assistance for securities companies initiated by the Securities Association of China, the Company, on the basis of pair-up assistance in Lankao County and Gushi County, added two designated counties for pair-up assistance, namely Tongbai County, Nanyang City and Shangcai County, Zhumadian City, respectively.

(2) “One County to One Enterprise (一縣一企)” Pair-up Assistance

The Securities Association of China issued the Promoting Targeted Poverty Alleviation by Deepening the Implementation of “One Country to One Enterprise” – Proposal on Further Action Regarding Poverty Alleviation by Securities Companies (《推動“一縣一企”深化精準扶貧--證券公司服務脫貧攻堅再行動倡議書》) in September 2017. With the concerted efforts of the Group’s various departments, 2 companies have received listing guidance and 7 companies have reached preliminary cooperation intent for IPO.

(3) Specific Achievements in Poverty Alleviation

① Poverty alleviation regarding consumption

The Company purchased agricultural by-products from poor villagers in Zhangzhuang Village, Lankao County, Guanqiao Village, Gushi County and Xin County in the total amount of RMB240,000, with 68 under-privileged individuals benefitted and were removed from administrative record for poverty registering.

② Poverty alleviation regarding education

The Company donated RMB500,000 to Zhangzhuang Primary School in Dongbatou Town, Lankao County through Henan Foundation for Poverty Alleviation, which was applied towards upgrade of teaching equipment and enhancement of teaching environment. The Company also joined hands with Sangong Lihua (三公利華) to donate a basketball field with a value of RMB150,000.

SECTION 5 SIGNIFICANT EVENTS

③ Listing of enterprises in regional markets

In 2017, with concerted efforts of the Company's branches, a total of 85 enterprises were listed on Equity Exchange Co.. Meanwhile, Equity Exchange Co. also implemented the green passage policy of "dedicated staff members and special verification (專人對接、專項審核)" for enterprises in under-privileged counties, and provided 50% exemption of listing service fees and venue fees for these enterprises with a view to actively promoting regulated development of local small and medium enterprises.

④ Support Party-building work in under-privileged counties

The Company donated RMB500,000 to each of Gushi County, Tongbai County and Shangcai County, the three designated under-privileged counties for poverty alleviation on 1 November, 17 August and 25 October 2017, respectively, totaling RMB1.5 million, which was applied towards the construction of a service centre for party members at grassroots level.

⑤ Other donation

The Company donated RMB1.3 million to Henan Sports Development Foundation, which was applied towards supporting the development of the sports industry in Henan Province.

⑥ Support the issuance of corporate bonds

The corporate bonds in the amount of RMB1.4 billion and RMB800 million in Puyang County and Biyang County, respectively have been approved by the NDRC and will be issued when appropriate.

SECTION 5 SIGNIFICANT EVENTS

(4) Provide support for poverty alleviation work throughout Henan Province through Henan Foundation for Poverty Alleviation

As the president unit, the Company actively supported the development of Henan Foundation for Poverty Alleviation by deploying dedicated Party Committee member and Chairman of the Labour Union of the Company to serve as the President as well as outstanding cadre from the Labour Union to serve as chief secretary of the foundation. Meanwhile, through this platform, the originally scattered donation of the Company may be used in a centralized manner, thereby better serving the purpose of poverty alleviation.

In 2017, Henan Foundation for Poverty Alleviation received a total monetary donation of RMB470 million and donation in-kind of over RMB2.7 million from the community. The Company also joined hands with charitable enterprises, including Evergrande Group, Country Garden Group, Centraline Securities, Henan Yichuan Rural Commercial Bank Co., Ltd. (河南伊川農村商業銀行股份有限公司), China Construction Bank (Henan Branch), etc., to participate in charity works. A total of over 50,000 warm-hearted people have participated in the charitable activities, providing direct assistance to over 1,670 under-privileged households, creating about 10,000 jobs for working population from under-privileged families, and benefiting over 20,000 under-privileged students.

(5) Deploy Xinjiang-supporting cadres and first secretaries of villages to directly participate in poverty alleviation

During the Reporting Period, pursuant to the arrangement of the Organization Department of Henan Provincial People's Congress, the Company deployed a Xinjiang-supporting cadres to serve as the deputy general manager of Kumul City State-owned Assets Investment and Operation Company Limited (哈密市國有資產投資經營有限公司), who adhered to the major goal of development of Xinjiang with a self-consciousness and assisted Kumul City State-owned Assets Investment and Operation Company Limited (哈密市國有資產投資經營有限公司) to obtain total approved financing of RMB22.102 billion in 2017. The total revenue from its financing business amounted to RMB14.84 million. The Company entered into a strategic cooperation memorandum in relation to financial support of Xinjiang with the People's government of Kumul City, laying a foundation for the targeted and deepened development of various individual businesses in the next stage.

In November 2017, pursuant to the arrangement of the Organization Department of Henan Provincial People's Congress, the Company carefully selected an outstanding young cadre with good political quality and strong capability through public nomination and selection to serve as the first secretary of Luochen Village, Guangshan County, Henan Province, a traditional revolutionary base. With a view to lifting Luochen Village out of poverty as soon as possible, the Party Committee of the Company has decided to donate RMB500,000 to this village, which was applied towards infrastructure construction at grassroots level.

SECTION 5 SIGNIFICANT EVENTS

3. Effectiveness of Targeted Poverty Alleviation

Unit: 10,000 Currency: RMB

Index	Number and implementation information
I. General information	
Including: 1. Fund	404
II. Itemized input	
1. Poverty alleviation regarding industrial development	
Including: 1.1 Type of industrial poverty alleviation projects	<input type="checkbox"/> Poverty alleviation regarding agriculture and forestry industry <input type="checkbox"/> Poverty alleviation regarding tourism <input checked="" type="checkbox"/> Poverty alleviation regarding e-commerce <input type="checkbox"/> Poverty alleviation regarding assets and revenues <input type="checkbox"/> Poverty alleviation regarding technology <input type="checkbox"/> Others
1.2 Number of industrial poverty alleviation projects	1
1.3 Amount invested in industrial poverty alleviation projects	24
2. Poverty alleviation regarding education	
2.1 Amount invested in improving education resources in under-privileged areas	50
3. Other projects	
Including: 3.1. Number of projects	3
3.2. Amount invested	330

SECTION 5 SIGNIFICANT EVENTS

4. Follow-Up Targeted Poverty Alleviation Planning

- (1) The Company will fully leverage its advantages of listing in both Shanghai and Hong Kong to further step up its effort in supporting poverty alleviation, striving to provide enterprises in under-privileged counties with a basket of comprehensive financial services including equity, debts and investment so as to support the accelerated development of under-privileged counties in Henan Province, such as Gushi County, Tongbai County, Shangcai County and Guangshan County, from multiple dimension and level.
- (2) The Company will fully leverage its professional advantages to facilitate poverty alleviation of Luochen Village, striving to establish a under-privileged village that realise poverty alleviation through economic development and enhancement of its “talent development” ability, which will become a benchmark for party organization at grassroots level.
- (3) The Company will increase its support for Henan Foundation for Poverty Alleviation to facilitate the implementation of its “Thousands of Millions Projects”, i.e. gradually enhance the conditions of clinics in 100 under-privileged villages, sponsor over 3,000 extremely poor high-school students, supporting 10,000 under-privileged families to shake off poverty, thereby further enhancing the results of its targeted poverty alleviation work.
- (4) The Company intended to facilitate new listing of over 100 quality enterprises in under-privileged counties on Equity Exchange Co..
- (5) ZDKY Venture Capital intended to join hands with Gushi County to establish an investment fund for innovative industry in Gushi County.

(II) Social responsibility

For details of the Company's social responsibility, please refer to the 2017 Social Responsibility Report of Central China Securities Co., Ltd. as disclosed on the website of SSE (<http://www.sse.com.cn>).

SECTION 5 SIGNIFICANT EVENTS

(III) Environmental policy and performance

Environmental Commitment

Offices and business departments are where the Company's businesses mostly take place. Therefore, the Company strives to practise the concept of energy efficiency in the details of its daily office operation. The Company's measures to enhance electricity efficiency are as follow:

select Energy Star certified computers;

require employees to turn off electrical appliances during non-working hours;

implement sectional lighting system with independent switches designated for different areas;

keep the lighting fixtures clean;

set the temperature of air-conditioner at 26 degree Celsius.

According to the 3-Data-Center recovery plan of the Group, the primary and backup data centers are located in Zhengzhou while the third disaster recovery center is located in Shanghai. The Group's data centers have employed the design of Type A computer room. Precision air conditioning is installed to maintain a normal temperature and humidity of the machine room, and the server rack is equipped with cool/hot aisle with downward air supply and upward air return to ensure cooling efficiency.

SECTION 5 SIGNIFICANT EVENTS

Protection of Environment and Natural Resources

The Company puts the concept of green operation into full implementation and seeks to embed the environmentally friendly vision into its daily operation. The Company's effort in paper reduction can be reflected by the application of Office Automation (OA) System to administrative tasks such as material purchase, information dissemination, application and signature. Employees are also encouraged to set double-sided printing by default on their computers and use e-cards for holiday greetings. In furtherance to its paper-saving commitment, the Company's investors are kept updated with information on rules and risks of securities transaction business via public media platform such as its official website, WeChat, online transaction terminal and mobile transaction terminal. The Company also actively expands the operation of big data to provide better online general securities services, including online securities account opening, securities quote, securities trading, securities finance and business self-service. Looking ahead, the Group will explore the use of artificial intelligence in financial services and harness internet financial technology in various business areas. Meanwhile, the Company advocates the use of public transport and car-sharing to protect environment and natural resources as well as reduce carbon emission.

XII. A SHARE CONVERTIBLE CORPORATE BONDS

On 22 May 2017, the Company convened the 2016 Annual General Meeting, 2017 First Class Meeting for Holders of A Shares and 2017 First Class Meeting for Holders of H Shares to consider and approve the relevant resolutions regarding the public issuance of A Share Convertible Corporate Bonds. The Company intended to publicly issue corporate bonds which are convertible into A Shares of the Company with an issuing size of not more than RMB2.7 billion (inclusive).

On 14 July 2017, the Company received the Acceptance Notice of Administrative Permission Application from the CSRC (No.171415) (《中國證監會行政許可申請受理通知書》(171415號)), pursuant to which, the CSRC had, according to law, conducted review on the materials relating to the administrative permission application for the Approval on the Issuance of Corporate Bonds which are Convertible into Shares by Central China Securities Co., Ltd. as a Listed Company (《中原证券股份有限公司上市公司發行可轉換為股票的公司債券核准》) lodged by the Company and opined that the application materials were complete and in compliance with the statutory form, and therefore decided to accept such administrative permission application. On 22 August 2017, the Company received the Notice Regarding the CSRC's First Feedback on the Review of Administrative Permission Items (No. 171415) (《中國證監會行政許可項目審查一次反饋意見通知書》(171415號)) (hereinafter referred to as the "Feedback"). The Company and the relevant intermediaries carefully reviewed and discussed, and provided descriptive and explanatory document in response to each of the issues raised in the Feedback based on the principles of due diligence and integrity.

SECTION 5 SIGNIFICANT EVENTS

On 31 October 2017, the resolution in relation to the decrease of issuing size of the Company's A Share Convertible Corporate Bonds was considered and approved by the 44th meeting of the fifth session of the Board of the Company. The Company intended to decrease the issuing size of the convertible bonds from "not more than RMB2.7 billion (inclusive)" to "not more than RMB2.550 billion (inclusive)".

The Company received an Investigation Notice (Ji Cha Zong Dui Diao Cha Tong Zi No.171577) (稽查總隊調查通字171577號) issued by the CSRC on 30 November 2017 and submitted an application to the CSRC for suspension of review process of the application documents in relation to the public issuance of A Share Convertible Corporate Bonds of the Company on 13 December 2017. The Company received the Notice of the Application for Administrative Permission for Suspension of Review Process of the CSRC (No. 171415) (《中國證監會行政許可申請中止審查通知書》(171415號)) on 12 January 2018, pursuant to which the CSRC has agreed to approve the Company's application for suspension of review process.

For details of the above issues, please refer to the relevant announcements disclosed by the Company on 22 May, 14 July, 15 September, 31 October 2017 and 15 January 2018.

SECTION 6 CHANGES IN ORDINARY SHARES AND SHAREHOLDERS

I. CHANGES IN ORDINARY SHARE CAPITAL

During the Reporting Period, there is no change to the total number of ordinary shares and the shareholding structure of the Company.

SECTION 6 CHANGES IN ORDINARY SHARES AND SHAREHOLDERS

II. SECURITIES ISSUANCE AND LISTING

(I) Issuances of securities as at the end of the Reporting Period

Unit: ten thousand dollars Currency: RMB

Type of shares and derivative securities	Date of issuance	Issue price (or rate)	Issue size	Date of listing	Amount approved for listing and trading	Date of termination of trading
Convertible corporate bonds, warrant bonds and corporate bonds						
Subordinated bonds	25 July 2017	5.15%	150,000	8 August 2017	150,000	26 July 2020
Subordinated bonds	16 November 2017	5.49%	100,000	4 December 2017	100,000	17 November 2020

Particulars about issuances of securities as at the end of the Reporting Period

The Company received the Letter of No Objection Concerning the Listing and Transfer of Non-publicly Issued Subordinated Bonds of Central China Securities Co., Ltd. (Shang Zheng Han [2017] No. 586) (《關於對中原證券股份有限公司非公開發行次級債券掛牌轉讓無異議的函》(上證函[2017]586號)) from the SSE on 9 June 2017, pursuant to which it is approved to issue subordinated bonds of not more than RMB10 billion. The Company issued subordinated bonds of RMB1.5 billion at an interest rate of 5.15% and subordinated bonds of RMB1 billion at an interest rate of 5.49% on 25 July 2017 and 16 November 2017, respectively.

SECTION 6 CHANGES IN ORDINARY SHARES AND SHAREHOLDERS

(II) Total ordinary shares of the Company and changes in shareholders structure and assets and liabilities structure of the Company

For changes in assets and liabilities structure of the Company, please refer to Section 4 II. “(1) 4. Analysis on principal components of consolidated statement of financial position” in this report.

III. SHAREHOLDERS AND DE FACTO CONTROLLERS

(I) Total number of shareholders

Total number of ordinary shareholders (accounts) as at the end of the Reporting Period	144,820 (of which 144,525 were holders of A shares and 295 were holders of H shares)
Total number of ordinary shareholders (accounts) as at the end of the previous month prior to the date of disclosure of the annual report	147,606 (of which 147,305 were holders of A shares and 301 were holders of H shares)

SECTION 6 CHANGES IN ORDINARY SHARES AND SHAREHOLDERS

(II) The table below sets out the shareholdings of the top ten shareholders, the top ten shareholders of circulating shares (or shareholders without sale limitations) as at the end of the Reporting Period

Unit: Share

Name of shareholders (Full name)	Changes during the Reporting Period	Number of shares held as at the end of the Reporting Period	Percentage (%)	Number of shares held with sale limitations	Pledge or lock-up of shares held		Nature of shareholders
					Particulars of shares	Number of Shares	
HKSCC Nominees Limited	+49,000	1,249,794,000	31.85		None		Overseas legal person
Henan Investment Group Co., Ltd.		822,983,847	20.98	822,983,847	None		State-owned legal person
Bohai Industrial Investment Fund Management Co., Ltd. (holds the equity interest in the Company on behalf of the Bohai Industrial Investment Fund)		608,000,000	15.50	608,000,000	None		Others
Anyang Iron and Steel Group Co., Ltd.		177,514,015	4.52	177,513,015	Pledge	50,930,000	State-owned legal person
China Pingmei Shenma Energy & Chemical Group Co., Ltd.		75,046,245	1.91	75,046,245	Pledge	37,500,000	State-owned legal person
National Council for Social Security Fund (Transfer Account No.1) (全國社會保障基金理事會轉持一戶)		70,000,000	1.78	70,000,000	None		Others
Anyang Economic Development Group Co., Ltd.		48,824,693	1.24	48,824,693	Pledge	24,412,346	State-owned legal person
Jiangsu SOHO Holdings Group Co., Ltd.		27,073,089	0.69	27,073,089	None		State-owned legal person
Xuchang Superlift Energy-saving & Technology Co., Ltd.		24,000,000	0.61	24,000,000	None		Domestic non state-owned legal person
Guangzhou Liby Investment Co., Ltd.		20,000,000	0.51	20,000,000	None		Domestic non state-owned legal person

SECTION 6 CHANGES IN ORDINARY SHARES AND SHAREHOLDERS

Shareholdings of the top ten shareholders without sale limitations

Name of shareholders	Number of circulating shares held without sale limitations	Type and number of shares	
		Type	Number
HKSCC Nominees Limited	1,249,794,000	Foreign shares listed overseas	1,249,794,000
Bank of China Limited – CMS CSI Securities Company Index Classified Securities Investment Fund (招商中證全指證券公司指數分級證券投資基金)	6,390,093	RMB-denominated ordinary shares	6,390,093
Hong Kong Securities Clearing Company Limited	3,861,563	RMB-denominated ordinary shares	3,861,563
Industrial and Commercial Bank of China Ltd. – SWS MU CSI SWS Securities Industry Index Classified Securities Investment Fund (申萬菱信中證申萬證券行業指數分級證券投資基金)	3,855,347	RMB-denominated ordinary shares	3,855,347
China Fortune International Trust Co., Ltd. – China Fortune • Hua Peng No. 69 Collective Fund Trust Scheme (華鑫信託•華鵬69號集合資金信託計劃)	3,178,305	RMB-denominated ordinary shares	3,178,305
China Resources SZITIC Trust Co., Ltd. – CR Trust•Hang Ying No. 1 Collective Fund Trust Scheme (華潤信託•恒盈1號集合資金信託計劃)	2,811,300	RMB-denominated ordinary shares	2,811,300
China Construction Bank Corporation – Fullgoal CSI Securities Company Index Classified Securities Investment Fund (富國中證全指證券公司指數分級證券投資基金)	2,645,200	RMB-denominated ordinary shares	2,645,200
Mao Zhenhua	2,638,400	RMB-denominated ordinary shares	2,638,400
Guangzhou Hongmao Property Management Co., Ltd.	2,044,136	RMB-denominated ordinary shares	2,044,136
China Construction Bank – SSE 108 Index Exchange Traded Fund (上證180交易型開放式指數證券投資基金)	2,002,940	RMB-denominated ordinary shares	2,002,940

Note: The Company is not aware of any other connected relationship or acting in concert relationship (as defined in the Measures for the Administration of the Takeover of Listed Companies (上市公司收購管理辦法)) among the above-mentioned shareholders.

SECTION 6 CHANGES IN ORDINARY SHARES AND SHAREHOLDERS

Shareholdings of the top ten shareholders with sale limitations and sale limitations

Unit: share

No.	Name of shareholders with sale limitations	Number of shares held with sale limitations	Shares with sale limitations permissible for listing and trading		Sale limitations
			Date permissible for listing and trading	Number of additional shares permissible for listing and trading	
1	Henan Investment Group Co., Ltd.	822,983,847	3 January 2020	822,983,847	Not transferable within 36 months commencing from the listing date
2	Bohai Industrial Investment Fund Management Co., Ltd. (holds the equity interest in the Company on behalf of the Bohai Industrial Investment Fund)	608,000,000	3 January 2018	608,000,000	Not transferable within 12 months commencing from the listing date
3	Anyang Iron and Steel Group Co., Ltd.	177,513,015	3 January 2018	177,513,015	Not transferable within 12 months commencing from the listing date
4	China Pingmei Shenma Energy & Chemical Group Co., Ltd.	75,046,245	3 January 2018	75,046,245	Not transferable within 12 months commencing from the listing date
5	National Council for Social Security Fund (Transfer Account No.1)	70,000,000	3 January 2020	47,979,175	Not transferable within 36 months commencing from the listing date
			3 January 2018	22,020,825	Not transferable within 12 months commencing from the listing date
6	Anyang Economic Development Group Co., Ltd.	48,824,693	3 January 2018	48,824,693	Not transferable within 12 months commencing from the listing date
7	Jiangsu SOHO Holdings Group Co., Ltd.	27,073,089	3 January 2018	27,073,089	Not transferable within 12 months commencing from the listing date
8	Xuchang Superlift Energy-saving & Technology Co., Ltd.	24,000,000	3 January 2018	24,000,000	Not transferable within 12 months commencing from the listing date
9	Guangzhou Liby Investment Co., Ltd.	20,000,000	3 January 2018	20,000,000	Not transferable within 12 months commencing from the listing date
10	Henan Shenhua Group Co., Ltd.	17,749,930	3 January 2018	17,749,930	Not transferable within 12 months commencing from the listing date

Note: The Company is not aware of any other connected relationship or acting in concert relationship (as defined in the Measures for the Administration of the Takeover of Listed Companies (上市公司收購管理辦法)) among the above-mentioned shareholders.

SECTION 6 CHANGES IN ORDINARY SHARES AND SHAREHOLDERS

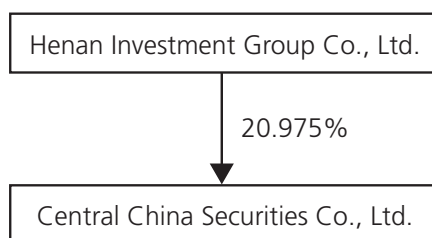
IV. CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER

(I) CONTROLLING SHAREHOLDER

1. Legal Persons

Name	Henan Investment Group Co., Ltd.
Person in charge of the unit or legal representative	Liu Xinyong
Date of establishment	18 December 1991
Principal business	Investment management, investment in construction projects, industrial production information and machinery and equipment required for construction projects, sale of raw materials of products for investment projects (other than those subject to national specific regulations); housing lease (For those subject to approval among the above-mentioned, the company is not allowed to operate such business before obtaining approvals.)
Details of controlling interests and investments in other domestic and foreign-listed companies during the Reporting Period	The controlling interests in domestic listed companies are: 738,700,684 shares in YUNENG Holdings (001896) which accounts for 64.20% of its total share capital, 278,907,035 shares in Tongli Cement (000885) which accounts for 56.19% of its total share capital and 407,835,649 shares in Ancai Hi-Tech (600207) which accounts for 47.26% of its total share capital. The investments in domestic listed companies include those in China Aviation Optical (002179). The investments in overseas listed companies include those in Zhongyuan Bank (01216.HK) and Zhengzhou Bank (06196.HK).
Other description	None

2. The interests and controlling relationships between the Company and the controlling shareholder



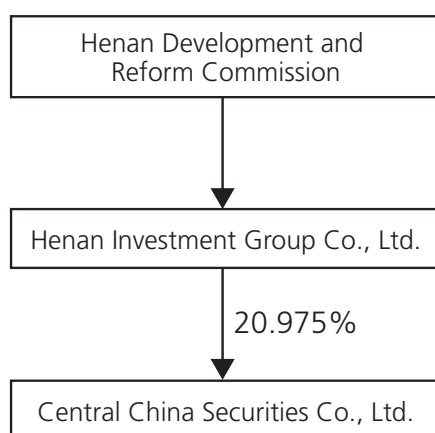
SECTION 6 CHANGES IN ORDINARY SHARES AND SHAREHOLDERS

(II) DE FACTO CONTROLLER

1. Legal person

Name	Henan Province Development and Reform Commission
Other description	Henan Investment Group is under the People's Government of Henan Province. Responsibilities of investor are performed by Henan Province Development and Reform Commission while regulatory responsibilities are performed by Henan SASAC authorized by the government of Henan Province. Henan Province Development and Reform Commission is the de facto controller of the Company.

2. The interests and controlling relationships between the Company and the de facto controller



(III) OTHER DESCRIPTION ON CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER

Henan Investment Group is under the People's Government of Henan Province. Responsibilities of investor are performed by Henan Province Development and Reform Commission while regulatory responsibilities are performed by Henan SASAC authorized by the government of Henan Province.

SECTION 6 CHANGES IN ORDINARY SHARES AND SHAREHOLDERS

V. OTHER LEGAL PERSON SHAREHOLDERS WITH SHAREHOLDING OF OVER 10%

Unit: hundred million dollars Currency: RMB

Name of legal person shareholders	Person in charge of the unit or legal representative	Date of establishment	Enterprise code	Registered capital	Principal business or management events
Bohai Industrial Investment Fund Management Co., Ltd. (holds the equity interest in the Company on behalf of the Bohai Industrial Investment Fund)	Gao Yingxin	28 December 2006	911200007178678241	2	Promotion for the establishment and management of industrial investment fund; principal entrusted management of Bohai Industrial Investment Fund; provision of related investment and consultation services and engagement in other asset management business approved by relevant government authorities. (For projects subject to approval, the operating activities can only be commenced with approvals from relevant authorities.)

Description As at the end of the Reporting Period, there was no other shareholder directly holding more than 10% shares in the Company. The shares held by HKSCC Nominees Limited are for the non-registered holders of H shares.

VI. DESCRIPTION OF RESTRICTIONS ON DECREASE IN SHAREHOLDING

For details of the restriction of shareholding reduction of the Company, Please refer to Section 5 II. "Undertakings by undertaking related parties including de facto controller, shareholders, related parties, acquirer and the Company, during or lasting within the Reporting Period".



SECTION 7 PREFERENCE SHARES

Articles of Association and the relevant Chinese laws do not require that the Company must give preemptive rights to the existing shareholders for the placement of new shares in proportion.

I. CHANGES IN THE SHAREHOLDING AND REMUNERATION

(I) CHANGES IN THE SHAREHOLDING OF INCUMBENT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND THOSE LEAVING OFFICE DURING THE REPORTING PERIOD AND REMUNERATION

Name	Positions (Note)	Gender	Age	Time of taking office	Time of leaving office	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Changes in shares held during the year	Reason for changes	Total pre-tax remuneration received from the Company during the Reporting Period (RMB'0,000)	Whether has received remuneration from related parties of the Company
Jian Mingjun	Chairman of the Board and executive director	Male	55	10 September 2015	10 September 2018	1,289,754	1,289,754	N/A	N/A	196.00	No
Zhou Xiaoquan	President	Male	45	11 September 2017	10 September 2018	762,000	762,000	N/A	N/A	271.08	No
Li Xingjia	Non-executive director	Male	53	12 October 2015	10 September 2018			N/A	N/A	3.60	Yes
Wang Luxin	Non-executive director	Male	51	10 September 2015	10 September 2018			N/A	N/A	3.60	Yes
Zhang Qiang	Non-executive director	Male	54	10 September 2015	10 September 2018			N/A	N/A	3.60	No
Zhang Xiaoqi	Non-executive director	Male	32	10 September 2015	10 September 2018			N/A	N/A	3.60	No
Yu Zeyang	Non-executive director	Male	48	10 September 2015	10 September 2018			N/A	N/A	25.00	No
Yuan Dejun	Independent non-executive director	Male	67	10 September 2015	10 September 2018			N/A	N/A	25.00	No
Yuen Chi Wai	Independent non-executive director	Male	42	10 September 2015	10 September 2018			N/A	N/A	25.00	No
Ning Jincheng	Independent non-executive director	Male	61	10 September 2015	10 September 2018			N/A	N/A	25.00	No
Yu Xugang	Independent non-executive director	Male	49	7 December 2015	10 September 2018			N/A	N/A	25.00	No
Lu Zhili	Chairman of the Supervisory Committee	Male	51	10 September 2015	10 September 2018			N/A	N/A	150.67	No
Wang Jinchang	Shareholder representative supervisor	Male	44	10 September 2015	26 February 2018			N/A	N/A		Yes

SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Name	Positions (Note)	Gender	Age	Time of taking office	Time of leaving office	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Changes in shares held during the year	Reason for changes	Total pre-tax remuneration received from the Company during the Reporting Period (RMB'0,000)	Whether has received remuneration from related parties of the Company
Yan Changkuan	Shareholder representative supervisor	Male	54	10 September 2015	27 December 2017				N/A		No
Xie Junsheng	Shareholder representative supervisor	Male	51	13 October 2016	10 September 2018				N/A		No
Xiang Siying	Independent supervisor	Female	54	10 September 2015	10 September 2018				N/A	12.00	No
Xia Xiaoning	Independent supervisor	Male	57	9 May 2016	10 September 2018				N/A	12.00	No
Han Junyang	Employee representative supervisor	Male	48	10 September 2015	10 September 2018				N/A	82.02	No
Lai Bullian	Employee representative supervisor	Male	45	10 September 2015	16 June 2017				N/A	35.39	No
Zhang Lu	Employee representative supervisor	Female	49	16 June 2017	10 September 2018				N/A	87.18	No
Xiao Yichen	Employee representative supervisor	Female	33	12 January 2018	10 September 2018				N/A	41.40	No
Zhu Jianmin	Standing vice president	Male	54	10 September 2015	10 September 2018				N/A	133.12	No
Zhu Junhong	Vice president	Female	48	10 September 2015	10 September 2018				N/A	134.60	No
	Chief accountant, principal officer of finance department			10 September 2015	30 January 2018						
Xu Haijun	Vice president	Male	47	3 September 2016	10 September 2018				N/A	132.08	No
	Secretary to the Board			10 September 2015	19 January 2018						
	Joint company secretary			25 July 2014	25 July 2017						
Xie Xuezhong	Vice president	Female	47	3 September 2016	10 September 2018				N/A	132.08	No
	Chief compliance officer			29 December 2015	10 September 2018						
Zhao Lufeng	Vice president	Male	45	10 September 2015	10 September 2018				N/A	211.69	No
Li Zhaoxin	Chief accountant, principal officer of finance department	Male	48	30 January 2018	10 September 2018				N/A		No
Zhu Qiben	Chief risk officer	Male	53	29 December 2015	19 January 2018				N/A	86.18	No
	Secretary to the Board			19 January 2018	10 September 2018						
Wang Jing	Employee representative supervisor	Female	49	10 September 2015	12 January 2018				N/A	74.61	No
	Chief risk officer			19 January 2018	10 September 2018						
Total	/	/	/	/	/				/	1,899.30	/

Note: The above financial indexes are calculated according to the China's Accounting Standard for Business Enterprises.

SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Name	Major working experience
Jian Mingjun	<p>Born in 1963, Mr. Jian Mingjun is an alternate member of the Commission of Communist Party of Henan Province and a standing committee member of Henan Provincial People's Congress. He holds a doctoral degree in economics. He is a senior accountant who enjoys the special government allowance of the State Council. He has been an officer in Comprehensive Plan Office of Ministry of Finance of the PRC, the deputy director of General Office of Finance Department of Henan Province, the standing vice president of ASIA (group) Accounting Firm, the director of General Office of Finance Department of Henan Province and the chairman of State-owned Enterprises Supervisory Committee of the Henan Government. He served as the president of the Company from October 2008 to August 2012, and has been the chairman of the Board of the Company since August 2012 and the secretary of the party committee of the Company since November 2014. He has concurrently held the position of President of the Company since September 2017. Currently, he also served as the president of the Securities and Futures Association of Henan and a member of the Investment Bank Professional Committee under SAC. He was granted the honorary title of model worker of Henan by Henan Government in April 2014 and was awarded as "People of 2013 – Henan Economic" in January 2014. He was also chosen as the "Most Influential Enterprise Leader in Central China" for four consecutive years from 2009 by mainstream media in Henan. In 2015, he was chosen as the "Most Influential Lister Company Leader" under 2015 China Securities Golden Bauhinia Awards by Ta Kung Pao and other media in Hong Kong.</p>
Li Xingjia	<p>Born in 1964, Mr. Li Xingjia holds a master's degree. He serves as a director of the Company and a director and deputy general manager of Henan Investment Group. He was a non-executive director of the Company from June 2008 to September 2015. Mr. Li has worked in the Henan Planned Economy Committee, Henan Planning Commission and Henan Development and Reform Commission as officer, managing officer and deputy division head. He has served in Henan Construction and Investment Corporation as the chief economist and deputy general manager. He has also worked in Henan Investment Group as the temporary officer responsible for asset management department I and the chief technology officer, while serving as the chairman of the board of Yuneng Holdings Company Limited.</p>

SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Name	Major working experience
Wang Lixin	Born in 1966, Mr. Wang Lixin holds a master's degree. He is the deputy general manager of Bohai Industrial Investment Fund Management Co., Ltd. He served as the assistant manager of the overseas banking department of the head office of Bank of China, vice president of Beijing Representative Office at BOC International Holdings Limited, executive director and managing director of BOCI Securities Limited, managing director of Credit Suisse Founder Securities Limited, director of UBS Securities Co. Limited, and managing director of BOC International Holdings Limited. He has been a director of the Company since September 2014.
Zhang Qiang	Born in 1963, Mr. Zhang Qiang is a senior engineer with a bachelor's degree. He is the deputy division director of Strategy investment department of Anyang Iron & Steel Co., Ltd., which is controlled by Anyang Iron & Steel Group. He served as the deputy general manager of medium factory and the deputy general manager of the third steel mill of Anyang Iron & Steel Co., Ltd., and the deputy director of the planning department of Anyang Iron & Steel Group. He has been a director of the Company since August 2012.
Zhang Xiaoqi	Born in 1985, Mr. Zhang Xiaoqi holds a bachelor's degree in commerce. He is a director and the deputy general manager of Beijing Maoyuan Capital Investment Management Co., Ltd, and a director and general manager of Central China International Investment. He served as a staff of the index division of Shenzhen Securities Information Co., Ltd. at the Shenzhen Stock Exchange, and a project manager of Beijing Maoyuan Capital Investment Management Co., Ltd.. He has been a director of the Company since September 2015.

SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Name	Major working experience
Yu Zeyang	Born in 1969, Mr. Yu Zeyang holds a bachelor's degree. He is a senior accountant. He is the head of Capital Operation Department of China Pingmei Shenma Energy & Chemical Group Co., Ltd., supervisor of Pingdingshan Tianan Coal Mining Co., Ltd. and director of Henan Xindaxin Materials Co., Ltd.. He served as deputy head of secretariat of the board of directors of Pingdingshan Coal (Group) Co., Ltd., deputy chief of office of the board of directors of and deputy head of secretariat of general office of Pingdingshan Coal (Group) Co., Ltd., and head of secretariat of general office of China Pingmei Shenma Energy & Chemical Group Co., Ltd.. He has been a director of the Company since November 2014.
Yuan Dejun	Born in 1950, Mr. Yuan Dejun holds a doctoral degree of economics and possesses the title of professor. He was an associate professor in Harbin Finance University (formerly known as Harbin Finance Institution) from September 1982 to January 1995, and was a professor in Tianjin University of Finance & Economics from February 1995 to October 2000. He was a senior economist of China Galaxy Securities Co., Ltd. from November 2000 to January 2012. He has been an independent director of the Company since August 2012.
Yuen Chi Wai	Born in 1975, Mr. Yuen Chi Wai holds a bachelor's degree in commerce. He is the managing director of Venture Executive Services Limited. He has served as an auditor in Charles Mar Fan & Co., an auditor in Arthur Andersen, an auditor in PricewaterhouseCoopers (Hong Kong), a senior manager in Shenzhen branch of PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership), the manager of internal auditing department of Nypro Inc., the chief financial officer and company secretary of Bolina Holding Co., Ltd.. He has been an independent director of the Company since June 2014.
Ning Jincheng	Born in 1956, Mr. Ning Jincheng holds a master's degree in law and possesses the title of professor. He is a professor of the law faculty and a doctoral tutor of Zhengzhou University. He is also an independent director of Linzhou Heavy Machinery Group Co., Ltd.. He has been a lecturer, professor and vice chancellor of Zhengzhou University, a professor, doctoral tutor, dean and secretary of the party committee of Henan Administrative Institute of Politics and Law. He has been an independent director of the Company since March 2015.

SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Name	Major working experience
Yu Xugang	Born in 1968, Mr. Yu Xugang holds a doctoral degree in law. He was a partner at Beijing Dacheng Law Offices, LLP from August 2001 to December 2003 and a senior partner at Beijing Dacheng Law Offices, LLP from January 2004 to the present. He acted as an assistant judge at Baoding City Intermediate People's Court, Hebei Province from August 1990 to July 1995 and an independent director of Inner Mongolia Baotou Steel Union Co Ltd (the shares of which are listed on the Shanghai Stock Exchange; stock code is 600010), from August 2009 to August 2015. He has been an independent non-executive director of the Company since December 2015.
Lu Zhili	Born in 1966, Mr. Lu Zhili holds a master degree in economics. He is a senior economist. He served as the manager of the securities issuance department, assistant to general manager and chairman of the research department of Henan Securities. He has been the vice president of the Company from November 2002 to March 2013 and the standing vice president of the Company from March 2013 to September 2015. He has been the chairman of the supervisory committee of our Company since September 2015. He is currently a director of Central China Futures.
Wang Jinchang	Born in 1974, Mr. Wang Jinchang holds a doctoral degree in management. He is a senior accountant. He is currently the secretary of the discipline committee of Central China Securities Co., Ltd.. He served as a staff member and the manager of the finance department of Zhengzhou Trust Investment Company, a staff member of Asset Management Department I of Henan Province Construction Investment Company, chief accountant of Henan Xuchang Xinlong Mining Co., Ltd., a staff member and supervisor of the developmental planning department of Henan Province Construction Investment Company, the deputy general manager of Henan Ancai Hi-Tech Co., Ltd. and the director of the department of disciplinary supervision of Henan Investment Group. He was a supervisor of the Company from September 2015 to 26 February 2018. He resigned from the position of supervisor on 26 February 2018 due to change of works.
Xie Junsheng	Born in 1967, Mr. Xie Junsheng holds a bachelor's degree. He is a senior accountant. He is the deputy general manager in Anyang Economic Technology Development Co., Ltd.. He served as an officer at the inspection section of the Treasury Bureau of Anyang City, the deputy manager of Anyang City Treasury and Security Company and the deputy general manager in Anyang Economic Technology Development Co., Ltd.. He has been a supervisor of the Company since October 2016.

SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Name	Major working experience
Xiang Siying	Born in 1963, Ms. Xiang Siying holds a master's degree in economics and a master's degree in business administration (MBA). She is an advisor of CDH Investments. She served as an officer of the general office of the rural management and administration and the foreign economic office in the Ministry of Agriculture of China, an investment analyst of the Chinese representative division of International Finance Corporation (IFC), an investment officer in the East Asia Branch and Global Manufacturing and Consumer Service Branch of International Finance Corporation (IFC), and an executive director of the investment banking division and direct investment division of China International Finance Corporation Limited (CICC). She has been a supervisor of the Company since September 2015.
Xia Xiaoning	Born in 1960, Mr. Xia Xiaoning holds a bachelor's degree. He is the senior consultant to Vision Finance Group Limited and a non-executive director of Mason Financial Holdings Limited. He served as an investment officer of Asian Development Bank, senior partner and managing director of AIF Capital Limited, and the chief executive officer of CITP Advisors (Hong Kong) Limited. He has been a supervisor of the Company since May 2016.
Han Junyang	Born in 1970, Mr. Han Junyang holds a bachelor's degree. He is currently the general manager of the Brokerage Business Headquarter and the general manager of the Internet Finance Headquarter of Central China Securities Co., Ltd.. He worked at Henan Securities and served as the department manager of the Computer Division in Shenzhen branch, the deputy manager of the administrative region branch and the department head of Computer Centre. He has been the deputy general manager of Information Technology Headquarter of the Company from November 2002 to August 2003, worked in the Brokerage Business Headquarter from August 2003 to March 2005, served as the general manager of Hangzhou branch of the Company from March 2005 to December 2008 and the department general manager of the Information Technology Headquarter of the Company from December 2008 to August 2017. He has been an employee representative supervisor of the Company since September 2015.
Zhang Lu	Born in 1969, Ms. Zhang Lu holds a master's degree in law. She is currently the general manager of the investment banking comprehensive management department of Central China Securities Co., Ltd.. She worked at Jingliu Road securities branch of Henan Securities and served as staff member and deputy general manager. She worked at the Legal Affairs Headquarter of the Company from November 2002 to December 2013 and served as a staff member and deputy general manager, and worked at the office of the Board of the Company from December 2013 to March 2017 and served as the deputy director and director. He has been the chairman of the supervisory committee of Central China Blue Ocean Investment Management Company Limited since March 2015, and an employee representative supervisor of the Company since June 2017.

SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Name	Major working experience
Xiao Yichen	Born in 1984, Ms. Xiao Yichen holds a master's degree in accounting. She is currently the assistant to general manager of the investment banking comprehensive management department of the Company. She worked at the investment banking headquarter and capital market headquarter of the Company from March 2010 to January 2014 and served as the principal officer of quality control division 1 of the investment banking comprehensive management department of the Company from December 2014 to January 2018. She has been an employee representative supervisor of the Company since January 2018.
Zhu Jianmin	Born in 1963, Mr. Zhu Jianmin holds an Executive MBA degree. He is a senior economist. He served as the deputy manager of the issuance department, manager of the operation department of Funiu Road branch, director of Beijing office, manager of the brokerage management department, and general manager of the operation department of Shangqiu branch of Henan Securities, and the director of president's office, general manager of the Brokerage Business Headquarter, and assistant to the president of the Company, etc.. He has been the vice president of the Company from August 2007 to September 2015 and the standing vice president of the Company since September 2015. He is currently a member of the Professional Committee of Securities Brokerage of SAC and the executive vice president of the Securities and Futures Association of Henan Province.
Zhu Junhong	Born in 1969, Ms. Zhu Junhong holds an Executive MBA degree. She is a senior accountant. She served as the chief accounting officer, deputy manager and manager of planning and finance department, and the general accountant of Henan Finance and Securities Company. She has been the principal officer of finance department, assistant to president and general manager of the planning and finance department of the Company from November 2002 to September 2009, and the principal officer of finance department, general accountant and general manager of the planning and finance department of the Company from September 2009 to August 2012. From August 2012 to January 2018, she served as the principal officer of finance department and chief accountant of the Company. She has been the vice president of the Company since August 2012.

SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Name	Major working experience
Xu Haijun	Born in 1970, Mr. Xu Haijun holds a bachelor's degree. He served as the manager of the IT department of the Shanghai branch, the deputy manager of the Huayuan Road branch, the manager and assistant to general manager of the Zijingshan branch, the manager of Shenzhen branch, and the assistant to general manager of Shanghai Huierdun Investment Company. From January 2004 to January 2018, he has held various positions in the Company, including the general manager of IT Headquarter, the general manager of Compliance Management Headquarter, the chief compliance officer and the secretary to the Board. Since September 2016, he has been the vice president of the Company.
Xie Xuezhu	Born in 1970, Ms. Xie Xuezhu holds a master degree of economics. She served as a trader and the secretary of the general manager in Wuhan Securities Trading Center and Henan Securities Trading Center of Henan Finance and Securities Company. She has been the director of the supervision office, deputy general manager of the brokerage business headquarter, the general manager, the director of the office and the secretary to the Board of Zhengzhou Shangcheng Road branch, as well as the director of general office, director of the office of the Board, the chief risk officer and the general manager of the legal and compliance department (legal affairs department) of the Company from November 2002 to December 2015. She has been the chief compliance officer of the Company since December 2015. Since September 2016, she has been the vice president and chief compliance officer of the Company. She is currently a supervisor of Taiping Fund and the chairman of the supervisory committee of ZZKY Venture Capital.
Zhao Lifeng	Born in 1972, Mr. Zhao Lifeng holds a master degree of economics and a master degree of business administration. He is a sponsor representative. He served as the senior project manager of the share issuance department and the international business department of Jiangsu Securities Co., Ltd. (now known as Huatai Securities Co.,Ltd.), the senior manager, assistance to general manager and project leader of the investment banking department of Citic Securities Company Limited. She has been the deputy general manager and general manager of the investment banking department, employee representative Supervisor and assistant to the President and general manager of the investment banking department of the Company from May 2004 to August 2012. He has been the vice president of the Company since August 2012.

SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Name	Major working experience
Li Zhaoxin	Born in 1969, Mr. Li Zhaoxin possesses professional qualification and a master's degree in accounting. He is a senior accountant, a certified public accountant, a certified tax adviser and an economist. He handled financial work at the Bureau of Corrections of Henan Province (河南省勞改局) and Bureau of Prison Management of Henan Province (河南省監獄管理局) from July 1991 to October 2004. He worked at the State-owned Assets Supervision and Administration Commission of the People's Government of Henan Province from October 2004 to November 2017 and held various positions such as the deputy director of the property rights administration division, a researcher at the planning and development division and the director of the general division (Research Office). He has been a member of the party committee of the Company since November 2017. He has been the chief accountant and principal officer of finance department of the Company since January 2018.
Zhu Qiben	Born in 1964, Mr. Zhu Qiben holds a master degree of economics. He was the project manager of the investment banking department and the assistant to director of general office of Henan Securities. He has been the vice general manager, general manager of our human resources management department, assistant to the president and general manager of Human Resources Management Department, director of the supervision office and auditor-in-charge of the Company from November 2002 to December 2015. He served as the chief risk officer of the Company from December 2015 to January 2018. He has been the secretary to the Board of Directors of the Company since January 2018.
Wang Jing	Born in 1968, Ms. Wang Jing holds a bachelor's degree and is an intermediate economist. She worked as officer in the Zhengzhou Branch of People's Bank of China (currently known as Zhengzhou Central Sub-branch of the People's Bank of China), and served as the deputy general manager and general manager of the business unit of Henan Securities. He has been the general manager of the business unit of the Company from November 2002 to March 2013, the general manager of Customer Service Headquarter and the general manager of Retail Business Headquarter of the Company from March 2013 to March 2015, the general manager of Brokerage Business Headquarter of the Company from March 2015 to August 2017. He has been an employee representative supervisor of the Company from September 2015 to January 2018. He served as the general manager of Yellow River Golden Triangle Demonstration Area branch office from August 2015 to January 2018. He has been the chief risk officer of the Company since January 2018.

SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

II. POSITION OF INCUMBENT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND THOSE LEAVING OFFICE DURING THE REPORTING PERIOD

(I) POSITIONS IN SHAREHOLDERS' INSTITUTIONS

Name	Name of shareholders' institutions	Position held in shareholders' institutions	Time of taking office	Time of leaving office
Li Xingjia	Henan Investment Group	Director and deputy general manager	June 2010	
Zhang Qiang	Anyang Iron & Steel Co., Ltd.	Deputy division director	April 2008	
Wang Lixin	Bohai Industrial Investment Fund Management Co., Ltd.	Deputy general manager	June 2013	
Yu Zeyang	Pingmei Shenma	Head	January 2011	
Wang Jinchang	Henan Investment Group	Supervisor of the department of disciplinary supervision	July 2010	December 2017
Yan Changkuan	Anyang Iron & Steel Group	Chief accountant	December 2013	December 2017
Xie Junsheng	Anyang Economic Development	Deputy general manager	October 2010	

SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

(II) POSITIONS IN OTHER INSTITUTIONS

Name	Name of other institutions	Position held in other institutions	Time of taking office	Time of leaving office
Jian Mingjun	Central China International	Chairman	January 2015	Up to now
Zhang Xiaoqi	Central China International Investment Company Limited	General manager	December 2015	Up to now
	Beijing Maoyuan Capital Investment Management Co., Ltd.	Deputy general manager	March 2014	Up to now
Yu Zeyang	Pingdingshan Tianan Coal Mining Co., Ltd.	Supervisor	May 2010	Up to now
	Henan Xindaxin Materials Co., Ltd.	Director	June 2013	Up to now
Yuan Dejun	Ningxia Qinglong Pipes Industry Co., Ltd.	Independent non-executive director	January 2014	Up to now
Yuen Chi Wai	Venture Executive Services Limited	Managing director	August 2014	Up to now
Ning Jincheng	Law Faculty of Zhengzhou University	Professor, doctoral tutor	November 2010	Up to now
	Linzhou Heavy Machinery Group Co., Ltd.	Independent Director	April 2017	Up to now
Yu Xugang	Beijing Dacheng Law Offices, LLP	Senior partner	January 2004	Up to now
Lu Zhili	Central China Futures	Director	March 2008	Up to now
Xiang Siying	CDH Investments Management (Hong Kong) Limited	Advisor	April 2016	Up to now
Xia Xiaoning	Vision Finance Group Limited	Senior consultant	September 2012	Up to now
Zhang Lu	Central China Blue Ocean	Chairman of the Supervisory Committee	March 2015	Up to now
Xu Haijun	Central China International	Director and general manager	March 2016	March 2018
Xie Xuezhu	ZZKY Venture Capital	Chairman of the Supervisory Committee	November 2013	Up to now
Zhao Lifeng	ZDKY Venture Capital	Director	August 2017	Up to now
Zhu Qiben	Central China International	Director	October 2017	Up to now
	Central China International	General manager	March 2018	Up to now

SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

III. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Decision-making procedures of remuneration of Directors, Supervisors and senior management	The remuneration and evaluations of the Company's Directors shall be proposed by the Board's Remuneration and Nomination Committee and considered and determined by the general meeting; the remuneration and assessment plans of the Supervisors shall be proposed by the board of supervisors, which shall be considered and determined by the general meeting; and the remuneration and evaluations of the senior management shall be proposed by the Board's Remuneration and Nomination Committee and determined by the Board.
Basis for determining the remuneration of Directors, Supervisors and senior management	The remuneration of the internal Directors and Supervisors of the Company shall be determined according to the resolutions of the general meetings on remuneration of the Directors and Supervisors and such factors as the Company's operating results, job responsibilities, work performance and market environment. The remuneration of the external Directors and Supervisors shall be proposed by the Board's Remuneration and Nomination Committee according to the industry and market conditions, which proposal shall be implemented after approval by the general meeting. The remuneration, rewards and punishments of the senior management of the Company shall be determined according to the resolutions of the Board and the evaluation and incentive & restriction mechanism of the Company. The remuneration of senior management shall be distributed in strict compliance with relevant state provisions on deferred payment of remuneration.
Actual remuneration payment of Directors, Supervisors and senior management	<p>For details about the remuneration payment of Directors, Supervisors and senior management, please refer to I. "(I) Changes in the Shareholding of Incumbent Directors, Supervisors and Senior Management and Those Leaving Office During the Reporting Period and Remuneration" in this section in this report.</p> <p>Mr. Xie Junsheng stated that he voluntarily waived the right to claim the allowance of supervisors paid by the Company monthly while he would continue to perform his duties as a supervisor since 13 October 2016.</p> <p>According to relevant state provisions and with reference to personal will, overlapping Directors, namely Mr. Li Xingjia, Mr. Zhang Qiang and Mr. Yu Zeyang, and overlapping Supervisors, namely Mr. Wang Jinchang and Mr. Yan Changkuan, waived their allowance while they would continue to perform their relevant duties since July 2016.</p>
Total remuneration actually received by all Directors, Supervisors and senior management during the Reporting Period	RMB18.9930 million (before tax).

Note: For details of the total remuneration after tax of directors and supervisors received from the Company during the Reporting Period, please refer to Note 11 to the Independent Auditor's Report in this report.

SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

Name	Position	Change	Reason for the change
Jian Mingjun	President	Appointed	
Zhou Xiaoquan	Executive Director, President	Resigned	Personal and health reason
Lai Bulian	Employee supervisor	Resigned	Change of works
Yan Changkuan	Supervisor	Resigned	Change of works
Zhang Lu	Employee supervisor	Elected	
Wang Jing	Employee supervisor	Resigned	Adjustment to work allocation
Xiao Yichen	Employee supervisor	Elected	
Xu Haijun	Secretary to the Board	Resigned	Adjustment to work allocation
Zhu Qiben	Secretary to the Board	Appointed	
Zhu Junhong	Chief accountant, principal officer of finance department	Resigned	Adjustment to work allocation
Li Zhaoxin	Chief accountant, principal officer of finance department	Appointed	
Wang Jinchang	Supervisor	Resigned	Change of works

V. PUNISHMENT BY SECURITIES REGULATORY AUTHORITIES IN THE LAST THREE YEARS

For details, please refer to V. "V. Punishment on and Rectification on the Listed Company, its Directors, Supervisors, Senior Management, Controlling Shareholders, De Facto Controller and Acquirer" in this report.

SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

VI. EMPLOYEES OF THE PARENT COMPANY AND ITS MAJOR SUBSIDIARIES

(I) EMPLOYEES

Number of in-service employees of the parent company	2,456
Number of in-service employees of the major subsidiaries	314
Total number of in-service employees	2,770
The number of retired employees whose expenses are borne by the parent company and the major subsidiaries	

Composition of professions

	Type of professions	Number of staff
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Brokerage business personnel		1,766
Investment banking personnel		264
Asset management business personnel		89
Securities investment business personnel		55
Researcher		31
International business personnel		63
Legal compliance, risk control and audit personnel		59
IT personnel		112
Financial personnel		118
Administration and management personnel		184
Others		29
	Total	2,770

Education level

	Type of education level	Number of persons
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Doctorate		17
Master's		586
University graduates		1,874
College graduates and below		293
	Total	2,770

SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

(II) REMUNERATION POLICIES

The remuneration of the Company's employees is composed of basic salaries, allowances, performance bonus and welfare. Basic salary is a relatively fixed part of remuneration and is the basic income of employees. As a supplement to basic salary, allowance includes allowance for special posts and allowance for professional and technical personnel. Performance bonus is withdrawn from annual profits and distributed according to the results of performance evaluation in favor of the front-line employees with outstanding performance.

The Company provided employees with statutory welfare such as social insurance and housing provident fund according to relevant state provisions. Moreover, to improve the level of welfare and security of employees, it offered employees enterprise annuity plan.

The Company actively explored and worked out an employee equity incentive scheme and studied and designed a plan for employee equity incentive, and will initiate employee equity incentive at an appropriate time according to external laws, policies and environment.

(III) TRAINING PLANS

The Company made various training plans for employees at all levels in order to constantly improve their professional ability and quality.

The Company provided operation and management personnel with trainings centered on enhancing their understanding of the development of the securities industry, management theory and skills, strategic thinking ability, operation management ability, etc.; and offered trainings focused on improving business knowledge, product development and service abilities and marketing skills for employees of various business lines and departments. Moreover, it encouraged employees to study by themselves, take professional qualification certificates exams, etc. in order to educate themselves and update their professional knowledge. Especially, it rewarded employees who have obtained qualifications for sponsor representative, CFA, CIIA, etc..

(IV) LABOUR OUTSOURCING

Total working hours on labor outsourcing	Approximately 321,500 hours
Total payment for labor outsourcing	Approximately RMB4,370,500

SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

VII. OTHERS

(I) INFORMATION ABOUT CUSTOMER SOLICITATION AND CUSTOMER SERVICE OF COMMISSION BROKERS

Securities brokers are natural persons other than employees of the Company and authorized by the Company to engage in brokerage-related activities such as customer solicitation and customer service as an agent within the scope of authorization of the Company. The Company has signed an agency contract with securities brokers. The Company established a perfect management system for securities brokers, covering qualification management of securities brokers, agency contract management, pre-job training and follow-up vocational training, certificate management and information inquiry, code of practice, risk control, performance evaluation and remuneration payment, and achieved the centralized and unified management of securities brokers. The securities branches were responsible for the daily management of securities brokers.

In the Reporting Period, while maintaining effective operation of the basic management system of securities brokers, the Company kept on reinforcing the management of securities broker business of our branches, gained insight into the developing situation of securities broker team in each branch, and optimized relevant daily management procedure of securities brokers. As at the end of the Reporting Period, the number of securities brokers of our Company reached 389.

SECTION 9 CORPORATE GOVERNANCE

I. CORPORATE GOVERNANCE

Being a public company listed in both Mainland China and Hong Kong, the Company operates in strict compliance with laws, regulations and normative documents at the listing place and in the Chinese Mainland, and is committed to maintaining and improving its good social image. According to the Company Law, Securities Law and other laws, regulations and regulatory provisions, the Company has formed a corporate governance structure under which the general meeting, Board, Supervisory Committee, and the management have their powers separated for checks and balances and perform their respective duties, so as to ensure regulated operation of the Company. The convening and voting procedures for general meetings and meetings of the Board and Supervisory Committee are legal and valid; the information disclosed by the Company is true, accurate, timely and complete; management of investor relations is efficient and practical; and corporate governance is based on scientific, rigorous and normative procedures. Save as disclosed in “Chairman and President” in this section, the Company strictly complied with all articles of the Corporate Governance Code and met requirements for most recommended best practices specified in the Corporate Governance Code.

(1) Shareholders and general meeting

The general meeting shall be the supreme authority of the Company. All Shareholders exercise their power through the general meeting. The Company convened and held general meetings in strict accordance with relevant requirements of the Articles of Association and Rules of Procedure for General Meetings and ensured all Shareholders, especially minority Shareholders, could enjoy equal status and fully exercise their rights as Shareholders.

Exercise the following functions and powers in accordance with the laws:

1. to decide the business operation policies and investment plan for the Company;
2. to elect and change Directors and supervisors who are not employees’ representatives, and resolve on the remunerations of Directors and supervisors;
3. to examine and approve reports of the Board;

SECTION 9 CORPORATE GOVERNANCE

4. to examine and approve reports of the Supervisory committee;
5. to examine and approve the annual financial budgets and final accounting plans of the Company;
6. to examine and approve the Company's profit distribution plan and loss recovery plan;
7. to resolve on increase or decrease of the registered capital of the Company;
8. to resolve on issuance of bonds of the Company;
9. to resolve on the merger, division, dissolution, liquidation or transformation of the Company;
10. to amend the Articles of Association;
11. to appoint, removal or non-retention of the accounting firms;
12. to examine and approve the external guarantees of the Company that require the approval by the general meetings;
13. to consider the Company's purchase or disposal of major assets within one year of an aggregate value exceeding 30.0% of the latest audited total assets of the Company;
14. to examine and approve matters relating to the changes in the use of proceeds from share offerings;
15. to consider equity incentive scheme;
16. to examine and approve shareholding schemes of Directors, Supervisors, senior management or employees of the Company;

SECTION 9 CORPORATE GOVERNANCE

17. to consider proposals of shareholders holding no less than 3.0% (inclusive) in aggregate of the Company's shares;
18. to consider other matters which, in accordance with laws, administrative regulations, regulatory requirements regarding securities of the place(s) where the Company's Shares are listed and the Articles of Association, shall be resolved at a general meeting.

The matters resolved at a general meeting shall be subject to approval by national regulatory and management authorities of securities and take effect upon such approval. For those matters involving with change of registration, they shall undergo change of registration procedure(s) in accordance with laws.

(2) Directors and the Board

1 Composition of the Board

Pursuant to the requirements of the Articles of Association, the Company's Board comprises 11 Directors. Due to personal and health reason, Mr. Zhou Xiaoquan, an executive director of the Company, resigned as the director and president of and from the relevant positions held in the Company on 6 September 2017. Currently the Company's Board comprises 10 Directors, including 1 executive Director (Mr. Jian Mingjun), 5 non-executive Directors (Mr. Li Xingjia, Mr. Wang Lixin, Mr. Zhang Qiang, Mr. Zhang Xiaoqi, and Mr. Yu Zeyang) and 4 independent non-executive Directors (Mr. Yuan Dejun, Mr. Yuen Chi Wai, Mr. Ning Jincheng, and Mr. Yu Xugang). Mr. Jian Mingjun is the Chairman of the Company. No Directors, Supervisors and senior management have any relations among one another (including financial, business, family or other material or related relations).

Directors shall be elected at general meetings. The term of the Board shall be three years, and may seek re-election upon expiry of the said term. The Company confirmed that it had received annual confirmations issued by each independent non-executive Director in respect of their independence according to the Listing Rules. The Company further confirmed respective independent non-executive Directors' independence from the Company.

During the Reporting Period, to further facilitate Directors, Supervisors and senior management to fully and diligently fulfill their duties, the Company purchased liability insurance for Directors, Supervisors and senior management to control potential legal and regulatory risks that may arise in their performance of duties.

Since the listing of the Company, the Board has always complied with the requirement of the Hong Kong Listing Rules on appointment of at least three independent non-executive Directors, who shall jointly account for at least one third in number of members of the Board. Four independent non-executive Directors of the Company are fully qualified as specified in the requirements of the Hong Kong Listing Rules. Besides, the Company has received annual confirmations issued by each independent non-executive Director in respect of their independence according to Rule 3.13 of the Hong Kong Listing Rules. Therefore, the Company believes that each independent non-executive Director is independent as specified in the Hong Kong Listing Rules.

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2 Responsibilities of the Board

1. to convene general meetings and report to general meetings;
2. to report at the annual general meetings and disclose in the annual reports the performance of Directors, including the number of attendances of Directors at Board meetings and voting;
3. to execute resolutions of general meetings;
4. to resolve on the Company's business plans and investment plans;
5. to prepare the annual financial budgets and final accounting plans of the Company;
6. to prepare the profit distribution plan and loss recovery plan of the Company;
7. to prepare plans for the increase or reduction of the registered capital, the issuance of corporate bonds or other securities and the listing of the Company;
8. to formulate plans for material acquisitions, repurchase of shares of the Company, or merger, division, dissolution and transformation of the Company;
9. to resolve on the establishment of internal management organizations and branches of the Company;
10. to appoint or remove the Company's president, chief compliance officer, secretary to the Board and chief auditing officer as nominated by the chairman and determine their remunerations; to decide to appoint or remove the Company's vice president and chief financial officer as nominated by the president and determine their remunerations, incentive, punishment and other matters;

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11. to set up the basic management system of the Company;
12. to formulate the proposals for any amendment to the Articles of Association;
13. to formulate proposals for appointment and dismissal of an accounting firm;
14. to decide on external investment, acquisition and disposal of assets, asset mortgage, external guarantee, consigned financial management, connected transactions, etc. of the Company within the authority granted by the general meeting;
15. to listen to the work report of the president of the Company and examine on the president's work;
16. to listen to the report of the chief compliance officer on the compliance status of the Company;
17. to determine Directors' remunerations and distribution plan thereof, and submit special reports to the general meeting on the performance evaluation and remunerations of Directors;
18. to evaluate and determine the nature and extent of the risks the Company is willing to take in achieving its strategic objectives, ensure that the company establishes and maintains appropriate and effective risk management and internal control systems, and oversee the Company's risk management and internal control systems on an ongoing basis, oversee management in the design, implementation and monitoring of the risk management and internal control systems, and ensure that a review of the effectiveness of the Company's and its subsidiaries' risk management and internal control systems has been conducted at least annually;
19. to exercise other functions and powers as stipulated by laws and regulations, departmental rules, regulatory documents or Articles of Association.

The Board may resolve on the issues specified in the above paragraphs by approval of more than half of the Directors save for the issues specified in (7), (8) and (12), in which approval of two thirds of the Directors is required.

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3 Chairman and President

The respective duties and authorities of the chairman of the Board and president of the Company are clearly specified in the Articles of Association. The chairman of the Board is also the legal representative of the Company. The chairman of the Board leads the Board in determining the Company's development strategy to guarantee the effective operation and duty fulfillment of the Board, and fully discuss the issues within the scope of the Board's duties, so as to ensure that the Directors can acquire true, accurate and complete information for making decisions in time, the Company can comply with well-established corporate governance procedures and the decisions of the Board are in the best interest of the Company and all its Shareholders. The president manages the business operations of the Company, organises execution of the Board's resolutions, and reports relevant work to the Board.

On 6 September 2017, the Board of the Company received a written letter of resignation from Mr. Zhou Xiaoquan. Due to personal and health reason, Mr. Zhou Xiaoquan resigned as the executive director, the president of the Company and member of the Development and Strategy Committee and the Remuneration and Nomination Committee. Pursuant to the Company Law, the Articles of Association and relevant requirements, Mr. Zhou Xiaoquan's application for resignation shall take effect upon the delivery of the same to the Board of the Company. On 11 September 2017, the 41st meeting of the fifth session of the Board of the Company considered and approved the Proposal on the Holding of the Position of President by Mr. Jian Mingjun, the Chairman of the Company (《關於公司董事長菅明軍先生兼任總裁職務的議案》), and agreed that as nominated by the Remuneration and Nomination Committee, Mr. Jian Mingjun, the chairman of the Company, shall concurrently hold the position of President with a view to maintaining the continuity and stability of the Company's operations. The Board notes that the roles of the Chairman and the President should be separate and should not be performed by the same individual under the code provisions as set out in provision A.2.1 of the Corporate Governance Code. The temporary arrangement of Mr. Jian to carry out the duties as the Chairman and the President deviates from the above provision. Nevertheless, having considered that (i) the co-performance of the duties of the Chairman and the President is a temporary arrangement pending election and appointment of a candidate to fill Mr. Zhou's vacancies; and (ii) the Board meets regularly and whenever needed to consider matters relating to business operations of the Group, the Board is of the view that this temporary arrangement will not impair the balance of power and authority of the Board and the management of the Company. The effectiveness of corporate planning and implementation of corporate strategies and decisions will not be affected. For details of the above issues, please refer to the announcement and the overseas regulatory announcement of the Company disclosed on the HKEXnews of the Hong Kong Stock Exchange on 6 September 2017 and 11 September 2017.

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(3) Supervisors and the Supervisory Committee

1 Composition of the Supervisory Committee

Pursuant to the requirements of the Articles of Association, the Company's Supervisory Committee comprises 9 Supervisors. On 15 February 2017, due to work arrangements, Mr. Lai Bulian resigned as an employee representative supervisor of the fifth session of the Supervisory Committee of the Company. The Company held a meeting of the Labour Union Committee on 16 June 2017 to elect and appoint Ms. Zhang Lu as the employee representative supervisor of the fifth session of the Supervisory Committee of the Company. The appointment shall take effect from the date of this announcement until the expiry of the fifth session of the Supervisory Committee of the Company. Due to change of works, Yan Changkuan, a shareholder representative supervisor, resigned as the supervisor of the Company on 28 December 2017. As at the end of the Reporting Period, the Company's Supervisory Committee comprises 8 Supervisors, including the chairman of the Supervisory Committee (Mr. Lu Zhili), 2 shareholder representative supervisors (Mr. Wang Jinchang and Mr. Xie Junsheng), 2 independent supervisors (Ms. Xiang Siying and Mr. Xia Xiaoning), 3 employee representative supervisors (Ms. Wang Jing, Mr. Han Junyang and Ms. Zhang Lu). The term of each session of the Supervisory Committee shall be three years, and the supervisors may seek re-election upon expiry of the said term.

2 Responsibilities of the Supervisory Committee

1. to examine financial operations of the Company;
2. to supervise the work performance of the Directors and senior management, and propose dismissal of Directors and senior management who have violated laws, regulations, the Articles of Association or the resolutions of general meetings;
3. to require Directors and senior management to make corrections if their conduct has damaged the interests of the Company;
4. to require the Board to make corrections when any resolution of the Board runs against the laws and administrative regulations or regulations of China Securities Regulatory Commission;
5. to review the financial reports and profit distribution schemes to be submitted by the Board to the general meetings; to conduct investigation if there is any doubt or any unusual circumstances in the Company's operations; and if necessary, to engage an accounting firm, law firm or other professional institutions to assist in their work at the expenses of the Company;

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6. to propose the convening of extraordinary general meetings and, in case the Board does not perform the obligations to convene and preside over the general meetings in accordance with Company Law, to convene and preside over the general meetings;
7. to propose motions to the general meeting;
8. to coordinate with Directors on behalf of the Company or initiate legal proceedings against Directors and senior management in accordance with the laws;
9. to formulate remuneration plan and distribution plan for supervisors and submit specific reports on performance evaluation and remuneration of supervisors to the general meeting;
10. to exercise other functions and powers specified in the laws and regulations, departmental rules, regulatory documents or the Articles of Association.

There is no significant difference between corporate governance and requirements of relevant provisions of CSRC.

II. SUMMARY OF GENERAL MEETING

General meeting	Date of convention	Directory to designated site of publication of the resolution	Date of disclosure of the publication of resolution
Annual General Meeting 2016	22 May 2017	http://www.sse.com.cn/ http://www.hkexnews.hk	22 May 2017
1st A Shares Class Meeting 2017	22 May 2017	http://www.sse.com.cn/ http://www.hkexnews.hk	22 May 2017
1st H Shares Class Meeting 2017	22 May 2017	http://www.sse.com.cn/ http://www.hkexnews.hk	22 May 2017
1st Extraordinary General Meeting 2017	16 October 2017	http://www.sse.com.cn/ http://www.hkexnews.hk	16 October 2017

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PARTICULARS OF GENERAL MEETINGS

During the Reporting Period, the Company convened 4 general meetings in total, including 1 annual general meeting, 1 extraordinary general meeting, 1 A share class meeting and 1 H share class meeting, with the information about the meetings and resolutions set out as follows:

1. Central China Securities Co., Ltd. convened the annual general meeting 2016 on 22 May 2017, and considered and approved the Work Report of the Board for the Year of 2016, the Work Report of the Supervisory Committee for the Year of 2016, the Profit Distribution Plan for the Year of 2016, the Annual Report for the Year of 2016 and the Summary of the Report, the Final Accounts Report for the Year of 2016, the Resolution on the Re-appointment of Domestic Auditing Firm for the Year of 2017, the Resolution on the Re-appointment of Overseas Auditing Firm for the Year of 2017, the Remuneration and Evaluations of the Directors for the Year of 2016, the Remuneration and Evaluations of the Supervisors for the Year of 2016, the Resolution on the Determination of Remuneration of the Chairman of the Board, the Resolution on the Payment of Remuneration of the President, the Resolution on the Payment of Remuneration of the Chairman of the Supervisory Committee, the Resolution on the Repurchase of H Share of the Company by Way of Market Trades, the Resolution on the Satisfaction of the Conditions for the Public Issue of the A Share Convertible Corporate Bonds by the Company, the Resolution on the Proposal of the Public Issue of the A Share Convertible Corporate Bonds by the Company (with a total of 20 sub-items under the resolution for voting), the Resolution on the Preliminary Proposal for the Public Issue of the A Share Convertible Corporate Bonds by the Company, the Resolution on the 'Report on Feasibility Analysis in respect of the Use of Proceeds from the Public Issue of the A Share Convertible Corporate Bonds by the Company', the Resolution on the Report of the Use of Proceeds Previously Raised, the Resolution on the Grant of Authorization to the Board to Handle Matters in Relation to the Public Issue of the A Share Convertible Corporate Bonds, the Resolution on the Authorization Granted to Relevant Persons to Handle Matters in Relation to the Public Issue of the A Share Convertible Corporate Bonds and the Resolution on the Dilution of Current Returns by the Public Issue of the A Share Convertible Corporate Bonds and the Remedial Measures;
2. Central China Securities Co., Ltd. convened the 1st A Shares class meeting 2017 on 22 May 2017, and considered and approved the Resolution on the Repurchase of H Share of the Company by Way of Market Trades, the Resolution on the Satisfaction of the Conditions for the Public Issue of the A Share Convertible Corporate Bonds by the Company, the Resolution on the Proposal of the Public Issue of the A Share Convertible Corporate Bonds by the Company (with a total of 20 sub-items under the resolution for voting), the Resolution on the Preliminary Proposal for the Public Issue of the A Share Convertible Corporate Bonds by the Company, the Resolution on the 'Report on Feasibility Analysis in respect of the Use of Proceeds from the Public Issue of the A Share Convertible Corporate Bonds by the Company', the Resolution on the Report of the Use of Proceeds Previously Raised, the Resolution on the Grant of Authorization to the Board to Handle Matters in Relation to the Public Issue of the A Share Convertible Corporate Bonds, the Resolution on the Authorization Granted to Relevant Persons to Handle Matters in Relation to the Public Issue of the A Share Convertible Corporate Bonds and the Resolution on the Dilution of Current Returns by the Public Issue of the A Share Convertible Corporate Bonds and the Remedial Measures;

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3. Central China Securities Co., Ltd. convened the 1st H Shares class meeting 2017 on 22 May 2017, and considered and approved the Resolution on the Repurchase of H Share of the Company by Way of Market Trades, the Resolution on the Satisfaction of the Conditions for the Public Issue of the A Share Convertible Corporate Bonds by the Company, the Resolution on the Proposal of the Public Issue of the A Share Convertible Corporate Bonds by the Company (with a total of 20 sub-items under the resolution for voting), the Resolution on the Preliminary Proposal for the Public Issue of the A Share Convertible Corporate Bonds by the Company, the Resolution on the 'Report on Feasibility Analysis in respect of the Use of Proceeds from the Public Issue of the A Share Convertible Corporate Bonds by the Company', the Resolution on the Report of the Use of Proceeds Previously Raised, the Resolution on the Grant of Authorization to the Board to Handle Matters in Relation to the Public Issue of the A Share Convertible Corporate Bonds, the Resolution on the Authorization Granted to Relevant Persons to Handle Matters in Relation to the Public Issue of the A Share Convertible Corporate Bonds and the Resolution on the Dilution of Current Returns by the Public Issue of the A Share Convertible Corporate Bonds and the Remedial Measures;
4. Central China Securities Co., Ltd. convened the 1st extraordinary general meeting 2017 on 16 October 2017, and considered and approved the Distribution Plan for Interim Profits for 2017 and the Resolution on Amendments to the 'Articles of Association'.

III. PERFORMANCE OF DUTIES OF DIRECTORS

(I) DIRECTORS' ATTENDANCE AT BOARD MEETINGS AND GENERAL MEETINGS

Name of Directors	Whether or not an independent director	Number of required attendances at board meetings	Attendance at board meetings				Absent twice in a row (in person)	Attendance at general meetings
			Number of attendance in person	Number of attendance through communication	Number of attendance by proxy	Number of absences		Attendance
Jian Mingjun	No	18	18	16	0	0	No	4
Zhou Xiaoquan (Resigned)	No	14	14	12	0	0	Yes	3
Li Xingjia	No	18	18	16	0	0	No	3
Wang Lixin	No	18	18	16	0	0	No	4
Zhang Qiang	No	18	18	16	0	0	No	1
Yu Zeyang	No	18	18	16	0	0	No	1
Zhang Xiaoqi	No	18	18	16	0	0	No	4
Yuan Dejun	Yes	18	18	16	0	0	No	3
Yuen Chi Wai	Yes	18	18	16	0	0	No	4
Ning Jincheng	Yes	18	18	16	0	0	No	4
Yu Xugang	Yes	18	18	16	0	0	No	1

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Due to personal and health reason, Mr. Zhou Xiaoquan, an executive director of the Company, resigned as the director and president of and from the relevant positions held in the Company on 6 September 2017.

Number of board meetings convened during the year	18
Among all: number of meetings held on site	2
number of meetings held through communication	16
number of meeting held on site with communication	0

(II) PARTICULARS OF MEETINGS OF THE BOARD

The Board convenes meetings on a regular basis and at least four board meetings will be held each year. The agenda and enclosed documents relating to the board meeting will be sent to all Directors at least three days before the board meeting is planned to be held. Each Director shall have the right to have access to documents relating to the board meeting and other relevant documents and to listen to advice provided by the Company Secretary and receive his/her services. The Directors may also seek independent professional opinions. The minutes shall be kept by the company secretary. After conclusion of a board meeting, the initial and finalized minutes shall be sent to all the directors in due time, with the initial ones to be commented on by the Directors and the final ones to be recorded.

