



中州證券

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”)

(2002年於中華人民共和國河南省成立的股份有限公司，中文公司名稱為「中原证券股份有限公司」，在香港以「中州证券」名義開展業務)

Stock Code 股份代號：01375



年報

2018

Annual Report



IMPORTANT NOTICE

The Board and the Supervisory Committee and the Directors, Supervisors and senior management of the Company warrant the truthfulness, accuracy and completeness of contents of this report and that there is no false representation, misleading statement contained herein or material omission from this report, for which they will assume joint and several liabilities.

This report has been considered and approved at the Sixth Meeting of the Sixth Session of the Board and the Fifth Meeting of the Sixth Session of the Supervisory Committee where all Directors and Supervisors attended the respective meeting.

The annual financial statements for 2018 prepared by the Company in accordance with the International Financial Reporting Standards and China's Accounting Standard for Business Enterprises have been audited by PricewaterhouseCoopers and ShineWing Certified Public Accountants (Special General Partnership), respectively with respective standard unqualified audit report issued to the Company.

Mr. Jian Mingjun, head of the Company, Mr. Chang Junsheng, the person in charge of accounting affairs, Mr. Li Zhaoxin, the Chief Accountant and Mr. Guo Liangyong, head of the accounting department (head of financial division) warrant that the financial statements set out in this report are true, accurate and complete.

The Company's proposed profit distribution plan for the second half of 2018 as considered and approved by the Board is not to distribute a cash dividend, nor capitalize capital reserve into share capital, which is subject to the approval of the shareholders' general meeting of the Company. The Company has distributed an interim dividend of RMB0.10 for every 10 shares (tax inclusive) for the first half of 2018 in October 2018.

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

There was no appropriation of funds of the Company by controlling Shareholder(s) or its/their related/connected parties for non-operating purposes during the Reporting Period.

The Company had made no guarantee to external parties against the stipulated decision-making process during the Reporting Period.

This report has been prepared by the Company in both Chinese and English languages. In the event of any discrepancies between the English version and the Chinese version, 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 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 IV. "(IV) Potential risks" in this report.



CONTENT

Section 1	Definitions	4
Section 2	Company Profile and Key Financial Indicators	7
Section 3	Summary of the Company's Business	36
Section 4	Report of the Board of Directors	39
Section 5	Significant Events	86
Section 6	Changes in Ordinary Shares and Information on Shareholders	96
Section 7	Directors, Supervisors, Senior Management and Employees	106
Section 8	Corporate Governance Report	123
Section 9	Corporate Bonds	152
Section 10	Financial Report	155
Section 11	Documents Available for Inspection	156
Section 12	Information Disclosure of Securities Company	157



SECTION 1 DEFINITIONS

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

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
Anyang Economic Development	Anyang Economic Development Group Co., Ltd. (安陽經濟開發集團有限公司)
Anyang Iron & Steel Group	Anyang Iron & Steel Group Co., Ltd. (安陽鋼鐵集團有限責任公司)
Articles of Association	the prevailing valid Articles of Association of the Company
Board	the board of Directors of the Company
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 Futures	Central China Futures Co., Ltd. (中原期貨股份有限公司)
Central China International	Central China International Financial Holdings Company Limited (中州國際金融控股有限公司)
Central China Micro-lending	Henan Central China Micro-lending Company Limited (河南省中原小額貸款有限公司)
China Bond Insurance	China Bond Insurance Co., Ltd. (中債信用增進投資股份有限公司)
Company Law	the Company Law of the PRC (中華人民共和國公司法)
Company, Parent Company or Central China Securities	Central China Securities Co., Ltd.
Corporate Governance Code	Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Hong Kong Listing Rules
CPCHPC	Henan Provincial Committee of the Communist Party of China (中國共產黨河南省委員會)
CSF	China Securities Finance Corporation Limited (中國證券金融股份有限公司)
CSRC	the China Securities Regulatory Commission (中國證券監督管理委員會)
Director(s)	director(s) of the Company
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



SECTION 1 DEFINITIONS

end of the Reporting Period/end of the Period	31 December 2018
Equity Exchange Co.	Central China Equity Exchange Co., Ltd. (中原股權交易中心股份有限公司)
Group	the Company and its subsidiaries
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
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 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 Investment Group	Henan Investment Group Co., Ltd. (河南投資集團有限公司)
Henan Provincial Government	Henan Provincial People's Government
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)
Henan Securities	Henan Securities Co., Ltd. (河南證券有限責任公司)
HK\$	Hong Kong dollars and cents, the lawful currency of Hong Kong
Hong Kong Listing Rules	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
IPO	the initial public offering
Jiangsu SOHO Holdings	Jiangsu SOHO Holdings Group Co., Ltd. (江蘇省蘇豪控股集團有限公司)
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)
Ministry of Finance	the Ministry of Finance of the PRC (中華人民共和國財政部)
Model Code	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules
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)

SECTION 1 DEFINITIONS

New Third Board	National Equities Exchange and Quotations
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)
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
Reporting Period/Period	1 January 2018 to 31 December 2018
RMB	the lawful currency of China — Renminbi, with the basic unit of “yuan”
Securities Law	the Securities Law of the PRC (中華人民共和國證券法)
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Shenhua Group	Henan Shenhua Group Co., Ltd. (河南神火集團有限公司)
Shenzhen Rising	Shenzhen Rising Investment Development Co., Ltd. (深圳市廣晟投資發展有限公司)
SSE	the Shanghai Stock Exchange
SSE Composite Index	composite stock price index of the SSE
State Council	the State Council of the PRC (中華人民共和國國務院)
Supervisor(s)	supervisor(s) of the Company
Supervisory Committee	the Supervisory Committee of the Company
this report	this annual report
Wind Info	Wind Info Co., Ltd. (上海萬得信息技術股份有限公司)
ZDKY Venture Capital	Zhongding Kaiyuan Venture Capital Management Co., Ltd. (中鼎開源創業投資管理有限公司)
Zhongyuan Trust	Zhongyuan Trust Co., Ltd. (中原信託有限公司)
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))
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)

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	Chang Junsheng

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	3,869,070,700.00	3,923,734,700.00
Net capital	6,970,999,780.73	7,837,072,661.73

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

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

23. Intermediary introduction business for futures companies
24. Agency system host securities dealer business
25. Host securities dealer business of New Third Board business
26. Passed the globally recognised standard ISO/IEC20000 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

II. CONTACT PERSONS AND CONTACT METHODS

	Secretary to 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	0371-86505911	0371-86505911
Email address	zhuqb@ccnew.com	xucy@ccnew.com

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

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	Suite 3108, Two Exchange Square, 8 Connaught Place, Central, Hong Kong

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 this report	http://www.sse.com.cn
Website designated by the Hong Kong Stock Exchange for publishing this 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

Class of Shares	Stock Exchange of Listing	Stock Name	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) History of the Company

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 reorganised 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 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, Hebi Development Construction & Investment Company, a former shareholder of the 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 Anyang Trust & Investment Company Limited, a former shareholder of the Company, 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.

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. (《關於安陽市經濟技術開發公司變更名稱的函》) issued by Anyang Economic Technology Development Co., Ltd., a former shareholder of the Company, 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.".



SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

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., Pingmei Shenma, 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.

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



SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

On 22 April 2014, CSRC issued the 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 increased 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 nominal value of RMB1 each at an issue price of HK\$4.28 per H share. On 14 August 2015, the Company completed the registration of change of the registered capital with the Henan Administration for Industry & Commerce, with the registered capital increased to RMB3,223,734,700.

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 denominated 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分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.



SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

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

From 12 February 2018, the Company repurchased certain H shares by means of on-market share buy-back, which was completed on 18 May 2018. The Company has repurchased 54,664,000 H shares on a cumulative basis. On 11 July 2018, the Company completed the registration of changes with the administrative department for industry and commerce and obtained the business licence reissued by the Henan Administration for Industry and Commerce, with the Company's registered capital changed to RMB3,869,070,700.

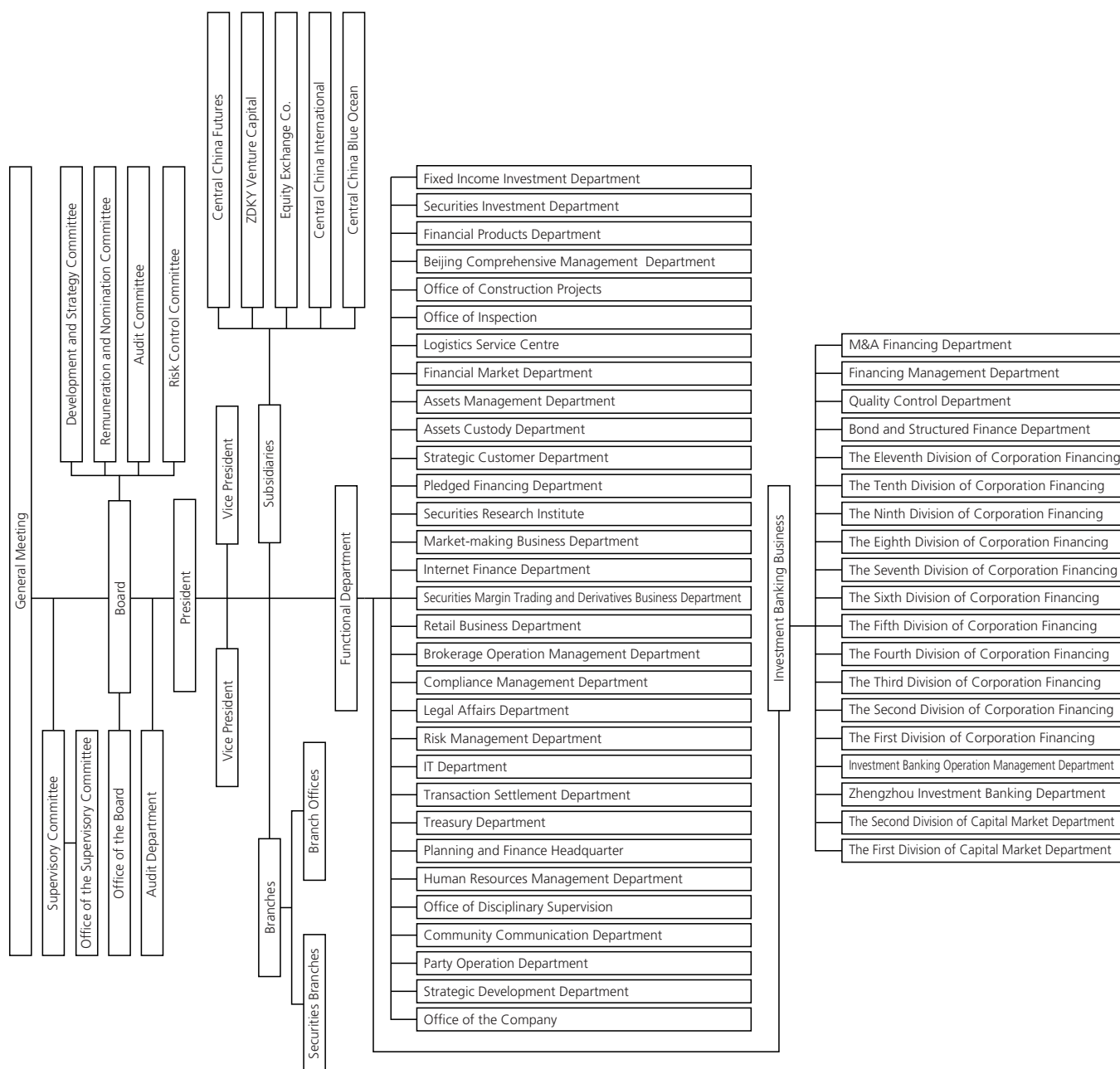
(II) Status of the Company's organizational structure

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 system has been established. The Company has also established a corporate governance structure that balances the power between the general meeting, the Board and the Supervisory Committee, in which the general meeting is the corporate authoritative body, the Board is the decision making authority and the Supervisory Committee is the supervision authority.

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

1. Organizational structure diagram of the Company

As at the date of this report, the organizational structure diagram of the Company is as follows:





SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

2. Major subsidiaries of the Company

As of the end of the Reporting Period, the Company had 4 domestic subsidiaries and 1 overseas subsidiary, as summarised 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 company:	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 company:	limited liability 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
Registered capital:	HK\$760 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.
Type of company:	limited liability company

(4) *Central China Blue Ocean Investment Management Company Limited*

Office address:	No. 20 Business Outer Ring Road, Zhengzhou Dong District, Zhengzhou City, Henan Province
Country of incorporation/ registered address:	China/West to Laodong Road and north to Hongteng Road, Weidu Industry Cluster Area, Xuchang City, Henan Province
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 equity investment with its own capital.
Type of company:	limited liability company

(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, Henan Province
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. (For projects subject to approval, the operating activities can only be commenced with approvals from relevant authorities)
Type of company:	joint stock company limited

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

(III) Number and network 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 directly under the central government, including 2 in Beijing, 2 in Shanghai, 2 in Zhejiang Province, 2 in Guangdong Province, 1 in Hubei Province, 2 in Hunan Province, 1 in Jiangsu Province, 1 in Shanxi Province, 3 in Shandong Province, 1 in Hebei Province, 1 in Tianjin, 1 in Shanxi Province and 69 in Henan Province. 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 Free Trade Zone Securities Branch	Room 202, Floor 5A, 138 Jingbei First Road, Zhengzhou Area (Jiangkai), Pilot Free Trade Zone, Henan Province	Zhang Yingju
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	Guo Zhijun
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

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

No.	Securities branch	Address	Person in charge
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, Henan Province	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	Area A2, Nandaqing Integrated Service Building, 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
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 Jianshe Road Securities Branch	37 Middle Jianshe Road (Renmin Plaza), Weidong District, Pingdingshan City, Henan Province	Zheng Wenchao

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

No.	Securities branch	Address	Person in charge
20	Central China Securities Co., Ltd. Ruzhou Chengyuan Road Securities Branch	1-2F, West side of the Chengyuan 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, Hua Long District, 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
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	Fu Hongbin
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	Jiang Hua
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

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

No.	Securities branch	Address	Person in charge
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. Hui County Gongcheng Avenue Securities Branch	North to the East Gongcheng Avenue, Hui County, Henan Province	Zhang Xiaodong
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 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, Henan Province	Wang Nan
40	Central China Securities Co., Ltd. Xuchang Balong Road Securities Branch	Future East Coast Huacheng, South Balong Road, Xuchang City, Henan Province	Li Jianxin

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

No.	Securities branch	Address	Person in charge
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, Street-Facing 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	Qiao 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
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 North Jianshe Road Securities Branch	North Jianshe Road, 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 City Jiyuan Avenue Securities Branch	The 14th Shop of the Street Shops from West to East, Commercial and Residential Building 1, Area A, Jishui Garden, South side of the Xueyuan Road, Jiyuan City, Henan Province	Zhang Weihua