During the Reporting Period, the Board convened a total of 18 meetings as follows, and the details and resolution passed are:

1. Central China Securities Co., Ltd. convened the 27th meeting of the fifth session of the Board on 14 January 2017, and considered and approved the Resolution on Amendments to the 'Articles of Association' and the Completion of Relevant Registration of Changes with the Administration of Industry and Commerce;
2. Central China Securities Co., Ltd. convened the 28th meeting of the fifth session of the Board on 20 February 2017, and considered and approved the Resolution on the Repurchase of H Share of the Company by Way of Market Trades;
3. Central China Securities Co., Ltd. convened the 29th meeting of the fifth session of the Board on 27 February 2017, and considered and approved the Resolution on the Establishment of Investment Division IV (Equity Investment) and the Change of Function of Parallel Business Departments under Investment Banking Business, the Resolution on the Business Scale and Affordable Risk Limits of Securities Proprietary Trading for the Year of 2017, the Resolution on the Business Scale and Size of Equity Fund Investment in Asset Management for the Year of 2017, the Resolution on the Determination of Business Scale of Margin Financing and Securities Lending, Stock Pledge, Agreed Repurchase and Refinancing for the Year of 2017, the Resolution on the Registration and Filing System for Staff with Inside Information, the Resolution on the First External Donation in 2017 and the Resolution on Matters in Relation to Exercise of "13 Central China Bond" and "15 Central China 02";

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4. Central China Securities Co., Ltd. convened the 30th meeting of the fifth session of the Board on 18 March 2017, and considered and approved the Risk Preference and Tolerance for the Year of 2017, the Resolution on the Report on Working Proposal in Relation to Implementation of Comprehensive Risk Management Requirements, the Resolution on the Proposed Establishment of 36 Securities Branches, the Resolution on Amendments to the 'Audit System of Central China Securities Co., Ltd.' and the Resolution on the Establishment of Asset Management Branch Office;
5. Central China Securities Co., Ltd. convened the 31st meeting of the fifth session of the Board on 30 March 2017, and considered and approved the Work Report of the Board for the Year of 2016, the Work Report of the President for the Year of 2016, the Work Report of Independent Directors for the Year of 2016, the Profit Distribution Plan for the Year of 2016, the Results Announcement for the Year Ended 31 December 2016, the Annual Report for the Year of 2016 and the Summary of the Report, the Final Accounts Report for the Year of 2016, the Resolution on the Re-appointment of Domestic Auditing Firm for the Year of 2017, the Resolution on the Re-appointment of Overseas Auditing Firm for the Year of 2017, the Work Report of the Audit Committee of the Board for the Year of 2016, the Work Report of the Risk Control Committee of the Board for the Year of 2016, the Work Report of the Development and Strategy Committee of the Board for the Year of 2016, the Work Report of the Remuneration and Nomination Committee of the Board for the Year of 2016, the Resolution on the Adjustment to Impairment Provision for Individual Financial Assets Available-For-Sale, the 2016 Social Responsibility Report, the 2016 Compliance Report, the 2016 Corporate Governance Report, the Remuneration and Evaluations of the Directors for the Year of 2016, the Special Report on Deposit and Actual Use of Proceeds Raised, the Resolution on the Contemplated Continuing Connected Transactions for the Year of 2017, and the Resolution on the Convention of 2016 Annual General Meeting, 2017 1st A Shares Class Meeting and 1st H Shares Class Meeting;
6. Central China Securities Co., Ltd. convened the 32nd meeting of the fifth session of the Board on 6 April 2017, and considered and approved the Resolution on the Satisfaction of the Conditions for the Public Issue of the A Share Convertible Corporate Bonds by the Company, the Resolution on the Proposal of the Public Issue of the A Share Convertible Corporate Bonds by the Company, the Resolution on the Preliminary Proposal for the Public Issue of the A Share Convertible Corporate Bonds by the Company, the Resolution on the 'Report on Feasibility Analysis in respect of the Use of Proceeds from the Public Issue of the A Share Convertible Corporate Bonds by the Company', the Resolution on the Report of the Use of Proceeds Previously Raised, the Resolution on the Grant of Authorization at the General Meeting to the Board to Handle Matters in Relation to the Public Issue of the A Share Convertible Corporate Bonds, the Resolution on the Authorization Granted to Relevant Persons to Handle Matters in Relation to the Public Issue of the A Share Convertible Corporate Bonds, the Resolution on the Dilution of Current Returns by the Public Issue of the A Share Convertible Corporate Bonds and the Remedial Measures, the Proposal on the Determination of Remuneration of the Chairman of the Board of Central China Securities Co., Ltd. as Proposed by the Remuneration and Nomination Committee of the Board, and the Proposal on the Payment of Remuneration of the President of Central China Securities Co., Ltd. as Proposed by the Remuneration and Nomination Committee of the Board;

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7. Central China Securities Co., Ltd. convened the 33rd meeting of the fifth session of the Board on 17 April 2017, and considered and approved the Resolution on Capital Increase into Central China Blue Ocean Investment Management Company Limited and the Resolution on Adjustment of Shareholding Structure and Capital Increase into Zhongding Kaiyuan Venture Capital Management Co., Ltd.;
8. Central China Securities Co., Ltd. convened the 34th meeting of the fifth session of the Board on 27 April 2017, and considered and approved the 2017 First Quarterly Report, and the Resolution on the Appointment of Xu Changyu as Representative of Securities Affairs of Central China Securities Co., Ltd.;
9. Central China Securities Co., Ltd. convened the 35th meeting of the fifth session of the Board on 11 May 2017, and considered and approved the Resolution on Capital Increase into Central China International Financial Holdings Company Limited;
10. Central China Securities Co., Ltd. convened the 36th meeting of the fifth session of the Board on 7 June 2017, and considered and approved the Resolution on Change of Valuation Method for Shares on the New Third Board, and the Resolution on the Establishment of Innovative Business Headquarter (Derivative Business Headquarter) by Way of Merger;
11. Central China Securities Co., Ltd. convened the 37th meeting of the fifth session of the Board on 12 July 2017, and considered and approved the Resolution on the Capital Contribution for the Establishment of Henan Asset Management Company Limited, the Resolution on Provision of Guarantee for Yuxin Investment Management (Shanghai) Co.,Ltd., and the Resolution on the Investment Plan for Material Projects in 2017;
12. Central China Securities Co., Ltd. convened the 38th meeting of the fifth session of the Board on 2 August 2017, and considered and approved the Resolution on the Change of Capital Contributor of the Establishment of Henan Asset Management Company Limited, and the Resolution on the Establishment of Business Collaboration Headquarter;
13. Central China Securities Co., Ltd. convened the 39th meeting of the fifth session of the Board on 24 August 2017, and considered and approved the Resolution on Consideration of the Half Year Report of 2017 and the Summary of the Report, the Interim Results for the Six Months ended 30 June 2017 and the 2017 Interim Report of Central China Securities Co., Ltd., the Distribution Plan for Interim Profits for 2017, the Resolution on Amendments to the 'Articles of Association', the 2017 Interim Compliance Report, the Special Report on Deposit and Actual Use of Proceeds Raised for the First Half of 2017, the Resolution on Amendments to the 'Internal Control System of Anti-money Laundering and Anti-terrorist Financing of Central China Securities Co., Ltd.', the Resolution on the Convention of 2017 1st Extraordinary General Meeting of Central China Securities Co., Ltd., and the Resolution on Not Changing the Interim Impairment Provision for Individual Financial Assets Available-For-Sale for the Year of 2017;

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14. Central China Securities Co., Ltd. convened the 40th meeting of the fifth session of the Board on 22 August 2017, and considered and approved the Resolution on the Determination of External Donation Budget and Donation to Henan Foundation for Poverty Alleviation and Henan Sports Development Foundation for the Year of 2017;
15. Central China Securities Co., Ltd. convened the 41st meeting of the fifth session of the Board on 11 September 2017, and considered and approved the Resolution on the Holding of the Position of President by Mr. Jian Mingjun, the Chairman of the Board of the Company, and the Resolution on Amendments to the 'Audit System of Central China Securities Co., Ltd.';
16. Central China Securities Co., Ltd. convened the 42nd meeting of the fifth session of the Board on 25 September 2017, and considered and approved the Resolution on the Transfer of 8.5% Equity Interests held in Taiping Fund Management Co., Ltd., the Resolution on Authorizing the Company to Apply for the Proposed Spin-Off to the Hong Kong Stock Exchange in relation to the Listing on the New Third Board of Central China Futures, and the Resolution on Identifying Connected Transactions;
17. Central China Securities Co., Ltd. convened the 43rd meeting of the fifth session of the Board on 30 October 2017, and considered and approved the 2017 Third Quarterly Report, the Resolution on the Joint Establishment of Jiaying Boyuan Tonghui Equity Investment Partnership (嘉興渤原通輝股權投資合夥企業) By A Wholly-Owned Subsidiary with Related Parties, the Resolution on Purchase of Fund Trust Products at its Own Costs and Connected Transactions, the Resolution on the Transfer of 60% Equity Interests Held in Henan Zhongzheng Kaiyuan Venture Capital Fund Management Co., Ltd. by Central China Equity Exchange Co., Ltd., a Holding Subsidiary of the Company, By Way of Agreement, and the Resolution on the Formulation of the 'Compliance Management Measures', the 'Compliance Management Security Measures (Trial)', the 'Compliance Evaluation Management Measures (Trial)', the 'Compliance Accountability Management Measures (Trial)', the 'Measures for Implementation of Evaluation of Effectiveness of Compliance Management (Trial)' of Central China Securities Co., Ltd.;
18. Central China Securities Co., Ltd. convened the 44th meeting of the fifth session of the Board on 31 October 2017, and considered and approved the Resolution on the Decrease of Issuing Size of the Company's A Share Convertible Corporate Bonds and the Corresponding Adjustment to the Relevant Terms of the Issue Proposal, the Resolution on the 'Preliminary Proposal for the Public Issue of the A Share Convertible Corporate Bonds by the Company (Revised)', the Resolution on the 'Report on Feasibility Analysis in respect of the Use of Proceeds from the Public Issue of the A Share Convertible Corporate Bonds by the Company (Revised)', and the Resolution on the 'Dilution of Current Returns by the Public Issue of the A Share Convertible Corporate Bonds and the Remedial Measures (Revised)'.

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(III) PARTICULARS OF DIRECTORS' TRAINING

The Company attaches great importance to the continuous training for Directors to ensure that Directors have adequate knowledge of the Company's operations and businesses and their duties imposed by CSRC, the SSE, the Hong Kong Stock Exchange, the Articles of Association and other relevant laws and regulations. During the Reporting Period, trainings for Directors are specified as follows:

1. In June 2017, Zhang Qiang, Zhang Xiaoqi and Yu Zeyang, all being Directors, participated in the first training session for Directors, Supervisor and senior management of listed companies in Henan in 2017.
2. In October 2017, Li Xingjia and Wang Lixin, both being Directors, participated in the second training session for Directors, Supervisor and senior management of listed companies in Henan in 2017.
3. In November 2017, all directors of the Company studied the Implementation Rules for Disposal of Shares by Shareholders, Directors, Supervisors and senior management of Companies Listed on the Shanghai Stock Exchange.
4. In December 2017, Jian Minjun, a Director, participated in the follow-up training for securities practitioner organized by the Securities Association of China.

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IV. DUTY PERFORMANCE OF SPECIAL COMMITTEES UNDER THE BOARD DURING THE REPORTING PERIOD

(I) COMPOSITION OF SPECIAL COMMITTEES UNDER THE BOARD

The Development and Strategy Committee, Risk Control Committee, Remuneration and Nomination Committee and Audit Committee have been established under the fifth session of the Board of the Company. The committees shall, within their terms of reference specified in the rules of procedure, assist the Board in work, be accountable to the Board, and report their work to the Board.

1. Development and Strategy Committee

Chairperson: Jian Mingjun

Members: Zhou Xiaoquan (Resigned), Li Xingjia, Wang Lixin and Zhang Qiang

2. Risk Control Committee

Chairperson: Jian Mingjun

Members: Yu Zeyang and Ning Jincheng

3. Remuneration and Nomination Committee

Chairperson: Yuan Dejun

Members: Zhou Xiaoquan (Resigned), Zhang Xiaoqi, Yuen Chi Wai and Yu Xugang

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4. Audit Committee

Chairperson: Yuen Chi Wai

Members: Yuan Dejun and Zhang Qiang

(II) DUTIES OF SPECIAL COMMITTEES UNDER THE BOARD AND THEIR MEETINGS

1. Duty Performance of the Development and Strategy Committee:

The main duties of the Development and Strategy Committee are: studying the Company's medium and long-term development strategy plans and proposing suggestion; studying major investment financing programs which are required to be approved by the Board as stated in the Articles of Association and proposing suggestion; studying major capital operation and assets operation projects which are required to be approved by the Board as stated in the Articles of Association and proposing suggestion; studying other important matters affecting the Company's development and making recommendation; and performing other duties authorized by the Board. During the Reporting Period, the Development and Strategy Committee held one meeting, in which the Work Report of the Board of Central China Securities Co., Ltd. for the Year of 2016, the Work Report of the President of Central China Securities Co., Ltd. for the Year of 2016 and the Work Report of the Development and Strategy Committee of the Board of Central China Securities Co., Ltd. for the Year of 2016 were considered and approved.

2. Duty Performance of the Risk Control Committee:

The main duties of the Risk Control Committee are: reviewing and opining on overall objectives and basic policies of compliance management and risk management; reviewing and opining on establishment of specific departments and duties of compliance management and risk management; evaluating and opining on the risk of major decisions approved by the Board and solution to eliminating such major risk; reviewing the Company's risk management and internal control system; reviewing and opining on compliance reports and risk evaluation reports approved by the Board; formulating the Company's corporate governance policies, reviewing the implementation and making suggestion to the Board; reviewing and supervising Directors and senior management's training and their continuing professional development; reviewing and supervising whether Company's policies is in compliance with laws and supervisory regulations, and the implementation. The Risk Control Committee actively fulfilled its duties and focused on studying the Company's compliance management and risk management matters, which supported the Board in decision makings. During the Reporting Period, the Risk Control Committee held one meeting, in which the Work Report of the Risk Control Committee of the Board of Central China Securities Co., Ltd. for the Year of 2016, the 2016 Corporate Governance Report and the 2016 Compliance Report were considered and approved.

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3. Duty Performance of the Remuneration and Nomination Committee:

The main duties of the Remuneration and Nomination Committee are: studying and determining selection criteria and procedure of Directors and senior management; recommending candidates for independent Director and principal operation and management officers; and examining the qualification of candidates of other Directors and senior management and giving suggestions; investigating and examining the appraisal and remuneration management system for Directors and senior management and supervising the implementation; conducting appraisal of the Directors and senior management; and other duties specified by the Articles of Association. During the Reporting Period, the Remuneration and Nomination Committee held two meetings, focusing mainly on matters in relation to the remuneration of the Chairman of the Board and president of the Company, and the holding of the position of president by the Chairman of the Board of the Company, the details of which were as follows:

- (1) The Remuneration and Nomination Committee of the Board convened the 1st meeting of 2017 on 31 March 2017, and considered and approved the Proposal on the Determination of Remuneration of the Chairman of the Board of Central China Securities Co., Ltd. and the Proposal on the Payment of Remuneration of the President of Central China Securities Co., Ltd., which were submitted to the Board for consideration.
- (2) The Remuneration and Nomination Committee of the Board convened the 2nd meeting of 2017 on 6 September 2017, and considered and approved the Resolution on the Nomination of Mr. Jian Mingjun, the Chairman of the Board of the Company, for Holding of the Position of President, which was submitted to the Board for consideration.

4. Duty Performance of the Audit Committee:

The main duties of the Audit Committee are: supervising and evaluating the Company's internal auditing; making recommendation to the appointment, re-appointment or replacement of the external auditing firm; examining and supervising the independence and objectiveness of the external auditing firm as well as the effectiveness of auditing process in accordance with the applicable standards; being responsible for the communication between internal and external auditing; conducting auditing of the Company's financial information and disclosure; supervising the Company's financial reporting system, risk management and internal control system; reviewing the duties of the risk management and internal control system, the effectiveness of the internal audit function of the Company and reporting on the other responsibilities set out in the Corporate Governance Code, and other duties specified by the Articles of Association. During the Reporting Period, the Audit Committee had convened a total of two meetings, focusing mainly on discussing the Company's results announcement for the year ended 31 December 2016, 2016 annual report, distribution of profits for 2016, re-appointment of domestic and overseas auditing firms, the work report of the Audit Committee of the Board for the year of 2016 and giving suggestions to the Board. The meetings of the Audit Committee were as follows:

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- (1) The Board's Audit Committee held the 1st meeting of 2017 on 29 March 2017, and considered and approved the Annual Report for the Year of 2016 and the Summary of the Report of Central China Securities Co., Ltd., the Final Accounts Report of Central China Securities Co., Ltd. for the Year of 2016, the Resolution on the Re-appointment of Domestic Auditing Firm for the Year of 2017 of Central China Securities Co., Ltd., the Resolution on the Re-appointment of Overseas Auditing Firm for the Year of 2017 of Central China Securities Co., Ltd., the Work Report of the Audit Committee of the Board of Central China Securities Co., Ltd. for the Year of 2016, the 2016 Corporate Governance Report of Central China Securities Co., Ltd., the Special Report on Deposit and Actual Use of Proceeds Raised of Central China Securities Co., Ltd., which were submitted to the Board for consideration.
- (2) The Board's Audit Committee held the 2nd meeting of 2017 on 24 August 2017, and considered and approved the Resolution on Consideration of the Half Year Report of 2017 and the Summary of the Report, the Interim Results for the Six Months ended 30 June 2017 and the 2017 Interim Report of Central China Securities Co., Ltd. and the Special Report on Deposit and Actual Use of Proceeds Raised of Central China Securities Co., Ltd. in the First Half of 2017, which were submitted to the Board for consideration.

During the Reporting Period, each of the members of special committees of the Board has attended all the meetings of their respective special committee.

V. PERFORMANCE OF DUTY OF SUPERVISORS

(I) SUPERVISORS' ATTENDANCE AT MEETINGS OF THE SUPERVISORY COMMITTEE AND GENERAL MEETINGS

Name of Supervisors	Whether or not an independent Supervisor	Number of required attendances at meetings of the Supervisory Committee	Attendance at meetings of the Supervisory Committee					Absent twice in a row (in person)	Attendance at general meetings
			Number of attendance in person	Number of attendance through communication	Number of attendance by proxy	Number of absences			
Lu Zhili	No	8	8	6	0	0	No	4	
Wang Jinchang	No	8	7	6	1	0	No	3	
Yan Changkuan	No	8	7	6	1	0	No	0	
Xie Junsheng	No	8	8	6	0	0	No	3	
Xiang Siying	Yes	8	8	6	0	0	No	3	

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Name of Supervisors	Whether or not an independent Supervisor	Number of required attendances at meetings of the Supervisory Committee	Attendance at meetings of the Supervisory Committee				Number of absences	Absent twice in a row (in person)	Attendance at general meetings
			Number of attendance in person	Number of attendance through communication	Number of attendance by proxy				
Xia Xiaoning	Yes	8	6	6	2	0	No	3	
Wang Jing	No	8	8	6	0	0	No	4	
Han Junyang	No	8	8	6	0	0	No	4	
Lai Bulian	No	3	2	2	1	0	No	0	
Zhang Lu	No	5	5	4	0	0	No	1	

Number of meetings of the Supervisory Committee convened during the year	8
Among all: number of meetings held on site	2
number of meetings held through communication	6
number of meeting held on site with communication	0

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(II) PARTICULARS OF MEETINGS OF THE SUPERVISORY COMMITTEE

The Supervisory Committee performs its duties according to relevant laws and regulations and the Articles of Association. The Supervisory Committee convened 8 meetings in total during the Reporting Period, namely as follows substantially:

1. On 30 March 2017, the Company convened the 12th meeting of the fifth session of the Supervisory Committee and considered and approved the Work Report of the Supervisory Committee for the Year of 2016 of Central China Securities Co., Ltd., the Profit Distribution Plan for the Year of 2016 of Central China Securities Co., Ltd., the Results Announcement for the Year Ended 31 December 2016 of Central China Securities Co., Ltd., the Annual Report for the Year of 2016 and the Summary of the Report of Central China Securities Co., Ltd., the Resolution on the Adjustment to Impairment Provision for Individual Financial Assets Available-For-Sale of Central China Securities Co., Ltd., the 2016 Compliance Report of Central China Securities Co., Ltd., the Special Explanation on Remuneration and Evaluations of the Supervisors for the Year of 2016 of Central China Securities Co., Ltd., the Special Report on Deposit and Actual Use of Proceeds Raised of Central China Securities Co., Ltd., and the 2016 Social Responsibilities Report of Central China Securities Co., Ltd.. Meanwhile, the 2016 Risk Management Report of Central China Securities Co., Ltd. was also received;
2. On 6 April 2017, the Company convened the 13th meeting of the fifth session of the Supervisory Committee and considered and approved the Proposal on the Payment of Remuneration of the Chairman of Supervisory Committee of Central China Securities Co., Ltd.;
3. On 27 April 2017, the Company convened the 14th meeting of the fifth session of the Supervisory Committee and considered and approved the 2017 First Quarterly Report of Central China Securities Co., Ltd.;
4. On 12 July 2017, the Company convened the 15th meeting of the fifth session of the Supervisory Committee and considered and approved the Resolution on the Capital Contribution for the Establishment of Henan Asset Management Company Limited of Central China Securities Co., Ltd.;
5. On 2 August 2017, the Company convened the 16th meeting of the fifth session of the Supervisory Committee and considered and approved the Resolution of Central China Securities Co., Ltd. on the Change of Capital Contributor of the Establishment of Henan Asset Management Company Limited;

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6. On 24 August 2017, the Company convened the 17th meeting of the fifth session of the Supervisory Committee and considered and approved the Resolution on Consideration of the Half Year Report for 2017 and the Summary of the Report, the Interim Results for the Six Months ended 30 June 2017 and the 2017 Interim Report of Central China Securities Co., Ltd., the Distribution Plan for Interim Profits for 2017 of Central China Securities Co., Ltd., the Special Report on Deposit and Actual Use of Proceeds Raised in the First Half of 2017 of Central China Securities Co., Ltd., and the Resolution on Not Changing the Interim Impairment Provision for Individual Financial Assets Available-For-Sale for the Year of 2017 of Central China Securities Co., Ltd.. Meanwhile, the 2017 Interim Compliance Report of Central China Securities Co., Ltd. was also received;
7. On 25 September 2017, the Company convened the 18th meeting of the fifth session of the Supervisory Committee and considered and approved the Resolution on Identifying Connected Transactions of Central China Securities Co., Ltd.;
8. On 30 October 2017, the Company convened the 19th meeting of the fifth session of the Supervisory Committee and considered and approved the 2017 Third Quarterly Report of Central China Securities Co., Ltd., the Resolution on the Joint Establishment of Jiaxing Boyuan Tonghui Equity Investment Partnership (嘉興渤原通輝股權投資合夥企業) By A Wholly-Owned Subsidiary with Related Parties, the Resolution on the Purchase of Fund Trust Products at its Own Costs and Connected Transactions, and the Resolution on the Transfer of 60% Equity Interests Held in Henan Zhongzheng Kaiyuan Venture Capital Fund Management Co., Ltd. by Central China Equity Exchange Co., Ltd., a Holding Subsidiary of the Company, By Way of Agreement.

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VI. EXPLANATION ON ABSENCE OF INDEPENDENCE OR INDEPENDENT OPERATING ABILITY ON BUSINESS, PERSONNEL, ASSETS, INSTITUTIONS AND FINANCE BY THE COMPANY AND ITS CONTROLLING SHAREHOLDERS

The Company entered into a non-competition agreement (the “Non-Competition Agreement”) with Henan Investment Group on 10 March 2014, pursuant to which Henan Investment Group undertook that, except for completed or ongoing business transactions by the Excluded Business Companies, neither itself nor its controlled entities (as defined under the Non-Competition Agreement) will, on its own account, or in conjunction with any third parties in or outside the PRC, in whatever manner, directly or indirectly, engage or participate in, or assist to engage or participate in, any business which competes or may compete with the Company’s principal business. Henan Investment Group has confirmed that it has complied with the terms of Non-Competition Agreement during the Reporting Period. During the Reporting Period, independent non-executive directors have, in relation to the decision on observing and performing the Non-competition Agreement, conducted annual review over the Non-Competition Agreement to confirm that Henan Investment Group has fully complied with the Agreement and does not have any such breach.

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VII. ESTABLISHMENT AND IMPLEMENTATION OF PERFORMANCE APPRAISAL AND INCENTIVE MECHANISMS FOR SENIOR MANAGEMENT DURING THE REPORTING PERIOD

The Company has strictly implemented the performance appraisal for senior management, as well as improved the performance appraisal system and enriched the content of appraisal for cadre, in order to ensure the competitiveness of its cadre team. It has carried out comprehensive appraisal for cadre in terms of conduct, capability, diligence, performance and integrity through various methods, including performance appraisal, democratic assessment and individual conversation. With reference to the results of performance appraisal, the Company will promote and make good use of outstanding cadre and strictly put the relevant system of the Company into execution regarding those not meeting the requirements of their positions, with a view to adopting an appropriate talent employment mechanism based on merits.

The Company will conduct quarter and annual assessment for its senior management regarding their performance goals achievement. For those failing to complete the quarter or annual operation goals and major work tasks, the Company will give comments and warnings, conduct conversations with admonition, assess and reduce bonus according to the completion progress of performance goals or propose for demotion to the Board and SASAC of provincial governments after assessment. The Company adheres to the principle of giving both encouragement and restraints for senior management. The incentives for senior management will be determined based on their completion progress of annual goals and results of performance appraisal according to the Implementation Plans for Awards Distribution of Central China Securities Co., Ltd. which was considered and approved by the Board. The Company will also strictly comply with relevant requirements regarding deferred payment of remuneration of senior management according to industry practice.

VIII. DESCRIPTION OF INTERNAL CONTROL AND SELF-ASSESSMENT REPORT

For specific details of the Internal Control and Self-assessment Report of the Company, please see the 2017 Internal Control Assessment Report of Central China Securities Co., Ltd. disclosed by the Company on the same date of this report on the website of the SSE.

IX. DESCRIPTION OF AUDIT REPORT ON INTERNAL CONTROL

The Company has engaged ShineWing Certified Public Accountants (Special General Partnership) as the audit institution for internal control. ShineWing Certified Public Accountants (Special General Partnership) has issued the Audit Report on Internal Control of Central China Securities Co., Ltd..

For details of the Audit Report on Internal Control, please see the 2017 Audit Report on Internal Control of Central China Securities Co., Ltd. disclosed by the Company on the same date of this report on the website of the SSE.

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X. RESPONSIBILITY STATEMENT ON INTERNAL CONTROL AND ESTABLISHMENT OF INTERNAL CONTROL SYSTEM

(I) Responsibility statement on internal control

In accordance with the requirements of the Corporate Internal Control Standards and System, it is the responsibility of the Board to establish sound and effective internal control, assess its effectiveness and truthfully disclose the assessment report on internal control. The Supervisory Committee oversees the establishment and implementation of internal control by the Board, while the operational management is responsible for organizing and steering the daily operation of internal control.

The internal control of the Company aims at providing reasonable assurance for the legal compliance of operation and management, safety of assets, true and complete financial report and relevant information, improvement of operational efficiency and effectiveness so as to facilitate the implementation of development strategies. Due to its inherent limitations, internal control can only provide reasonable assurance for achievement of the above objectives. Moreover, changes in circumstances may render the internal control inappropriate, or reduce the degree of control over the compliance with policies and procedures, predicting effectiveness of internal control in future according to the appraisal results of internal control may involve certain risks.

The Board was of the view that the Company has maintained effective internal control over financial reporting in all material respects in accordance with the requirements of the Corporate Internal Control Standards and System and other relevant regulations. As at benchmark date of the assessment report on internal control, the Company was not aware of any significant deficiency in respect of internal control over financial reporting and non-financial reporting.

(II) Basis of the establishment of internal control over financial reporting

A comprehensive internal control over financial reporting has been established by the Company, taking into account the actual conditions of the Company, in accordance with the Basic Standard for Enterprise Internal Control and Supporting Guidance for Enterprise Internal Control jointly promulgated by the Ministry of Finance, CSRC, National Audit Office of the PRC, China Banking Regulatory Commission and China Insurance Regulatory Commission, as well as other documents, including Guidelines for the Internal Control of Securities Companies (《證券公司內部控制指引》) issued by CSRC and the Guidelines of Shanghai Stock Exchange for the Internal Control of Listed Companies issued by the SSE.

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According to the criteria for determining material defects, major defects and general defects as defined in the Basic Standard for Enterprise Internal Control, Guidelines for the Internal Control of Securities Companies and the Guidelines of Shanghai Stock Exchange for the Internal Control of Listed Companies, taking into account its scale, industry-specific features, risk level and other factors, the Company studied and defined the defects in the internal control of the Company and the specific criteria for determination.

(III) Establishment of internal control system

The Company is committed to further improving the internal regulations, rules and management systems, with a view to perfecting the mechanism for self-discipline and strengthening control over its businesses. The Company has developed a series of internal control system with reference to the relevant laws and regulations, and kept supplementing, revising and improving the internal control system according to requirements in respect of business development and risk management strengthening. Such internal control system has basically covered the operational management of the Company in different aspects and business segments at all levels, which has been implemented effectively. The Company always places the development of internal control throughout the operation and development of the Company, so as to ensure sustainable and sound growth of the Company by continuously improving the system and strengthening the implementation thereof with effective supervision and inspection.

(IV) Procedural Structure for Inside Information

The Company adheres to the principles of fairness, accuracy, truthfulness and completeness as to its information disclosure. The Company has established relevant procedures and systems to satisfy the requirements of SFO and other applicable laws on information disclosure. Such procedures and systems are in relation to handling and publishing inside information and carrying out internal inspections. The Company also constantly improves its efforts in information disclosure and investor relations management, and carries out information disclosures in accordance with applicable laws.

XI. ESTABLISHMENT OF COMPLIANCE MANAGEMENT SYSTEM OF THE COMPANY

(I) Establishment of compliance management system

During the Reporting Period, under the continuous supervision and positive guidance of regulatory authorities, the Company, in strict compliance with relevant laws, regulations and rules, carefully organized and implemented various supervision and self-regulatory requirements, carried out various in-depth compliance works, kept improving the Company's compliance management mechanism and focused on improving the Company's control over compliance risks.

1. Build and improve compliance management organizational structure. The Company built a four-tier compliance management organization system covering the Board, chief compliance officer, compliance management department and compliance officers of all departments. The compliance management department carried out specific compliance management works under the leadership of the chief compliance officer. According to the requirements of new regulations in respect of compliance, it allocated qualified officers in a timely manner in different departments, branches and subsidiaries at all levels. In respect of compliance management, the officers were guided by and reported to the compliance management department. The responsibilities of persons at all levels were defined and the communication and reporting channels were clear.

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2. Continuously improve the Company's compliance management system. In 2017, the compliance management department formulated and issued 21 system procedures of the Company, namely Management Measures for Compliance, Management Measures of Subsidiaries for Compliance (Tentative), Management Measures for Compliance Audit and Consultation (2017 Revision), Measures for the Protection of Compliance Management (Tentative), Measures for the Implementation of Assessment on the Effectiveness of Compliance Management (Tentative), Management Measures for Information Isolation and Prevention of Interest Conflicts, Management Measures for Securities Investment by Employees (Tentative), Management Measures for Compliance Education and Training (Tentative), Management Measures for Compliance Supervision and Inspection, Management Measures for Compliance Officers (2017 Revision) (Tentative), Measures for Self-Discipline and Coordination (2017 Revision), Management Measures for Handling of Compliance Risk Issues (Tentative), Management Measures for Compliance Accountability (Tentative), Management Measures for Compliance Assessment (Tentative), Management Measures for Reporting on Bulk Trading and Abnormal Trading, Measures for Maintenance and Confidentiality of Information regarding Anti-money Laundering (Tentative), Guidance of Reporting on Bulk Trading and Suspicious Trading in Brokerage Business (Tentative), Internal Control System for Anti-money Laundering and Counter-Terrorist Financing (2017 Revision), Management Measures for Risk Assessment on Money Laundering and Terrorist Financing and Classification of Customers, Compliance Manual and Management Measures for Rules and Regulations of the Company.

The compliance management department also reminded and supervised the relevant departments to sort out and improve the relevant system procedures in various forms based on the regulatory requirements and business management needs of the Company.

3. Carry out compliance audit and consultation with discretion, guard against and reduce compliance risks, and exert efforts to improve the normative and supportive effect of compliance management in business development. The Company organized reviews on 3,069 contracts, and more than 400 reviews over the Company's systems, important decisions, business innovative programs and other filings, and conducted compliance consultation in various forms, which provided strong support for the Company's continuous and steady business development.

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4. Actively carry out compliance monitoring and anti-money laundering. By monthly compliance report, the Company regularly monitored and evaluated the compliance condition and followed key regulatory issues, so as to have timely information on the overall compliance situation of the Company and guide the compliance risk prevention. The Company organized to carry out anti-money laundering, monitor and analyze 3,744 items of abnormal trading data of anti-money laundering and submit six items of suspicious trading data.
5. Further improve the information isolation work. Firstly, optimize the information isolation system and other relevant systems on an ongoing basis by including subsidiaries into the information isolation system of the Company according to the changes in regulations and policies; secondly, keep optimizing the information isolation system with technologies to enhance the risk control on compliance.
6. Compliance training and building of compliance culture. Organize employees to study new annual key rules; organize and launch trainings in respect of new rules on appropriateness and trainings for compliance management officer; appoint persons to participate in the trainings organized by organizations like SAC, stock exchanges and People's Bank of China; issue notices according to the focus of regulatory works and recurrent compliance risks in the industry and prepare a register of regulatory cases to supervise relevant departments to strengthen management and take preventive measures.

(II) INSPECTIONS COMPLETED BY THE COMPLIANCE MANAGEMENT DEPARTMENT

During the Reporting Period, according to the requirements of regulatory authorities and self-regulatory organizations, and in view of the Company's compliance management guidelines in phases, major risk events in the market and prominent risks reflected in the daily management, the Company mainly conducted compliance inspections like assessment and inspection over the effectiveness of compliance management, specific compliance inspection over brokerage business, inspection over agency sale of financial products, compliance inspection over asset management business, self-inspection over business in respect of customers' trading, inspection on the implementation of new rules regarding appropriateness, regular self-inspection of futures practitioners, self-inspection on clearance of futures account of practitioners of intermediary introduction business, with a view to taking initiative in identifying deficiencies in the relevant aspects, so as to strengthen the capability in prevention of compliance risks of the Company.

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(III) WORKS INITIATED BY THE AUDIT DEPARTMENT

During the Reporting Period, by closely monitoring the changes in business development trends and regulatory requirements, the Company's internal auditors, keeping being oriented by the risks, has performed the functions of internal audit by correcting and preventing mistakes, controlling risks and providing advice on management, carrying out audit works mainly on major businesses, headquarters, branches and subsidiaries of the Company. During the Reporting Period, the audit department of the Company completed 126 audits in total, including 9 ordinary audits to investment banking business, proprietary business, Assets Management Headquarter, IT Headquarter, Risk Management Headquarter and other business lines and headquarters; 49 audits to economic responsibility of the officers-in-charge of each department and branch; 63 ordinary audits to branches; 3 specific audits as well as 2 ordinary audits to subsidiaries. It also organized and commenced 1 assessment on internal control of the Company.

Certain problems in the operational management of the Company were objectively reflected through supervision and inspection carried out by the auditors, while some risks were prevented and solved with the implementation of strengthened rectification measures, which enhanced the initiative in compliance of units subject to audit and promoted further improvement of the Company's internal control.

(IV) MONITORING OF RISK CONTROL INDEX AND BUILDING OF REPLENISHMENT MECHANISM

The Company set up a dynamic monitoring and management model of risk control index system centering on net capital and liquidity according to a series of relevant regulations including Measures for the Management of the Risk Control Indexes of Securities Companies of CSRC, and monitored, conducted warning for and reported various indexes in strict accordance with CSRC's regulations. The Company established the complete stress test mechanism as required by the Guidelines on Securities Companies' Stress Test issued by SAC and conducted regular and irregular stress tests. In 2017, based on the monitoring and measurement of various indexes including the net capital, the Company regularly analyzed and evaluated the support of net capital for the Company's business development, studied and tested rational and efficient allocation of net capital, reserved sufficient net capital support for carrying out major business and built the dynamic linkage mechanism between business scale and net capital. In 2017, the Company, based on the aforesaid risk management activities, regularly prepared Monthly Report on Risk Management to provide a comprehensive analysis and evaluation on the risk profile of the Company's financials and net capital, realizing effective control on risks of financials and net capital. Risk control indexes of the Company including net capital all reached the standard in 2017.

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The Company has established net capital dynamic replenishment mechanism and long-term replenishment planning, which effectively ensured the risk control indicators such as the net capital meet the standards continuously. To consider the further development requirements of all the businesses of the Company, the Company has completed the regression of A shares listed on 3 January 2017 according to its capital planning, which further strengthened the capital. The Company further intensified capital management capability to enhance capital quality, to further improve capital's role in guiding and restricting the development of various businesses, continuously improved capital efficiency and guaranteed sustainable, healthy and rapid development of business lines with sufficient capital, thus maximizing value for the Shareholders.

XII. OTHERS

(1) Shareholders' Rights

The Company convened and held general meetings strictly according to the Articles of Association and Rules of Procedure for General Meetings to guarantee the equal status and full exercise of rights for all Shareholders, especially the small and medium ones. All of the Company's Directors, Supervisors and senior management attended the general meetings and answered the Shareholder's questions in accordance with the provisions of Articles of Association.

Procedures of Shareholders' application for convening of general meetings and for making proposals at the general meeting:

Shareholders may convene extraordinary general meetings or class general meetings and put forward proposals at such meetings according to Article 77 of Articles of Association "Shareholder(s) severally holding 10% or more shares of the Company shall be entitled to request in writing the Board to convene an extraordinary general meeting or class general meeting of the Company. Two or more shareholders aggregately holding 10% or more shares with the voting right in the proposed meeting shall be entitled to sign a written requisition in one or more counterparts in the same form and content, requiring the Board to convene an extraordinary general meeting or class general meeting and state in such written requisition the matters to be discussed at the meeting. The aforesaid number of shares shall be calculated in accordance with the shares held on the day on which the written requisition is made by the shareholders. The Board shall, pursuant to relevant laws, administrative regulations and Articles of Association, give a written reply on whether to convene the extraordinary general meeting or not within 10 days after receipt of the proposal. If the Board agrees to convene the extraordinary general meeting, it shall serve a notice of such meeting within five days after the resolution is made by the Board. In the event of any change to the original proposal, the consent of relevant shareholder(s) shall be obtained. If the Board does not

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agree to hold the extraordinary general meeting or fails to give a reply within 10 days after receipt of the proposal, shareholder(s) severally or jointly holding no less than 10% shares of the Company shall be entitled to propose in writing to the Supervisory Committee to convene an extraordinary general meeting. If the Supervisory Committee agrees to convene the extraordinary general meeting, it shall serve a notice of such meeting within 5 days after receipt of the said request. In the event of any change to the original proposal, the consent of relevant shareholder(s) shall be obtained. If the Supervisory Committee fails to issue the notice for the general meeting within the specified time, the Supervisory Committee shall be deemed as failing to convene or preside the general meeting. The shareholder(s) severally or jointly holding no less than 10% shares of the Company for no less than 90 consecutive days may convene and preside over such meeting on his or their own.”, Article 106 “Where the Company convenes a general meeting, the Board, Supervisory Committee, and shareholder(s) severally or jointly holding no less than 3% shares of the Company may make proposals to the Company.” and Article 107 “Shareholder(s) severally or jointly holding no less than 3% shares of the Company may submit written provisional proposals to the convener 10 days before a general meeting is convened. The convener shall serve a supplementary notice of general meeting to other shareholders within two days after receipt of such proposal, and place the matters within the proposal on the agenda for the said meeting and submit for approval at the general meeting if the said matter falls within the functions and powers of general meetings. The contents of the provisional proposal shall fall within the functions and powers of general meetings and have specific discussion topic and specific matters to be resolved. Save as specified above, the convener shall not change the proposal set out in the notice of general meeting or add any new proposal after the said notice is served. The general meeting shall not vote or pass resolutions on proposals not listed in the notice of the general meeting or resolutions not in conformity with following article of the Articles of Association. The shareholders may attend general meetings and exercise voting rights either in person or by proxy. The minutes together with the attendance record of shareholders and the powers of attorney of the proxies shall be kept at the Company’s premises. Shareholders may have access to copies of the minutes free of charge during the office hours of the Company. The Articles of Association has been disclosed on the website of the Company and the HKExnews website of the Hong Kong Stock Exchange.

(2) Secretary of the Company

The Company appointed Ms. Kwong Yin Ping, Yvonne, president of SW Corporate Services Group Limited, as the Company Secretary. The main contact person of Ms. Kwong Yin Ping, Yvonne in the Company is Mr. Zhu Qiben, the secretary to the Board. As of 31 December 2017, Ms. Kwong Yin Ping, Yvonne accepted no less than 15 hours of professional trainings in accordance with Rule 3.29 of the Listing Rules.

On 25 July 2017, Mr. Xu Haijun resigned as the joint company secretary of the Company due to change of work arrangements. Ms. Kwong Yin Ping, Yvonne, the other joint company secretary of the Company who possesses the requisite qualifications required under Rule 3.28 of the Listing Rules of the Hong Kong Stock Exchange remained as the sole company secretary of the Company. For details of the above issues, please refer to the announcement published by the Company on the HKEXnews of the Hong Kong Stock Exchange on 24 July 2017.

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(3) Compliance with Model Code

The Company has adopted the Model Code as set out in Appendix 10 to the Hong Kong Listing Rules concerning the securities transactions by directors and supervisors. The Company has made specific inquiries to all the Directors and Supervisors for the compliance with Model Code. It was confirmed that they completely complied with the Model Code during the Reporting Period.

The Company has adopted the Model Code for supervising the unpublished price-sensitive information of the Company or its securities that is likely possessed by its employees. During the Reporting Period, the Company was not aware of any employee's violation of the Model Code.

(4) Responsibilities of directors concerning financial statements

The declarations of the responsibilities of Directors concerning financial statements set out hereinafter and the responsibilities of CPAs in the Independent Auditor's Report of this report shall be read jointly but understood independently.

All the Directors of the Company confirmed their responsibility of preparing the financial statements that can truly reflect the Company's operating results for each financial year. To the knowledge of the Directors, no event or circumstance that may cause material adverse impact on the Company's continuous operations needs to be reported.

(5) Communications with shareholders

The general meeting shall be the supreme authority of the Company. All Shareholders exercise their power through the general meeting. The Company convened and held general meetings in strict accordance with relevant requirements of the Articles of Association and Rules of Procedure for General Meetings and ensured all Shareholders, especially minority Shareholders, could enjoy equal status and fully exercise their rights as Shareholders. The Articles of Association was amended two times during the Reporting Period. For details, please see the circulars dated 3 November 2016 and 28 September 2017, and the Articles of Association dated 23 February 2017 and 15 December 2017 of the Company.

There are persons specially designated for contacting and communicating with Shareholders. The Company attaches great importance to the opinions and suggestions of Shareholders and tries to meet the reasonable requests of the Shareholders in time.

The Company set "Investor Relations" column in its website for publishing such information as announcements and financial data of the Company. Shareholders can also directly call the Company to inquire about relevant information, and the Company will deal with such inquiry in a timely and proper manner.