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

No.	Securities branch	Address	Person in charge
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, Henan Province	Li Jinfeng
53	Central China Securities Co., Ltd. Mianchi County Huanghe Road Securities Branch	Shop 06, Building 1, Xinhua International Community, Middle Huanghe 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
55	Central China Securities Co., Ltd. Yongcheng Zhongyuan Road Securities Branch	Intersection of Zhongyuan Road and Guangming Road, Dongcheng District, Yongcheng 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, Intersection of Xianyuan Road and Ziqi Avenue, Luyi County, Henan Province	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



SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

No.	Securities branch	Address	Person in charge
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	Zhu Yu
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
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 Longcheng Avenue Securities Branch	Unit 907, Genzon Times Square Tower, 89 Longcheng Avenue, Center City, Longcheng Street, Longgang District, Shenzhen, Guangdong Province	Zeng Hao
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), Guangdong Province	Xiong Peili
70	Central China Securities Co., Ltd. Qingdao Xianxialing Road Securities Branch	Area B of Jin Ling Sunzone, No.16 Xianxialing Road, Laoshan District, Qingdao City, Shandong Province	Zhao Shengchang
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

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

No.	Securities branch	Address	Person in charge
72	Central China Securities Co., Ltd. Jinan South Gongye 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
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	Zhou Weidong
75	Central China Securities Co., Ltd. Hangzhou Xintang Road Securities Branch	Room 301, 3F, Building 2, Xincheng Shidai Plaza, No.111 Xintang Road, Jiangan 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	Ji Lijuan
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	Zhu Guojun
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	Gu Yajun



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, Hubei Province	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, Shanxi Province	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, Henan Province	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, Henan Province	Ma Zhongliang
88	Central China Securities Co., Ltd. Yanshi Yingbin Road Securities Branch	Room 301, Building 1, Yuehai International, No.41 Huaxia Road, Yiluo Subdistrict Office, Yanshi City, Henan Province	Huang Erbin

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

(IV) Number and network of other branches

As of the end of the Reporting Period, the Company had 24 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
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 Avenue 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

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

No.	Branch office	Address	Date of incorporation	Person in charge	Contact No.
10	Central China Securities Co., Ltd. Xinyang Branch Office	Hongyunxin 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	Xu Weiwen	0371-23899816
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, Block 1, No.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 Lin	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: Unit 04 & 05, 31F, Shenzhen China Life Insurance Building, No.123 Fu Hua One Road, Futian CBD, Shenzhen, Guangdong Province	2015/5/14	Jiang Huijun	0755-83801055
21	Central China Securities Co., Ltd. Pingdingshan Branch Office	1/F, Chang'an Hotel, 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, Sichuan Province	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, Jiangsu Province	2017/9/5	Liu Aiwu	025-83696336
24	Central China Securities Co., Ltd. Hainan Branch Office	Room 2007, 20F, Hainan Building, No.5 Guoxing Avenue, Meilan District, Haikou City, Hainan Province	2017/9/12	Dong Peng	0898-66515090

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

VII. OTHER RELEVANT INFORMATION

Accounting firm engaged by the Company (domestic)	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 Cui Weiwei
Accounting firm engaged by the Company (overseas)	Name	PricewaterhouseCoopers
	Office address	22/F, Prince's Building, Central, Hong Kong
	Name of signing accountant	Yip Siu Fun
Sponsor performing the duty of continuous supervision during the Reporting Period	Name	Changjiang Financing Services Co. Limited
	Office address	28F, No.1198 Century Avenue, China (Shanghai) Pilot Free Trade Zone
	Names of signing sponsors	Zhang Wei 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 ^{Note}	
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	

Note: The Company's legal advisor as to Hong Kong Law has changed to Linklaters from 1 January 2019.

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

VIII. PRINCIPAL ACCOUNTING DATA AND FINANCIAL INDICATORS

(I) Principal accounting data and financial indicators for the last three years

Item	2018	2017	Change of this period from last period	2016
Operating results (RMB'000)				
Revenue and other income ¹	2,857,917	3,192,494	-10.5%	3,130,320
Profit before income tax	101,118	680,109	-85.1%	974,567
Profit for the year attributable to shareholders of the Company	65,789	441,983	-85.1%	718,646
Net cash inflow/outflow from operating activities	2,659,950	-1,596,902	N/A	1,772,788
Earnings per share (RMB/share)				
Basic earnings per share	0.02	0.11	-81.8%	0.22
Diluted earnings per share	0.02	0.11	-81.8%	0.22
Profitability index				
Weighted average return on net assets (%)	0.66	4.24	Decrease by 3.58 percentage points	8.89

¹ As share of profit of associates has been represented as a separate item in the consolidated income statement, the relevant figure under "Revenue and other income" for each of 2016, 2017 and 2018 as listed in the above table does not include such item.

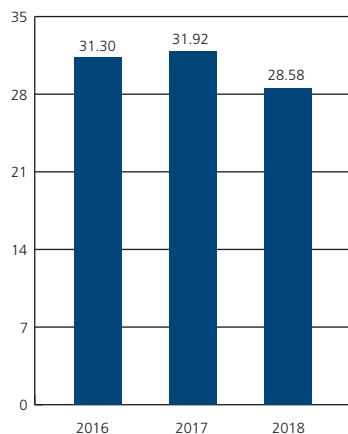
SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

Item	31 December 2018	31 December 2017	Change of the end of this period from the end of last period	31 December 2016
Scale merit (RMB'000)				
Total assets	42,155,282	40,661,468	3.7%	40,384,574
Total liabilities	30,880,242	29,209,349	5.7%	28,837,804
Accounts payable to brokerage clients	6,561,060	7,526,503	-12.8%	10,368,090
Equity attributable to shareholders of the Company	9,950,899	10,169,852	-2.2%	10,582,117
Total share capital ('000 shares)	3,869,071	3,923,735	-1.4%	3,923,735
Net asset value per share attributable to the Company's shareholders (RMB/share)				
	2.57	2.59	-0.8%	2.70
Gearing ratio (%)²	68.3	65.0	Up by 3.3 percentage points	61.5

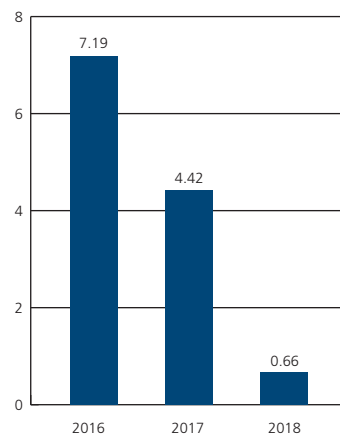
² Gearing ratio = (total liabilities — accounts payable to brokerage clients — accounts payable to underwriting clients)/(total assets — accounts payable to brokerage clients — accounts payable to underwriting clients)

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

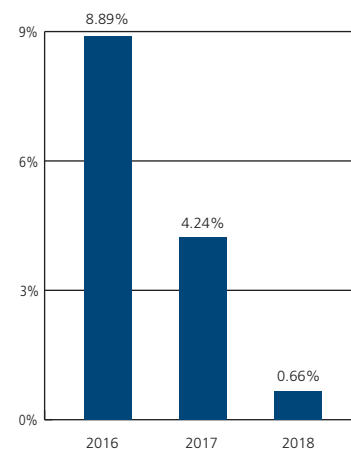
Revenue and other income (RMB100 million)



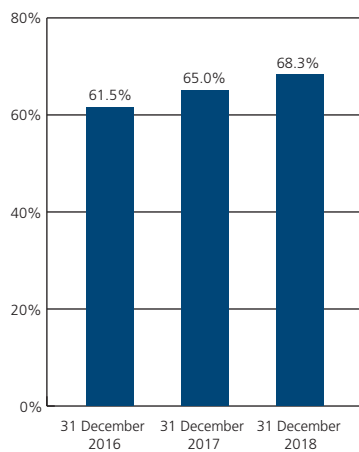
Profit for the year attributable to shareholders of the Company (RMB100 million)



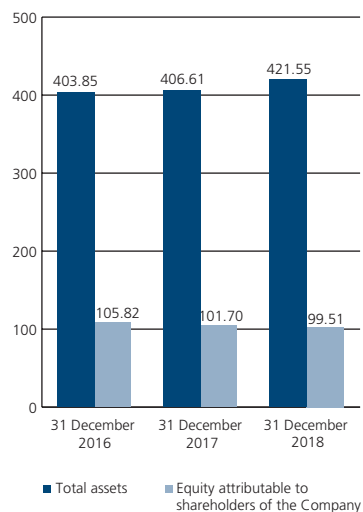
Weighted average return on net assets



Gearing ratio



Scale merit (RMB100 million)



SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

(II) Principal accounting data and financial indicators for the last five years

Earnings (RMB'000)

Item	2018	2017	2016	2015	2014
Revenue and other income	2,857,917	3,192,494	3,130,320	5,365,260	2,341,061
Total expenses	2,778,885	2,518,951	2,150,498	3,439,869	1,554,704
Profit before income tax	101,118	680,109	974,567	1,890,969	754,771
Profit for the year attributable to shareholders of the Company	65,789	441,983	718,646	1,405,501	562,290

Assets (RMB'000)

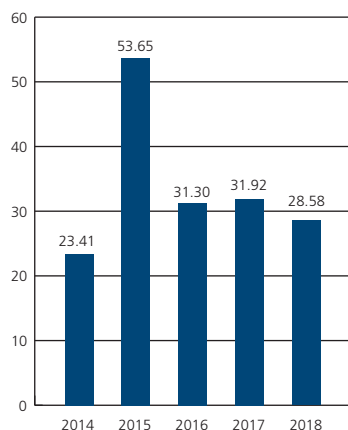
Item	31 December 2018	31 December 2017	31 December 2016	31 December 2015	31 December 2014
Total assets	42,155,282	40,661,468	40,384,574	41,651,249	28,269,242
Total liabilities	30,880,242	29,209,349	28,837,804	32,774,795	22,412,446
Accounts payable to brokerage clients	6,561,060	7,526,503	10,368,090	14,867,251	9,659,833
Equity attributable to shareholders of the Company	9,950,899	10,169,852	10,582,117	8,161,581	5,786,707
Total share capital ('000 shares)	3,869,071	3,923,735	3,923,735	3,223,735	2,631,616

Key financial indicators

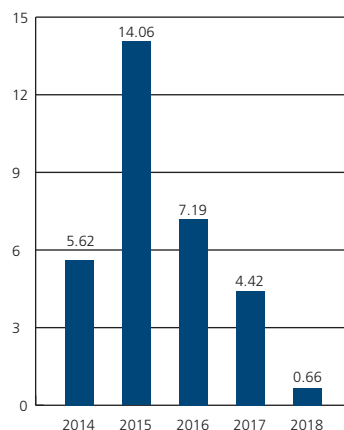
Item	2018	2017	2016	2015	2014
Basic earnings per share (RMB/share)	0.02	0.11	0.22	0.49	0.24
Diluted earnings per share (RMB/share)	0.02	0.11	0.22	0.49	0.24
Weighted average return on net assets (%)	0.66	4.24	8.89	20.54	11.41
	31 December 2018	31 December 2017	31 December 2016	31 December 2015	31 December 2014
Gearing ratio (%)	68.3	65.0	61.5	66.9	68.5
Net asset value per share attributable to the Company's shareholders (RMB/share)	2.57	2.59	2.70	2.53	2.20

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

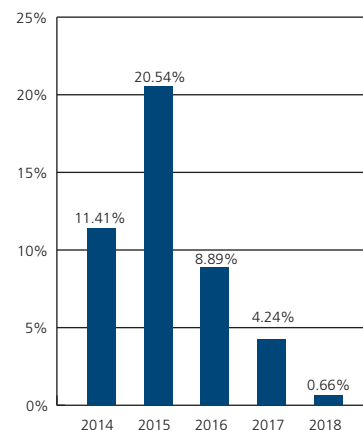
Revenue and other income (RMB100 million)



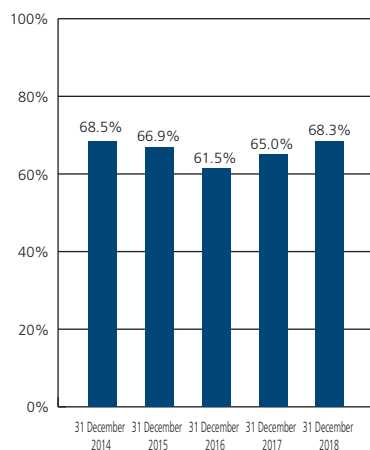
Profit for the year attributable to shareholders of the Company (RMB100 million)



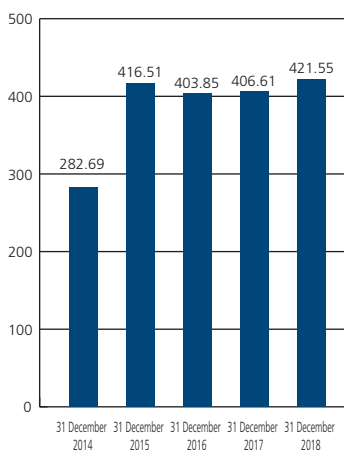
Weighted average return on net assets



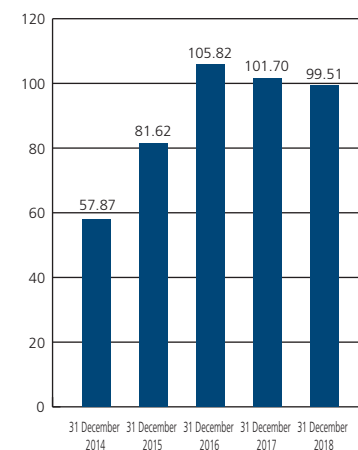
Gearing ratio



Total assets (RMB100 million)



Equity attributable to shareholders of the Company (RMB100 million)



SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

(III) Net capital and risk control indicators of the parent company

Unit: Yuan Currency: RMB

Items	At the End of the Reporting Period	At the End of Last Year
Net capital	6,970,999,780.73	7,837,072,661.73
Net assets	9,704,314,003.71	10,066,054,127.25
Sum of various risk capital provisions	2,680,306,564.85	2,118,425,002.87
Total on-and-off balance sheet assets	31,868,160,613.18	28,955,919,340.53
Risk coverage ratio (%)	260.08	369.95
Capital leverage ratio (%)	14.99	18.71
Liquidity coverage ratio (%)	731.72	794.42
Net stable funding ratio (%)	151.80	144.98
Net capital/net assets (%)	71.83	77.86
Net capital/liabilities (%)	31.86	42.27
Net assets/liabilities (%)	44.36	54.30
Proprietary equity securities and its derivatives/net capital (%)	14.40	7.75
Proprietary non-equity securities and its derivatives/net capital (%)	200.75	127.46
Amount of margin financing (securities lending inclusive)/net capital (%)	100.99	132.78

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

IX. 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 of 2018 and the year of 2017 and the total equity as at 31 December 2018 and 31 December 2017.