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The Company welcomes all Shareholders attending general meetings and facilitates their attendance in a permitted range. The Company's Directors, Supervisors and senior management will attend general meetings. According to Provision E.1.2 of Corporate Governance Code, chairman and chairpersons of the Audit Committee, Remuneration and Nomination Committee, and other special committees of the Board shall attend the annual general meeting and answer questions at the meeting. The management of the Company shall ensure that the external auditors can attend the annual general meeting and answer relevant questions put forward by Shareholders.

(6) Investor relation activities

The Company has always given priority to protect the interests of investors, paid high attention to investor relations management, continuously established clear multi-way communication channels with investors, analysts and other parties, communicated with investors through ways like conducting non-deal roadshows, phone calls, emails, receiving visitors and attending investor summits, actively enhancing investors' recognition of the Company, comprehensively and timely information disclosure, treating all investors fairly and impartially, and strictly implementing decision procedures and processes to ensure that all Shareholders can fully exercise their rights and constantly improving the Company's governance structure.

In 2017, the Company organized various forms of exchange activities for investors and analysts pursuant to regulatory requirements and based on the needs of business development. The Company organized the 2016 annual results conference in Hong Kong and conducted non-deal road shows in Toronto, Canada. It also facilitated 4 institution researches, during which Guotai Junan, Essence Securities, TF Securities and other securities dealer researchers have conducted investigations and researches on the Company and provided positive and accurate evaluations on the overall operation and development of the Company. The Company actively participated in the online investor exchange activities organized by the Association of Listed Companies in Henan. The Chairman of the Board and senior management of the Company as well as the department responsible for investor relations of the Company duly explained the current development of the Company to the Shareholders and analysts and addressed their concerns by answering their enquiries, which has achieved satisfactory communication.

During the Reporting Period, the Company performed its obligations on information disclosure in a truthful, accurate and complete manner in strict compliance with the laws, regulations and regulatory provisions.

SECTION 9 CORPORATE GOVERNANCE

(7) Appointment and remuneration of auditors

Please refer to Section 5 “III. APPOINTMENT AND DISMISSAL OF ACCOUNTING FIRMS” of this report.

(8) Review of the Audit Committee

The Audit Committee has reviewed the Company's 2017 Audit Report and 2017 Annual Results.

(9) Board diversity policy

The Company has adopted the board diversity policy according to Provision A.5.6 of the Corporate Governance Code.

The Company's board diversity policy can be summed up as follows: The Company knows and believes that the board diversity will help it a lot, and views it as an important element in maintaining its competitive edge. In designing the Board's composition, the Company considers board diversity from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge, length of service, etc. All Board appointments will be based on meritocracy, and candidates will be considered with due regard for the capacity, skill and experience required for the overall operation of the Board, so as to ensure the proper balance of the members of the Board.

The Remuneration and Nomination Committee of the Company will review and assess the composition of the Board, and provide suggestions to the Board for the appointment of new directors. The Remuneration and Nomination Committee of the Company will discuss annually all the agreed measurable objectives for implementing the board diversity, and provide relevant suggestions on the objectives to the Board.

SECTION 10 CORPORATE BONDS

I. BASIC INFORMATION OF CORPORATE BONDS

Unit: 100 million Currency: RMB

Name of bonds	Abbreviation	Code	Date of issuance	Maturity date	Balance of bonds	Interest rate (%)	Method to repay principal and pay interest	Venue of trading
2013 Corporate Bonds of Central China Securities Co., Ltd.	13 Central China Bond	122299	2014/4/23	2019/4/23	15.00	6.20	Simple annualised interest rate	SSE
2016 Subordinated Bonds (Tranche 1) of Central China Securities Co., Ltd.	16 Central China 01	135418	2016/4/21	2019/4/22	25.00	4.20	Simple annualised interest rate	SSE
2016 Subordinated Bonds (Tranche 2) of Central China Securities Co., Ltd.	16 Central China 02	145085	2016/10/25	2018/10/26	15.00	3.30	Simple annualised interest rate	SSE
2017 Subordinated Bonds (Tranche 1) of Central China Securities Co., Ltd.	17 Central China 01	145644	2017/7/25	2020/7/26	15.00	5.15	Simple annualised interest rate	SSE
2017 Subordinated Bonds (Tranche 2) of Central China Securities Co., Ltd.	17 Central China 02	145663	2017/11/16	2020/11/17	10.00	5.49	Simple annualised interest rate	SSE

Interest Payment and Due Repayment of Corporate Bonds

During the Reporting Period, the Company paid the interests of "13 Central China Bond", "16 Central China 01" and "16 Central China 02" in full as scheduled. "17 Central China 01" and "17 Central China 02" has not reached the maturity date and interest payment date and there are no due repayment and interest payment.

SECTION 10 CORPORATE BONDS

Further Descriptions of Corporate Bonds

1. Arrangement Regarding Appropriateness of Investors: targets of “13 Central China Bond” include (1) online issuance: social public investors who hold security accounts with the initial letters of A, B, D or F opened in the securities registered institutions (excluding purchasers prohibited by laws and regulations) and (2) offline issuance: institutional investors opening eligible security accounts in the securities registered institutions (excluding purchasers prohibited by laws and regulations). Targets of “16 Central China 01”, “16 Central China 02”, “17 Central China 01” and “17 Central China 02” are institutional investors satisfying the requirements of the Provisions on the Management of Subordinated Debts of Securities Companies.
2. “13 Central China Bond” is of a term of 3+2 years, with the issuer’s option to raise the coupon rate and investor’s put option at the end of the third year (i.e. 23 April 2017). According to the resolution of the 29th meeting of the fifth session of the Board of the Company in 2017, it was resolved not to raise the coupon rate of “13 Central China Bond”. The coupon rate for the remaining 2 years of the corporate bond remains at 6.20%. As at the end of the registration period for put option of “13 Central China Bond”, no bond was put bank. No bondholders have exercised the put option. The maturity date of “13 Central China Bond” is 23 April 2019. The relevant announcements of the above mentioned matters were disclosed according to requirements.

II. LIAISON PERSONS, CONTACT DETAILS OF THE CORPORATE BOND TRUSTEE AND CONTACT DETAILS OF THE CREDIT-RATING AGENCY

(1) Intermediaries of “13 Central China Bond”

Bond trustee	Name	CreditSuisse Founder Securities Limited
	Office address	15/F South Tower, Financial Street Centre, No. A9, Financial Street, Xi Cheng District, Beijing
	Contact Persons	Song Ya-Fen, Liu Xiaoxiao
	Tel	010-66538666
Credit-rating agency	Name	United Credit Rating Co., Ltd.
	Office address	No. 80 Qu Fu Dao, Heping District, Tianjin City

SECTION 10 CORPORATE BONDS

(2) Intermediary of “16 Central China 01” and “16 Central China 02” Subordinated Bonds

Bond trustee	Name	Huaxi Securities Co., Ltd.
	Office address	Room 1107, No. 198 2nd Tianfu Street, High-Tech Zone, Chengdu City
	Contact Persons	Luo Yiming
	Tel	028-86158285
Credit-rating agency	Name	United Credit Rating Co., Ltd.
	Office address	No. 80 Qu Fu Dao, Heping District, Tianjin City

(3) Intermediaries of “17 Central China 01” and “17 Central China 02” Subordinated Bonds

Bond trustee	Name	Huaxi Securities Co., Ltd.
	Office address	Room 1107, 2nd Tianfu Street, High-Tech Zone, Chengdu City
	Contact Persons	Luo Yiming
	Tel	028-86158285

III. USE OF PROCEEDS FROM ISSUANCE OF CORPORATE BONDS

Agreed use of proceeds set out in the prospectus of “13 Central China Bond” is to replenish working capital of the Company. The Company strictly complied with the use of proceeds agreed in the prospectus. After deducting issuance expenses, all proceeds were applied to replenish the working capital of the Company, with no remaining amount recorded as of the end of the Reporting Period. For “16 Central China 01”, “16 Central China 02”, “17 Central China 01” and “17 Central China 02” subordinated bonds, the use of proceeds agreed in respective prospectuses are to satisfy the business operational needs of the Company, to adjust debt structures of the Company and to replenish the liquidity of the Company. The Company strictly complied with the use of proceeds agreed in the respective prospectuses. All proceeds were applied to replenish the liquidity of the Company, with no remaining amount recorded as of the end of the Reporting Period.

SECTION 10 CORPORATE BONDS

IV. INFORMATION ON CREDIT-RATING OF CORPORATE BONDS

United Ratings proposed to issue follow-up rating reports for “13 Central China Bond”, “16 Central China 01” and “16 Central China 02” by 30 June 2018. The follow-up rating reports will be disclosed on the website of SSE as required. There was no credit rating assessment conducted on “17 Central China 01” and “17 Central China 02” and no follow-up rating arrangement would be made. During the Reporting Period, United Ratings did not conduct random follow-up ratings for the Company and Corporate Bonds.

V. CREDIT ENHANCEMENT MECHANISMS FOR CORPORATE BONDS, REPAYMENT PLAN AND OTHER RELEVANT INFORMATION DURING THE REPORTING PERIOD

(1) Guarantee Institution of “13 Central China Bond”

“13 Central China Bond” is provided with irrevocable guarantee with joint liability by China Bond Insurance. According to the rating result disclosed on the official website of China Bond Insurance, the Company obtained AAA rating and its rating prospect was stable. As at the end of the Reporting Period, the accumulated balance of external guarantees provided by China Bond Insurance amounted to RMB95.994 billion, representing 12.04 times of its net assets. The following data is derived from the annual financial report (audited) for 2017 on the official website of China Bond Insurance. As at the end of the Reporting Period, its key financial indicators are as follows:

Financial Indicators	31 December 2017
Net assets (RMB0'000)	797,622.93
Gearing ratio (%)	47.14
Return on net assets (%)	7.46
Current ratio	0.84
Quick ratio	0.72

SECTION 10 CORPORATE BONDS

(2) Repayment Plan for Corporate Bonds and Payment of Interests during the Reporting Period

During the Reporting Period, the Company, in compliance with agreements set out in the prospectus, actively implemented repayment plan and other repayment supporting measures in safeguarding the bondholders' interests.

1. Repayment Plan

The interests of "13 Central China Bond", "16 Central China 01", "16 Central China 02", "17 Central China 01" and "17 Central China 02" are payable annually in arrears when they are still outstanding and the interest payable for the last period shall be paid upon repayment of principal.

2. Supporting Measures for Repayment

(1) Corporate Bonds

During the Reporting Period, the Company has continuously strengthened its efforts in developing businesses such as securities brokerage business, investment banking business, securities business on its own account, asset management, margin financing and securities lending, stock pledged repurchase transaction/securities-backed lending and therefore strengthening its solvency and capitalization capabilities. The Company implemented strict capital management in accordance with financial system and continued to optimize asset-liability management, strengthen liquidity management, and formulate annual and monthly planning for use of proceeds based on the debt structure of the Company so as to repay adequate proceeds in a timely manner. Meanwhile, the Company, giving full play to its role as bond and debt agency, secured bondholders' interests with various measures, such as strict implementation of the rules for the bondholders' meeting, maintenance of good liquidity, provision of guarantees by China Bond Insurance and establishment of a working group for repayment. During the Reporting Period, there were no events of expected inability to repay the principal and interests of "13 Central China Bond" as scheduled or that the Company is unable to repay upon maturity. Therefore, the Company did not raise the proportion of the discretionary surplus reserve or the general risk reserve, nor not to distribute dividends to the shareholders, suspend the implementation of projects that incur capital expenditures such as material external investments, acquisitions and mergers, adjust, reduce or cease the payment of salary and bonus of the directors and senior management of the Company, and allow key personnel accountable for such event for re-designation.

SECTION 10 CORPORATE BONDS

(2) Subordinated Bonds

During the Reporting Period, the Company secured bondholders' interests with various measures, such as continuously improving its governance structure and risk management system, giving full play to its role as bond trustee, strict implementing the rules for the bondholders' meeting, appointing specific personnel responsible for repayment of principal and payment of interests and strict compliance with information disclosure. During the Reporting Period, there were no major events due to significant deterioration of economic environment or other unforeseen factors that may affect the capability of the Company to incur cash liquidity through own operation for bonds repayment. As a result, the Company did not adopt any supporting measures including obtaining proceeds in a low-cost approach by realization and making up temporary proceeds by financing. During the Reporting Period, there are no events of expected inability to repay the principal and interests of the Corporate Bonds as scheduled or that the Company is unable to repay. Therefore, the Company did not take following actions such as: not to distribute dividends to the shareholders, suspend the implementation of projects that incur capital expenditures such as material external investments, acquisitions and mergers, adjust, reduce or cease the payment of salary and bonus of the directors and senior management of the Company, and allow key personnel accountable for such event for re-designation.

(3) Other Relevant Information

The Company strictly complied with the laws and regulations in appointing CreditSuisse and Huaxi Securities as debt agency and bond trustee of "13 Central China Bond" as well as "16 Central China 01", "16 Central China 02", "17 Central China 01" and "17 Central China 02", respectively. CreditSuisse, pursuant to the Trustee Agreement of Bonds and Debts entered into between Central China Securities Co., Ltd. (as the issuer) and Creditsuisse Founder Securities Limited (as the debt agency), and Huaxi Securities, pursuant to the 2016 Trustee Agreement of Subordinated Bonds of Central China Securities Co., Ltd. and the 2017 Trustee Agreement of Subordinated Bonds of Central China Securities Co., Ltd., protected bondholders' interests by strictly complying information disclosure requirements. Specific accounts for repayment were maintained for the abovementioned bonds and the withdrawal and use of funds from the specific accounts for repayment were consistent with such commitments as described in the prospectus.

SECTION 10 CORPORATE BONDS

VI. MEETINGS CONVENED FOR HOLDERS OF CORPORATE BONDS

In light of the Company's decision of repurchasing and cancelling H shares and of capital reduction, a meeting for bondholders shall be convened.

The Resolution on Not Requesting Early Repayment of Debts and Provision of Further Guarantee by the Company was passed at a meeting for bondholders in respect of "16 Central China 01" and "16 Central China 02" convened on 20 June 2017 by Huaxi Securities at 17F, Zhongyuan Guangfa Finance Building, 10 Business Outer Ring Road, Zhengdong New District, Zhengzhou City, Henan Province; while the Resolution on Not Requesting Early Repayment of Debts and Provision of Further Guarantee by the Company was passed at a meeting for bondholders in respect of "13 Central China Bond" convened on 21 June 2017 by CreditSuisse at 17F, Zhongyuan Guangfa Finance Building, 10 Business Outer Ring Road, Zhengdong New District, Zhengzhou City, Henan Province.

VII. DUTY PERFORMANCE OF THE BOND TRUSTEE OF THE CORPORATE BONDS

(1) Corporate Bonds

There were no conflicts of interests between CreditSuisse and bondholders when it fulfills its duties. During the Reporting Period, CreditSuisse, the debt agency of "13 Central China Bond", strictly complied with the Trustee Agreement of Bonds and Debts entered into between Central China Securities Co., Ltd. (as the issuer) and CreditSuisse Founder Securities Limited (as the debt agency) and fulfilled its duties as a debt agency. 2017 Trust Management Report of "13 Central China Bond" of the Company has not been disclosed and will be disclosed on the website of SSE by 30 June 2018 as required.

CreditSuisse convened a meeting for bondholders in respect of capital reduction of the Company and disclosed the Notice of the First Bondholders' Meeting in 2017 in respect of the 2013 Corporate Bonds of Central China Securities Co., Ltd. and the Announcement on the Resolution of the First Bondholders' Meeting in 2017 in respect of the 2013 Corporate Bonds of Central China Securities Co., Ltd. as required.

SECTION 10 CORPORATE BONDS

As at the end of November 2017, since the accumulated new loans of the Company for 2017 exceeded 20% of its net assets as of the end of last year, CreditSuisse issued the Temporary Announcement Regarding Material Events of Debt Agency as required. On 30 November 2017, the CSRC has decided to initiate investigation proceedings against the Company as the Company was alleged to not perform its due diligence duties as the financial advisor for the equity acquisition of Xuzhou Jieneng Technology Development Co., Ltd* (徐州傑能科技發展有限公司) by Tianjin Fengli Innovation Investment Co., Ltd.* (天津豐利創新投資有限公司). CreditSuisse issued the Temporary Announcement Regarding Material Events of Debt Agency as required.

CreditSuisse entered into the trustee agreement of bonds and debts with Central China Securities and acted as lead underwriter and debt agency of “13 Central China Bond”. Saved for the relationships mentioned above, debt agency did not have any other conflicts of interests with the issuer that may affect the impartiality of the Company in fulfilling its agency duties for this tranche. For any potential conflicts of interests, debt agency and issuer agreed to establish risk prevention mechanism as follows:

1. Debt agency will exercise its rights and fulfil its duties on behalf of bondholders in compliance with relevant laws and regulations, departmental provisions, commitments of the Trustee Agreement of Bonds and Debts entered into between Central China Securities Co., Ltd. (as the issuer) and CreditSuisse Founder Securities Limited (as the debt agency) and authorization from bondholders' meeting, and is committed to guarantee bondholders' best interests and legal rights, and prohibited from establishing any conflicts of interests with bondholders, except for any conflicts of interests that may incur or exist during the ordinary course of business with bondholders.
2. Debt agency shall not provide guarantee for this tranche and commits that any transactions existed with the issuer or any actions posed on the issuer will not infringe bondholders' interests and rights.
3. In the case of breaching prevention mechanism of the conflicts of interests by both parties, bondholders can legally file compensation application if there is any loss incurred thereof.

SECTION 10 CORPORATE BONDS

(2) Subordinated Bonds

There were no conflicts of interests between bond trustee and bondholders when the bond trustee fulfills its duties. During the Reporting Period, Huaxi Securities fulfilled its duties as a debt agency in strict compliance with the 2016 Trustee Agreement of Subordinated Bonds of Central China Securities Co., Ltd. and the 2017 Trustee Agreement of Subordinated Bonds of Central China Securities Co., Ltd. 2017 Trust Management Report of subordinated bonds of the Company has not been disclosed and will be disclosed on the website of SSE by 30 June 2018 as required.

Huaxi Securities convened a meeting for bondholders in respect of capital reduction of the Company and disclosed the Notice of the First Bondholders' Meeting in 2017 in respect of the 2016 Subordinated Bonds (Tranche 1) of Central China Securities Co., Ltd., the Notice of the First Bondholders' Meeting in 2017 in respect of the 2016 Subordinated Bonds (Tranche 2) of Central China Securities Co., Ltd., the Announcement on the Resolution of the First Bondholders' Meeting in 2017 in respect of the 2016 Subordinated Bonds (Tranche 1) of Central China Securities Co., Ltd. and the Announcement on the Resolution of the First Bondholders' Meeting in 2017 in respect of the 2016 Subordinated Bonds (Tranche 2) of Central China Securities Co., Ltd. as required.

As at the end of November 2017, since the accumulated new loans of the Company for 2017 exceeded 20% of its net assets as of the end of last year, Huaxi Securities issued the Temporary Report Regarding Material Events of Trustee Management as required. On 30 November 2017, the CSRC has decided to initiate investigation proceedings against the Company as the Company was alleged to not perform its due diligence duties as the financial advisor for the equity acquisition of Xuzhou Jieneng Technology Development Co., Ltd* (徐州傑能科技發展有限公司) by Tianjin Fengli Innovation Investment Co., Ltd.* (天津豐利創新投資有限公司). Huaxi Securities issued the Temporary Report Regarding Material Events of Trustee Management as required.

Huaxi Securities entered into the trustee agreement with Central China Securities and acted as the bond trustee of "16 Central China 01", "16 Central China 02", "17 Central China 01" and "17 Central China 02". Conflicts of interest that may exist when Huaxi Securities perform its entrusted management duties as a bond trustee are as follows:

SECTION 10 CORPORATE BONDS

In the course of carrying out its investment banking activities (including investment advisory, financial advisory, asset management, research, securities issuance, trading and brokerage), the bond trustee, by itself or through agents, may have conflicts of interest between its duties under this agreement and its duties under other business agreements: The bond trustee may at any time contact other business departments or related parties to (i) provide services to any other clients; (ii) engage in any transaction in relation to the issuer or any members under the same group of the issuer; or (iii) to act for matters in relation to any person whose interest may be in conflicts with that of the issuer or other members under the same group of the issuer (the "Third Parties"), and to retain any relevant remunerations or profits for their own benefit. The bond trustee and its employees who provide services, execute transactions or act on behalf of the Third Parties may have conflicts of interest when using the confidential information about the issuer or the bonds to provide services, execute transactions or act on behalf of the Third Parties.

To avoid conflicts of interest when Huaxi Securities perform its entrusted management duties, Huaxi Securities and Central China Securities have agreed on the relevant risk prevention mechanism as follows:

The bond trustee has established comprehensive internal information barriers and firewalls in accordance with the regulatory requirements with a view to guarantee that: (i) the employees of the bond trustee who assume the duties under this agreement will not be affected by the conflicts of interest; (ii) the confidential information held by the employees of the bond trustee who assume the duties under this agreement will not be disclosed to any other persons that are irrelevant to this agreement; (iii) the relevant confidential information will not be used by the bond trustee for any other purpose other than this agreement; (iv) the inappropriate flow of sensitive information in relation to this agreement will be avoided and that effective management will be in place for potential conflicts of interest.

SECTION 10 CORPORATE BONDS

VIII. ACCOUNTING DATA AND FINANCIAL INDEXES OF THE COMPANY FOR THE RECENT TWO YEARS AS AT THE END OF THE REPORTING PERIOD

Unit: Yuan Currency: RMB

Major indexes	2017	2016	Changes compared with the corresponding period of last year (%)	Reason for change
EBITDA	1,525,677,451.31	1,825,759,606.44	-16.44	
Current ratio	1.83	1.98	-7.85	
Quick ratio	1.83	1.98	-7.85	
Gearing ratio (%)	64.98	61.53	5.61	
EBITDA to total debts ratio	7.55	10.59	-28.71	
Interest coverage ratio	1.88	2.24	-16.21	
Cash interest coverage ratio	-6.13	-3.42	N/A	Mainly attributable to the negative cash flow from operating activities
EBITDA interest coverage ratio	1.97	2.33	-15.30	
Loan repayment ratio	100	100	0	
Interest payment ratio	100	100	0	

Note: The above financial indexes are calculated according to the China's Accounting Standard for Business Enterprises.

IX. PAYMENT OF INTERESTS AND REPAYMENT OF PRINCIPAL OF OTHER BONDS AND DEBT FINANCING INSTRUMENTS OF THE COMPANY

Other bonds and debt financing instruments of the Company mainly include transfer of the rights to income from debts of margin financing and securities lending, beneficiary certificates and refinancing of CSF, etc. During the Reporting Period, the repayment and interest payment of bonds and debt financing instruments was settled in full as scheduled according to contractual terms or relevant agreements and there was no default recorded.

SECTION 10 CORPORATE BONDS

X. BANKING FACILITIES OF THE COMPANY DURING THE REPORTING PERIOD

As of the end of the Reporting Period, the Company obtained total banking facilities amounting RMB48.3 billion, in which RMB5.6 billion was utilized while all banking facilities were in normal use. During the Reporting Period, various banking borrowings obtained by the Company have no breach or delay in interest payment.

XI. IMPLEMENTATION OF AGREEMENTS OR COMMITMENTS AS DESCRIBED IN THE PROSPECTUS IN CONNECTION WITH ISSUANCE OF CORPORATE BONDS DURING THE REPORTING PERIOD

During the Reporting Period, the Company strictly implemented the agreements or commitments as described in the above-mentioned prospectus in connection with issuance of corporate bonds. That was no breach of the agreements and commitments made in the prospectus.

XII. MATERIAL EVENTS AND IMPACT THEREOF ON THE OPERATIONS AND SOLVENCY OF THE COMPANY

During the Reporting Period, the Company decided to repurchase H shares and cancel the capital reduction, the details of which please refer to Section 4 XII. “(15) Implementation of Repurchase of H Shares” of this report. During the Reporting Period, there was a material event that the accumulated new loans of the Company exceeded 20% of its net assets as of the end of last year, the details of which please refer to the announcement dated 28 December 2017 disclosed by the Company on the website of SSE. During the Reporting Period, the Company received the Decision on Administrative and Supervisory Measures from Henan Branch of the CSRC and the investigation notice from the CSRC, the details of which please refer to Section 5 “V. Punishment on and Rectification of the Listed Company, its Directors, Supervisors, Senior Management, Controlling Shareholders, De Facto Controller and Acquirer” of this report.

The above-mentioned matters posed no material and negative impact on the operations and solvency of the Company. Save as disclosed above, the Company has no other material events as described in Article 45 of the Administrative Measures for the Issue and Trading of Corporate Bonds (《公司債券發行與交易管理辦法》).

SECTION 11 FINANCIAL REPORT

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SECTION 12 DOCUMENTS AVAILABLE FOR INSPECTION

Documents available for inspection	Text of the annual report bearing the signature of legal representative of the Company.
Documents available for inspection	Text of the financial report with signatures and seals of the legal representative, the chief financial officer and the person responsible for the accounting affairs of the Company.
Documents available for inspection	Text of the auditor's report with seals of the accounting firm and the signatures and seals of the certified public accountant.
Documents available for inspection	Original copies of all documents and announcements disclosed on websites designated by CSRC during the Reporting Period.
Documents available for inspection	Annual reports disclosed in other securities markets.
Documents available for inspection	Other relevant materials.

SECTION 13 INFORMATION DISCLOSURE OF SECURITIES COMPANY

I. RELEVANT INFORMATION ABOUT MAJOR ADMINISTRATIVE LICENSING ISSUES OF THE COMPANY

(1) Administrative licensing of branch offices and operation branches during the Reporting Period

Branch offices newly established	Newly established operation branches	Relocation of branch offices	Relocation of operation branches
4	6	2	6

1. Administrative licensing of branch offices newly established during the Reporting Period

No.	Branch offices	Address	Document no. of establishment approval	Date of establishment approval	License obtained on
1	Central China Securities Co., Ltd. Sichuan Branch Office	No. 4, 2F, Block 13, No. 1000 Jincheng Avenue, Gaoxin District, Chengdu	Yu Zheng Jian Fa [2016] No. 264	14 October 2016	27 February 2017
2	Central China Securities Co., Ltd. Jiangsu Branch Office	Room 1205-1206, No. 168 Lushan Road, Jianye District, Nanjing City	Yu Zheng Jian Fa [2017] No. 162	1 August 2017	18 September 2017
3	Central China Securities Co., Ltd. Hainan Branch Office	Room 2007, 20F, Hainan Plaza, No. 5 Guoxing Avenue, Meilan District, Haikou City, Hainan Province	Yu Zheng Jian Fa [2017] No. 162	1 August 2017	29 September 2017
4	Central China Securities Co., Ltd. Shanghai Asset Management Branch Office	Room 1216, 14F, Block 1, No. 1600 Century Avenue, China (Shanghai) Pilot Free Trade Zone	Yu Zheng Jian Fa [2017] No. 140	30 June 2017	14 November 2017

SECTION 13 INFORMATION DISCLOSURE OF SECURITIES COMPANY

2. Administrative licensing of operation branches newly established during the Reporting Period

No.	Securities branches	Address	Document no. of establishment approval	Date of establishment approval	License obtained on
1	Central China Securities Co., Ltd. Yuncheng North Huaidong Road Securities Branch	1F, Tianyu Commercial Building, No. 9 North Huaidong Road, Yuncheng City	Yu Zheng Jian Fa [2016] No. 264	14 October 2016	27 February 2017
2	Central China Securities Co., Ltd. Wugang Wenzhou Road Securities Branch	East to north section of Wenzhou Road, Wugang City, Pingdingshan City, Henan Province (opposite to the local taxation bureau)	Yu Zheng Jian Fa [2016] No. 264	14 October 2016	27 February 2017
3	Central China Securities Co., Ltd. Yiwu North Chouzhou Road Securities Branch	Room 201, 202, No. 955 North Chouzhou Road, Yiwu City, Zhejiang Province	Yu Zheng Jian Fa [2016] No. 264	14 October 2016	14 April 2017
4	Central China Securities Co., Ltd. Huangchuan Hangkong Road Securities Branch	Building 3, Cao Street, South Hangkong Road, Huangchuan County	Yu Zheng Jian Fa [2017] No. 162	1 August 2017	23 November 2017
5	Central China Securities Co., Ltd. Yucheng Songshan Road Securities Branch	1-2F, Shop 109-110, Building 5, Royal Pearl River, North to Songshan Road, Chengguan Town, Yucheng County	Yu Zheng Jian Fa [2017] No. 162	1 August 2017	23 November 2017
6	Central China Securities Co., Ltd. Yanshi Yingbin Road Securities Branch	Room 301, Building 1, Yuehai International, No. 41 Hua Xia Road, Yiluo Subdistrict Office, Yanshi City	Yu Zheng Jian Fa [2017] No. 162	1 August 2017	6 December 2017

3. Administrative licensing of relocation of branch offices during the Reporting Period

No.	Name of branch office before relocation	Name of branch office after relocation	New address	License obtained on
1	Central China Securities Co., Ltd. Pingdingshan Branch Office	Central China Securities Co., Ltd. Pingdingshan Branch Office	1/F, Capital Guest House, West Zhongxing Road Bridge, Zhanhe District, Pingdingshan City, Henan Province	25 May 2017
2	Central China Securities Co., Ltd. Zhengzhou Branch Office	Central China Securities Co., Ltd. Zhengzhou Branch Office	10 Business Outer Ring Road, Zhengzhou Section (Zhengdong), Henan Pilot Free Trade Zone	29 December 2017

SECTION 13 INFORMATION DISCLOSURE OF SECURITIES COMPANY

4. Administrative licensing of relocation of operation branches during the Reporting Period

No.	Name of operation branch before relocation	Name of operation branch after relocation	New address	License obtained on
1	Central China Securities Co., Ltd. Wuhan Zhongbei Road Securities Branch	Central China Securities Co., Ltd. Wuhan Luoshi Road Securities Branch	Room 12, 13, 14, 7F, Starlight, South Lake, Intersection of South Luoshi Road and Wenhui Road, Hongshan District, Wuhan City	13 January 2017
2	Central China Securities Co., Ltd. Pingdingshan Zhongxing Nan Road Securities Branch	Central China Securities Co., Ltd. Pingdingshan Lingyun Road Securities Branch	Shop 207, 2F, Building 20, Jiujiu Lvshuyuan, West to Middle Lingyun Road, Xinhua District, Pingdingshan City, Henan Province	14 April 2017
3	Central China Securities Co., Ltd. Lingbao Wulong Road Securities Branch	Central China Securities Co., Ltd. Lingbao Hangu Road Securities Branch	Intersection of Hangu Road and Jingshan Road, Lingbao City	22 June 2017
4	Central China Securities Co., Ltd. Luyi Ziqi Avenue Securities Branch	Central China Securities Co., Ltd. Luyi Ziqi Avenue Securities Branch	No. 301, East Unit, 3F, Su Shang Xin Commercial Building (蘇商鑫都城), Intersection of Xianyuan Road and Ziqi Avenue, Luyi County	18 July 2017
5	Central China Securities Co., Ltd. Guangzhou Tianhe Road Securities Branch	Central China Securities Co., Ltd. Guangzhou West Tiyu Road Securities Branch	Room 3802, 3803, 3804, 3805, Tower B, No. 191 West Tiyu Road, Tianhe District, Guangzhou City (for office use only)	24 July 2017
6	Central China Securities Co., Ltd. Qi County Chaoge Road Securities Branch	Central China Securities Co., Ltd. Qi County Qihe Road Securities Branch	No. 306 Qihe Road, Qi County	18 August 2017

SECTION 13 INFORMATION DISCLOSURE OF SECURITIES COMPANY

(2) Administrative licensing of appointment of Directors, Supervisors and Senior Management

No.	Time	Content
1	19 May 2017	The Company received the Reply on Approval for Appointment of Zhang Lu as a Supervisor of Securities Company (Yu Zheng Jian Fa [2017] No. 80) (《關於核准張露證券公司監事任職資格的批覆》(豫證監發[2017]80號)) issued by Henan Branch of the CSRC, which approved the appointment of Zhang Lu as a Supervisor of the securities company
2	26 December 2017	The Company received the Reply on Approval for Appointment of Wang Jing as a senior management of Securities Company (Yu Zheng Jian Fa [2017] No. 262) (《關於核准王靜證券公司經理層高級管理人員任職資格的批覆》(豫證監發[2017]262號)) issued by Henan Branch of the CSRC, which approved the appointment of Wang Jing as a senior management of the securities company
3	11 January 2018	The Company received the Reply on Approval for Appointment of Xiao Yichen as a Supervisor of Securities Company (Yu Zheng Jian Fa [2018] No. 7) (《關於核准肖怡忱證券公司監事任職資格的批覆》(豫證監發[2018]7號)) issued by Henan Branch of the CSRC, which approved the appointment of Xiao Yichen as a Supervisor of the securities company
4	19 January 2018	The Company received the Reply on Approval for Appointment of Li Zhaoxin as a senior management of Securities Company (Yu Zheng Jian Fa [2018] No. 11) (《關於核准李昭欣證券公司經理層高級管理人員任職資格的批覆》(豫證監發[2018]11號)) issued by Henan Branch of the CSRC, which approved the appointment of Li Zhaoxin as a senior management of the securities company

(3) Other administrative licensing

No.	Time	Content
1	21 February 2017	The Company received the Reply on Approval for Change of Major Terms to the Articles of Association of Central China Securities Co., Ltd. (Yu Zheng Jian Fa [2017] No. 36) (《關於核准中原證券股份有限公司變更章程重要條款的批覆》(豫證監發[2017]36號)) issued by Henan Branch of the CSRC, which approved the change of major terms to the Articles of Association
2	27 June 2017	The Company received the Reply on the Establishment of Henan Central China Micro-lending Company Limited of the Financial Service Office of Henan Provincial People's Government (Yu Zheng Jin [2017] No. 196) (《河南省人民政府金融服務辦公室關於設立河南省中原小額貸款有限公司的批覆》(豫證金 [2017] 196號)) issued by the Financial Service Office of Henan Provincial People's Government, which approved the establishment of Central China Micro-lending
3	11 July 2017	The Company received the Reply on the Commencement of Operation of Henan Central China Micro-lending Company Limited of the Financial Service Office of Henan Provincial People's Government (Yu Zheng Jin [2017] No. 207) (《河南省人民政府金融服務辦公室關於河南省中原小額貸款有限公司開業的批覆》(豫證金 [2017] 207號)) issued by the Financial Service Office of Henan Provincial People's Government, which approved the commencement of operation of Central China Micro-lending
4	21 November 2017	The Company received the Reply on Approval for Change of Major Terms to the Articles of Association of Central China Securities Co., Ltd. (Yu Zheng Jian Fa [2017] No. 240) (《關於核准中原證券股份有限公司變更公司章程重要條款的批覆》(豫證監發[2017]240號)) issued by Henan Branch of the CSRC, which approved the change of major terms to the Articles of Association

II. CLASSIFICATION RESULT OF THE COMPANY BY REGULATORY AUTHORITY

The Company was classified as into Grade "A" under class "A" in 2017 classification and evaluation of securities companies by CSRC.