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 year, the Company actively seized opportunities, took the initiative in adjusting the structure of securities brokerage business, accelerated the functional transformation of branches of traditional brokerage businesses and the development of various specialised teams, continuously deepened the application of financial technologies, effectively promoted the deep transformation of business mode from channel service to online and offline integrated wealth management service mode, and constantly improved the response and satisfaction capability of different customer groups in wealth management and other integrated financial services.

The investment banking business of the Company mainly includes the underwriting and sponsorship business of equity securities, the underwriting business of bond products, the financial consultancy business regarding mergers and acquisitions, and business for the New Third Board. The Company obtains the corresponding returns such as underwriting fee, sponsorship fee and financial consultancy fee by providing the aforesaid financial services to customers.

The Company's investment management business is mainly comprised of asset management business, private fund management business, alternative 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 options. In cooperation with local governments, large enterprises and advanced investment institutions, the private fund management business has initiated the establishment and management of various industrial funds, venture fund, and merger and acquisition funds to guide and stimulate social capital, invest in high-quality unlisted enterprises, solve enterprise capital bottleneck, serve the cultivation of local industries, and support real economy development. The alternative investment business mainly focuses on equity investment and financial asset investment, with an aim to obtain current income and medium and long-term income.

The scope of investment of the proprietary trading business of the Company 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 investment and "flexible allocation and stable operation" and actively explore new management models, resulting in the effective control of investment risks.



SECTION 3 SUMMARY OF THE COMPANY'S BUSINESS

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 license 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, proprietary investment, etc. Under the capital market environment with intensified volatility in the Hang Seng Composite Index, the overall overseas business of the Company maintained stable development, gradually adjusted the assets structure and optimized the income structure. In 2018, all business lines developed steadily. Among them, the securities trading ranks 25 higher than 153 at the end of 2017, ranking 128 out of 625 exchange participants (Source: Hong Kong Stock Exchange).

(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. The Chinese capital market has gone through nearly 30 years of development and gradually developed from an immature and unregulated market into a mature and soundly regulated market, and from beginning to take shape to continuing to grow and develop. With the maturity and development of China's capital market, the securities industry's ability to serve the real economy and meet the economic and social development and the needs of people has been gradually enhanced, and the securities industry has played an important role in Chinese national economy.

According to the statistics of the Securities Association of China, as at the end of the Reporting Period, there were 131 securities companies in China, with total assets and net assets of RMB6.26 trillion and RMB1.89 trillion, respectively, increased by 1.95% and 2.16% on a year-on-year basis, respectively ; with total operating income and net profit of RMB266.287 billion and RMB66.62 billion, respectively, declined by 14.47% and 41.04% on a year-on-year basis, respectively. At present, the securities industry is still unable to effectively shake off the strong cyclical characteristic of industry attributes, but keeps a "spiral" rising trend on a whole.

Currently, the Company is the only securities company that was registered by legal persons in Henan Province as a legal person. After over 10 years of development, the Company has developed itself into a comprehensive securities company with distinctive advantages in the region.



SECTION 3 SUMMARY OF THE COMPANY'S BUSINESS

II. ANALYSIS ON CORE COMPETITIVENESS DURING THE REPORTING PERIOD

1. Advantage of the whole industrial chain with synergetic development of investment, asset management and wealth management, which are led by the investment banking business

In order to improve the professional service level, the Company has completed the reform of several business lines such as investment banking, proprietary trading, asset management and investment in a customer-oriented way since 2018, and has made clear the goal of the transformation from brokerage business to wealth management with the effect of reform gradually emerging. In particular, the capability of investment banking has been remarkably improved, and the advantage of the whole industrial chain with the close synergetic development of investment, asset management and wealth management, which are led by the investment banking business, are becoming increasingly prominent.

2. Advantage of A+H listing platform

The Company is the eighth securities company listed on the main board of Hong Kong and mainland China in the national securities industry, which not only greatly expands the channels for supplementing net capital and operation capital and enriches development means, but also enhances the brand and social influence and further increases the development potential.

3. Advantage of comprehensive financial management

At present, the Company has more than 110 branches in most of the provincial capitals including Hong Kong, Beijing, and Shanghai, as well as provincial cities and developed counties in Henan Province, and subsidiaries such as Equity Exchange Co., Central China Futures, Central China Blue Ocean, ZDKY Venture Capital, Central China International and Central China Micro-lending. The Company is leading the formation of Zhongyuan Life Insurance Co., Ltd. (provisional name). Based on securities business, the Company develops the comprehensive operation pattern covering regional equity market and futures, life insurance, alternative investment, private fund management business, micro-loan and other financial forms, which is scarce among domestic securities companies.

4. Advantage of fulfilling social responsibility actively

The Company attached great importance to the fulfillment of social responsibilities and gave full play to the professional advantages of the capital market to support the enterprises of Shangcai County, Tongbai County, Gushi County and other state-designated poverty-stricken counties in Henan Province to use the capital market to improve their self-development ability. We dispatched cadres to assist Xinjiang to support Hami, sent the first secretary to Luochen Village of Guangshan County to help the village, and actively supported the work of the Henan Province Foundation for Poverty Alleviation, for which the Company serves as its director. With all of these efforts, it has effectively promoted the poverty alleviation, and won the general recognition from all walks of life.

5. Advantage of geographical base

As the only securities company that was registered in Henan Province as a legal person, the Company is endowed with the base of the largest economic province in China's central and western parts and can develop nationally and globally from Henan. At present, Henan's financial industry developed rapidly. However, the overall level is relatively weak, especially the rate of securitization is far lower than the national average. The Company has developed the Henan market for more than ten years and established deep cooperation with the local government organizations and enterprises, with obvious location advantages.



SECTION 4 REPORT OF THE BOARD OF DIRECTORS

I. REVIEW OF BUSINESS

(I) Business review

In 2018, the Group recorded total revenue and other income of RMB2,857.9 million, representing a decrease of 10.5% as compared with 2017; total expenses amounted to RMB2,778.9 million, representing an increase of 10.3% as compared with 2017; net profit attributable to shareholders of the Company amounted to RMB65.8 million, representing a decrease of 85.1% as compared with 2017; basic earnings per share amounted to RMB0.02, representing a decrease of 81.8% as compared with 2017; weighted average return on net assets was 0.66%, representing a decrease of 3.58 percentage points as compared with 2017.

In 2018, the revenue and other income generated from brokerage business amounted to RMB1,308.2 million, representing a drop of 22.4% as compared with last year, primarily attributable to the decrease in commission and fee income generated from securities brokerage business; the revenue and other income generated from investment banking business amounted to RMB95.1 million, representing an increase of 7.5% as compared with last year, primarily attributable to the increase in commission and fee income generated from underwriting and sponsorship business; the revenue and other income generated from investment management business amounted to RMB229.6 million, representing a drop of 11.7% as compared with last year, primarily attributable to the decrease in net investment gains; the revenue and other income generated from proprietary trading business amounted to RMB586.7 million, representing an increase of 27.2% as compared with last year, primarily attributable to the increase in net investment gains from bond trading; the revenue and other income generated from overseas business amounted to RMB184.3 million, representing a drop of 31.1% as compared with last year, primarily attributable to the decrease in net investment gains; the revenue and other income generated from headquarters and other businesses amounted to RMB495.2 million, representing a drop of 15.8% as compared with last year, primarily attributable to the decrease in net investment gains.

(II) Major risks and uncertainties

Major risks faced with include: credit risk, market risk, liquidity risk, operational risk, compliance risk and information technology risk, etc. For the major risks faced with and counter-measures taken by the Group, please refer to IV. (IV) "Potential risks" in this section.

(III) Subsequent material events

Since the end of the Reporting Period to the date of this report, no subsequent event has occurred which had a material impact on the Group. For details of other subsequent events of the Group, please refer to Note 61 to the Consolidated Financial Statements as set out in this report.

(IV) The future development and forward-looking statements

For the prospects of the Company's future development, please refer to IV. "Discussion and Analysis on the Future development of the Company" in this section.



SECTION 4 REPORT OF THE BOARD OF DIRECTORS

(V) Environmental policies and performance

Sustainable development has become a global issue. The Company has always adhered to green operation throughout the operation and management. The Company has been actively improving its green operation system and practicing green sustainable development in compliance with laws, regulations and regulatory documents such as the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》) and the Law of the People's Republic of China on Conserving Energy (《中華人民共和國節約能源法》).

As for green finance, being a responsible financial service enterprise, the Company has been adhering to the concept of green development. The Company strictly controls the programs of the investment in investment banks in respect of environmental protection, and undertakes no programs whose prevention and treatment of pollution does not meet the requirements of the PRC's policies. The Company will never ignore environmental protection for benefits and will overcome obstacles in the prevention and treatment of pollution with practical actions;

As for green office, the Company's effort in paper reduction and green office can be reflected by the application of Office Automation System (OA System) to administrative tasks such as material purchase, instruction requests, application and official document seals. During the Reporting Period, the Company called on its entire staff to operate and work in a low-carbon and environmentally-friendly way, so as to maximally save social resources and reduce pollution to the environment, and thus adhering to green operation throughout the operation and management.

As for energy conservation and emission reduction, the Company has made much effort to reduce the environmental impact through careful management of energy consumption and resources use. As part of the Company's water saving initiatives, water saving labels are displayed in toilets and employees are constantly reminded to turn off the faucet tightly after use to avoid unnecessary waste. Other water saving measures include installation of infrared water tap and cistern flush, as well as repairing dripping tap and other devices in a prompt manner. For reduction of patrol waste and air pollution, the Company's fleet staff has to perform regular maintenance to raise the efficiency of the vehicles and make sure to switch off idling engines while not using the vehicles.

(VI) Compliance with relevant laws and regulations with significant impact

The Company strictly complies with domestic and overseas laws and regulations as well as industry standards such as the Hong Kong Listing Rules, SFO, PRC Company Law, PRC Securities Law and the Regulations on the Supervision and Administration of Securities Companies.

(VII) 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. The top 5 customers of the Company 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.



SECTION 4 REPORT OF THE BOARD OF DIRECTORS

II. DISCUSSION AND ANALYSIS ON BUSINESS OPERATION

(I) Overall business performance

Affected by economic downturn and financial de-leverage in 2018, SSE Composite Index and SZSE Component Index were respectively decreased by 24.59% and 34.42% compared to the end of last year, marking the biggest drop in the past 10 years only second to that in 2008. The net profits of securities traders (on parent company basis) plummeted on a year-on-year basis and the performance of the Company also plunged. In the face of the extremely severe business situation, the Company achieved positive and profound transformation of overall outlook and consolidated the foundation for “Second Take-off” by following the work concepts determined at the beginning of the year, improving professional services, strengthening the core competitiveness, making breakthroughs and overcoming difficulties and forging ahead with reform.

The Company forged ahead with the pilot work of professional manager system, perfected decision-making mechanism and introduced high-end talents from many channels as each of the presidents, chief accountants, chief compliance officers and chief investment officers, etc., greatly improving the leadership and professionalism of the management team of the Company.

The reform of most business lines was completed smoothly and orderly with effects initially shown. The Company took the lead in completing the reform of business lines of investment banking, formulated a group decision-making mechanism with the management committee of investment banking as the core, initially forming the layout of three regional investment bank headquarters in Beijing, Shanghai and Zhengzhou. The Company created a competitive assessment and talent mechanism for attracting and retaining the talents and increased the scale of investment banking team to over 300 persons, of which, the number of sponsor representatives increased to 50 and quasi-sponsor representatives amounted to 89. The Company built an internal control structure covering “three lines of control”, obviously improving internal control quality and its business rapidly recovered. The reserve of high-quality projects also expanded, marking a fundamental improvement in the development outlook.

The proprietary business lines have obtained remarkable reform achievements. The integrated securities investment headquarters and fixed income investment headquarters established a performance evaluation mechanism corresponding to the industry, re-constructed a professional investment process and improved relevant systems. The Company specially hired a chief investment officer and introduced a research director of securities investment department so that its professional level has been significantly improved. The fixed income investment took advantages of the bull market in bonds last year with better investment income, and the rate of return on equity investment was also considerably beyond the overall market level.

A new operating mode was established for asset management business. As required by the Guidance on Standardizing the Asset Management Business of Financial Institutions issued jointly by the CSRC and other three ministries and commissions, the Company made an overall reform of asset management business, dissolve the Shanghai Asset Management Branch, established asset management headquarter, clarified the business thought centering on active management products, strengthened basic system, risk control and internal control management, streamlined the business process, improved operation efficiency and promoted the optimal combination and diversion of personnel, developing a new operating mode.



SECTION 4 REPORT OF THE BOARD OF DIRECTORS

The Equity Exchange Co. overfulfilled the target for the whole year. With more than 4,500 listed companies, it helped enterprises raise funds of more than RMB4.1 billion, doubling the number of listed enterprises and the financing scale. In addition, it set up “back-up board for listing”, which has obviously improved the quality of listed companies and becomes a powerful way for the Company to serve the real economy.

The “Optimizing Investment” strategy has been fully implemented. Central China Blue Ocean optimized the investment strategy, determining the business direction based on equity investment and investment withdrawal direction based on IPO listing or listed companies’ M&A, reorganisation and withdrawal; optimized corporate governance and internal management structure, establishing the Investment Review Committee, presenting a good development trend. ZDKY Venture Capital also specified its business orientation, adjusted its organizational structure and improved the incentive and restraint mechanism, smoothly starting the transformation.

The brokerage business line actively planned the reform. With extensive internal and external research, it gradually developed basic thought of reform, defined the objective of comprehensively transforming to wealth management, and formulated a specific implementation scheme, thus laying a solid foundation for further deepening of the brokerage business transformation to wealth management.

In addition, the Company continuously strengthened the development of supervision, service and support capacity of the middle- and back-office departments, especially further perfected risk control and compliance system, effectively improved risk management capacity of the Company, accelerated the functional reform of relevant departments, and raised assurance and support level of comprehensive services, which strongly supported overall reform transformation and stable operation of the Company.

(II) Analysis of principal operations

1. Brokerage business

(1) Securities brokerage

Market environment

During the Reporting Period, affected by factors including the domestic economic downturn and trade frictions, the Shanghai Composite Index fell by 24.59% for the whole year, the Shenzhen Stock Exchange Component Index fell by 34.42% for the whole year, and the Shenzhen Stock Exchange Growth Enterprise Index fell by 28.65% for the whole year, with an obvious decrease in the transaction amount of stocks. In 2018, the trading volume of stocks in the two markets was RMB100.34 trillion, down by 17.87% over last year. The balance of margin financing and securities lending of the industry was RMB755.775 billion, down by 26.34% on a year-on-year basis. The credit transaction amount of the industry was RMB7,764.312 billion for the whole year, down by 26.60% on a year-on-year basis. The insurance and diversified trading functions of stock options have been gradually recognized, and with a constantly increasing market scale, the monthly trading volume of 50ETF options contracts on the SSE reached 26.35 million, representing an increase of 72% over last year. [Source: Wind Info]

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Business measures and performance

During the Reporting Period, the Company promoted the transformation from brokerage business to wealth management in terms of customer service appropriateness, service push standardization, service activity branding and others so as to improve customer satisfaction and enhance the recognition of products and service brand “Wealth Central China (財富中原)” of the Company. The Company attached great importance to the development of online intelligent service system, continuously increased the input of resources in online channel and service system, constantly created an online integrated service platform with “Cai Sheng Bao (財升寶)” as the carrier, and carried out intelligent data analysis and mining and personalized and proactive push, unceasingly raising customer service efficiency and experience.