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

To the Shareholders of Central China Securities Co., Ltd.
(Incorporated in People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of Central China Securities Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 210 to 348, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

INDEPENDENT AUDITOR'S REPORT

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (“IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Consolidation of structured entities
- Impairment assessment of margin accounts receivable
- Impairment assessment of available-for-sale financial assets

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Consolidation of structured entities</p> <p>Refer to note 23 to the consolidated financial statements.</p> <p>The Group acts as asset manager for or invests in a number of investment funds and asset management plans which are structured entities.</p> <p>Management makes significant judgment on whether the Group controls and therefore should consolidate these structured entities.</p> <p>Management has determined that the Group has control of certain structured entities based on their assessment of the Group's power over, its exposure to variable returns from its involvement with, and its ability to use its power to affect the amount of its returns from these structured entities. The controlled structured entities have been consolidated and their total assets was RMB370.12 million as at 31 December 2017.</p> <p>The significant judgement exercised by management in assessing whether the Group has control of structured entities and the amount of such structured entities included in the consolidated statement of financial position resulted in this matter being identified as a key area of audit focus.</p>	<p>We obtained and read the contracts from the Group's asset management and investment portfolio on a sample basis to assess management's judgement to consolidate or not by evaluating them against the following elements of control:</p> <ul style="list-style-type: none">• The Group's power over the structured entities;• The Group's exposure, or rights, to variable returns from involvement with the structured entities; and• The Group's ability to use power over the structured entities to affect the amount of the Group's returns. <p>We checked the data used in the calculation of the Group's exposures or rights to variable returns from its involvement with the structured entities on a sample basis to the related contracts. We also re-performed management's calculations of the Group's exposures or rights to variable returns.</p> <p>Based on the available evidence we found that management's consolidation assessment in relation to structured entities was reasonable.</p>

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of margin accounts receivable	
<p>Refer to note 33 to the consolidated financial statements.</p>	<p>We evaluated the design and tested the controls over management's identification of impaired margin accounts receivable including their regular monitoring of the collateral values.</p>
<p>As at 31 December 2017, the Group had margin accounts receivable totalling RMB6,417.63 million, with allowance for impairment losses assessed by management at RMB64.66 million.</p>	<p>For impaired margin accounts receivable, we assessed the market prices of the collateral used for determining the impairment losses.</p>
<p>Management assessed whether objective evidence of impairment existed for margin accounts receivable that were individually significant at each reporting date. If there was objective evidence of impairment, impairment loss was recognised individually. Management performed a collective assessment for the remaining portfolio that were not individually significant or for which impairment had not yet been identified that were included in one group of financial assets because of their similar credit risk characteristics.</p>	<p>For collective impairment assessment, we assessed the appropriateness of the model and inputs used by comparing against those used in market practice and the Group's historical loss experience. We also re-performed management's calculations.</p>
<p>Impairment assessment of margin accounts receivable was considered to be a key audit area due to the size of the balance and the significant management judgement involved in assessing impairment.</p>	<p>Based on the results of our procedures performed, we found the model used and inputs adopted was acceptable.</p>

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Impairment assessment of available-for-sale financial assets</p> <p>Refer to note 25 to the consolidated financial statements.</p> <p>As at 31 December 2017, the Group had available-for-sale financial assets totalling RMB2,948.47 million after impairment allowance of RMB79.89 million provided.</p> <p>Management considered whether there was any objective evidence that the available-for-sale financial assets were impaired. Objective evidence of impairment arose when, among other matters, the investee's financial conditions and business prospects deteriorated significantly. Objective evidence of impairment for available-for-sale equity instruments also included a significant or prolonged decline in fair value below cost.</p> <p>Impairment assessment of available-for-sale financial assets is a key audit area due to the size of the balance and the significant management judgement involved in assessing impairment.</p>	<p>With respect to available-for-sale debt instruments, we evaluated management's judgement of the occurrence of the impairment event by referring to market data including market price and the credit ratings of the investees.</p> <p>With respect to available-for-sale equity instruments, we evaluated management's judgement of the occurrence of the impairment event by referring to market data including market price or financial information of the investees. We also evaluated the appropriateness of the criterion applied by management in their assessment of whether the decline in fair value was "significant" or "prolonged" by reference to market practice.</p> <p>For impaired instruments, we tested the impairment losses made by evaluating the models and inputs used including market price, financial information of the investees and comparable market parameters.</p> <p>Based on the results of our procedures, we found management's assessment of occurrence of impairment and the models and inputs used for determining the impairment losses was acceptable.</p>

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yip Siu Foon, Linda.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 29 March 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017 (All amounts in RMB'000 unless otherwise stated)

	Note	Year ended 31 December	
		2017	2016
Continuing operations			
Revenue			
– Commission and fee income	5	1,141,509	1,502,656
– Interest income	6	1,269,523	1,148,422
– Net investment gains	7	408,345	404,486
		2,819,377	3,055,564
Other income and gains	8	373,117	74,756
Total revenue and other income		3,192,494	3,130,320
Commission and fee expenses	9	(221,011)	(243,037)
Interest expenses	10	(808,506)	(830,115)
Staff costs	11	(716,544)	(711,286)
Depreciation and amortisation	12	(71,225)	(66,292)
Other operating expenses	13	(625,773)	(326,773)
Impairment (losses)/reversal	14	(75,892)	27,005
Total expenses		(2,518,951)	(2,150,498)
Operating profit		673,543	979,822
Share of profits of associates		6,566	12,708
Profit before income tax		680,109	992,530
Income tax expense		(158,946)	(227,842)
Profit for the year from continuing operations		521,163	764,688
Discontinued operations			
Loss for the year from discontinued operations		–	(17,963)
Profit for the year		521,163	746,725
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Available-for-sale financial assets			
– Changes in fair value	42.5	(27,530)	(1,288)
– Income tax impact on changes in fair value	42.5	6,025	(426)
– Changes in fair value reclassified from equity to profit or (loss)	42.5	(26,110)	7,882
		(47,615)	6,168
Foreign currency translation differences		(57,758)	27,281
Other comprehensive income for the year, net of tax		(105,373)	33,449
Total comprehensive income for the year		415,790	780,174

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017 (All amounts in RMB'000 unless otherwise stated)

	Note	Year ended 31 December	
		2017	2016
Profit attributable to:			
– Shareholders of the Company		441,983	718,646
– Non-controlling interests		79,180	28,079
		521,163	746,725
Profit attributable to shareholders of the Company arises from:			
– Continuing operations		441,983	727,807
– Discontinuing operations		–	(9,161)
		441,983	718,646
Total comprehensive income attributable to:			
– Shareholders of the Company		356,469	746,211
– Non-controlling interests		59,321	33,963
		415,790	780,174
Total comprehensive income attributable to shareholders of the Company arises from:			
– Continuing operations		356,469	755,372
– Discontinuing operations		–	(9,161)
		356,469	746,211
Earnings per share attributable to shareholders of the Company for the year (expressed in RMB yuan per share)			
Basic/Diluted			
From continuing operations	16	0.11	0.23
From discontinuing operations	16	–	(0.01)
From profit for the year		0.11	0.22

The notes on pages 218 to 348 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017 (All amounts in RMB'000 unless otherwise stated)

		As at 31 December	
	Note	2017	2016
Assets			
Non-current assets			
Property and equipment	18	238,207	242,085
Investment properties	19	21,876	22,953
Goodwill	20	21,362	21,466
Land use rights and intangible assets	21	164,390	155,559
Investments in associates	22	492,860	370,422
Other non-current assets	24	30,270	21,225
Available-for-sale financial assets	25	2,182,786	506,539
Financial assets designated as at fair value through profit or loss	26	674,084	403,989
Financial assets held under resale agreements	27	1,103,609	676,704
Loans and advances to customers	28	445,500	24,750
Deferred income tax assets	29	161,342	117,929
Refundable deposits	30	260,826	490,078
Total non-current assets		5,797,112	3,053,699
Current assets			
Other current assets	31	683,477	583,955
Loans and advances to customers	28	826,370	495,384
Investment classified as receivables	32	83,591	–
Margin accounts receivable	33	6,352,971	6,119,265
Available-for-sale financial assets	25	765,684	2,076,799
Financial assets designated as at fair value through profit or loss	26	827,473	110,830
Financial assets held under resale agreements	27	8,103,408	5,234,992
Due from other financial institutions	34	40,000	–
Derivative financial assets	35	59,938	–
Financial assets held for trading	36	6,120,946	7,522,277
Clearing settlement funds	37	2,350,216	3,096,957
Cash held for brokerage clients	38	5,845,016	7,720,677
Cash and bank balances	39	2,792,078	4,369,739
		34,851,168	37,330,875
Assets classified as held for sale	40	13,188	–
Total current assets		34,864,356	37,330,875
Total assets		40,661,468	40,384,574
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital	41	3,923,735	3,923,735
Reserves	42	5,846,099	5,767,198
Retained earnings		400,018	891,184
Total equity attributable to shareholders of the Company		10,169,852	10,582,117
Non-controlling interests		1,282,267	964,653
Total equity		11,452,119	11,546,770

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017 (All amounts in RMB'000 unless otherwise stated)

		As at 31 December	
	Note	2017	2016
Liabilities			
Non-current liabilities			
Bonds payable	43	6,496,635	5,494,299
Bank loans	44	–	55,327
Deferred income tax liabilities	29	10,360	28,707
Total non-current liabilities		6,506,995	5,578,333
Current liabilities			
Other current liabilities	45	937,931	1,107,744
Financial liabilities designated as at fair value through profit or loss	46	361,418	1,208,177
Tax payable	47	93,179	96,475
Bank loans	44	2,184,703	661,119
Bonds payable	43	1,500,000	3,399,755
Short-term notes payable	48	1,363,870	410,000
Financial assets sold under repurchase agreements	49	7,284,879	5,607,979
Due to other financial institutions	50	1,015,000	400,000
Derivative financial liabilities	35	471	132
Accounts payable to underwriting clients	51	434,400	–
Accounts payable to brokerage clients	52	7,526,503	10,368,090
Total current liabilities		22,702,354	23,259,471
Total liabilities		29,209,349	28,837,804
Total equity and liabilities		40,661,468	40,384,574

The notes on pages 218 to 348 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 29 March 2018 and were signed on its behalf:

JIAN Mingjun

Chairman of the Board and Executive Director

JIAN Mingjun

Executive Director and President

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017 (All amounts in RMB'000 unless otherwise stated)

	Attributable to shareholders of the Company																					
	Reserves										Non-controlling interests	Total equity										
	Share capital (Note 41)	Capital reserve (Note 42)	Surplus reserve (Note 42)	General reserve (Note 42)	Transaction risk reserve (Note 42)	Available - for-sale financial assets revaluation reserve	Foreign currency translation reserve	Other reserves	Retained earnings	Subtotal												
Balance at 1 January 2017	3,923,735	3,838,270	697,014	599,109	564,871	30,987	3,871	33,076	891,184	10,582,117	964,653	11,546,770										
Profit for the year	-	-	-	-	-	-	-	-	441,983	441,983	79,180	521,163										
Other comprehensive income for the year	-	-	-	-	-	(57,790)	-	(27,724)	-	(85,514)	(19,859)	(105,373)										
Total comprehensive income for the year	-	-	-	-	-	(57,790)	-	(27,724)	441,983	356,469	59,321	415,790										
Cash dividend recognised as distribution (Note 17)	-	-	-	-	-	-	-	-	(761,205)	(761,205)	-	(761,205)										
Dividends distributed by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(22,776)	(22,776)										
Appropriation to surplus reserve	-	-	62,309	-	-	-	-	-	(62,309)	-	-	-										
Appropriation to general reserve	-	-	-	68,096	-	-	-	-	(68,096)	-	-	-										
Appropriation to transaction risk reserve	-	-	-	-	41,539	-	-	-	(41,539)	-	-	-										
Net capital contribution/reduction for subsidiaries by non-controlling shareholders	-	(24,159)	-	-	-	-	-	-	-	(24,159)	281,226	257,067										
Changes due to the placement of the associates from other shareholders	-	-	-	-	-	-	16,630	-	-	16,630	(157)	16,473										
Balance at 31 December 2017	3,923,735	3,814,111	759,323	667,205	606,410	(26,803)	20,501	5,352	400,018	10,169,852	1,282,267	11,452,119										

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017 (All amounts in RMB'000 unless otherwise stated)

	Attributable to shareholders of the Company											
	Reserves										Non-controlling interests	Total equity
	Share capital (Note 41)	Capital reserve (Note 42)	Surplus reserve (Note 42)	General reserve (Note 42)	Transaction risk reserve (Note 42)	Available - for-sale financial assets revaluation reserve	Other reserves	Foreign currency translation reserve	Retained earnings	Subtotal		
Balance at 1 January 2016	3,223,735	1,864,928	604,797	531,483	503,393	30,703	-	5,795	1,396,747	8,161,581	714,873	8,876,454
Profit for the year	-	-	-	-	-	-	-	-	718,646	718,646	28,079	746,725
Other comprehensive income for the year	-	-	-	-	-	284	-	27,281	-	27,565	5,884	33,449
Total comprehensive income for the year	-	-	-	-	-	284	-	27,281	718,646	746,211	33,963	780,174
Issuance of shares, net	700,000	1,969,812	-	-	-	-	-	-	-	2,669,812	-	2,669,812
Cash dividend recognised as distribution (Note 17)	-	-	-	-	-	-	-	-	(999,358)	(999,358)	-	(999,358)
Dividends distributed by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(15,838)	(15,838)
Appropriation to surplus reserve	-	-	92,217	-	-	-	-	-	(92,217)	-	-	-
Appropriation to general reserve	-	-	-	67,626	-	-	-	-	(67,626)	-	-	-
Appropriation to transaction risk reserve	-	-	-	-	61,478	-	-	-	(61,478)	-	-	-
Net capital contribution for subsidiaries by non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	236,446	236,446
Changes in ownership interests in subsidiaries that results in a loss of control	-	-	-	-	-	-	-	-	-	-	(4,804)	(4,804)
Joint-stock conversion of a subsidiary by capitalization of reserves and retained earnings	-	3,530	-	-	-	-	-	-	(3,530)	-	-	-
Changes due to the placement of the associates from other shareholders	-	-	-	-	-	-	3,871	-	-	3,871	13	3,884
Balance at 31 December 2016	3,923,735	3,838,270	697,014	599,109	564,871	30,987	3,871	33,076	891,184	10,582,117	964,653	11,546,770

The notes on pages 218 to 348 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017 (All amounts in RMB'000 unless otherwise stated)

	Year ended 31 December	
	2017	2016
Cash flows from operating activities		
Profit before income tax	680,109	992,530
Adjustments for:		
Depreciation and amortisation	71,225	66,292
Impairment losses/(reversal)	75,892	(27,005)
Net losses on disposal of property and equipment and other intangible assets	373	435
Foreign exchange loss	1,291	3,443
Net gains from disposal of available-for-sale financial assets	(98,411)	(7,369)
Dividends and interest income from available-for-sale financial assets	(142,958)	(58,855)
Net gains/(losses) from disposal of subsidiaries	233	(40,981)
Net gains from disposal of associates	(58,807)	–
Investment gains from the associates	(6,566)	(12,708)
Interest expenses of short-term notes	28,413	58,323
Interest expenses of bonds payable	343,994	495,991
Interest expenses of bank loans	35,786	11,162
Changes in fair value of financial instruments at fair value through profit or loss	87,056	74,216
	1,017,630	1,555,474
Net decrease/(increase) in operating assets:		
Net (increase)/decrease in margin accounts receivable	(283,873)	2,035,132
Net decrease/(increase) in financial assets held for trading	1,308,141	(2,564,535)
Net increase in financial assets designated as at fair value through profit or loss	(1,091,261)	(376,912)
Net increase in derivative financial instruments	(59,599)	(132)
Net (increase)/decrease in financial assets held under resale agreements	(3,304,639)	912,665
Net decrease/(increase) in refundable deposits	229,252	(67,171)
Net decrease in cash held for brokerage clients	1,875,661	3,018,679
Net decrease in clearing settlement funds	680,716	1,471,824
Net increase in loans and advances to customers	(760,032)	(270,043)
Net increase in due from other financial institutions	(40,000)	–
Net decrease/(increase) in other assets	42,001	(260,217)
Net (decrease)/increase in operating liabilities:		
Net decrease in accounts payable to brokerage clients	(2,841,587)	(4,499,161)
Net (decrease)/increase in financial liabilities designated as at fair value through profit or loss	(846,759)	50,541
Net increase in financial assets sold under repurchase agreements	1,676,900	895,014
Net increase in due to other financial institutions	615,000	400,000
Net increase/(decrease) in other liabilities	409,549	(185,506)
Income tax paid	(224,002)	(327,566)
Net decrease in assets of disposal group classified as held for sale	–	(15,298)
Net cash (outflow)/inflow from operating activities	(1,596,902)	1,772,788

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017 (All amounts in RMB'000 unless otherwise stated)

	Year ended 31 December	
	2017	2016
Cash flows from investing activities		
Dividends and interest received from available-for-sale financial assets	142,958	58,855
Proceeds on disposal of property and equipment, intangible assets and other long-term assets	609	2,842
Purchase of property and equipment, intangible assets and other long-term assets	(88,889)	(92,276)
Cash paid for purchase of available-for-sale financial assets	(6,315,562)	(2,007,743)
Cash received from disposal of available-for-sale financial assets	5,980,779	1,942,867
Cash paid for purchase of investment classified as receivables	(83,591)	–
Payment for acquisition of subsidiaries	–	(14,616)
Cash (paid)/received from disposal of subsidiaries	(233)	43,878
Cash received from disposal of associates	171,532	–
Cash paid for purchase of associates	(297,734)	(121,142)
Net decrease in liabilities of disposal group classified as held for sale	–	(401)
Net cash outflow from investing activities	(490,131)	(187,736)
Cash flows from financing activities		
Dividends paid	(783,981)	(1,015,196)
Net proceeds from issuance of A shares	–	2,669,812
Capital injection of subsidiaries from non-controlling shareholders	257,067	236,446
Cash received from issuance of short-term notes	2,497,560	10,270
Cash paid for redemption of short-term notes	(1,543,690)	(2,457,230)
Cash paid for redemption of bonds	(3,400,000)	(2,650,000)
Cash received from issuance of bonds	2,500,000	4,002,976
Cash paid for bank loans	1,468,257	664,628
Payments of interest on debts	(550,575)	(544,640)
Net cash inflow from financing activities	444,638	917,066
Net (decrease)/increase in cash and cash equivalents	(1,642,395)	2,502,118
Cash and cash equivalents at the beginning of the year	4,643,229	2,144,554
Effect of exchange rate changes on cash and cash equivalents	(1,291)	(3,443)
Cash and cash equivalents at the end of the year (Note 53)	2,999,543	4,643,229
Cash and cash equivalents at the end of the year – Continuing operations	2,999,543	4,643,229
Cash and cash equivalents at the end of the year (Note 53)	2,999,543	4,643,229

The notes on pages 218 to 348 form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

1 GENERAL INFORMATION

Central China Securities Co., Ltd. (the "Company") is a joint-stock financial institution incorporated in Henan Province, the People's Republic of China (the "PRC"). The Company was incorporated on 8 November 2002, pursuant to the approvals by China Securities Regulatory Commission (the "CSRC") and the People's Government of Henan Province. The Company completed the relevant registration with Henan Provincial Administration of Industry and Commerce (the "HAIC") on 8 November 2002. The CSRC and the HAIC have granted the securities institution license No. Z30574000 and business licence No. 410000100009831 to the Company, respectively. The registered address of the Company is No. 10 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan Province. As at 31 December 2017, the registered capital of the Company is RMB3,923.74 million.

The principle business of the Company and its subsidiaries (the "Group") include brokerage business (securities and futures brokerages, wealth management, and distribution of financial products), investment banking business (equity financing, financial advisory and bond financing), investment management business (asset management, direct investment and funds management), proprietary trading business, and other business (stock pledged repurchase and transaction securities repurchase transactions, the new OTC Board market making business, internet finance business, innovation business, equity exchange centre, overseas business and research business).

The Company completed its initial public offering of overseas-listed foreign shares ("H shares") on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on 25 June 2014. Under this offering, the Company issued a total of 598,119,000 shares with a nominal value of RMB1 per share. After this public offering, total share capital of the Company increased to RMB2,631.62 million.

The Company completed its placement of H shares on the Hong Kong Stock Exchange on 3 August 2015. The Company issued a total of 592,119,000 shares with a nominal value of RMB1 per share. After this issuance, total share capital of the Company was increased to RMB3,223.74 million.

The Company completed its initial public offering of domestic-listed shares ("A shares") on the Shanghai Stock Exchange on 30 December 2016. The Company issued a total of 700,000,000 shares with a nominal value of RMB1 per share. After this issuance, total share capital of the Company was increased to RMB3,923.74 million.

These consolidated financial statements were authorised for issue by the Board of Directors on 29 March 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

2 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), as issued by the International Accounting Standards Board (“IASB”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instruments, financial assets and liabilities held for trading, financial assets and liabilities designated as at fair value through profit or loss and available-for-sale financial assets (unless the fair value cannot be reliably measured) that have been measured at fair value, as further explained in the respective accounting policies below. The consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 Amendments to the accounting standards effective in 2017 and adopted by the Group

The following amendments have been adopted by the Group for the first time during the financial year ended 31 December 2017.

(1)	Amendments to IAS 12	Income Taxes
(2)	Amendments to IAS 7	Statement of Cash Flows
(3)	Amendments to IFRS 12	Disclosure of Interests in Other Entities – included in the Annual Improvements to IFRSs 2014 – 2016 cycle

(1) Amendments to IAS 12 – Income Taxes

The IASB has issued amendments to IAS 12 – Income Taxes. These amendments on the recognition of deferred tax assets for unrealized losses clarify how to account for deferred tax assets related to debt instruments measured at fair value.

(2) Amendments to IAS 7 – Statement of Cash Flows

The IASB has issued an amendment to IAS 7 – introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

2 BASIS OF PREPARATION (CONTINUED)

2.1 Amendments to the accounting standards effective in 2017 and adopted by the Group (continued)

(3) Amendments to IFRS 12: Disclosure of Interests in Other Entities – included in the Annual Improvements to IFRSs 2014 – 2016 cycle

These amendments clarify the scope of IFRS 12 by specifying that the disclosure requirements, except for those summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interests which are classified as held for sale or discontinued operations in accordance with IFRS 5.

The adoption of the above amendments does not have a significant impact on the operating results, comprehensive income and financial position of the Group.

2.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2017

The Group has not applied the following new and revised IFRSs and IASs that have been issued but are not yet effective, in these financial statements.

			<i>Effective for annual periods beginning on or after</i>
(1)	Amendments to IAS 28	Investments in Associates and Joint Ventures to IFRSs included in the Annual Improvements 2014 – 2016 cycle	1 January 2018
(2)	IFRS 9	Financial Instruments	1 January 2018
(3)	Amendments to IFRS 9	Prepayment Features with Negative Compensation	1 January 2019
(4)	IFRS 15	Revenue from Contracts with Customers	1 January 2018
(5)	IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
(6)	Amendments to IAS 40	Transfer of Investment Property	1 January 2018
(7)	Amendments to IFRSs and IASs	IASB Annual Improvements 2015 – 2017 cycle	1 January 2019
(8)	IFRS 16	Leases	1 January 2019
(9)	IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
(10)	Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/ removed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

2 BASIS OF PREPARATION (CONTINUED)

2.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2017 (continued)

(1) Amendments to IAS 28: Investments in Associates and Joint Ventures to IFRSs included in the Annual Improvements 2014 – 2016 cycle

These amendments clarify that the election to measure investees at fair value through profit or loss is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. The adoption of the amendments has not had a significant impact on the Group's consolidated financial statements.

(2) IFRS 9: Financial Instruments

"IFRS 9 Financial Instruments" introduces new rules for the classification, measurement and derecognition of financial assets and financial liabilities; the main impact for the Group includes the classification, measurement for financial assets and financial liabilities also the impairment for financial assets. According to the provisions for the transition from IAS 39, companies should retrospectively adjust the retained earnings or other comprehensive income from 2018 in which the standard is adopted without restating the comparative figures of the prior periods for the effect of the changes to classification and measurement and impairment of financial assets.

IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets, including hybrid contracts, are measured as at fair value through profit and loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") or amortized cost. For financial liabilities, IFRS 9 includes the requirements for classification and measurement previously included in IAS 39.

The Group has assessed the impacts from the adoption of the new standard on 1 January 2018 as follows:

Part of the Group's investment in debt instruments that are currently classified as available-for-sale financial assets ("AFS") with the contractual cash flow characteristics that are solely payments of principal and interests and held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets will be classified under FVOCI.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

2 BASIS OF PREPARATION (CONTINUED)

2.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2017 (continued)

(2) IFRS 9: Financial Instruments (continued)

The Group's equity instruments, fund investments and other investments that are currently classified under AFS will be classified under FVTPL under IFRS 9.

Financial assets currently measured at FVTPL will continue to be measured on the same basis under IFRS 9.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss ("ECL") model, as opposed to an incurred credit loss model under IAS 39. The impairment requirements apply to financial assets measured at amortized cost and debt instruments financial assets measured at FVOCI. The model has three stages: (1) on initial recognition, a loss allowance is recognized and maintained equal to 12 months of ECL excludes assets with impairment loss; (2) if credit risk increases significantly relative to initial recognition, the loss allowance is increased to cover full lifetime ECL; and (3) when a financial asset is considered credit-impaired, the loss allowance continues to reflect lifetime ECL and interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount. Changes in the required loss allowance, including the impact of movement between 12 months and lifetime expected credit losses, will be recorded in profit or loss.

The adoption of IFRS 9 has not had a significant impact on the net assets of the Group as at 1 January 2018.

(3) Amendments to IFRS 9: Prepayment Features with Negative Compensation

In October 2017, the IASB amended IFRS 9 by issuing Prepayment Features with Negative Compensation, which confirmed with modifications the proposals in the 2017 Negative Compensation Exposure Draft. As a result of those amendments, particular financial assets with prepayment features that may result in reasonable negative compensation for the early termination of the contract are eligible to be measured at amortised cost or at FVOCI. The adoption of this new standard has not had a significant impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

2 BASIS OF PREPARATION (CONTINUED)

2.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2017 (continued)

(4) IFRS 15: Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a 5-step approach. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes' to an 'asset-liability' approach based on transfer of control. IFRS 15 provides specific guidance on capitalization of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. According to the provisions for the transition from IASs 11 and 18, companies that use the modified retrospective approach should adjust the opening retained earnings or other comprehensive income as at 1 January 2018 without restating the comparative figures of the prior periods. The adoption of this new standard has not had a significant impact on the Group's consolidated financial statements.

(5) IFRIC 22: Foreign Currency Transactions And Advance Consideration

The IASB issued IFRIC 22 Foreign Currency Transactions and Advance Consideration, to clarify the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency. The adoption of this interpretation has not had a significant impact on the Group's consolidated financial statements.

(6) Amendments to IAS 40: Transfer of Investment Property

On 8 December 2016, the IASB issued amendments to IAS 40 – Transfer of Investment Property. These amendments specify that an entity shall transfer a property to, or from, investment property when, and only when, there is a change in use of a property supported by evidence that a change in use has occurred. They also clarify that the list of circumstances set out in IAS 40 is non-exhaustive list of examples of evidence that a change in use has occurred instead of an exhaustive list. The examples have been expanded to include assets under construction and development and not only transfers of completed properties. The adoption of the amendments has not had a significant impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

2 BASIS OF PREPARATION (CONTINUED)

2.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2017 (continued)

(7) Amendments to IFRSs and IASs: Annual Improvements to IFRSs 2015 – 2017 cycle

The Annual Improvements to IFRSs 2015 – 2017 Cycle include a number of amendments to various IFRSs and IASs, including the amendments IFRS 3 – Business combinations, the amendments to IFRS 11 – Joint arrangements, the amendments to IAS 12 – Income taxes, the amendments to IAS 23 – Borrowing costs. The adoption of these amendments has not had a significant impact on the Group's consolidated financial statements.

(8) IFRS 16: Leases

IFRS 16 – Leases addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts, unless the underlying asset is of low value or the lease is short-term, in the statement of financial position. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability in the consolidated income statement, and also classifies cash repayments of the lease liability into principal portion and an interest portion for presentation in the consolidated statement of cash flows.

For the lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The standard will affect primarily the accounting for the Group operating leases when the Group is the lessee. As at 31 December 2017, the Group has non-cancellable operating leasing commitment of RMB143.03 million (see Note 55). The Group has not yet determined to what extent these commitments will result in the recognition of right-of-use assets and liabilities for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

2 BASIS OF PREPARATION (CONTINUED)

2.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2017 (continued)

(9) IFRIC 23: Uncertainty Over Income Tax Treatments

In June 2017 the IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to clarify how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The Group anticipates that the adoption of this interpretation has not had a significant impact on the Group's consolidated financial statements.

(10) Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture

These amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. The Group anticipates that the adoption of these amendments has not had a significant impact on the Group's consolidated financial statements.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

3.1 Summary of significant accounting policies

3.1.1 Accounting year

The Group's accounting year starts on 1 January and ends on 31 December.

3.1.2 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Renminbi (RMB), which is the Company's functional and the Group's presentation currency.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

3.1.3 Consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries.

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes: (a) restricted activities; (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors; (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

Management applies its judgment to determine whether the Group is acting as agent or principal in relation to the structured entities ("SEs") in which the Group acts as an asset manager. In assessing whether the Group is acting as agent or principal, the Group considers factors such as the scope of the asset manager's decision-making authority over the investee, the rights held by other parties, the remuneration to which it is entitled in accordance with the remuneration agreement(s), and exposure to variability of returns by other arrangements (such as direct investments).

In preparing the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Group and subsidiaries, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Group.

Inter-company transactions, balances and unrealised profits on transactions between group companies are eliminated in the consolidated financial statements. The portion of a subsidiary's equity and the portion of a subsidiary's net profits and losses for the period not attributable to the Group are recognised as non-controlling interests and presented separately in the consolidated financial statements within equity and net profits respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

3.1.4 Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

3.1.5 Associates

An associate is an entity over which the Group has significant influence but not control and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss and OCI of the investee after the date of acquisition.

When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, is recognised immediately in profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

3.1.5 Associates (continued)

The Group's share of post-acquisition profit or loss is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit of investments in associates' in the consolidated statement of comprehensive income.

Gains or losses on dilution of equity interest in associates are recognised in the consolidated statement of comprehensive income.

3.1.6 Separate financial statements

In the Company's statement of financial position, investments in subsidiaries and consolidated structured entities are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The results of subsidiaries and consolidated structured entities are accounted for by the Company on the basis of dividend received and receivable.

The Company assesses at each financial reporting date whether there is objective evidence that investment in subsidiaries or consolidated structured entities is impaired. An impairment loss is recognised for the amount by which the investment in subsidiaries' or consolidated structured entities' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the investment in subsidiaries' or consolidated structured entities' fair value less costs to sell and value in use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

3.1.7 Foreign currency translation

Monetary items denominated in foreign currency are translated into RMB with the closing rate as at the reporting date and translation differences are recognised in profit or loss. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition.

Foreign currency financial statements of overseas subsidiaries are translated into RMB for the preparation of consolidated financial statements. At the end of each reporting period, the assets and liabilities in the financial statements denominated in foreign currencies are translated into RMB at the spot exchange rates ruling at that date. The income and expenses of foreign operations are translated into RMB at the spot exchange rates or the rates that approximate the spot exchange rates on the transaction dates. Foreign exchange differences arising from foreign operations are recognised as "Foreign currency translation reserve" in the shareholders' equity in the consolidated statement of financial position. The effect of exchange rate changes on cash is presented separately in the consolidated statement of cash flows.

3.1.8 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

3.1.9 Financial instruments

(1) Recognition and de-recognition of financial instruments

A financial asset or financial liability is recognised on a trade-date, the date when the Group becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when one of the following conditions is met: (1) the contractual rights to receive cash flows from the investments have expired; (2) when the Group has transferred substantially all risks and rewards of ownership; (3) when the Group neither transfers nor retains substantially all risks or rewards of ownership of the financial asset but has not retained control of the financial asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

3.1.9 Financial instruments (continued)

(1) Recognition and de-recognition of financial instruments (continued)

On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been directly recognised in equity is recognised in profit or loss.

Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires. The difference between the carrying amount of a financial liability derecognised and the consideration paid is recognised in profit or loss.

(2) Classification and measurement

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, investment classified as receivables and available-for-sale. The classification of financial assets depends on the Group's intention and ability to hold the financial assets. Management determines the classification of its financial assets at initial recognition.

Financial liabilities are classified into the following categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities.

(a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated as at fair value through profit or loss. Equity securities, funds and debt securities purchased for the purpose of selling in the near term are classified as financial assets held for trading. Equity securities, funds, debt securities are classified as financial assets designated as at fair value through profit or loss if the financial assets which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the financial assets are provided internally on that basis to the Group's management.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

3.1.9 Financial instruments (continued)

(2) Classification and measurement (continued)

(a) *Financial assets at fair value through profit or loss* (continued)

Financial assets at fair value through profit or loss are initially recognised and subsequently measured at fair value on the statement of financial position. The related transaction costs incurred at the time of acquisition are expensed in the profit or loss. Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognised through net investment gains in the period in which they arise. Interests and cash dividends received during the period in which such financial assets are held, as well as the gains or losses arising from disposal of these assets are recognised in the statement of comprehensive income.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, including loans and advances to customers, investment classified as receivables, margin accounts receivable, accounts receivable, other receivables, financial assets held under resale agreements, refundable deposits, and clearing settlement funds. Loans and receivables are recognised initially at fair value plus incremental transaction costs that are directly attributable to the acquisition of the financial assets. Loans and receivables are subsequently measured at amortised cost using effective interest rate method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

3.1.9 Financial instruments (continued)

(2) Classification and measurement (continued)

(c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories mentioned above. Such financial assets are recognised at fair value plus related transaction costs at time of acquisition, and are subsequently measured at fair value. When the fair value of an equity investment classified as available-for-sale financial assets cannot be reliably measured, they are carried at cost. Except for impairment losses and foreign exchange gains or losses arising from foreign currency monetary financial assets, gains and losses arising from changes in the fair value of financial assets classified as available-for-sale are recognised directly in other comprehensive income, and ultimately in the equity, until the financial assets are derecognised at which time the cumulative gains or losses previously recognised in equity should be reclassified from equity to the statement of comprehensive income. Interest income of available-for-sale debt instruments calculated using effective interest method and dividend income declared are recognised in profit or loss.

(d) *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss have two sub-categories: financial liabilities held for trading, and those designated at fair value through profit or loss at inception.

A financial liability is classified as held for trading if it is: (i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) a derivative (except for a derivative that is a designated and effective hedging instrument or a financial guarantee).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

3.1.9 Financial instruments (continued)

(2) Classification and measurement (continued)

(d) *Financial liabilities at fair value through profit or loss* (continued)

Financial liabilities are designated at fair value through profit or loss upon initial recognition when: (i) the financial liabilities are managed, evaluated and reported internally on a fair value basis; (ii) the designation eliminates or significantly reduces an accounting mismatch in the gain and loss recognition arising from the difference in the measurement basis of the financial assets or financial liabilities; or (iii) if a contract contains one or more embedded derivatives, an entity may designate the entire hybrid (combined) contract as a financial liability at fair value through profit or loss unless the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial liabilities at fair value through profit or loss are initially recognised and subsequently measured at fair value on the statement of financial position. The related transaction costs incurred at the time of incurrence are expensed in the statement of comprehensive income. Gains or losses arising from changes in the fair value of financial liabilities at fair value through profit or loss are recognised in profit or loss through net investment gains/losses.

The interests of both subordinated interest holders of classified collective asset management schemes and holders of non-classified collective asset management schemes within the Group's consolidation scope were designated at fair value through profit or loss, as the interests are managed, evaluated and reported internally on a fair value basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

3.1.9 Financial instruments (continued)

(2) Classification and measurement (continued)

(e) Other financial liabilities

Other financial liabilities are initially recognised at fair value less transaction costs, and are subsequently measured at amortised cost using the effective interest method. Transaction costs and fees of other financial liabilities are included in calculating amortised cost using the effective interest method.

The Group's other financial liabilities mainly comprise "Bonds payable", "Due to other financial institutions", "Accounts payable to brokerage clients", "Financial assets sold under repurchase agreements" and "Other current liabilities" in the statement of financial position. Other financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(3) Determination of fair value

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the reporting date. The Group utilises the latest market price for both financial assets and financial liabilities where the latest price falls within the bid-ask spread. In circumstances where the latest market price is not within the bid-ask spread, management will determine the point within the bid-ask spread that is most representative of fair value.

If the market for a financial instrument is not active, valuation techniques are used to establish fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that substantially the same, and discounted cash flow analysis, among others. In applying valuation techniques to measure fair value, the Group maximises the use of observable market inputs and minimises the use of inputs that are specific to the Group.

If the quoted market price is not available and the fair value cannot be reliably measured, a financial asset is measured at cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

3.1.9 Financial instruments (continued)

(4) Derivative financial instruments

The Group's derivatives are futures contracts, forward contracts and stock option.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Fair values are obtained from quoted market prices in active markets, recent market transactions, and valuation techniques, including discounted cash flow analysis and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

(5) Margin financing and securities lending services

Margin financing and securities lending services refer to the lending of funds by the Group to customers for purchase of securities, or lending of securities by the Group to customers for securities selling, for which the customers provide the Group with collateral. Margin financing and securities lending services are classified as margin financing and securities lending, respectively.

The Group recognises margin financing receivables as loans and receivables, and recognises interest income using effective interest rate method. Securities lent are not derecognised when the risk and rewards are not transferred, and interest income is recognised using the effective interest rate method.

(6) Resale and repurchase agreements

Assets purchased under agreements to resell at a specified future date are not recognised on the statement of financial position at time of acquisition. The corresponding cash paid is recognised on the statement of financial position as "financial assets held under resale agreements". Conversely, assets sold under agreements to repurchase at a specified future date with a specific price are not derecognised. The corresponding cash received is recognised on the statement of financial position as "financial assets sold under repurchase agreements".

The differences between the purchase and resale prices and sale and repurchase prices are recognised as interest income and interest expense respectively and are accrued over the term of the agreement using the effective interest rate method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

3.1.9 Financial instruments (continued)

(7) Impairment of financial assets

Except for financial assets held for trading and financial assets designated as at fair value through profit or loss, other categories of financial assets are tested for impairment at the end of each reporting period.

(a) *Financial assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (iv) it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

3.1.9 Financial instruments (continued)

(7) Impairment of financial assets (continued)

(a) *Financial assets carried at amortised cost* (continued)

- (v) the disappearance of an active market for that financial asset because of financial difficulties;
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group; and
- (vii) other objective evidence indicating there is an impairment of the financial asset.

Individual assessment

Loans and receivables, which are considered individually significant, are assessed individually for impairment. If there is objective evidence that an impairment loss on loans and receivables has been incurred on an individual basis, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and recognised in the consolidated income statement.

If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

3.1.9 Financial instruments (continued)

(7) Impairment of financial assets (continued)

(a) *Financial assets carried at amortised cost* (continued)

Collective assessment

Homogeneous groups of loans and receivables to customers not considered individually significant and individually assessed and loans and receivables with no objective evidence of impairment on an individual basis are assessed for impairment losses on a collective basis. If there is observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those financial assets, the impairment is recognised and recorded in the consolidated income statement.

For homogeneous groups of loans and advances to customers that are not considered individually significant, the Group assess impairment on a collective basis.

For margin financing which are individually significant and therefore have been individually assessed but for which no impairment can be identified, the Group accrues impairment according the business type and clients' margin ratio.

Impairment reversal

If, in a subsequent period, the amount of the impairment loss on loans and receivables decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in the consolidated income statement. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

3.1.9 Financial instruments (continued)

(7) Impairment of financial assets (continued)

(b) *Financial assets classified as available-for-sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to in (a) above.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the securities below their cost is also evidence that the assets are impaired. The Group assesses the fair value of available-for-sale equity instruments individually at statement of financial position date and determines that it is impaired if the fair value of the equity instrument either declines to less than 50% (inclusive) or more of its initial cost or has declined for more than one year by which the Group concludes this decline is prolonged based on professional judgment of the management. The Group recognises impairment losses in profit or loss. For available-for-sale investments in equity instruments measured at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognised in profit or loss.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the consolidated income statement; increases in their fair value subsequent to impairment are recognised as other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

3.1.9 Financial instruments (continued)

(8) Offsetting financial instruments

Financial assets and financial liabilities are separately presented in the statement of financial position without any offsetting, except when:

- (i) The Group has a legally enforceable right to offset the recognised amounts; and
- (ii) The Group has intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

3.1.10 Asset management business

The Group's asset management business comprises targeted asset management, specified asset management and collective asset management. The Group keeps separate accounting records for each of these investment schemes, and periodically reconciles the accounting and valuation results of each scheme with the custodians.

When the Group is considered as an agent for targeted asset management business and specified asset management business, the related assets are not recognised. The fees received are recognised as commission and fee income.

For collective asset management schemes where the Group manages with power and/or holds direct investments, the Group further assesses whether its exposure to the variable returns from the activities of the collective asset management schemes is of such magnitude and variability that indicates the Group is a principal. The collective asset management schemes shall be consolidated when the Group is concluded as acting in the role of principal. When the Group acts in the role of an agent of other investors, it recognises the related commission and fee income from the collective asset management schemes in its statement of comprehensive income, and its direct investments as available-for-sale financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

3.1.11 Physical commodities

The Group's physical commodities mainly includes tradable agricultural products and industrial products. These are initially measured at cost. Cost is determined using the first-in, first-out (FIFO) method, including purchase cost and other variable purchase expenses.

At the end of each reporting period, physical commodities are carried at the lower of cost and net realizable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Any excess of the cost over the net realisable value of each inventories is recognised as an impairment provision for diminution in the value of physically commodities in the statement of financial position and impairment charge within gains/(losses) on physical commodities trading.

If, in a subsequent period, the net realisable value of the impaired physical commodities increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

3.1.12 Property and equipment

The Group's property and equipment include buildings, motor vehicles, electronics and other equipment that are used for operation purpose and have useful lives of more than one year.

Property and equipment shall be recognised only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate. Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. All other subsequent expenditures are recognised in profit or loss during the period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. For the assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

3.1.12 Property and equipment (continued)

The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates of property and equipment are as follows:

Type of assets	Estimated useful lives	Estimated residual values	Annual depreciation rates
Buildings	20~40 years	5%	2.38%~4.75%
Motor vehicles	8 years	5%	11.88%
Electronics and other equipment	5~15 years	5%	6.33%~19.00%

The estimated useful life, the estimated residual value and the depreciation method applied to an asset are reviewed, and adjusted as appropriate by the Group at the end of each reporting period.

Property and equipment are de-recognised on disposal or when no future economic benefits are expected from their use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of property and equipment net of their carrying amounts and related taxes and expenses is recognised in the statement of comprehensive income. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (Note 3.1.17).

3.1.13 Investment properties

Property held for rental purpose that is not occupied by the Group is classified as investment property. Investment properties comprises of land and buildings.

Investment property is initially measured at its cost, which includes expenditure that is directly attributable to the acquisition of the assets. Subsequent to initial recognition, the Group adopts the cost model to account for its investment properties. The estimated useful lives, depreciation rate and estimated residual value rate of investment properties are as follows:

Type of assets	Estimated useful lives	Estimated residual values	Annual depreciation rates
Buildings	20~40 years	5%	2.38%~4.75%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

3.1.13 Investment properties (continued)

Investment properties are reviewed for impairment at the statement of financial position date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

3.1.14 Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquire at the date of acquisition.

3.1.15 Land use rights and intangible assets

(1) Land use rights

Land-use rights acquired by the Group are amortised over the period that is confirmed by the land use permit. If the costs between the self-used land-use rights and related buildings cannot be reliably separated, the land-use rights shall be recognised as property, plant and equipment.

(2) Intangible assets

Intangible assets mainly include computer software and trading rights, which are measured at cost and amortised on a straight-line basis over their estimated useful lives. For an intangible asset with a definite useful life, review of its useful life and amortisation method is performed at each year end, with adjustment made as appropriate.