During the Reporting Period, the aggregated trading volume of stocks and funds reached RMB1,041.451 billion, with a market share of 0.52%. Sales of online financial services platform products reached RMB5.16 billion, increased by 51.9% over last year. As at the end of the Reporting Period, the total number of customers in the securities brokerage business of the Company was 1.7772 million, representing an increase of 3.16% as compared with the end of last year. During the Reporting Period, the Company had 9,101 new customers through Internet cooperation, representing an increase of 158.18% as compared with 2017. The newly registered users of the Company’s APP “Cai Sheng Bao (財升寶)” reached 108,600 and total registered users exceeded 210,000, representing an increase of 103.8% as compared with the end of last year, and won the honors of “2018 Excellent Case Award” and “Highest Outlook Value Broker APP (最高顏值券商APP)” in China.

Margin financing and securities lending

During the Reporting Period, the Company focused on strengthening the dynamic adjustment and reverse-cycle management of the margin financing and securities lending business, and improving the risk management. As at the end of the Reporting Period, the balance of the margin financing and securities lending business amounted to RMB4.072 billion, the credit transaction volume amounted to RMB61.927 billion and the total credit accounts opened reached 42,322, representing an increase by 1.75% compared to the end of 2017.

Items	2018	2017	Year-on-year change
A Share fund transaction volume (in RMB100 million)	10,414.51	12,686.14	-17.91%
Number of securities brokerage customers (‘0,000)	177.72	172.27	3.16%
Balance for margin financing and securities lending (in RMB100 million)	40.72	57.42	-29.08%
Credit transaction volume (in RMB100 million)	619.27	985.03	-37.13%
Credit account	42,322.00	41,595.00	1.75%

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Sale of financial products

During the Reporting Period, centering on the operating concept of “customer-oriented”, the Company has improved the full-process business system of financial product sales based on the customer classification, optimized the key sales of fund products, and reformed and improved the product sales assessment mechanism, so as to align the interests of the sales personnel with the customers, and guide the sales personnel to further improve the wealth management service capability of providing product configuration as well as value maintenance and appreciation for the customers.

During the Reporting Period, the sale of financial products of the Company achieved substantial growth as a whole. The agency sale of public fund product amounted to RMB1.158 billion, increasing by 93.32% on a year-on-year basis. The agency sale of bank wealth management product amounted to RMB1.913 billion, increasing by 14.76% on a year-on-year basis. With the issuance of 240 series of beneficiary certificates on rolling basis, the total issuance size amounted to RMB2.761 billion, increasing by 164.21% on a year-on-year basis. The sale of asset management products (except for cash management products) amounted to RMB344 million. The average daily retention amount of the Company’s cash management product YHHL (炎黃匯利) amounted to RMB2.405 billion, increasing by 26.05% on a year-on-year basis.

Currency: RMB100 million

Products	2018	2017	Year-on-year change
Public fund product	11.58	5.99	93.32%
Bank wealth management product	19.13	16.67	14.76%
Beneficiary certificates product	27.61	10.45	164.21%
Asset management product	3.44	24.99	-86.23%
Average daily retention amount of YHHL	24.05	19.08	26.05%

Stock option

During the Report Period, the Company continued to carry out option investor education and business promotion activities. By launching promotional activities such as “Advanced Seminar on Options (期權進階講堂)” and “Unique Derivatives (慧衍獨到)”, the Company constantly improved the professional ability of its business personnel, thus achieving stable growth of trading volume of options. During the Reporting Period, the number of accounts newly opened of stock option business of the Company amounted to 279 with a trading volume of options contracts of 1,654,000, representing an increase of 70.69% compared to last year. The Company was ranked 28th and 33rd in the industry in terms of the market share in the number of customers (i.e. 0.71%) and the trading volume throughout the year (i.e. 0.43%), respectively. [Source: SSE]



SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Outlook for 2019

In 2019, the securities companies is ushering in a better external environment. The Company will continue to build an online and offline integrated wealth management system of “customer classification, investment advisory classification, scientific support and service stratification”, deepen the development concept of “customer-oriented” and fully implement the reform of organizational structure, business process and institutional mechanisms. The Company will establish and improve the classified management mode of marketing service personnel, deepen the application of financial science and technology, construct a more scientific and three-dimensional financial product management framework, and actively promote the process of building a “one-stop” comprehensive financial service platform for the operation branch network. The Company will speed up the development of reverse-cycle and comprehensive risk management system of margin financing and securities lending; further promote the sales of financial products, integrate internal and external financial products of the Company, enhance the professional quality of the first-line investment advisors, and promote the development and improvement of “1 + N” service mode; deepen the stock option investor education and business promotion activities, and enrich brokerage business income sources of the Company; continuously optimize business process, improve business efficiency, continuously strengthen compliance and risk control management throughout the business process, and facilitate the transformation of brokerage business of the Company into wealth management.

(2) Futures brokerage

Market environment

In 2018, China’s futures market has entered a new period with equal attention to control and development. Under the strict supervision, the system of futures derivatives has been continuously improved, the internationalization of futures has been initiated, and the service entity function has been reflected preliminarily. During the Reporting Period, the total trading amount of China’s futures market was RMB210.82 trillion, increasing by 12.20% on a year-on-year basis; the trading volume was 3.029 billion board lots, decreasing by 1.54% on a year-on-year basis. [Source: China Futures Association]

Business measures and performance

The Company carried out its futures brokerage business through its subsidiary Central China Futures. During the Reporting Period, Central China Futures accelerated the transformation, relying on the superior varieties to improve the industrial service cooperation mechanism and consolidate the service results of the entire industrial chain, continuously explored innovative products and services such as “insurance + futures”, and further enhanced the capability of serving the real economy. The business layout was continuously optimized, relying on the establishment and improvement of business pivot, actively explored the new pattern of business development, and established Shanghai Branch Office and Zhejiang Wuyi Operation Branch successively during the Reporting Period. During the Reporting Period, there were 2,673 new clients and total number of clients served by Central China Futures reached 24,000, with the accumulative trading volume of 17.94 million board lots and the trading amount of RMB987.349 billion; Central China Futures Investment Research Team was awarded the title of “Excellent Futures Investment Research Team” of Dalian Commodity Exchange in 2018, and Yuxin Investment Management (Shanghai) Co., Ltd., a subsidiary of Central China Futures, was awarded the title of “Excellent Risk Management Subsidiary” of Zhengzhou Commodity Exchange.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Items	2018	2017	Year-on-year change
Trading amount (RMB100 million)	9,873.49	10,301.05	-4.15%
Trading volume ('0,000 board lots)	1,794.07	2,027.71	-11.52%
New clients	2,673	3,049	-12.33%
Total clients	24,214	21,690	11.64%

Outlook for 2019

In 2019, the development trend of capital market is promising, the risk aversion awareness and demand of clients in real economy industry are gradually improved, Central China Futures will improve principal operations, optimize support business, activate innovation business, and deepen the integration development of futures brokerage business and innovation business. Through improving the research and development support service capability, the comprehensive marketing capability of the market personnel and the linkage service capability of the subsidiaries, Central China Futures will promote the transformation of the futures brokerage business into focusing the customer risk management of the service industry, advance the development of Central China branches into a comprehensive service platform, and promote the transformation of customers into institutions and products. At the same time, Central China Futures will accelerate the integrated utilization of Shanghai's financial resources, give full play to the qualification utility such as the qualification of the inter-bank bond market, widen the financing channel and business development channel of the Company, and support the Company's business to be better and stronger. Yuxin Investment Management (Shanghai) Co., Ltd., a subsidiary of Central China Futures, aims to take the futures and cash business and over-the-counter derivative business as the development focus, comprehensively improve the market-making capacity, increase the liquidity support, and expand the scale of the mature business model so as to continuously enhance the ability of value creation.