Where the carrying amount of an intangible asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (Note 3.1.17).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

3.1.16 Long-term deferred expenses

Long-term deferred expenses include leasehold improvements and expenditures that have been incurred but should be recognised as expenses over more than one year in the current and subsequent periods. Long-term deferred expenses are amortised on the straight-line basis over the expected useful economic lives and are presented at actual expenditure net of accumulated amortisation.

3.1.17 Impairment of long-term non-financial assets

Property and equipment, intangible assets with definite useful lives are tested for impairment if there is any indication that the assets may be impaired at the statement of financial position date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, an allowance for impairment and an impairment loss are recognised in accordance with the difference. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Assets that have an indefinite useful life – for example, goodwill or intangible assets with indefinite useful life that are not subject to amortisation are tested at least annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

3.1.18 Disposal groups classified as held-for-sale and discontinued operations

Disposal groups are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The disposal groups are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, financial assets and investment properties, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 3.

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

3.1.18 Disposal groups classified as held-for-sale and discontinued operations (continued)

When an operation is classified as discontinued, a single amount is presented in the income statement, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the disposal groups constituting the discontinued operation.

3.1.19 Employee benefits

Employee benefits mainly include salaries, bonus, allowances and subsidies, staff welfare benefits, social security contributions and housing funds, labor union funds, employee education funds and other expenditures incurred in exchange for service rendered by employees. Salary and welfare are expensed in operating expenses in the accounting period of services rendered.

In accordance with the relevant laws and regulations, domestic employees of the Group participate in various social security schemes such as basic pension insurance, medical insurance, housing fund schemes and other social security schemes, which are all defined contribution plans. Insurance expenses and pensions are calculated based on certain percentage of gross salary and are paid to the Labor and Social Security Bureau, and insurance companies, etc. The contribution ratios are defined by stipulating regulations or commercial contracts, which should be no higher than statutory upper ceilings. The Group has no further payment obligations once the contributions have been paid. Contributions are recognised in the statement of comprehensive income for the current period.

The Group's post-employment scheme is defined contribution pension plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

3.1.20 Revenue recognition

The Group's revenue mainly includes commission and fee income, interest income and income from physical commodity trading.

(1) Commission and fee income

- (a) Revenue from the securities and futures brokerage services is recognised on the date of the transaction;
- (b) Underwriting and sponsors fees are recognised as income in accordance with the terms of the underwriting agreement or deal mandate when the relevant significant acts have been completed;
- (c) Consultancy and advisory fee income is recognised when the relevant transactions have been arranged or the relevant services have been rendered;
- (d) Fee revenue from asset management services is recognised according to the provisions of the asset management contracts.

(2) Interest income is recognised by using the effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

(3) Income from physical commodity trading

Income from physical commodity trading is realized on delivering the physical commodities to customers, which generally coincides with the time when physical commodities are delivered to the customers and the ownership has been transferred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

3.1.21 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property and equipment are included in non-current liabilities as deferred government grants and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

3.1.22 Deferred income tax assets and liabilities

Deferred income tax assets and liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred income tax asset is recognised for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. As at the statement of financial position date, deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred income tax assets are only recognised for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

Deferred income tax related to fair value re-measurement of available-for-sale financial assets is charged or credited directly to equity and is subsequently transferred to profit or loss when the financial assets are derecognised.

Deferred income tax assets and liabilities are offset when:

- (a) the deferred income taxes assets and liabilities related to income taxes levied by the same taxation authority;
- (b) there is a legally enforceable right to offset current tax assets against current tax liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

3.1.23 Leases

Leases of assets where the Group has transferred substantially all the risks and rewards of ownership are classified as finance leases. All leases other than finance leases are classified as operating leases. Lease payments under an operating lease are recognised on a straight-line basis over the period of the lease, and are charged as an expense for the current period.

3.1.24 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

3.1.25 Provisions

Provisions for matters such as legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3.1.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

3.1 Summary of significant accounting policies (continued)

3.1.27 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group's reporting segments are decided based on its operating segments while taking full consideration of various factors such as products and services, geographical location and regulatory environment related to administration of the management. Operating segments meeting the same qualifications are allocated as one reporting segment, providing independent disclosures.

The purpose of segment reporting is to assist the chief operating decision maker in resource allocation and performance assessment of each segment. The same accounting policies as adopted in preparation of the Group's consolidated financial statements are used for segment reporting.

3.2 Summary of significant accounting estimates and judgements

The Group continually evaluates the significant accounting estimates and judgments applied based on historical experience and other factors, including reasonable expectations of future events. The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting period are outlined below. It is possible that actual results may be materially different from the estimates and judgments referred to below.

3.2.1 Impairment of loans and receivables

The Group reviews the portfolios of loans and advances to assess whether impairment losses exist and if they exist, the amounts of impairment losses. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows identified with an individual loan and receivable. It also includes observable data indicating adverse changes in the repayment status of borrowers or issuers in the assets portfolio or national or local economic conditions that correlate with defaults on the assets in the portfolio.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

3.2 Summary of significant accounting estimates and judgements

(continued)

3.2.1 Impairment of loans and receivables (continued)

The impairment loss for a loan and receivable that is individually assessed for impairment is the decrease in the estimated discounted future cash flows. Loans and advances to customers are collectively assessed for impairment at the statement of financial position date. Margin financings are collectively assessed for impairment, which the estimate is based on the business type and clients' margin ratio. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual losses.

3.2.2 Impairment of available-for-sale financial assets

In determining whether there is any objective evidence that impairment has occurred on available-for-sale financial assets, the Group assesses periodically whether there has been a significant or prolonged decline in the fair value of the investments below its cost or carrying amount, or whether other objective evidence of impairment exists based on the investee's financial conditions and business prospects, including industry outlook, technological changes as well as operating and financing cash flows. This requires a significant level of management judgment which would affect the amount of impairment losses.

3.2.3 Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

3.2.4 Fair value of financial instruments

The fair value of financial instruments that are not traded in active markets are determined by using valuation techniques, which include discounted cash flow models, as well as other types of valuation model. To the extent practicable, valuation technique makes the maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on such unobservable market inputs. Changes in assumptions about these factors could affect reported fair value of financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

3.2 Summary of significant accounting estimates and judgements

(continued)

3.2.5 Income taxes

The Group is mainly subject to income taxes in China. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Taxation matters such as tax deductible due to asset impairment loss are subject to the decision of taxation authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax and deferred tax assets and liabilities in the period in which such determination is made.

3.2.6 Determination of consolidation scope

All facts and circumstances must be taken into consideration in the assessment of whether the Group, as an investor, controls the investee. The principle of control includes three elements: (i) power over the investee; (ii) exposure, or rights, to variable returns from involvement with the investee; and (iii) the ability to use power over the investee to affect the amount of investors' returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

For asset management schemes where the Group involves as manager and also as investor, the Group assesses whether the combination of investments it holds together with its remuneration creates exposure to variability of returns from the activities of the asset management schemes that is of such significance indicating that the Group is a principal. The asset management schemes shall be consolidated if the Group acts in the role of principal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

4 TAXATION

According to relevant PRC tax policies, the most significant categories of taxes to which the Group is currently subjected are as follows:

4.1 Income tax

The PRC Enterprise income tax rate applicable to the Company and its subsidiaries in Mainland China is 25%.

The income tax rate for subsidiaries established and operate in Hong Kong is 16.5%.

4.2 Value added tax

Pursuant to the "Circular regarding the Comprehensive Implementation of the Pilot Programs for Transformation from Business Taxes to Value-added Taxes (the "VAT Pilot Programs")" (Cai Shui [2016] No. 36 issued by the Ministry of Finance (the "MOF") and the State Administration of Taxation (the "SAT") of the PRC, effective from 1 May 2016, the Group is subject to value-added taxes on its income from principal businesses at 6% in Mainland China, instead of business tax at 5% prior to 1 May 2016.

After the implementation of the VAT Pilot Programs, the Group's related income is presented at value net of its respective VAT in the consolidated income statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

4 TAXATION (CONTINUED)

4.3 Business tax

Prior to 1 May 2016, the Group is subject to business tax calculated and paid at the tax rate of 5% of taxable business income in Mainland China.

According to the "Circular of the Ministry of Finance and the State Administration of Taxation on Business Taxation in Capital Markets" (Cai Shui [2004] No. 203), securities companies are allowed to deduct the following expenses charged on behalf of other parties from their taxable business income.

- i. Securities trading regulatory fees collected on behalf of the securities exchanges;
- ii. Fees received on behalf of the stock exchanges in its agency trading of securities;
- iii. Activation fees of stockholder accounts (include A Shares and B Shares), account opening fees of special transferred stocks, and transfer fees, as well as settlement fees of B Shares, and custodian fees collected on behalf of the China Securities Depository and Clearing Co., Ltd.

According to the "Circular of the Ministry of Finance and the State Administration of Taxation on Issues Concerning the Business Tax of the Securities Investor Protection Fund" (Cai Shui [2006] No. 172), securities companies are allowed to deduct their investor protection fund contributions from their taxable business income.

4.4 Urban maintenance and construction taxes and educational surcharges are charged at 7% and 3% of turnover taxes payable, respectively.

4.5 Vehicle and vessel taxes, property taxes and stamp duties are levied in accordance with the provisions of the relevant tax laws and regulations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

5 COMMISSION AND FEE INCOME

	Year ended 31 December	
	2017	2016
Securities brokerage	700,626	898,242
Asset management and fund management	108,173	68,897
Futures brokerage	105,870	79,287
Financial advisory	88,579	209,154
Investment advisory	88,001	123,506
Underwriting and sponsorship	35,724	120,635
Listing service	14,536	2,935
Total	1,141,509	1,502,656

6 INTEREST INCOME

	Year ended 31 December	
	2017	2016
Financial assets held under resale agreements	483,192	295,872
Margin financing and securities lending	439,562	495,274
Bank deposits	261,070	314,685
Loans and advances to customers	85,609	42,320
Others	90	271
Total	1,269,523	1,148,422

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

7 NET INVESTMENT GAINS

	Year ended 31 December	
	2017	2016
Net gains from disposal of available-for-sale financial assets	98,411	7,369
Dividends and interest income from available-for-sale financial assets	142,958	58,855
Net losses from financial assets held for trading	(267,486)	(88,781)
Dividends and interest income from financial assets held for trading	314,723	373,364
Net losses from derivative financial instruments	(3,242)	(18,902)
Net (losses)/gains from disposal of subsidiaries	(233)	40,981
Net gains from disposal of associates	58,807	–
Dividends and interest income from financial assets designed as at fair value through profit or loss	78,683	17,988
Net gains from financial assets designated as at fair value through profit or loss	6,306	27,078
Net losses from financial liabilities designated as at fair value through profit or loss	(20,582)	(13,466)
Total	408,345	404,486

8 OTHER INCOME AND GAINS

	Year ended 31 December	
	2017	2016
Government grants ⁽¹⁾	21,613	25,408
Rental income	3,527	3,378
Income from physical commodity trading	313,499	26,345
Others	34,478	19,625
Total	373,117	74,756

(1) This item consists of tax incentive and other grants from local governments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

9 COMMISSION AND FEE EXPENSES

	Year ended 31 December	
	2017	2016
Brokerage expenses	211,970	215,442
Underwriting and sponsorship	3,946	13,213
Financial advisory	3,708	12,165
Asset management and fund management	1,387	2,217
Total	221,011	243,037

10 INTEREST EXPENSES

	Year ended 31 December	
	2017	2016
Bonds	343,994	495,991
Financial assets sold under repurchase agreements	315,953	205,939
Due to other financial institutions	48,432	12,313
Bank loans	35,786	11,162
Accounts payable to brokerage clients	34,162	45,214
Short-term notes	28,413	58,323
Securities lending	1,766	1,173
Total	808,506	830,115

11 STAFF COSTS (INCLUDING DIRECTORS' AND SUPERVISORS' REMUNERATION)

	Year ended 31 December	
	2017	2016
Salaries and bonus	479,462	434,777
Pension	111,838	168,838
Other social security benefits	90,813	76,712
Labor union funds and employee education funds	19,042	18,371
Other welfare	15,389	12,588
Total	716,544	711,286

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

11 STAFF COSTS (INCLUDING DIRECTORS' AND SUPERVISORS' REMUNERATION) (CONTINUED)

11.1 Emoluments of the directors and supervisors

Emoluments of the directors and supervisors of the Company paid by the Group (after tax) for the years ended 31 December 2017 and 2016 are set out below:

Name	Year ended 31 December 2017				Total
	Remuneration	Salaries, allowances and other welfares	Pension	Discretionary bonus	
Executive Directors					
Jian Mingjun (Chairman) ⁽¹⁾	-	426	107	833	1,366
Zhou Xiaoquan (President) ⁽²⁾	-	313	76	1,317	1,706
Non-executive Directors					
Yuen Chiwai	210	-	-	-	210
Yuan Dejun	210	-	-	-	210
Ning Jincheng	210	-	-	-	210
Yu Zeyang	-	-	-	-	-
Wang Lixin	31	-	-	-	31
Zhang Qiang	-	-	-	-	-
Li Xingjia	-	-	-	-	-
Yu Xugang	210	-	-	-	210
Zhang Xiaoqi	31	-	-	-	31
Supervisors					
Lu Zhili	-	327	86	688	1,101
Lai Bulian ⁽³⁾	-	-	-	266	266
Zhang Lu ⁽⁴⁾	-	117	20	20	157
Wang Jing	-	189	34	333	556
Han Junyang	-	234	34	345	613
Xiang Siying	100	-	-	-	100
Xie Junsheng	-	-	-	-	-
Yan Changkuan ⁽⁶⁾	-	-	-	-	-
Xia Xiaoning ⁽⁷⁾	100	-	-	-	100
Wang Jinchang	-	-	-	-	-
Total	1,102	1,606	357	3,802	6,867

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

11 STAFF COSTS (INCLUDING DIRECTORS' AND SUPERVISORS' REMUNERATION) (CONTINUED)

11.1 Emoluments of the directors and supervisors (continued)

Name	Year ended 31 December 2016				Total
	Remuneration	Salaries, allowances and other welfares	Pension	Discretionary bonus	
Executive Directors					
Jian Mingjun (Chairman) ⁽¹⁾	–	426	60	–	486
Zhou Xiaoquan (President) ⁽²⁾	–	432	57	–	489
Non-executive Directors					
Yuen Chiwai	210	–	–	–	210
Yuan Dejun	210	–	–	–	210
Ning Jincheng	70	–	–	–	70
Yu Zeyang	15	–	–	–	15
Wang Lixin	31	–	–	–	31
Zhang Qiang	15	–	–	–	15
Li Xingjia	15	–	–	–	15
Yu Xugang	210	–	–	–	210
Zhang Xiaoqi	31	–	–	–	31
Supervisors					
Lu Zhili	–	333	41	–	374
Lai Bulian ⁽³⁾	–	583	10	1,351	1,944
Wang Jing	–	284	19	–	303
Han Junyang	–	240	18	–	258
Xiang Siying	101	–	–	–	101
Xie Junsheng	–	–	–	–	–
Li Jieying ⁽⁵⁾	42	–	–	–	42
Yan Changkuan ⁽⁶⁾	10	–	–	–	10
Xia Xiaoning ⁽⁷⁾	59	–	–	–	59
Cui Yuanfeng ⁽⁸⁾	–	–	–	–	–
Wang Jinchang	11	–	–	–	11
Total	1,030	2,298	205	1,351	4,884

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

11 STAFF COSTS (INCLUDING DIRECTORS' AND SUPERVISORS' REMUNERATION) (CONTINUED)

11.1 Emoluments of the directors and supervisors (continued)

- (1) Chairman Jian Mingjun also acts as president of the Company effective from 11 September 2017.
- (2) Zhou Xiaoquan ceased to be president effective from 6 September 2017.
- (3) Lai Bulian ceased to be employee representative supervisor effective from 16 June 2017.
- (4) Zhang Lu was elected to be employee representative supervisor effective from 16 June 2017.
- (5) Li Jieying ceased to be an independent supervisor effective from 7 January 2016.
- (6) Yan Changkuan ceased to be supervisor effective from 28 December 2017.
- (7) Xia Xiaoning was elected to be independent supervisor effective from 9 May 2016.
- (8) Cui Yuanfeng ceased to be supervisor effective from 20 July 2016.
- (9) During the year 2017, the Group's Non-executive Director Mr. Yu Zeyang, Non-executive Director Mr. Zhang Qiang, Non-executive Director Li Xingjia, Supervisor Mr Xie Junsheng, Supervisor Yan Changkuan and Supervisor Wang Jinchang waived their remuneration arrangements.
- (10) During the year 2016, the Group's Supervisor Mr. Xie Junsheng and Supervisor Mr. Cui Yuanfeng waived their remuneration arrangements.
- (11) The total compensation package for these directors for the year ended 31 December 2017 has not yet been finalised. The amount of the compensation not provided for is not expected to have a significant impact on the Group's financial statements for the year ended 31 December 2017.

11.2 The five highest paid individuals

For the year ended 31 December 2017, the five highest paid individuals do not include any directors (for the year ended 31 December 2016: no directors).

Details of the remuneration (after tax) for the rest of the five highest paid individuals for the relevant years are as follows:

	Year ended 31 December	
	2017	2016
Salaries, allowances and other welfares	2,872	2,679
Pension	142	71
Discretionary bonus	12,165	14,930
Total	15,179	17,680

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

11 STAFF COSTS (INCLUDING DIRECTORS' AND SUPERVISORS' REMUNERATION) (CONTINUED)

11.2 The five highest paid individuals (continued)

The remuneration of the senior management and individuals by range (after tax):

	Year ended 31 December	
	2017	2016
HK\$2,000,001 to HK\$2,500,000	3	–
HK\$2,500,001 to HK\$3,000,000	1	2
HK\$3,000,001 to HK\$3,500,000	–	1
HK\$3,500,001 to HK\$4,000,000	–	1
HK\$8,000,001 to HK\$8,500,000	1	1
Total	5	5

The Group has not provided any compensation to any of these directors, supervisors and the five highest paid individuals as incentive for them to join the Group, reward for joining the Group or for leaving the Group.

12 DEPRECIATION AND AMORTISATION

	Year ended 31 December	
	2017	2016
Depreciation of property and equipment	33,692	32,557
Amortisation of intangible assets	24,022	20,777
Amortisation of leasehold improvement and long-term deferred expenses	12,551	12,063
Depreciation of investment properties	960	895
Total	71,225	66,292

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

13 OTHER OPERATING EXPENSES

	Year ended 31 December	
	2017	2016
Rental expenses	62,393	52,185
Consulting fees	22,069	21,410
Electronic device operating costs	21,212	20,034
Communication costs	20,223	17,333
Travel expenses	17,764	7,257
Business entertainment expenses	16,542	7,038
Tax and surcharges	15,909	57,418
Incidental fees	12,124	7,202
Securities investors protection fund	10,100	17,387
Exchange annual fees	8,802	9,258
Utilities	8,625	9,081
Property fees	8,233	7,399
Publicity expense	7,949	6,590
Advertising expenses	5,929	5,345
Auditors' remuneration		
– Audit services	5,420	4,543
– Non-audit services	284	270
Cost of physical commodity trading	309,506	26,440
Compensation ⁽¹⁾	12,250	–
Others	60,439	50,583
Total	625,773	326,773

(1) As at 31 December 2017, the Company paid RMB12.25 million to investors due to irregular selling of financial products by the Hebi branch manager (Note 55.3 (a)).

14 IMPAIRMENT LOSSES/(REVERSAL)

	Year ended 31 December	
	2017	2016
Margin accounts receivable	50,167	4,097
Financial assets held under resale agreements	9,318	2,328
Loans and advances to customers	8,296	10,537
Available-for-sale financial assets	7,044	(45,083)
Accounts receivable	1,067	1,116
Total	75,892	(27,005)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

15 INCOME TAX EXPENSE

	Year ended 31 December	
	2017	2016
Current tax		
– Mainland China	190,964	155,318
– Hong Kong	15,150	3,336
Deferred tax		
– Mainland China	(47,309)	70,318
– Hong Kong	141	(1,130)
Total	158,946	227,842

The PRC income tax has been provided at the statutory rate of 25%, in accordance with the relevant tax laws in Mainland China during the year. Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the countries/regions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. A reconciliation of the income tax expense applicable to profit before tax at the PRC statutory income tax rate to income tax expense at the Group's effective income tax rate is as follows:

	Year ended 31 December	
	2017	2016
Profit before income tax	680,109	992,530
Tax calculated at applicable statutory tax rate of 25%	170,027	248,133
Effects of different applicable rates of tax prevailing in various regions	(5,429)	(2,549)
Income not subject to tax ⁽¹⁾	(17,725)	(22,699)
Items not deductible for tax purposes ⁽²⁾	8,627	3,529
Others	3,446	1,428
Total	158,946	227,842

(1) The income not subject to tax mainly represents interest income arising from PRC treasury bonds and equity investment dividends, which is income tax free in accordance with the PRC tax regulations.

(2) The items that are not deductible for tax purposes mainly represent marketing and entertainment expenses in excess of the relevant deductible thresholds under the relevant PRC tax regulations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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16 EARNINGS PER SHARE

16.1 Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2017	2016
Profit attributable to shareholders of the Company		
– Continuing operations	441,983	727,807
– Discontinued operations	–	(9,161)
Total	441,983	718,646
Weighted average number of ordinary shares in issue	3,923,735	3,240,995
Basic earnings per share (in RMB yuan)	0.11	0.22
– Continuing operations	0.11	0.23
– Discontinued operations	–	(0.01)

16.2 Diluted earnings per share

For the year ended 31 December 2017 and 2016, there were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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17 DIVIDENDS

Under the “Company Law” of the PRC and the Company’s Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

- (i) Making up cumulative losses from prior years, if any;
- (ii) 10% and 5% of the Company’s profit is appropriated to the non-distributable statutory surplus reserve and discretionary surplus reserve;
- (iii) 11% of the Company’s profit is appropriated to the non-distributable general reserve;
- (iv) 10% of the Company’s profit is appropriated to the non-distributable transaction risk reserve;
- (v) Appropriations to the discretionary reserve with approval from the General Meetings of Shareholders. These funds form part of the shareholders’ equity.

The 2016 profit distribution was approved in the 2016 annual general shareholders’ meeting held on 22 May 2017 in Zhengzhou. Total dividend of RMB474,771,899 was declared and paid out as of 31 December 2017 (RMB0.12 per share, tax inclusive).

The 2017 interim profit distribution was approved in the 2017 first extraordinary general shareholders’ meeting held on 16 October 2017 in Zhengzhou. Total dividend of RMB286,432,633 was declared and paid out as of 31 December 2017 (RMB0.07 per share, tax inclusive).

In accordance with the relevant regulations, upon the occurrence of certain events, the net profit after tax of the Group for the purpose of profit distribution is deemed to be the lesser of (i) the retained profits determined in accordance with PRC Accounting Standards and (ii) the retained profit determined in accordance with IFRSs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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18 PROPERTY AND EQUIPMENT

	Buildings	Motor vehicles	Electronics and other equipment	Construction in progress	Total
Cost					
1 January 2017	176,670	27,725	319,453	4,051	527,899
Additions	-	1,768	25,498	3,491	30,757
Transfer from investment properties (Note 19)	219	-	-	-	219
Disposals	-	(3,470)	(14,939)	-	(18,409)
Exchange difference	-	(92)	(87)	-	(179)
31 December 2017	176,889	25,931	329,925	7,542	540,287
Accumulated depreciation					
1 January 2017	(42,635)	(19,691)	(223,488)	-	(285,814)
Additions	(4,574)	(1,884)	(27,132)	-	(33,590)
Transfer from investment properties (Note 19)	(102)	-	-	-	(102)
Disposals	-	3,330	14,041	-	17,371
Exchange difference	-	21	34	-	55
31 December 2017	(47,311)	(18,224)	(236,545)	-	(302,080)
Carrying amount					
31 December 2017	129,578	7,707	93,380	7,542	238,207

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

18 PROPERTY AND EQUIPMENT (CONTINUED)

	Buildings	Motor vehicles	Electronics and other equipment	Construction in progress	Total
Cost					
1 January 2016	180,155	27,496	296,920	543	505,114
Additions	–	271	41,425	3,508	45,204
Transfer to investment properties (Note 19)	(3,485)	–	–	–	(3,485)
Disposals	–	(131)	(18,945)	–	(19,076)
Exchange difference	–	89	53	–	142
31 December 2016	176,670	27,725	319,453	4,051	527,899
Accumulated depreciation					
1 January 2016	(38,857)	(17,589)	(212,572)	–	(269,018)
Additions	(4,640)	(2,216)	(25,701)	–	(32,557)
Transfer to investment properties (Note 19)	862	–	–	–	862
Disposals	–	124	14,803	–	14,927
Exchange difference	–	(10)	(18)	–	(28)
31 December 2016	(42,635)	(19,691)	(223,488)	–	(285,814)
Carrying amount					
31 December 2016	134,035	8,034	95,965	4,051	242,085

For the year ended 31 December 2017 and 2016, gain or loss from disposal of property and equipment was not significant.

All buildings of the Group are located in mainland China.

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19 INVESTMENT PROPERTIES

	1 January 2017	Transfer in (Note 18)	Transfer out (Note 18)	Additions	31 December 2017
Buildings	39,708	–	(219)	–	39,489
Accumulated depreciation	(16,755)	–	102	(960)	(17,613)
Carrying amount	22,953				21,876

	1 January 2016	Transfer in (Note 18)	Transfer out (Note 18)	Additions	31 December 2016
Buildings	36,223	3,485	–	–	39,708
Accumulated depreciation	(14,998)	(862)	–	(895)	(16,755)
Carrying amount	21,225				22,953

20 GOODWILL

Goodwill of the Group arose from its acquisition of Yuliang Futures Brokerage Co., Ltd. (later renamed to Central China Futures Co., Ltd.) on 12 October 2007 and Pan Asia Corporate Finance Limited (later renamed to Central China Finance Holdings Limited) on 16 February 2016.

The recoverable amount is determined based on the value in use derived from the present value of expected future cash flows. No impairment provision is provided because the recoverable amount exceeds the carrying amount.

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21 LAND USE RIGHTS AND INTANGIBLE ASSETS

	Land use rights	Software	Trading rights and others	Total
Cost				
1 January 2017	105,480	145,064	34,666	285,210
Increases	–	32,480	433	32,913
Decreases	–	(550)	–	(550)
Exchange difference	–	(17)	(45)	(62)
31 December 2017	105,480	176,977	35,054	317,511
Accumulated amortisation				
1 January 2017	(7,252)	(88,744)	(33,655)	(129,651)
Increases	(2,637)	(21,273)	(112)	(24,022)
Decreases	–	541	–	541
Exchange difference	–	11	–	11
31 December 2017	(9,889)	(109,465)	(33,767)	(153,121)
Net carrying amount				
31 December 2017	95,591	67,512	1,287	164,390

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21 LAND USE RIGHTS AND INTANGIBLE ASSETS (CONTINUED)

	Land use rights	Software	Trading rights and others	Total
Cost				
1 January 2016	105,480	125,086	34,638	265,204
Increases	–	20,337	–	20,337
Decreases	–	(376)	–	(376)
Exchange difference	–	17	28	45
31 December 2016	105,480	145,064	34,666	285,210
Accumulated amortisation				
1 January 2016	(4,615)	(71,132)	(33,496)	(109,243)
Increases	(2,637)	(17,981)	(159)	(20,777)
Decreases	–	376	–	376
Exchange difference	–	(7)	–	(7)
31 December 2016	(7,252)	(88,744)	(33,655)	(129,651)
Net carrying amount				
31 December 2016	98,228	56,320	1,011	155,559

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22 INVESTMENTS IN ASSOCIATES

Details of investments in associates are as follow:

	31 December 2017	31 December 2016
Balance at beginning of the year	370,422	91,864
Capital contribution	273,620	265,850
Transfer to held for sale	(13,188)	–
Transfer to consolidate structured entities	(14,730)	–
Disposal	(129,830)	–
Share of profit	6,566	12,708
Balance at end of the year	492,860	370,422

The investment in associates are mainly composed of those invested by Zhongding Kaiyuan Venture Capital Management Co., Ltd., Henan Zhongyuan Kechuang Venture Capital Investment Fund (limited partnership) and Central China Blue Ocean Investment Management Co., Ltd., these are subsidiaries of the Company registered in Mainland China.

22.1 Particulars of the Group's major investments in associates

An analysis of the major investments in associates is as follows:

Name of associates	Place of registration	Registered capital	Principal activities	Percentage of equity interest held by the Group
Henan Shengtongjuyuan Venture Capital Fund (limited partnership)	Zhengzhou	423,500	Non-securities equity investment	19.98%
Henan Zhongping Finance and Guaranty Co., Ltd.	Zhengzhou	200,000	Guarantee business	25.00%
Henan Longfengshan Agriculture and Animal Husbandry Co., Ltd.	Zhumadian	124,930	Cultivation	3.93%
Tangyin County Innovation Industry Investment Fund (limited partnership)	Anyang	100,000	Non-securities equity investment	40.00%
Minquan County Innovation Industry Investment Fund (limited partnership)	Shangqiu	100,000	Non-securities equity investment	40.00%

The Group has a significant influence over these associates as it has seats in the Board of Directors.

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(All amounts in RMB'000 unless otherwise stated)

22 INVESTMENTS IN ASSOCIATES (CONTINUED)

22.2 Financial information of the Group's investments in associates

The following table illustrates the aggregate financial information of the Group's associates that are not individually material.

	31 December 2017	31 December 2016
Profit from continuing operations	6,566	12,708
Total comprehensive income	6,566	12,708

23 SUBSIDIARIES AND CONSOLIDATED STRUCTURED ENTITIES

23.1 General information

The following is information of major subsidiaries and consolidated structured entities of the Group as at 31 December 2017. Unless specifically stated, the equity interests in these subsidiaries were all ordinary shares and directly or indirectly held by the Group, and the percentage of ownership held by the Group represented the voting rights of the Group. The registered addresses were also their business locations.

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23 SUBSIDIARIES AND CONSOLIDATED STRUCTURED ENTITIES

(CONTINUED)

23.1 General information (continued)

Name of subsidiary and consolidated structured entities	Place of incorporation and type of legal entity	Principal activities and place of operation	Registered capital	Equity interest held by the Group		Directly held/indirectly held
				31 December 2017	31 December 2016	
Central China Futures Co., Ltd. ("CCF")	Zhengzhou, PRC, company limited	Futures brokerages in Mainland China	330,000	51.36%	51.36%	Direct
Zhongding Kaiyuan Entrepreneurial Investment Management Co., Ltd. ("ZDKY") ⁽¹⁾	Beijing, PRC, limited liability company	Investment holding in Mainland China	2,000,000	100.00%	64.86%	Direct
Central China International Financial Holdings Co., Ltd. ("CCIFHC")	Hong Kong, PRC, limited liability company	Investment management, fund management in Hong Kong	500,000 (HKD)	100.00%	100.00%	Direct
Central China Blue Ocean Investment Management Co., Ltd. ("CCBO") ⁽²⁾	Xuchang, PRC, limited liability company	Fund management in Mainland China	3,000,000	100.00%	100.00%	Direct
Central China Equity Exchange Co., Ltd. ("CCEEC") ⁽³⁾	Zhengzhou, PRC, limited liability company	Investment management in Mainland China	350,000	35.00%	35.00%	Direct
"Yanhuang No. 2" ⁽⁴⁾	Zhengzhou, PRC, structured entity	Asset management in Mainland China	30,355	11.37%	12.78%	Direct
"Xincheng No. 1"	Zhengzhou, PRC, structured entity	Asset management in Mainland China	30,010	100.00%	100.00%	Indirect

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23 SUBSIDIARIES AND CONSOLIDATED STRUCTURED ENTITIES

(CONTINUED)

23.1 General information (continued)

Name of subsidiary and consolidated structured entities	Place of incorporation and type of legal entity	Principal activities and place of operation	Registered capital	Equity interest held by the Group		Directly held/ indirectly held
				31 December 2017	31 December 2016	
Henan Zhongyuan Kechuang Venture Capital Investment Fund (Limited partnership) ⁽⁴⁾	Zhengzhou, PRC, limited partnership	Non-securities brokerage and consulting in Mainland China	500,000	50.00%	32.43%	Indirect
Henan Zhongzheng Kaiyuan Venture Capital Fund (Limited partnership) ⁽⁴⁾	Luoyang, PRC, limited partnership	Asset management in Mainland China	110,000	11.45%	11.45%	Indirect
Anyang Purun High-Tech Industry Investment Fund (Limited partnership) ⁽⁴⁾	Zhengzhou, PRC, limited liability company	Asset management in Mainland China	100,000	9.10%	9.10%	Indirect
Henan Kaiyuan CSI Yuchai Agricultural Venture Capital Fund (Limited partnership) ⁽⁴⁾	Zhengzhou, PRC, limited liability company	Asset management in Mainland China	100,000	16.10%	0.00%	Indirect

(1) In June 2017, the registered capital of ZDKY decreased from RMB1,380 million to RMB895 million due to the withdrawal by non-controlling shareholders. In November 2017, the registered capital of ZDKY increased from RMB895 million to RMB2,000 million.

(2) In 2017, the Company made additional investment of RMB1,996 million to CCBO. As at 31 December 2017, the registered Capital of CCBO increased from RMB500 million to RMB3,000 million, and the paid-in capital increased from RMB330 million to RMB2,326 million.

(3) CCEEC was founded in 2015. The Company and other three investors signed agreement to acting in concert by which the Company can control 51% equity interest.

(4) According to the investment contract, the Company considers it has control over this entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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23 SUBSIDIARIES AND CONSOLIDATED STRUCTURED ENTITIES

(CONTINUED)

23.1 General information (continued)

The Group acts as asset manager for or invested in a number of structured entities. Management makes significant judgment on whether the Group controls and therefore should consolidate these structured entities.

Management has determined that the Group has control of certain structured entities based on their assessment of the Group's power over, its exposure to variable returns from its involvement with, and its ability to use its power to affect the amount of its returns from these structured entities. As at 31 December 2017, 11 of the controlled structured entities have been consolidated (31 December 2016: 8).

The identifiable assets and liabilities of the structured entities and limited partnerships listed above are as follows:

	31 December 2017	31 December 2016
Current assets	370,108	1,509,443
Non-current assets	10	1,230
Total assets	370,118	1,510,673
Current liabilities	361,726	1,504,472
Non-current liabilities	1,099	817
Total liabilities	362,825	1,505,289

The operating results of the structured entities listed above for the year 2017 and 2016 are as follows:

	Year ended 31 December	
	2017	2016
Revenue	(42,924)	6,199
Profit for the year	(35,385)	5,165

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24 OTHER NON-CURRENT ASSETS

	31 December 2017	31 December 2016
Leasehold improvements (Note 24.1)	28,545	19,205
Long-term deferred expenses	1,725	2,020
Total	30,270	21,225

24.1 Leasehold improvements

Leasehold improvements of the Group is amortised over the expected beneficial period.

	31 December 2017	31 December 2016
Balance at beginning of year	19,205	22,259
Additions	21,055	8,224
Amortisation	(11,738)	(11,204)
Exchange difference	23	(74)
Balance at end of year	28,545	19,205

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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25 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Non-current assets

	31 December 2017	31 December 2016
At fair value		
Debt securities	809,322	60,000
Targeted asset management schemes	427,909	–
Trust schemes	350,000	–
Specified asset management schemes ⁽¹⁾	209,839	310,639
Investment funds	111,651	2,044
Collective asset management schemes	93,765	131,430
Less: impairment allowance ⁽¹⁾	(46,779)	(55,655)
Subtotal	1,955,707	448,458
At cost		
Investments in unlisted companies	229,456	60,458
Less: impairment allowance	(2,377)	(2,377)
Subtotal	227,079	58,081
Total	2,182,786	506,539
Analysed as		
Listed outside Hong Kong	695,416	–
Listed in Hong Kong	50,448	–
Unlisted	1,486,078	564,571
Less: impairment allowance	(49,156)	(58,032)
Total	2,182,786	506,539

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

25 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

Current assets

	31 December 2017	31 December 2016
At fair value		
Debt securities	198,304	–
Equity securities	170,947	252,241
Trust schemes	165,000	–
Collective asset management schemes	123,486	140,870
Specified asset management schemes ⁽¹⁾	99,033	79,960
Investment funds	39,650	25,984
Wealth management products	–	158,000
Targeted asset management schemes	–	100,000
Others ⁽²⁾	–	1,334,560
Less: impairment allowance ⁽¹⁾	(30,736)	(14,816)
Total	765,684	2,076,799
Analysed as		
Listed outside Hong Kong	286,331	1,501,915
Listed in Hong Kong	86,945	98,733
Unlisted	423,144	490,967
Less: impairment allowance	(30,736)	(14,816)
Total	765,684	2,076,799

(1) As at 31 December 2017, the Group set aside an impairment allowance of RMB70.45 million for the Da Cheng Xi Yellow River Bridge specified asset management scheme based on independent valuation (31 December 2016: RMB70.45 million).

(2) Others mainly included the investment portfolio, managed by China Securities Finance Corporation Limited (“CSF”), which was jointly invested by the Company and other securities companies. On 1 September 2015, the Group made investment with total amount of RMB1,323.45 million. Under the investment agreement, the Company and other joint investors share the income/loss based on contribution. As at 31 December 2017, all investment in this portfolio has been returned from CSF (31 December 2016: cost of RMB1,323.45 million, and fair value at RMB1,344.56 million).

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25 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

Current assets (continued)

As at 31 December 2017, available-for-sale financial assets of the Group included securities lent to clients amounted to RMB4.02 million (31 December 2016: RMB11.86 million).

As at 31 December 2017, the available-for-sale financial assets of CCIFHC consisted of RMB65.59 million securities, which had been pledged with the Hong Kong branch of Bank of Communications Co., Ltd. as collateral of its bank loans (Note 44). In addition to the above, the Group has RMB702.29 million securities used as collateral (31 December 2016: RMB69.31 million).

Those "listed outside Hong Kong" include securities and investment funds traded in PRC's interbank bond markets, Shanghai and Shenzhen Stock Exchanges, and National Equities Exchange and Quotations.

26 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

Non-current assets

	31 December 2017	31 December 2016
Analysed by asset type:		
Convertible bonds	361,991	403,989
Investments in unlisted companies	312,093	–
Total	674,084	403,989
Analysed by market:		
Unlisted	674,084	403,989
Total	674,084	403,989

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

26 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Current assets

	31 December 2017	31 December 2016
Analysed by asset type:		
Convertible bonds	381,994	89,451
Others	445,479	21,379
Total	827,473	110,830
Analysed by market:		
Unlisted	827,473	110,830
Total	827,473	110,830

The convertible bonds held by the Group are hybrid financial instruments, which are designated as financial assets at fair value through profit or loss with a fair value of RMB743.99 million (31 December 2016: RMB493.44 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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27 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

Non-current assets

	31 December 2017	31 December 2016
Analysed by asset type:		
Equity securities	1,107,400	678,400
Less: Impairment provision	(3,791)	(1,696)
Total	1,103,609	676,704
Analysed by market:		
Shenzhen Stock Exchange	689,400	678,400
Shanghai Stock Exchange	418,000	–
Less: Impairment provision	(3,791)	(1,696)
Total	1,103,609	676,704

Current assets

	31 December 2017	31 December 2016
Analysed by asset type:		
Equity securities	3,714,178	2,028,976
Debt securities	4,401,887	3,211,450
Less: Impairment provision	(12,657)	(5,434)
Total	8,103,408	5,234,992
Analysed by market:		
Interbank market	3,887,658	3,048,951
Shenzhen Stock Exchange	3,125,406	1,039,399
Shanghai Stock Exchange	977,614	928,448
Hong Kong Stock Exchange	125,387	223,628
Less: Impairment provision	(12,657)	(5,434)
Total	8,103,408	5,234,992

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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27 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(CONTINUED)

Current assets (continued)

Collateral held by the Group as part of its resale agreements may be placed again as collateral in the absence of default by any party involved, and the Group is obligated to return the assets to its counterparties upon maturity of the contracts. As at 31 December 2017, the fair value of securities of the Group which have been pledged as collateral were RMB3,069.18 million (31 December 2016: RMB2,393.76 million).

One agreement with stock collateral of RMB128.96 million was overdue 10 days as at 31 December 2017. The directors of the Company, taking into consideration of the value of collateral, concluded that the remaining amount can be fully recovered and no provision is recognised as of 31 December 2017 (31 December 2016: RMB121.10 million).

28 LOANS AND ADVANCES TO CUSTOMERS

Non-current assets

	31 December 2017	31 December 2016
Loans	450,000	–
Entrusted loans	–	25,000
Less: Impairment allowance	(4,500)	(250)
Total	445,500	24,750

Current assets

	31 December 2017	31 December 2016
Loans	778,000	–
Entrusted loans	65,336	508,304
Less: Impairment allowance	(16,966)	(12,920)
Total	826,370	495,384

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28 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Current assets (continued)

Entrusted loans represent the Group's lending to third parties via domestic commercial banks in Mainland China, with interest rates ranging from 8.00% to 13.50% per annum. In 2017, Henan Zhongyuan Micro-credit Co., Ltd. ("HZMC") began carrying out the loan business, and the interest rates range from 9.00% to 17.00% per annum.

29 DEFERRED INCOME TAX ASSETS AND LIABILITIES

29.1 Deferred income tax assets

The movements in deferred income tax assets during the years are as follows:

	Provision for asset impairment	Employee benefits payable	Changes in fair value of available-for-sale financial assets	Change in fair value of financial assets measured at fair value through profit or loss	Accrual and others	Total
As at 1 January 2016	44,000	157,049	16	-	8,270	209,335
Debited/(Credited) to the statement of profit or loss	(10,032)	(82,907)	-	-	1,549	(91,390)
(Credited) to other comprehensive income	-	-	(16)	-	-	(16)
As at 31 December 2016	33,968	74,142	-	-	9,819	117,929
Debited to the statement of profit or loss	11,725	9	-	23,084	6,074	40,892
Debited to other comprehensive income	-	-	2,657	-	-	2,657
Exchange difference	-	-	-	-	(136)	(136)
As at 31 December 2017	45,693	74,151	2,657	23,084	15,757	161,342

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29 DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

29.2 Deferred income tax liabilities

The movements in deferred income tax liabilities during the years are as follows:

	Changes in fair value of available-for-sale financial assets	Change in fair value of financial assets measured at fair value through profit or loss	Changes in fair value of derivatives	Others	Total
As at 1 January 2016	(12,012)	(21,690)	(182)	(15,273)	(49,157)
Debited to the statement of profit or loss	-	19,585	115	2,502	22,202
Credited to other comprehensive income	(1,803)	-	-	-	(1,803)
Exchange difference	-	-	-	51	51
As at 31 December 2016	(13,815)	(2,105)	(67)	(12,720)	(28,707)
Debited/(Credited) to the statement of profit or loss	-	(4,468)	11	10,733	6,276
Debited to other comprehensive income	12,071	-	-	-	12,071
As at 31 December 2017	(1,744)	(6,573)	(56)	(1,987)	(10,360)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The net movements on the deferred income tax account are as follows:

	31 December 2017	31 December 2016
Balance at beginning of the year	89,222	160,178
Debited/(Credited) to the statement of profit or loss	47,168	(69,188)
Debited/(Credited) to other comprehensive income (Note 42)	14,728	(1,819)
Exchange difference	(136)	51
Balance at end of the year	150,982	89,222

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30 REFUNDABLE DEPOSITS

	31 December 2017	31 December 2016
Deposits to Stock Exchanges		
– Shanghai Stock Exchange	29,376	37,544
– Shenzhen Stock Exchange	17,071	23,385
– Hong Kong Exchange	407	–
– National Equities Exchange and Quotations	1,549	969
Deposits to Futures and Commodities Exchanges		
– China Financial Futures Exchange	37,211	117,018
– Shanghai Futures Exchange	73,734	128,204
– Zhengzhou Commodities Exchange	31,450	40,460
– Dalian Commodities Exchange	31,629	66,672
Deposits to CSF	38,399	75,826
Total	260,826	490,078

31 OTHER CURRENT ASSETS

	31 December 2017	31 December 2016
Interest receivable	449,077	397,345
Accounts receivable	104,032	46,923
Other receivables	110,170	119,245
Others	52,033	51,210
Less: Impairment allowance	(31,835)	(30,768)
Total	683,477	583,955

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31 OTHER CURRENT ASSETS (CONTINUED)

31.1 Interest receivable

	31 December 2017	31 December 2016
Margin financing, securities lending and financial assets held under resale agreements	304,633	237,669
Bonds	134,307	134,706
Asset management schemes	–	16,115
Others	10,137	8,855
Total	449,077	397,345

31.2 Accounts receivable

The aging analysis of accounts receivable is as follows:

	31 December 2017		31 December 2016	
	Amount	Impairment allowance	Amount	Impairment allowance
Up to 1 year	88,828	(453)	42,510	(502)
1 to 3 years	15,204	(3,120)	4,413	(2,924)
Total	104,032	(3,573)	46,923	(3,426)

32 INVESTMENT CLASSIFIED AS RECEIVABLES

On 31 December 2017, the value of investment classified as receivables held by the Group is HKD100 million, equivalent to RMB83.59 million. The financial asset is note issued by China Tianrui Cement Co., LTD., which bears the interest of 10% per annum and will be due on 21 December 2018.

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33 MARGIN ACCOUNTS RECEIVABLE

	31 December 2017	31 December 2016
Margin Accounts Receivable		
– Individuals	5,992,480	5,953,677
– Institutions	425,148	180,078
Subtotal	6,417,628	6,133,755
Less: allowance for impairment losses	(64,657)	(14,490)
Total	6,352,971	6,119,265

As at 31 December 2017, the Group received collateral with fair value amounted to RMB18,554.28 million (31 December 2016: RMB15,383.06 million) in margin financing business.

As at 31 December 2017, two margin accounts receivable was overdue, with amount of HKD69.25 million, equivalent to RMB57.89 million. The Group set aside an impairment allowance of HKD53.25 million, equivalent to RMB44.51 million.

34 DUE FROM OTHER FINANCIAL INSTITUTIONS

As at 31 December 2017, the balance of due from other financial institutions of the Group represented placements to The Great Wall National Rui Securities Co., Ltd., bearing interest rate of 7.00% per annum (31 December 2016: Nil).

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35 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

The derivative financial assets and liabilities of the Group mainly represent stock options, stock index futures contracts, the commodity futures contracts and options. The Group settles its futures gains or losses on a daily basis, with the corresponding receipts and payments as at 31 December 2017 and 2016 included in "clearing settlement funds".

	31 December 2017		31 December 2016	
	Contractual value	Fair value	Contractual value	Fair value
Stock index futures	22,084	–	49,596	–
Commodity futures	15,067	–	219	–
Stock options	886	(471)	186	(132)
Options	557,138	59,938	–	–
Net position		59,467		(132)

36 FINANCIAL ASSETS HELD FOR TRADING

	31 December 2017	31 December 2016
Debt securities	4,873,472	5,739,835
Investment funds	588,576	863,728
Equity securities	658,898	822,911
Others	–	95,803
Total	6,120,946	7,522,277
Analysed as:		
Listed outside Hong Kong	5,529,079	7,425,469
Listed in Hong Kong	25,601	–
Unlisted	566,266	96,808
Total	6,120,946	7,522,277

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36 FINANCIAL ASSETS HELD FOR TRADING (CONTINUED)

As at 31 December 2017, the fair value of securities of the Group which have been pledged as collateral were RMB3,743.93 million (31 December 2016: RMB3,530.71 million).

Those "listed outside Hong Kong" include securities and investment funds traded in the PRC's interbank bond markets, Shanghai and Shenzhen Stock Exchanges, and National Equities Exchange and Quotations.

37 CLEARING SETTLEMENT FUNDS

	31 December 2017	31 December 2016
Clearing settlement funds held for clients	2,142,751	2,823,467
Proprietary clearing settlement funds	207,465	273,490
Total	2,350,216	3,096,957

38 CASH HELD FOR BROKERAGE CLIENTS

The Group maintains separate banking accounts with banks and authorised institutions for clients' monies arising from the normal course of business. The Group records these monies as cash held for brokerage clients under current assets, and recognise them as due to clients given that they are held liable for any loss or miss-appropriation of these monies. Cash held for brokerage clients for their transaction and settlement purposes is subject to regulatory oversight by third-party depository institutions as per CSRC regulations.

39 CASH AND BANK BALANCES

	31 December 2017	31 December 2016
Cash on hand	545	659
Deposits in banks	2,791,533	4,369,080
Total	2,792,078	4,369,739

As at 31 December 2017, the amount of restricted cash and bank deposits is RMB0.45 million (31 December 2016: RMB3.55 million).

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40 ASSETS CLASSIFIED AS HELD FOR SALE

The assets related to Taiping Fund Management Co., Ltd., a 8.5% owned investment in associate of the Company, had been presented as held for sale as at 31 December 2017. The Board of Directors of the Company made a disposal decision of Taiping Fund Management Co., Ltd. in September 2017.

41 SHARE CAPITAL

All shares issued by the Company are fully paid common shares, with a notional value of RMB1 per share. The number of shares and nominal value of the Company's share capital are as follows:

	31 December 2017	31 December 2016
Issued and fully paid ordinary shares of RMB1.00 each		
– Domestic shares	2,673,706	2,673,706
– H shares	1,250,029	1,250,029
Total	3,923,735	3,923,735
Share Capital		
– Domestic shares	2,673,706	2,673,706
– H shares	1,250,029	1,250,029
Total	3,923,735	3,923,735

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42 RESERVES

42.1 Capital reserve

Capital reserve primarily includes share premium arising from the issuance of new shares at prices in excess of par value.

42.2 Surplus reserve

Pursuant to the PRC Company Law, the Company's Articles of Association and resolutions of the Board, the Company is required to appropriate 10% of its profit net of the previous years' losses to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, statutory surplus reserve may be used to offset accumulated losses, or converted into capital of the Company, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before the capitalisation.

42.3 General reserve and transaction risk reserve

In accordance with the requirements of the CSRC Circular regarding the Annual Reporting of Securities Companies in 2007 (Zhengjian Jigou Zi [2007] No.320) issued on 18 December 2007, the Company appropriates 11% of its annual net profit to the general risk reserve.

In accordance with the requirements of the CSRC Circular regarding the Annual Reporting of Securities Companies in 2007 (Zhengjian Jigou Zi [2007] No.320) issued on 18 December 2007 and in compliance with the Securities Law, for the purpose of covering potential securities trading losses, the Company appropriates 10% from its annual net profit to the transaction risk reserve.

42.4 Foreign currency translation reserve

The foreign currency translation reserve represents the exchange difference arising from the translation of the financial statements of the subsidiaries incorporated outside Mainland China with functional currencies other than RMB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

42 RESERVES (CONTINUED)

42.5 Available-for-sale financial assets revaluation reserve

Fair value changes of available-for-sale financial assets for other comprehensive income are as below:

	Pre-tax amount	Income tax effect <i>(Note 29)</i>	After-tax net amount
As at 1 January 2017	52,407	(13,815)	38,592
Changes in fair value for available-for-sale financial assets	(27,530)	6,025	(21,505)
Changes in fair value reclassified from equity to profit or (loss)			
– Impairment	7,060	(1,765)	5,295
– Disposal	(41,873)	10,468	(31,405)
As at 31 December 2017	(9,936)	913	(9,023)
As at 1 January 2016	44,420	(11,996)	32,424
Changes in fair value for available-for-sale financial assets	(1,288)	(426)	(1,714)
Changes in fair value reclassified from equity to profit or (loss)			
– Impairment	10,895	(1,798)	9,097
– Disposal	(1,620)	405	(1,215)
As at 31 December 2016	52,407	(13,815)	38,592

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

43 BONDS PAYABLE

Non-current liabilities

	31 December 2017	31 December 2016
Corporate bonds	1,496,635	1,494,299
Subordinated bonds	5,000,000	4,000,000
Total	6,496,635	5,494,299

Current liabilities

	31 December 2017	31 December 2016
Subordinated bonds	1,500,000	3,399,755

On 25 July 2017, the Group issued RMB1.50 billion three-year subordinated bonds at par value, paying annual interest at 5.15%.

On 16 November 2017, the Group issued RMB1.00 billion three-year subordinated bonds at par value, paying annual interest at 5.49%.

Corporate bond of the Company pay annual interest rates of 6.20%. The term of the corporate bonds is five years, with the issuer's option to raise interest rate and the investors' put option at the end of the third year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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44 BANK LOANS

The bank loans amounted to HKD1,087.55 million are overseas loans under domestic bank guarantee, equivalent to RMB909.09 million, which were borrowed by CCIFHC. The bank loans pay interest rate at Hong Kong Interbank Offered Rate (the "HIBOR") plus 1.30% to 1.45% per annum.

The bank loans amounted to HKD1,286.75 million are overseas fiduciary loans and collateral loans, equivalent to RMB1,075.61 million, which were borrowed by CCIFHC and CCISC. The bank loans pay interest rate at HIBOR plus 1.60% to 3.00% per annum.

The bank loans amounted to RMB200.00 million are loans borrowed from domestic banks, which were borrowed by HZMC. The bank loans pays interest rate at 4.79% to 6.09% per annum.

45 OTHER CURRENT LIABILITIES

	31 December 2017	31 December 2016
Salaries, bonus, allowances and benefits (<i>Note 45.1</i>)	422,504	472,060
Interest payable	218,265	354,923
Accounts payable	210,081	207,332
Other payables	53,233	45,790
Others	33,848	27,639
Total	937,931	1,107,744

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

45 OTHER CURRENT LIABILITIES (CONTINUED)

45.1 Salaries, bonus, allowances and benefits

	1 January 2017	Current year charge	Current year payment	31 December 2017
Salaries and bonus	399,815	479,462	(532,257)	347,020
Pension	–	111,838	(111,589)	249
Other social security contributions	–	90,813	(90,647)	166
Labour union funds and employee education funds	70,554	19,042	(16,216)	73,380
Other welfare	1,691	15,389	(15,391)	1,689
Total	472,060	716,544	(766,100)	422,504

	1 January 2016	Current year charge	Current year payment	31 December 2016
Salaries and bonus	599,377	434,777	(634,339)	399,815
Pension	39,988	168,838	(208,826)	–
Other social security contributions	68	76,712	(76,780)	–
Labour union funds and employee education funds	68,435	18,371	(16,252)	70,554
Other welfare	3,165	12,588	(14,062)	1,691
Total	711,033	711,286	(950,259)	472,060

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

46 FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

In the consolidated financial statements, the financial liabilities arising from consolidation of structured entities (the "SEs") are designated as at fair value through profit or loss by the Group because of the Group has the obligation to pay other investors upon maturity dates of the SEs based on net book value and the related terms of those schemes (Note 3.2.6).

	31 December 2017	31 December 2016
Asset management schemes	21,241	926,217
Limited partnership	340,177	281,960
Total	361,418	1,208,177

47 TAX PAYABLE

	31 December 2017	31 December 2016
Corporate income tax	80,673	80,722
Value added tax	6,786	8,247
Individual income tax withheld	4,441	4,899
Others	1,279	2,607
Total	93,179	96,475

48 SHORT-TERM NOTES PAYABLE

	31 December 2017	31 December 2016
Beneficiary certificates	1,363,870	410,000

As at 31 December 2017, the annual interest rates on the short-term notes payable were in the range of 4.20% to 5.30%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

49 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	31 December 2017	31 December 2016
Analysed by asset type:		
Debt securities	7,084,879	5,607,979
Margin accounts receivable	200,000	–
Total	7,284,879	5,607,979
Analysed by market:		
Interbank market	6,611,879	4,969,079
Shanghai Stock Exchange	473,000	638,900
Others	200,000	–
Total	7,284,879	5,607,979
Analysed by transaction type:		
Pledged	3,721,057	2,088,850
Sold	3,563,822	3,519,129
Total	7,284,879	5,607,979

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

49 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS (CONTINUED)

The value of the financial assets held for trading and financial assets held under resale agreements that had been placed as financial assets sold under repurchase agreements of the Group was listed as below:

	31 December 2017	31 December 2016
Pledged		
Financial assets held for trading	1,877,967	1,836,036
Financial assets held under resale agreements	856,901	414,316
Available-for-sale financial assets	523,954	–
Securities lending	438,851	88,077
Subtotal	3,697,673	2,338,429
Sold		
Financial assets held for trading	953,307	1,375,806
Financial assets held under resale agreements	2,212,279	1,979,440
Securities lending	414,164	259,889
Subtotal	3,579,750	3,615,135
Total	7,277,423	5,953,564

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

50 DUE TO OTHER FINANCIAL INSTITUTIONS

As at 31 December 2017, RMB900 million of the balance represented placements from CSF, bearing the interest rate at 5.10% per annum. RMB115 million of the balance represented placements from Zhejiang Deqing Rural Commercial Bank and Huzhou Wuxing Rural Commercial Bank, bearing interest rates from 2.95% to 3.49% per annum (31 December 2016: 400 million, with interest rates 3.20% per annum).

51 ACCOUNTS PAYABLE TO UNDERWRITING CLIENTS

As at 31 December 2017, the Company acted as the underwriter of Xiping Municipal Bond (“西平城投债”) issued by Xiping County Industrial Agglomeration Area Investment and Financing Co., LTD., raising funds of RMB434.4 million (31 December 2016: Nil).

52 ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

Accounts payable to brokerage clients mainly include money held for clients placed at banks and at clearing houses by the Group, and are interest bearing at the prevailing market interest rates.

The majority of the accounts payable balances are repayable on demand except where certain balances represent margin deposits and cash collateral received from clients for their trading activities under the normal course of business. Only the excess amounts over the required margin deposits and cash collateral stipulated are repayable on demand.

As at 31 December 2017, cash collateral received from clients for margin financing and securities lending arrangements amounted to RMB701.19 million (31 December 2016: RMB942.00 million), and are included in the Group's accounts payable to brokerage clients.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

53 CASH AND CASH EQUIVALENTS

For the purpose of statements of cash flows, cash and cash equivalents include amounts that can be used to meet short-term cash commitments.

	31 December 2017	31 December 2016
Cash on hand	545	659
Deposits in banks	2,791,533	4,369,080
Proprietary clearing settlement funds (Note 37)	207,465	273,490
Total	2,999,543	4,643,229

53.1 Reconciliation of financing liabilities

This section sets out an analysis of net debt and the movements in net debt for period presented.

	Bonds payable due within 1 year	Bonds payable due within 1 year	Borrow due within 1 year	Borrow due after 1 year	Total
Net debt as at 31 December 2016	(3,809,755)	(5,494,299)	(661,119)	(55,327)	(10,020,500)
Cash flows	946,130	(1,000,000)	(1,523,584)	55,327	(1,522,127)
Other non-cash movements	(245)	(2,336)	-	-	(2,581)
Net debt as at 31 December 2017	(2,863,870)	(6,496,635)	(2,184,703)	-	(11,545,208)

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54 TRANSFERRED FINANCIAL ASSETS

In the normal course of business, the Group enters into certain transactions in which it transfers recognised financial assets to third parties or customers. If these transfers qualify for de-recognition, the Group derecognises all or part of the financial assets where appropriate. If the Group has retained substantially all the risks and rewards on these assets, the Group continues to recognise these assets.

54.1 Repurchase transactions

Transferred financial assets that do not qualify for de-recognition include debt securities held by counterparties as collateral under repurchase agreements. The counterparties are allowed to pledge those securities sold under repurchase agreements in the absence of default by the Group, but has an obligation to return the securities upon maturity of the contract. In certain circumstances, if the securities increase or decrease in value, the counterparties may require additional collateral from the Group or have to return part of the collateral it holds to the Group. In these cases, the Group believes that it retains substantially all the risks and rewards of these securities and therefore does not derecognise them. In addition, it recognises a financial liability for the cash received.

54.2 Securities lending

Transferred financial assets that do not qualify for de-recognition include securities lent to clients or exchange with clients for them to sell, for which the clients are required to provide collateral that could fully cover the credit exposure of the securities lent, and have the obligation to return the securities to the Group in accordance with the contracts. In certain circumstances, if the securities increase or decrease in value, the Group may require additional collateral from the clients or have to return part of the collateral it holds to the clients. In these instances, the Group believes that it retains substantially all the risks and rewards of these securities and therefore does not derecognise them.

The following table analyses the carrying amount of the above mentioned financial assets transferred to third parties or customers that did not qualify for de-recognition and their associated financial liabilities:

	31 December 2017		31 December 2016	
	Carrying amount of transferred assets	Carrying amount of related liabilities	Carrying amount of transferred assets	Carrying amount of related liabilities
Repurchase	3,579,750	3,563,822	3,615,135	3,519,129
Securities lending	4,026	–	11,881	–

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55 COMMITMENTS AND CONTINGENT LIABILITIES

55.1 Capital commitments

	31 December 2017	31 December 2016
Contracted but not provided for	62,659	32,615

55.2 Operating lease commitments

Considering the Group as a lessee, the total future minimum lease payments of buildings under irrevocable operating lease arrangements are as follows:

	31 December 2017	31 December 2016
Within 1 year	60,440	53,646
1 to 3 years	65,441	83,471
Over 3 years	17,150	28,924
Total	143,031	166,041

55.3 Non-compliance with regulations and legal proceedings

From time to time in the ordinary course of business, the Group may be involved in claims and legal proceedings or subject to investigations by regulatory authorities.

- (a) The Hebi branch manager sold financial products irregularly. The Company received the rectification notice from CSRC Henan branch; and was required to pay a compensation of RMB12.25 million to investors which has been paid as of 31 December 2017.
- (b) The Company is involved as defendant in a lawsuit arising from margin financing business entered into with a customer in 2016, with the claim in dispute against the Company is RMB1.08 million. In June 2017, the lawsuit had been dismissed by the court in its second and final trial. The customer applied to Henan High People's Court for retrial and withdrew the application on 25 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

55 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

55.3 Legal proceedings (continued)

- (c) The Company is involved as defendant in three lawsuits arising from certain finance lease contracts entered into by a former employee falsified as representative of the Company in 2015 and 2016. As at 31 December 2017, two lawsuits with total claim in dispute of RMB2.26 million had been ruled by the court for withdrawal of civil action while the other one with claim in dispute of RMB11.67 million has been dismissed by the court in its second and final trial.

The Directors of the Company, taking into consideration of external legal advice, concluded that these lawsuits will not have a material impact on the financial position, operations or cash flows of the Group.

56 RELATED PARTY TRANSACTIONS

56.1 Related parties

When the Group exercises control, common control over or has significant influence on another entity; or another entity exercises control, common control over or has significant influences on the Group; or the Group and another entity are under control, common control or significantly influenced by the same party, the Group and the entity are related parties. Related parties can be individuals or legal entities.

The following table lists the Group's significant related legal entities and the holdings of the Company's major shareholders as at 31 December 2017:

Significant related legal persons	The relationship with the Group	Stock holding percentage
Henan Investment Group	The controlling shareholder of the Company	20.98%
Bohai Industrial Investment Fund Management Co., Ltd. (representing Bohai Industrial Investment Fund)	Major shareholder holding over 5% shares of the Company	15.50%
Central China Trust Co., Ltd.	Controlled by the controlling shareholder of the Company	–
Henan Ancai Hi-tech Co., Ltd.	Controlled by the controlling shareholder of the Company	–
Henan Sky-Land Hotel Co., Ltd.	Controlled by the controlling shareholder of the Company	–
Henan Longfengshan Agriculture and Animal Husbandry Co., Ltd.	The associate invested by the subsidiary of the Company	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

56 RELATED PARTY TRANSACTIONS (CONTINUED)

56.2 Related party transactions and balances

56.2.1 The Company's controlling shareholder – Henan Investment Group

In addition to those disclosed elsewhere in the financial statements, the following transactions were carried out with related parties:

Transactions during the year:

	Year ended 31 December	
	2017	2016
Income from providing securities brokerage services	–	4

In August 2017, The Company's subsidiary CCBO established Henan Asset Management Company Limited ("Henan AMC") with other 8 shareholders including Henan Investment Group. CCBO contributed RMB500 million for a 10% equity interest and voting rights, and Henan Investment Group contributed RMB1,950 million for a 39% equity interest and voting rights.

56.2.2 Enterprise controlled by the controlling shareholder of the Company

Transactions during the year:

	Year ended 31 December	
	2017	2016
Central China Trust Co., Ltd. Commission and fee income	2,543	–
Henan Ancai Hi-tech Co., Ltd. Income from underwriting services	–	2,642

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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56 RELATED PARTY TRANSACTIONS (CONTINUED)

56.2 Related party transactions and balances (continued)

56.2.2 Enterprise controlled by the controlling shareholder of the Company (continued)

Balances at the end of the year:

		31 December 2017	31 December 2016
Central China Trust Co., Ltd.	Available-for-sale financial assets	480,000	–
Henan Sky-Land Hotel Co., Ltd.	Prepayments	–	845

56.2.3 The associate invested by the subsidiary of the Company

Transactions during the year:

		Year ended 31 December	
		2017	2016
Henan Longfengshan Agriculture and Animal Husbandry Co., Ltd.	Interest income from loans and advances to customers	1,259	–

Balances at the end of the year:

		31 December 2017	31 December 2016
Henan Longfengshan Agriculture and Animal Husbandry Co., Ltd.	Loans and advances to customers	40,000	–

On 20 September 2017, HZMC lent RMB40 million one-year loan to Henan Longfengshan Agriculture and Animal Husbandry Co., Ltd., which is the associate of ZDKY. The interest of the loan is 11%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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56 RELATED PARTY TRANSACTIONS (CONTINUED)

56.2 Related party transactions and balances (continued)

56.2.4 Subsidiaries and consolidated structured entities

Transactions during the year:

	Year ended 31 December	
	2017	2016
Income from providing services	3,776	8,062
Expenses for receiving services	1,158	67
Lease fees received	1,286	1,307

Balances at the end of the year:

	31 December	31 December
	2017	2016
Refundable deposits	8,932	15,802
Clearing settlement funds	26,437	86,336
Available-for-sale financial assets	33,461	257,933
Receivables	721	711

Commitments

As at 31 December 2017, the Company provided counter guarantee for overseas banking facilities of CCIFHC and its subsidiaries with the financing guarantee caps of HKD915 million and RMB200 million short-term loan facilities (Note 44).

Significant balances and transactions between subsidiaries and consolidated structured entities set out above have been eliminated in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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56 RELATED PARTY TRANSACTIONS (CONTINUED)

56.2 Related party transactions and balances (continued)

56.2.5 Key management personnel

Key management personnel are those persons who have the power to, directly or indirectly, plan, direct and control the activities of the Company, including members of the board of directors, board of supervisors and other members of the senior management.

	Year ended 31 December	
	2017	2016
Key management compensation (after tax)	12,926	7,627

56.2.6 Loans and advances to directors, supervisors and senior executives

The Group had no material balance of loans and advances to directors, supervisors and senior executives as at the end of reporting period. Those loans and advances to directors, supervisors and senior executives were conducted in the normal and ordinary course of the business and under normal commercial terms or on the same terms and conditions with those which are available to other employees, based on terms and conditions granted to third parties adjusted for risk reduction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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57 SEGMENT ANALYSIS

The Group manages the business operations by the following segments in accordance with the nature of the operations and the services provided:

- (a) Securities brokerage: securities trading and brokering services;
- (b) Futures brokerage: futures trading and brokering and futures information advisory and training services;
- (c) Margin trading and securities lending: margin trading and securities lending services;
- (d) Investment banking: corporate finance and financial advisory services to institutional clients;
- (e) Proprietary trading: trading in financial products;
- (f) Investment and asset management: direct investments and funds related businesses (including portfolio management and maintenance), investment advisory and transaction execution services;
- (g) Overseas business: business operation of overseas subsidiaries of the Company, which mainly engage in broking, margin financing, trading and investment and financial planning and advisory services;
- (h) Other businesses: including headquarters operations and interest income and expenses relating to working capital in general.

Inter-segment transactions, if any, are conducted with reference to the prices charged to third parties and there was no change in the basis during the year.

Income taxes are managed as a whole and are not allocated to operating segments.

The Group mainly operates in Henan Province, the PRC.

57 SEGMENT ANALYSIS (CONTINUED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

	Year ended 31 December 2017									
	Securities brokerage	Futures brokerage	Margin trading and securities lending	Investment banking	Proprietary trading management	Investment and asset management	Overseas business	Other	Elimination	Total
Total revenue and other income	700,724	109,353	55,050	88,404	-	82,064	80,273	28,797	(3,156)	1,141,509
Commission and fee income	700,724	109,353	55,050	88,404	-	82,064	80,273	28,797	-	1,144,665
- external	-	-	-	-	-	-	-	-	(3,156)	(3,156)
- internal	69	25,150	452,179	-	281,063	40,286	61,622	409,154	-	1,269,523
Interest income	69	25,150	452,179	-	281,063	40,286	61,622	409,154	-	1,269,523
- external	-	-	-	-	-	-	-	-	-	-
- internal	-	-	-	-	-	-	-	-	-	-
Net investment (losses)/gains and share of profits and losses of associates	-	(1,418)	-	-	180,046	129,325	119,091	135,020	(147,153)	414,911
- external	-	(1,418)	-	-	180,046	129,325	119,091	135,020	-	562,064
- internal	-	-	-	-	-	-	-	-	(147,153)	(147,153)
Other gains/(loss)	5,474	314,121	24,892	100	252	8,222	6,343	14,999	(1,286)	373,117
- external	5,474	314,121	24,892	100	252	8,222	6,343	14,999	-	374,403
- internal	-	-	-	-	-	-	-	-	(1,286)	(1,286)
Total expenses	(567,831)	(418,085)	(230,819)	(120,742)	(486,409)	(85,357)	(174,056)	(440,074)	4,422	(2,518,951)
Profit before income tax	138,436	29,121	301,302	(32,238)	(25,048)	174,540	93,273	147,896	(147,173)	680,109
Total assets	7,485,324	1,146,130	909,965	487,727	7,306,672	3,773,789	3,057,802	21,320,679	(4,826,620)	40,661,468
Total liabilities	7,248,824	639,803	924,813	491,983	7,284,144	429,963	2,126,433	10,130,858	(67,472)	29,209,349
Supplemental information	31,199	2,907	1,059	488	2,212	1,305	2,608	29,447	-	71,225
Depreciation and amortisation	20,199	2,955	37	361	2,560	1,520	6,441	54,816	-	88,889
Capital expenditure	-	-	-	-	-	-	-	-	-	-

57 SEGMENT ANALYSIS (CONTINUED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Year ended 31 December 2016

	Securities brokerage	Futures brokerage	Margin trading and securities lending	Investment banking	Proprietary trading	Investment and asset management	Overseas business	Other	Elimination	Total (continued operation)	Discontinued operation	Total (continued and discontinued operation)
Total revenue and other income												
Commission and fee income	935,047	82,581	79,653	291,830	-	98,475	12,621	8,783	(6,334)	1,502,656	106	1,502,762
- external	935,047	82,581	79,653	291,830	-	98,475	12,621	8,783	-	1,508,990	106	1,509,096
- internal	-	-	-	-	-	-	-	-	(6,334)	(6,334)	-	(6,334)
Interest income	57	21,396	488,094	-	137,564	44,444	38,310	418,557	-	1,148,422	178	1,148,600
- external	57	21,396	488,094	-	137,564	44,444	38,310	418,557	-	1,148,422	178	1,148,600
- internal	-	-	-	-	-	-	-	-	-	-	-	-
Net investment gains/(loss) and share of profits and losses of associates	-	1,892	-	-	214,724	48,289	46,587	72,977	32,725	417,194	(682)	416,512
- external	-	1,892	-	-	214,724	48,289	46,587	72,977	-	384,469	(682)	383,787
- internal	-	-	-	-	-	-	-	-	32,725	32,725	-	32,725
Other gains/(loss)	7,432	26,433	3,157	1,963	11,752	1,092	200	24,046	(1,319)	74,756	241	74,997
- external	7,432	26,433	3,157	1,963	11,752	1,092	200	24,046	-	76,075	241	76,316
- internal	-	-	-	-	-	-	-	-	(1,319)	(1,319)	-	(1,319)
Total expenses	(616,780)	(106,558)	(349,690)	(166,733)	(314,091)	(76,177)	(67,724)	(460,363)	7,618	(2,150,498)	(17,806)	(2,168,304)
Profit before income tax	325,756	25,744	221,214	127,060	49,949	116,123	29,994	64,000	32,690	992,530	(17,963)	974,567
Total assets	10,239,236	1,344,322	409,900	74,444	5,382,044	3,459,952	1,245,647	20,435,743	(2,206,714)	40,384,574	-	40,384,574
Total liabilities	10,032,549	888,675	413,728	96,023	5,371,077	1,541,234	770,863	9,838,675	(115,020)	28,837,804	-	28,837,804
Supplemental information												
Depreciation and amortisation	32,171	2,088	1,187	259	2,087	1,555	1,069	25,876	-	66,292	1,586	67,878
Capital expenditure	21,029	4,622	-	354	2,975	521	727	62,048	-	92,276	372	92,648

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

58 FINANCIAL RISK MANAGEMENT

58.1 Summary

The Group's risk management objective is to maintain an appropriate balance between risks and rewards, and reduce the negative impact on the operating results of the Group, so as to maximise the shareholders' value. The Group's risk management strategy is to identify and analyse a variety of risks to which the Group is exposed to, set an appropriate risk tolerance level, measure and supervise risks in a timely and reliable manner so as to ensure that risks are controlled within acceptable limits.

Financial risks to which the Group is exposed to mainly include: credit risk, market risk and liquidity risk. The Group has adopted risk management policies and procedures to identify and analyse these risks and defined appropriate risk indicators, risk limits, risk policies and internal control procedures, and constantly monitor and manage risks through its IT systems.

The risk management framework is structured into four levels consisting of (i) Board of Directors and Supervisory Committee; (ii) Risk Control Committee, Audit Committee and Investment Decision Committee; (iii) Compliance Management (Legal Affairs) Department, Risk Management Department and Internal Audit Department; and (iv) Business and management departments and branch outlets.

Level 1: Board of Directors and Supervisory Committee

The Board of Directors is at the highest level of the Company's risk control framework and has the ultimate responsibility for establishing a compliant and effective risk control environment. The Board of Directors is responsible for developing the Company's overall risk control objectives, risk control policies and internal control system, improving the governance structure and tiered authority delegation system, and setting objectives, limits and delegating authority to relevant administrative departments in the actual performance of risk control activities.

The Supervisory Committee focuses on mitigating the Company's exposure to legal and compliance risks and financial oversight, including monitoring the performance of risk control duties of the Company's directors, senior management and relevant responsible persons, safeguarding the Company's assets, and minimizing financial and legal risks the Company faces in carrying out its business operations, so as to protect legal rights and interests of the Company and its shareholders.

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(All amounts in RMB'000 unless otherwise stated)

58 FINANCIAL RISK MANAGEMENT (CONTINUED)

58.1 Summary (continued)

Level 2: Risk Control Committee, Audit Committee and Investment Decision Committee

Risk Control Committee, Audit Committee and Investment Decision Committee are the second level of the Company's risk control framework, and is responsible for preparing the comprehensive annual report on risk control; reviewing risk control strategies and significant risk control solutions; reviewing judgment criteria for major decisions, significant risks, major events and key business processes and the risk evaluation report for major decision-making; reviewing risk control evaluation report submitted by the Risk Management Department; reviewing the organisational structure and roles and responsibilities for risk control, as well as other matters as delegated by the Board of Directors.

Level 3: Compliance Management (Legal Affairs) Department, Risk Management Department and Internal Audit Department

At the third level of the Company's risk control framework is the collaborative comprehensive risk management arrangement through which the Compliance Management (Legal Affairs) Department, Risk Management Department and Internal Audit Department work together to manage risks.

The Compliance Management (Legal Affairs) Department assists the Chief Compliance Officer to formulate compliance policies and compliance rules and procedures, supports the implementation of compliance policies and procedures, provides recommendations and advice on compliance to the management and business departments, business lines and branch outlets, and monitors compliance with laws and regulations in the Company's business and management activities. It also drives business departments, business lines and the Company's branch outlets to evaluate, develop, revise, update and improve their internal procedures and business processes to reflect changes in the laws, regulations and standards; conducts compliance pre-clearance on internal management rules and procedures, major decisions, new products, new business offerings and major business activities; reports to regulatory authorities on a regular and extraordinary basis, in addition to mitigating legal risks to which the Company and its businesses are exposed to.

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(All amounts in RMB'000 unless otherwise stated)

58 FINANCIAL RISK MANAGEMENT (CONTINUED)

58.1 Summary (continued)

Level 3: Compliance Management (Legal Affairs) Department, Risk Management Department and Internal Audit Department (continued)

Risk Management Department carries out risk control activities in accordance with risk control objectives and policies laid down by the Board of Directors; provides recommendations to the Risk Management Committee for improving the Company's risk control environment in terms of risk control policies, objectives, corporate governance structure and internal controls; formulates risk management rules and procedures for the Company, supports the review of risk management rules and procedures, measures, risk management processes and risk control indicators developed by each business and management departments, and continuously supplements, improves and updates risk control policies to help establish sound comprehensive corporate risk control mechanisms across the Company; identifies, assesses, and monitors various risks in business operations and transactions, and leverages the results to improve the end-to-end risk response process that covers every components of risk control, including policies, identification, assessment and measurement, control, monitoring, reporting and analysis; regularly tests, monitors and evaluates the implementation of risk control rules and procedures across the Company, and when necessary, conducts regular and ad hoc inspections on risk control results, follows up on issues identified and launches reporting procedures where appropriate; and establishes communications and cooperation with respect to risk control with various business lines, business departments, and branch outlets.

Internal Audit Department has overall responsibility for the internal audit function, including organising comprehensive audits across the Company, monitoring the implementation of and compliance with internal control rules and procedures, minimizing ethical and policy risks and assisting the investigation of emergencies.

Level 4: Business and management departments and branch outlets

The fourth level of risk control is the front-line risk control systems by business and management departments and branch outlets, which are responsible for developing their own internal control system and risk control measures, ensuring proper risk control within their jurisdiction, and reporting risk issues in a timely manner to the Risk Management Department or Compliance Management (Legal Affairs) Department.

The Group adopts the above risk management framework and continuously improves its risk control to ensure that the risks are measurable and controlled within acceptable limits.

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(All amounts in RMB'000 unless otherwise stated)

58 FINANCIAL RISK MANAGEMENT (CONTINUED)

58.2 Credit risk

Credit risk refers to the risk of counterparty's failure or inability to meet its payment obligations, or the risk of loss due to declining credit rating. The Group credit risks mainly come from financial assets which include bank balances, cash held for brokerage clients, clearing settlement funds, financial assets held for trading, financial assets held under resale agreements, available-for-sale financial assets, margin accounts receivable, other current assets and refundable deposits.

The Group's bank balances are mainly deposited with state-owned commercial banks or joint-stock commercial banks, while clearing settlement funds are deposited in the China Securities Depository and Clearing Corporation Limited ("CSDCC"), with a relatively low level of credit risk.

In terms of proprietary trading, if the transaction is through a stock exchange or CSDCC, the default risk of counterparty is low, but for inter-bank market transactions, the Group will assess the counterparties and only select those with an accepted credit rating. The Group invests in debt securities with acceptable credit ratings and monitors the operations and credit ratings of the issuers.

Margin financing assets include advances from margin customers and securities lent to customers. Credit risks associated with these financial assets mainly relate to customers' inability to repay the principal, interest or securities borrowed. The Group supervises finance trading accounts on an individual customer basis, and would require additional margin, cash collateral or securities if necessary. Margin accounts receivables are monitored based on collateral rates to ensure that the value of collateral assets is sufficient to cover the advance. As of 31 December 2017 and 2016, the Group and the Company's collateral value is sufficient to mitigate the credit risk in margin financing.

The Group's credit risk also arises from the securities and futures brokerage business. If a customer fails to deposit sufficient trading funds, the Group may use their own funds to complete the settlement. The Group requires customers to deposit all cash required in trading before they settle on behalf of customers, so as to mitigate and manage the credit risk properly.

The Group enters into loans and advances to customers as part of the debt investments. Credit risk management approaches over those loans and advances to customers include project initiation, due diligence, internal assessment, decision-making and post-lending monitoring. The Group assesses both the borrowers' credit risk and the rewards and sets risk mitigation measures such as guarantee. Loans and advances to customers are approved by the authorised approvers. The Group constantly monitors the funds. Key negative indications that may have impact on the borrowers' solvency are reported timely, and the Group takes action accordingly to control the risks.

The Group invests in wealth management products, asset management schemes and trust schemes with proper approval process.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

58 FINANCIAL RISK MANAGEMENT (CONTINUED)

58.2 Credit risk (continued)

(1) Maximum credit risk exposure

Before considering collateral or other credit enhancement methods, the maximum credit risk exposure is the carrying amount of financial assets (net of provisions for impairment). The maximum credit risk exposure of the Group is as follows:

	31 December 2017	31 December 2016
Refundable deposits	260,826	490,078
Other current assets	648,634	532,745
Loans and advances to customers	1,271,870	520,134
Margin accounts receivable	6,352,971	6,119,265
Available-for-sale financial assets		
– Securities lent to clients	4,021	11,860
– Targeted asset management schemes	–	100,000
– Specified asset management schemes	238,421	320,149
– Collective asset management schemes	98,147	218,514
– Wealth management	–	158,000
– Trust schemes	515,000	–
– Debt securities	1,007,626	60,000
Financial assets held under resale agreements	9,207,017	5,911,696
Financial assets designed as at fair value through profit or loss		
– Convertible bonds	743,985	493,440
Derivative financial assets	59,938	–
Financial assets held for trading		
– Debt securities	4,873,472	5,739,835
– Others	–	63,803
Investment classified as receivables	83,591	–
Clearing settlement funds	2,350,216	3,096,957
Cash held for brokerage clients	5,845,016	7,720,677
Bank balances	2,791,533	4,369,080
Total	36,352,284	35,926,233

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

58 FINANCIAL RISK MANAGEMENT (CONTINUED)

58.2 Credit risk (continued)

(2) Rating distribution of debt securities investments

The Group monitors the credit risk profile of the debt securities and asset-backed securities portfolio held based on credit ratings, which are obtained from major rating agencies in the country where debt issuers are located.

	31 December 2017	31 December 2016
Financial assets held for trading		
AAA	1,913,041	1,367,187
AA- to AA+	2,624,029	3,464,819
Others	107,341	–
Unrated	1,320,278	907,829
	<hr/>	<hr/>
Total	5,964,689	5,739,835

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

58 FINANCIAL RISK MANAGEMENT (CONTINUED)

58.2 Credit risk (continued)

(3) Allowance analysis for financial assets in other current assets

	31 December 2017	31 December 2016
Individually assessed and impaired, gross amount	166,684	27,462
– Accounts receivable	65,165	5,146
– Other receivables	84,759	22,316
– Prepayment	16,724	–
Less: impairment allowance	(10,099)	(21,788)
Subtotal	156,549	5,674
Collectively assessed and impaired, gross amount	64,276	138,706
– Accounts receivable	38,867	41,777
– Other receivables	25,409	96,929
Less: impairment allowance	(21,268)	(8,980)
Subtotal	43,008	129,726
Neither overdue nor impaired	449,077	397,345
Total	648,634	532,745

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(All amounts in RMB'000 unless otherwise stated)

58 FINANCIAL RISK MANAGEMENT (CONTINUED)

58.2 Credit risk (continued)

(4) Loans and advances to customers analysed by economic sector concentrations

	31 December 2017		31 December 2016	
	Gross loan balance	Percentage	Gross loan balance	Percentage
Loans and advances to customers				
– Real estate	465,000	35.96%	44,775	8.40%
– Manufacturing	336,448	26.01%	82,450	15.46%
– Agriculture, forestry, farming, fishing	218,000	16.86%	136,280	25.55%
– Leasing and business services	145,000	11.21%	119,400	22.39%
– Culture, sports and entertainment	50,000	3.87%	1,000	0.19%
– Whole sale and retail trade	3,388	0.26%	74,599	13.99%
– Others	75,500	5.83%	74,800	14.02%
Total	1,293,336	100.00%	533,304	100.00%

(5) Loans and advances to customers analysed by geographical sector concentrations

	31 December 2017		31 December 2016	
	Gross loan balance	Percentage	Gross loan balance	Percentage
Loans and advances to customers				
– Central	1,293,336	100.00%	488,504	91.60%
– Pearl River Delta	–	–	19,800	3.71%
– Western	–	–	15,000	2.81%
– Bohai Rim	–	–	10,000	1.88%
Total	1,293,336	100.00%	533,304	100.00%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

58 FINANCIAL RISK MANAGEMENT (CONTINUED)

58.2 Credit risk (continued)

(6) Loans and advances to customers analysed by types of collateral

	31 December 2017		31 December 2016	
	Gross loan balance	Percentage	Gross loan balance	Percentage
Loans and advances to customers				
– Guaranteed loans	1,109,336	85.77%	112,029	21.01%
– Loans secured by monetary assets	129,000	9.98%	209,100	39.21%
– Loans secured by tangible assets other than monetary assets	55,000	4.25%	212,175	39.78%
Total	1,293,336	100.00%	533,304	100.00%

(7) Overdue loans and advances to customers

	31 December 2017	31 December 2016
Loans and advances to customers		
– Guaranteed loans	8,336	6,199
As a percentage of loans and advances to customers	0.65%	1.16%

The above analysis represents the gross amount of loans overdue for more than three months.

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(All amounts in RMB'000 unless otherwise stated)

58 FINANCIAL RISK MANAGEMENT (CONTINUED)

58.2 Credit risk (continued)

(8) Loans and advances to customers, financial assets held under resale agreements and margin accounts receivable in terms of credit quality is analysed as follows:

	31 December 2017	31 December 2016
Individually assessed and impaired gross amount		
– Loans and advances to customers	15,336	11,199
– margin accounts receivable	76,825	–
Subtotal	92,161	11,199
Less: allowances for impairment losses	(66,029)	(7,949)
Subtotal	26,132	3,250
Neither overdue nor impaired		
– Loans and advances to customers	1,278,000	522,105
– margin accounts receivable	6,340,803	6,133,755
– financial assets held under resale agreements	4,821,578	2,707,376
Gross amount	12,440,381	9,363,236
Less: collectively assessed allowances for impairment losses	(36,542)	(26,840)
Subtotal	12,403,839	9,336,396
Total	12,429,971	9,339,646

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

58 FINANCIAL RISK MANAGEMENT (CONTINUED)

58.3 Market risk

Summary

Market risk is the risk of loss arising from adverse change in fair value or movement in cash flows in respect of financial instruments, due to interest rate risk, currency risk or price risk.

58.3.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group utilises sensitivity analysis as the main tool for monitoring interest rate risk and measuring the impact of a reasonable and possible change of interest rate on its total profit and equity, assuming all other variables remain unchanged. Debt securities of the Group mainly comprise corporate bonds, and the Group mitigates the interest rate risk through optimizing the duration and convexity of its bond portfolio. Interest rate risk in connection with cash held for brokerage client in bank balances and clearing settlement funds is offset by the associated accounts payable to brokerage clients because their terms match with each other.

The table below presents the residual maturities of the Group's financial assets and liabilities before their contractual re-pricing dates or their maturity dates (whichever are earlier):

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58 FINANCIAL RISK MANAGEMENT (CONTINUED)

58.3 Market risk (continued)

58.3.1 Interest rate risk (continued)

As at 31 December 2017	Within 1 month	1-3 months	3 months to 1 year	1-5 years	Above 5 years	Non-interest bearing	Total
Financial assets							
Cash and bank balances	2,739,533	40,000	12,000	-	-	545	2,792,078
Cash held for brokerage clients	5,845,016	-	-	-	-	-	5,845,016
Clearing settlement funds	2,350,216	-	-	-	-	-	2,350,216
Financial assets held for trading	638,406	318,131	2,295,931	1,154,140	1,015,705	698,633	6,120,946
Financial assets held under resale agreements	4,570,799	369,310	3,163,299	1,103,609	-	-	9,207,017
Refundable deposits	-	-	-	-	-	260,826	260,826
Loans and advances to customers	108,900	69,300	648,170	445,500	-	-	1,271,870
Other current assets	-	-	-	-	-	648,634	648,634
Available-for-sale financial assets	12,282	37,109	504,431	1,431,752	523,954	438,942	2,948,470
Financial assets designed as at fair value through profit or loss	153,096	-	377,224	388,096	-	583,141	1,501,557
Investment classified as receivables	-	-	83,591	-	-	-	83,591
Due from other financial institutions	40,000	-	-	-	-	-	40,000
Derivative financial assets	-	-	-	-	-	59,938	59,938
Margin accounts receivable	1,369,679	1,260,781	3,722,511	-	-	-	6,352,971
Sub-total	17,827,927	2,094,631	10,807,157	4,523,097	1,539,659	2,690,659	39,483,130
Financial liabilities							
Short-term notes payable	(78,760)	(685,110)	(600,000)	-	-	-	(1,363,870)
Bonds payable	-	-	(1,500,000)	(6,496,635)	-	-	(7,996,635)
Derivative financial liabilities	-	-	-	-	-	(471)	(471)
Due to other financial institutions	(115,000)	(300,000)	(600,000)	-	-	-	(1,015,000)
Financial assets sold under repurchase agreements	(7,284,879)	-	-	-	-	-	(7,284,879)
Accounts payable to brokerage clients	(6,915,758)	-	-	-	-	(610,745)	(7,526,503)
Accounts payable to underwriting clients	-	-	-	-	-	(434,400)	(434,400)
Other current liabilities	-	-	-	-	-	(678,218)	(678,218)
Bank loans	-	(121,625)	(2,063,078)	-	-	-	(2,184,703)
Financial liabilities designated as at fair value through profit or loss	-	-	-	-	-	(361,418)	(361,418)
Sub-total	(14,394,397)	(1,106,735)	(4,763,078)	(6,496,635)	-	(2,085,252)	(28,846,097)
Interest rate sensitivity gap	3,433,530	987,896	6,044,079	(1,973,538)	1,539,659	605,407	10,031,626

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58 FINANCIAL RISK MANAGEMENT (CONTINUED)

58.3 Market risk (continued)

58.3.1 Interest rate risk (continued)

As at 31 December 2016	Within 1 month	3 months to 1-3 months	1 year	1-5 years	Above 5 years	Non-interest bearing	Total
Financial assets							
Cash and bank balances	4,089,080	100,000	180,000	-	-	659	4,369,739
Cash held for brokerage clients	7,720,677	-	-	-	-	-	7,720,677
Clearing settlement funds	3,096,957	-	-	-	-	-	3,096,957
Financial assets held for trading	1,044,206	575,275	1,380,084	1,315,746	2,377,807	829,159	7,522,277
Financial assets held under resale agreements	3,577,793	555,017	1,102,182	676,704	-	-	5,911,696
Refundable deposits	-	-	-	-	-	490,078	490,078
Loans and advances to customers	4,240	41,333	449,811	24,750	-	-	520,134
Other current assets	-	-	-	-	-	532,745	532,745
Available-for-sale financial assets	68,000	145,676	255,360	443,457	-	1,670,845	2,583,338
Financial assets designed as at fair value through profit or loss	-	-	110,830	403,989	-	-	514,819
Margin accounts receivable	308,127	862,484	4,948,654	-	-	-	6,119,265
Sub-total	19,909,080	2,279,785	8,426,921	2,864,646	2,377,807	3,523,486	39,381,725
Financial liabilities							
Short-term notes payable	(10,000)	-	(400,000)	-	-	-	(410,000)
Bonds payable	-	(1,400,000)	(1,999,755)	(5,494,299)	-	-	(8,894,054)
Derivative financial liabilities	-	-	-	-	-	(132)	(132)
Due to other financial institutions	-	(400,000)	-	-	-	-	(400,000)
Financial assets sold under repurchase agreements	(4,767,085)	(840,894)	-	-	-	-	(5,607,979)
Accounts payable to brokerage clients	(9,507,813)	-	-	-	-	(860,277)	(10,368,090)
Other current liabilities	-	-	-	-	-	(732,965)	(732,965)
Bank loans	-	(303,686)	(357,433)	(55,327)	-	-	(716,446)
Financial liabilities designated as at fair value through profit or loss	-	-	-	-	-	(1,208,177)	(1,208,177)
Sub-total	(14,284,898)	(2,944,580)	(2,757,188)	(5,549,626)	-	(2,801,551)	(28,337,843)
Interest rate sensitivity gap	5,624,182	(664,795)	5,669,733	(2,684,980)	2,377,807	721,935	10,321,947

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58 FINANCIAL RISK MANAGEMENT (CONTINUED)

58.3 Market risk (continued)

58.3.1 Interest rate risk (continued)

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to the interest rate risks for interest-bearing assets and interest-bearing liabilities. A 25 basis points increase or decreases in the relevant interest rates will be applied in the sensitivity analysis as possible reasonable shift, assuming all other variables remain unchanged. A positive result below indicates an increase in net interest income, while a negative result indicates otherwise, and the impact attributable to other investors of the consolidated structured entities is eliminated.

	Year ended 31 December	
	2017	2016
Net interest income from profits and losses		
Increases by 25 bps	15,514	16,570
Decreases by 25 bps	(15,514)	(16,570)

	Year ended 31 December	
	2017	2016
Net interest income from other comprehensive income		
Increases by 25 bps	586	714
Decreases by 25 bps	(586)	(714)

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58 FINANCIAL RISK MANAGEMENT (CONTINUED)

58.3 Market risk (continued)

58.3.1 Interest rate risk (continued)

Sensitivity analysis (continued)

When conducting interest rate sensitivity analysis, the Group makes the following general assumptions in determining commercial terms and financial parameters:

- different interest-bearing assets and interest-bearing liabilities have the same amplitude of interest rate volatility;
- all assets and liabilities are repriced in the middle of the relevant period;
- analysis is based on the static gap on the financial position reporting date, without considering subsequent changes;
- impact of interest rate changes on customer behaviours not considered;
- impact of interest rate changes on market prices not considered;
- interest rate of demand deposits moving in the same direction and extent;
- necessary measures that may be adopted by the Group in response to interest rate changes not considered.

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(All amounts in RMB'000 unless otherwise stated)

58 FINANCIAL RISK MANAGEMENT (CONTINUED)

58.3 Market risk (continued)

58.3.2 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates.

The Group's currency risk primarily relates to the Group's operating activities whose settlements and payments are denominated in foreign currencies different from the functional currency of the Group.

The Group believes that the income from businesses conducted in foreign currencies represents an insignificant portion in the Group's income structure. The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 31 December 2017 and 31 December 2016. The Group's exposure to RMB is provided in the tables below for comparison purposes. Included in the table are the carrying amounts of the assets and liabilities of the Group in RMB equivalent, categorised by the original currencies.

	31 December 2017 HKD in RMB equivalent	31 December 2016 HKD in RMB equivalent
Net on-balance sheet position	911,601	460,778

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58 FINANCIAL RISK MANAGEMENT (CONTINUED)

58.3 Market risk (continued)

58.3.3 Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's price risk exposure mainly relates to investments in equity securities, investment funds, convertible bonds, derivatives and collective asset management schemes whose values will fluctuate as a result of changes in market prices. These investments are all investments in the domestic capital markets. The Group is subject to relatively high market risk due to the high volatility of the domestic stock markets.

The Group's price risk management policy requires setting and managing investment objectives. The directors of the Company manage price risk by holding an appropriately diversified investment portfolio, setting limits for investments in different securities and closely monitoring the portfolio of investments to reduce the risk of concentration in any one specific industry or issuer. The Group uses derivatives contracts to economically hedge against certain exposures arising from its investment portfolio.

Sensitivity analysis

The analysis below shows the impact on profit before income tax and other comprehensive income before income tax due to change in the prices of stocks, funds, convertible bonds, derivatives and collective asset management schemes by 10%, assuming all other variables remain unchanged. A positive result indicates an increase in profit before income tax and other comprehensive income before income tax, while a negative result indicates otherwise.

	Year ended 31 December	
	2017	2016
Profit before income tax		
Increase by 10%	188,999	127,963
Decrease by 10%	(188,999)	(127,963)
Other comprehensive income before income tax		
Increase by 10%	86,220	166,332
Decrease by 10%	(86,220)	(166,332)

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58 FINANCIAL RISK MANAGEMENT (CONTINUED)

58.4 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities due to lack of capital or funds. During the normal course of business, the Group may face liquidity risk caused by macroeconomic policy changes, market volatility, poor operations, credit downgrades, mismatches between assets and liabilities, low turnover rate of assets, early redemptions of exchange-quoted bond, repurchase products by customers, large underwriting on a firm commitment basis, significant proprietary trading position, or an overly high ratio of long-term investments. If the Group fails to address any liquidity risk by adjusting the asset structure or comply with regulatory requirements on the risk indicators, the Group could be subject to penalties by the regulatory authorities in the form of restrictions on the Group's business operations, which would cause adverse impact on the Group's operations and reputation.

The Group manages and controls their funds in a centralised manner. Through early warnings and focusing on individually large amounts of funds, the Group achieves the objective of centralised control and management of liquidity risk. By finding an appropriate balance between safety, liquidity and profitability, the Group adjusts and allocates asset sizes and structural provisions, so as to establish a multi-level liquidity reserve system and achieve liquidity risk management objectives by leveraging money market and capital market transactions in a timely manner.

The Group prepares funding plans and report their implementation to the management to update the liquidity position periodically.

Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group. The Group invests surplus cash in time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

As at 31 December 2017, the Group holds cash and cash equivalents of approximately RMB2,999.54 million that are expected to readily generate cash flows for managing liquidity risk (31 December 2016: RMB4,643.23 million). In addition, the Group holds financial assets held for trading of RMB6,120.95 million as at 31 December 2017, which could be readily realised to provide a further source of cash if the need arose (31 December 2016: RMB7,522.28 million). Further the Group holds cash held for brokerage clients of RMB5,845.02 million, client's clearing settlement funds of RMB2,142.75 million, which could be used to settle the Group's account payable to brokerage clients whenever needed (31 December 2016: RMB7,720.68 million and RMB2,823.47 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

58 FINANCIAL RISK MANAGEMENT (CONTINUED)

58.4 Liquidity risk (continued)

The tables below present the cash flows payable by the Group for non-derivative financial liabilities by remaining contractual maturities as at 31 December 2017 and 31 December 2016. The amounts disclosed in the tables are the contractual undiscounted cash flows, including both interest and principal cash flows. For items with floating interest rates, the undiscounted amounts are derived using interest rates at the end of the reporting period.

As at 31 December 2017	On demand	Within		3 months	1-5 years	Undated	Total
		1 month	1-3 months	to 1 year			
Non-derivative financial liabilities							
Short-term notes payable	-	79,152	696,527	625,934	-	-	1,401,613
Bonds payable	-	-	-	1,879,650	6,962,300	-	8,841,950
Financial assets sold under repurchase agreements	-	7,301,310	-	-	-	-	7,301,310
Due to other financial institutions	-	115,073	307,629	615,258	-	-	1,037,960
Accounts payable to brokerage clients	610,745	6,915,758	-	-	-	-	7,526,503
Accounts payable to underwriting clients	434,400	-	-	-	-	-	434,400
Bank loans	-	-	121,838	2,091,513	-	-	2,213,351
Financial liabilities designated as at fair value through profit or loss	-	-	21,241	-	340,177	-	361,418
Other current liabilities	-	-	-	-	-	678,218	678,218
Total	1,045,145	14,411,293	1,147,235	5,212,355	7,302,477	678,218	29,796,723
Derivative financial liabilities	471	-	-	-	-	-	471

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

58 FINANCIAL RISK MANAGEMENT (CONTINUED)

58.4 Liquidity risk (continued)

As at 31 December 2016	On demand	Within 1 month	1-3 months	3 months to 1 year	1-5 years	Undated	Total
Non-derivative financial liabilities							
Short-term notes payable	-	10,066	-	448,132	-	-	458,198
Bonds payable	-	-	1,409,873	2,035,178	6,047,060	-	9,492,111
Financial assets sold under repurchase agreements	-	4,774,106	849,697	-	-	-	5,623,803
Due to other financial institutions	-	402,034	-	-	-	-	402,034
Accounts payable to brokerage clients	860,277	9,507,813	-	-	-	-	10,368,090
Bank loans	-	-	304,555	361,934	58,982	-	725,471
Financial liabilities designated as at fair value through profit or loss	-	25,399	56,735	844,083	281,960	-	1,208,177
Other current liabilities	-	-	-	-	-	732,965	732,965
Total	860,277	14,719,418	2,620,860	3,689,327	6,388,002	732,965	29,010,849
Derivative financial liabilities	132	-	-	-	-	-	132

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

58 FINANCIAL RISK MANAGEMENT (CONTINUED)

58.5 Capital management

The Group's objectives of capital management are:

- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth;
- To maintain a strong capital base to support the development of their business; and
- To comply with the capital requirements under the PRC regulations.

In accordance with Administrative Measures for Risk Control Indicators of Securities Companies (Revision 2016) (the "Administrative Measures") issued by the CSRC and effective 1 October 2016, the Company is required to meet the following standards for risk control indicators on a continual basis:

- The risk coverage ratio shall be no less than 100%;
- The capital leverage ratio shall be no less than 8%;
- The liquidity coverage ratio shall be no less than 100%;
- The net stable funding ratio shall be no less than 100%;

Core net capital refers to net assets minus risk adjustments on certain types of assets as defined in the Administrative Measures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

59 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

59.1 Financial instruments not measured at fair value

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the statements of financial position approximate their fair values.

For financial instruments with a short maturity, including cash and bank balances, cash held for brokerage clients, clearing settlement funds, margin accounts receivable, financial assets held under resale agreements, due to other financial institutions and accounts payable to brokerage clients, their fair value approximate their carrying amounts.

The aggregate fair value of bond payable is calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

In accordance with the related regulations, the Group can put or redeem its refundable deposits with stock exchanges, futures and commodities exchanges and CSF. The Group assesses the fair value of refundable deposits approximates the carrying amount.

59.2 Financial instruments measured at fair value

The table below analyses financial instruments measured at fair value at the end of each reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised.

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

59 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

59.2 Financial instruments measured at fair value (continued)

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2017 and 2016.

As at 31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
– Equity securities	275,799	360,428	22,671	658,898
– Debt securities	1,238,762	3,634,710	–	4,873,472
– Investment funds	22,310	566,266	–	588,576
Available-for-sale financial assets				
– Equity securities	86,945	6,449	70,493	163,887
– Debt securities	363,693	643,933	–	1,007,626
– Investment funds	4,021	147,276	–	151,297
– Collective asset management schemes	–	119,104	98,147	217,251
– Targeted asset management schemes	–	427,909	–	427,909
– Specified asset management schemes	–	238,421	–	238,421
– Trust Schemes	–	–	515,000	515,000
Financial assets designed as at fair value through profit or loss	–	424,144	1,077,413	1,501,557
Derivative assets	–	–	59,938	59,938
Total assets	1,991,530	6,568,640	1,843,662	10,403,832
Derivative liabilities	(471)	–	–	(471)
Financial liabilities designed as at fair value through profit or loss	–	–	(361,418)	(361,418)
Total liabilities	(471)	–	(361,418)	(361,889)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

59 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

59.2 Financial instruments measured at fair value (continued)

As at 31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
– Equity securities	341,913	384,174	96,824	822,911
– Debt securities	1,702,187	4,037,648	–	5,739,835
– Investment funds	863,728	–	–	863,728
– Others	–	95,803	–	95,803
Available-for-sale financial assets				
– Equity securities	98,733	29,769	123,739	252,241
– Debt securities	–	60,000	–	60,000
– Investment funds	13,825	14,182	–	28,007
– Collective asset management schemes	–	92,097	180,203	272,300
– Targeted asset management schemes	–	100,000	–	100,000
– Specified asset management schemes	–	320,149	–	320,149
– Wealth management products	–	–	158,000	158,000
– Others	–	1,334,560	–	1,334,560
Financial assets designed as at fair value through profit or loss	–	–	514,819	514,819
Total assets	3,020,386	6,468,382	1,073,585	10,562,353
Derivative liabilities	(132)	–	–	(132)
Financial liabilities designed as at fair value through profit or loss	–	–	(1,208,177)	(1,208,177)
Total liabilities	(132)	–	(1,208,177)	(1,208,309)

For the years ended 31 December 2017 and 2016, there were no significant transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

59 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

59.2 Financial instruments measured at fair value (continued)

(a) Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the closing price within bid-ask spread. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily securities traded on the Shanghai Stock Exchange and Shenzhen Stock Exchange classified as trading securities or available-for-sale.

(b) Financial instruments in Level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

59 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

59.2 Financial instruments measured at fair value (continued)

(c) Valuation methods for specific investments

As at 31 December 2017, the Company's valuation methods for specific investments are as follows:

- (1) For exchange-listed equity securities, fair value is determined based on the closing price of the equity securities as at the reporting date within bid-ask spread. If there is no quoted market price as at the reporting date and there have been significant changes in the economic environment after the most recent trading date, valuation techniques are used to determine the fair value. For restricted shares that are acquired during an initial public offering or an additional offering, fair values are determined using valuation techniques.
- (2) For closed-end investment funds, fair value is determined based on the closing price within bid-ask spread as at the reporting date or the most recent trading date. For open-end funds and collective asset management products, fair value is determined by trading price which is based on the net asset value as at the reporting date.
- (3) For debt securities listed through exchanges which include government bonds, corporate bonds, convertible bonds and financial bonds, fair values are determined based on the closing price within bid-ask spread of the debt securities at the date of statements of financial position. If there is no quoted market price as at the reporting date and there have been significant changes in the economic environment after the most recent trading date, valuation techniques are used to determine the fair value.
- (4) For debt securities traded through the inter-bank bond market and the over-the-counter ("OTC") market, including government bonds, corporate bonds, commercial papers, special financial bills, central bank bills, and other fixed income debt securities, fair values are determined using valuation techniques.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

59 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

59.2 Financial instruments measured at fair value (continued)

(d) Financial instruments in Level 3

The following table presents the changes in Level 3 instruments for the year ended 31 December 2017 and 31 December 2016.

	Financial assets held for trading
Balance at 1 January 2017	96,824
Purchases	10,009
Settlements	(84,162)
Balance at 31 December 2017	22,671
Total gains for the year included in profit or loss for assets held at the end of year, under "Net investment gains"	-
Change in unrealised gains for the year included in profit or loss for assets held at the end of the year	346
	Financial assets held for trading
Balance at 1 January 2016	8,676
Purchases	120,680
Settlements	(32,532)
Balance at 31 December 2016	96,824
Total gains for the year included in profit or loss for assets held at the end of year, under "Net investment gains"	-
Change in unrealised gains for the year included in profit or loss for assets held at the end of the year	42,773

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

59 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

59.2 Financial instruments measured at fair value (continued)

(d) Financial instruments in Level 3 (continued)

	Available-for-sale financial assets
Balance at 1 January 2017	461,942
Purchases	574,525
Settlements	(352,827)
Balance at 31 December 2017	683,640
Total gains for the year included in profit or loss for assets held at the end of year, under "Net investment gains"	34,327
Change in unrealised gains for the year included in OCI for assets held at the end of the year	28
	Available-for-sale financial assets
Balance at 1 January 2016	530,743
Purchases	391,497
Settlements	(460,298)
Balance at 31 December 2016	461,942
Total gains for the year included in profit or loss for assets held at the end of year, under "Net investment gains"	1,151
Change in unrealised losses for the year included in OCI for assets held at the end of the year	25,730

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

59 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

59.2 Financial instruments measured at fair value (continued)

(d) Financial instruments in Level 3 (continued)

	Financial assets designated as at fair value through profit or loss
Balance at 1 January 2017	514,819
Purchases	1,107,292
Settlements	(544,698)
Balance at 31 December 2017	1,077,413
Total gains for the year included in profit or loss for assets held at the end of year, under "Net investment gains"	54,629
Change in unrealised gains for the year included in profit or loss for assets held at the end of the year	22,883
	Financial assets designated as at fair value through profit or loss
Balance at 1 January 2016	–
Purchases	514,819
Balance at 31 December 2016	514,819
Total gains for the year included in profit or loss for assets held at the end of year, under "Net investment gains"	17,988
Change in unrealised gains for the year included in profit or loss for assets held at the end of the year	27,078

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

59 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

59.2 Financial instruments measured at fair value (continued)

(d) Financial instruments in Level 3 (continued)

	Derivative assets
Balance at 1 January 2017	–
Purchases	59,938
Balance at 31 December 2017	59,938
Total gains for the year included in profit or loss for assets held at the end of year, under “Net investment gains”	–
Change in unrealised gains for the year included in profit or loss for assets held at the end of the year	–
	Financial liabilities designated as at fair value through profit or loss
Balance at 1 January 2017	1,208,177
Consolidation of SEs	30,000
Purchases	260
Settlements	(877,019)
Balance at 31 December 2017	361,418
Total losses for the year included in profit or loss for assets held at the end of year, under “Net investment gains”	(20,652)
Change in unrealised losses for the year included in profit or loss for assets held at the end of the year	(20,652)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

59 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

59.2 Financial instruments measured at fair value (continued)

(d) Financial instruments in Level 3 (continued)

	Financial liabilities designated as at fair value through profit or loss
Balance at 1 January 2016	1,144,170
Consolidation of SEs	33,600
Purchases	42,103
Settlements	(11,696)
<hr/>	<hr/>
Balance at 31 December 2016	1,208,177
Total losses for the year included in profit or loss for assets held at the end of year, under "Net investment gains"	(13,466)
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Change in unrealised losses for the year included in profit or loss for assets held at the end of the year	(13,466)
<hr/>	<hr/>

For financial instruments in Level 3, prices are determined using valuation methodologies such as discounted cash flow models and other similar techniques. Determinations to classify fair value measures within Level 3 of the valuation hierarchy are generally based on the significance of the unobservable inputs to the overall fair value measurement. The following table presents the related valuation techniques and inputs of the major financial instruments in Level 3.

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(All amounts in RMB'000 unless otherwise stated)

59 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

59.2 Financial instruments measured at fair value (continued)

(d) Financial instruments in Level 3 (continued)

Financial instruments	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input(s) to fair value
Wealth management products	Level 3	<ul style="list-style-type: none"> Discounted cash flows with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level 	<ul style="list-style-type: none"> Expected future cash flows Expected recovery date Discount rates that correspond to the expected risk level 	<ul style="list-style-type: none"> The higher the future cash flows, the higher the fair value The earlier the maturity date, the higher the fair value The lower the discount rate, the higher the fair value
Trust schemes	Level 3	<ul style="list-style-type: none"> Discounted cash flows with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level 	<ul style="list-style-type: none"> Expected future cash flows Expected recovery date Discount rates that correspond to the expected risk level 	<ul style="list-style-type: none"> The higher the future cash flows, the higher the fair value The earlier the maturity date, the higher the fair value The lower the discount rate, the higher the fair value
Financial assets designated as at fair value through profit or loss	Level 3	<ul style="list-style-type: none"> Discounted cash flows with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level Option pricing model 	<ul style="list-style-type: none"> Expected future cash flows Expected recovery date Discount rates that correspond to the expected risk level Stock price volatility 	<ul style="list-style-type: none"> The higher the future cash flows, the higher the fair value The earlier the maturity date, the higher the fair value The lower the discount rate, the higher the fair value The higher the stock price volatility, the higher the fair value

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

59 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

59.2 Financial instruments measured at fair value (continued)

(d) Financial instruments in Level 3 (continued)

Financial instruments	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input(s) to fair value
Financial liabilities designated as at fair value through profit or loss	Level 3	<ul style="list-style-type: none"> Discounted cash flows with future cash flows that are estimated based on expected payable amounts, discounted at rates that reflect management's best estimation of the expected risk level 	<ul style="list-style-type: none"> Expected future cash flows Expected payment date Discount rates that correspond to the expected risk level 	<ul style="list-style-type: none"> The higher the future cash flows, the higher the fair value The earlier the payment date, the higher the fair value The lower the discount rate, the higher the fair value
Asset management schemes	Level 3	<ul style="list-style-type: none"> Discounted cash flows with future cash flows that are estimated based on expected payable amounts, discounted at rates that reflect management's best estimation of the expected risk level 	<ul style="list-style-type: none"> Expected future cash flows Expected payment date Discount rates that correspond to the expected risk level 	<ul style="list-style-type: none"> The higher the future cash flows, the higher the fair value The earlier the payment date, the higher the fair value The lower the discount rate, the higher the fair value

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

60 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. These financial assets and financial liabilities of the Group are not offset in accordance with IFRS.

As at 31 December 2017, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements are not material to the Group.

61 UNCONSOLIDATED STRUCTURED ENTITIES

Unconsolidated structured entities of the Group mainly include collective and targeted asset management schemes, trust schemes, wealth management products and investment funds.

Except for the consolidated structured entities as detailed in Note 3.2.6, during the year ended 31 December 2017, the Group's interest in these wealth management products included fee and commission income of RMB79.75 million (2016: RMB63.45 million) and interest income of RMB1.29 million (2016: RMB55.79 million). The Group did not consider itself being the principal and consequently did not consolidate these other structured entities.

The total assets of unconsolidated collective and targeted asset management schemes managed by the Group amounted to RMB21,690 million as at 31 December 2017 (31 December 2016: RMB10,968 million). For the unconsolidated trust schemes, wealth management products and investment funds invested by the Group, there is no publicly available information on the size of those structured entities which are issued and managed by third parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

61 UNCONSOLIDATED STRUCTURED ENTITIES (CONTINUED)

The interests in unconsolidated structured entities held by the Group included fund investment classified as available-for-sale financial assets, and financial assets held for trading, and management fee, commission fee receivables recorded as other current assets. The related carrying amount and the maximum exposure were as follows:

	31 December 2017	31 December 2016
Available-for-sale financial assets	1,014,723	769,455
Financial assets held for trading	475,870	885,106
Other current assets	43,187	31,480
Total	1,533,780	1,686,041

For the year ended 31 December 2017 and 2016, the income derived from these unconsolidated structured entities held by the Group was as follows:

	Year ended 31 December	
	2017	2016
Net investment gains	1,286	55,793
Fee and commission income	79,745	63,452
Total	81,031	119,245

As at 31 December 2017 and 2016, the Group did not provide, nor intend to provide, any financial support to these unconsolidated structured entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

62 SUBSEQUENT EVENTS

62.1 H Shares repurchase

The Company repurchased 6,188,000 H shares on February 2018, representing approximately 0.495% and 0.158% of the total outstanding number of H shares and total share capital of the Company as at that day, respectively. The total consideration was HKD19,407,620.

62.2 Suspension of public issuance of A Share Convertible Corporate Bonds

The Company received the CSRC Notice on the Suspension of Review Process of the Application for Administrative Permission on 12 January 2018, pursuant to which, the CSRC has agreed to suspend the review of the application documents in relation to the Company's public issuance of A Shares Convertible Corporate Bonds.

62.3 The supervision and management measures imposed on the Company

The Company acted as financial adviser in the transaction of Tianjin Fengli Innovation Investment Co., Ltd. acquiring Xuzhou Jieneng Technology Development Co., Ltd. in 2016. According to the Regulations on Supervision and Management of Securities Companies, CSRC decided to file a investigation of the Company on 30 November 2017 with the suspicion that the Company was not acting diligently and caution enough. The CSRC Henan Bureau imposed certain supervision and management measures on the Company on 9 February 2018, which in the opinion of the directors have no significant negative impact on the financial position of the Company.

62.4 Profit distribution for 2017

On 29 March 2018, the Board of Directors proposed the second half of 2017 dividends of RMB0.35 per ten shares (inclusive of tax), amounting to RMB137,330,715 in total. The proposed profit distribution plan is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

63 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

		As at 31 December	
	Note	2017	2016
Assets			
Non-current assets			
Property and equipment		218,107	221,077
Investment properties		32,168	33,547
Intangible assets		160,020	151,913
Investments in subsidiaries and consolidated structured entities	23	3,976,369	1,983,424
Other non-current assets		24,056	17,843
Available-for-sale financial assets		1,361,835	336,999
Deferred income tax assets		130,884	105,281
Refundable deposits		95,317	153,315
Financial assets held under resale agreements		7,953,793	676,704
Total non-current assets		13,952,549	3,680,103
Current assets			
Other current assets		560,182	471,175
Investments in subsidiaries and consolidated structured entities	23	–	221,472
Margin accounts receivable		5,722,069	5,873,865
Available-for-sale financial assets		331,729	1,641,983
Financial assets held under resale agreements		1,103,609	4,892,466
Due from other financial institutions		40,000	–
Financial assets held for trading		5,435,181	5,633,992
Clearing settlement funds		2,114,166	2,861,280
Cash held for brokerage clients		5,242,931	7,374,122
Cash and bank balances		1,432,091	3,532,247
Assets of disposal group classified as held for sale	40	13,188	–
Total current assets		21,995,146	32,502,602
Total assets		35,947,695	36,182,705
Equity and liabilities			
Share capital		3,923,735	3,923,735
Reserves	a	5,870,331	5,740,540
Retained earnings	a	271,988	767,341
Total equity		10,066,054	10,431,616

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

63 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

Balance sheet of the Company (continued)

	As at 31 December	
	2017	2016
Liabilities		
Non-current liabilities		
Bonds payable	6,496,635	5,494,299
Deferred income tax liabilities	1,277	17,076
Total non-current liabilities	6,497,912	5,511,375
Current liabilities		
Other current liabilities	830,809	1,051,728
Accounts payable to underwriting clients	434,400	–
Tax payable	46,583	80,816
Due to other financial institutions	1,015,000	400,000
Financial assets sold under repurchase agreements	7,284,879	5,313,079
Bond payable	1,500,000	3,399,756
Short-term notes payable	1,363,870	410,000
Derivative financial liabilities	471	132
Accounts payable to brokerage clients	6,907,717	9,584,203
Total current liabilities	19,383,729	20,239,714
Total liabilities	25,881,641	25,751,089
Total equity and liabilities	35,947,695	36,182,705

The statement of financial position of the Company was approved by the Board of Directors on 29 March 2018 and was signed on its behalf:

JIAN Mingjun

Chairman of the Board and Executive Director

JIAN Mingjun

Executive Director and President

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

63 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

Note (a)

Reserve movement of the Company

	Retained earnings	Reserves
At 1 January 2016	1,402,524	1,635,666
Profit for the year	364,175	221,321
Dividends paid	(999,358)	–
At 31 December 2016	767,341	1,856,987
At 1 January 2017	767,341	1,856,987
Profit for the year	265,852	149,541
Dividends paid	(761,205)	–
At 31 December 2017	271,988	2,006,528