2. Investment banking business

(1) Equity financing and financial advisory

Market environment

In 2018, there were 105 companies in total that completed the initial offering in SSE and Shenzhen Stock Exchange, with financing amount of RMB137.515 billion; 267 listed companies completed the refinancing offering, with financing amount of RMB752.352 billion, representing a year-on-year decrease of 24.32%. There were 569 new listed companies in the New Third Board market, with financing amount of RMB53.194 billion, representing a year-on-year decrease of 61.21% and 60.19%, respectively. [Source: Wind Info]

Business measures and performance

During the Reporting Period, the Company carried out all-round reform on the investment banking business line: Establishing the quality control department as an independent first-level department, and constructing the internal control structure of "three lines of defense" of investment banking; setting up the collective decision-making mechanism with the Corporate Investment Banking Management Committee as the core; establishing the headquarters of regional investment banks, and creating a mechanism of work allocation and cooperation between investment banking teams; optimizing the performance compensation and assessment system of investment banking business, and attracting a large number of professionals. At the end of the Reporting Period, the investment banking team of the Company has increased to over 300 people, including 50 sponsors, reducing the gap between the Company and advanced securities companies.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

During the Reporting Period, the Company completed 1 IPO project as joint lead underwriter, completed 1 non-public issuance of shares project by listed company and had 1 refinancing projects under review; and also completed 3 financial advisory projects, 5 New Third Board Listing projects and 8 private financing projects on the New Third Board.

Items	2018	2017	Year-on-year change
Equity lead underwriting amount (RMB100 million)	3.39	–	N/A
Number of equity lead underwriting projects	2	–	N/A
Number of financial advisory projects	3	15	-80%
Number of New Third Board listing projects	5	25	-80%
New Third Board private financing	8	21	-61.90%

Outlook for 2019

In 2019, the Company will grasp the development opportunity closely, and continuously advance the progress of equity projects such as IPO and M&A under the premise of compliance and risk control; will grasp new business opportunities and strengthen efforts to expand the market of science and technology innovation board; will give full play to local advantages, explore the Henan capital market, and strengthen the services for large-scale enterprises under provincial management; will expand the scope of business to the field of civil and military integration.

(2) Debt financing and financial advisory

Market environment

In 2018, under the guidance of the Modern Financial System Planning in the 13th Five-Year Plan promulgated by the People's Bank of China and on the basis of constructing a new pattern of financial supervision, the debt financing system and mechanism was continuously optimized, the government debt risk was gradually released, the opening degree of the bond market was improved, and various risk control policies have been issued continuously, effectively promoting the long-term and healthy development of the bond market.

Business measures and performance

During the Reporting Period, the Company completed 1 enterprise bond project, 3 corporate bond projects and 1 financial bond project. The underwriting amount of fixed income projects was RMB5.7 billion.

Items	2018		2017	
	Lead underwriting amount (RMB100 million)	Number of offerings	Lead underwriting amount (RMB100 million)	Number of offerings
Corporate bond	35	3	4.5	1
Enterprise bond	7	1	28.8	3
Financial bond	15	1	15	1
Total	57	5	48.3	5



SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Outlook for 2019

In 2019, the Company will strengthen the development of sales team to speed up the issuance of approved items; intensify risk management, actively fulfill the obligations of the bond trustee, and protect the interests of investors; increase investment in new business areas and actively engage in debt businesses such as “USD Debt”, “Panda Debt”, “the Belt and Road Debt” and “Poverty Alleviation Debt”.

3. Investment management business

(1) Asset Management

Market environment

In 2018, the CSRC and other three ministries and commissions jointly promulgated the Guidance on Standardizing the Asset Management Business of Financial Institutions, and the financial institutions such as banks, trusts, insurance, securities companies, and funds opened up business under the unified supervision policy, which improved the value of the capital management platform of securities companies, and was conducive to the development of the assets management of securities companies to a higher level. With the increase in the proportion of direct financing and that in the proportion of equity assets in the personal wealth allocation of residents, more funds will flow back to the securities companies with excellent investment management ability, and the securities companies' asset management business will face new development opportunities and challenges. During the Reporting Period, the asset management business of the Company provided investors with diversified financial products, and advanced a series of reforms in combination with the development trend of the asset management industry under the new asset management regulations, so as to strengthen the foundational system, risk control and internal control management, organizing the business process, improving the operation efficiency, advancing the personnel optimization, and consolidating the foundation for the development of the asset management business.

Business measures and performance

In 2018, while providing investors with diversified financial products, the Company promoted a series of reforms in combination with the industry development trend, so as to strengthen the foundational system, risk control and internal control management, organizing the business process, improving the operation efficiency, advancing the personnel optimization, and consolidating the foundation for the development of the asset management business.

As at the end of the Reporting Period, the total AUM of the Company amounted to RMB11.289 billion, including 20 collective asset management plans in the amount of RMB5.119 billion, 11 targeted asset management plans in the amount of RMB5.221 billion and 2 specific asset management plans in the amount of RMB949 million.

Outlook for 2019

In 2019, the Company will further improve the organizational structure and operation process; give full play to the advantages of existing channels and customers, design products according to demand, build a basic product system, and play a supporting role in the transformation of corporate wealth management; focus on the promotion of core capability of equity business, explore the development of leading strategic investment capability, continuously enhance the specialized product design and asset allocation capability, and actively grasp the development opportunity of the capital market.



SECTION 4 REPORT OF THE BOARD OF DIRECTORS

(2) *Private fund management*

Market environment

In 2018, due to the impact of domestic economic downturn, financial deleveraging and industry regulatory policies, the private equity investment market faced greater challenges, and there was a downward trend in the three aspects of financing, investing and withdrawing. In the whole year, the newly-financed amount of private equity investment funds was RMB1,011.055 billion, down by nearly 30% year on year. The total investment amount in the private equity investment market was RMB852.764 billion, down by 14.2% year on year. Private equity investment funds withdrew 1,441, down by 20.2% year on year. [Source: Zero2IPO Research Center]

Business measures and performance

The Company commenced private fund management business through ZDKY Venture Capital. In 2018, according to the financing, investment, management and withdrawal system of private fund management business, ZDKY Venture Capital adjusted the organizational structure, improved the project review mechanism, and formulated the market-oriented incentive and restriction mechanism. During the Reporting Period, ZDKY Venture Capital made every effort to enlarge the fund scale, increased the investment in high-quality projects, accelerated the withdrawal of risk and low-efficient projects and the empowerment of high-quality projects, and supported the development of the real economy. ZDKY Venture Capital completed the fund-raising and establishment of 7 funds such as Dengfeng Fund and Hua Yi Fund; completed 6 equity investment projects including the investment in PC new materials of Shengtong Juyuan with a total amount of RMB501 million. As at the end of the Reporting Period, the private fund management scale of the Company was RMB5.674 billion.

Outlook for 2019

In 2019, ZDKY Venture Capital will continue to do a good job in the management of stock funds and project investment. By strengthening cooperation with listed companies, local government platforms, large enterprises and investment institutions inside and outside the province, ZDKY Venture Capital will enhance the product design and market-oriented financing capacity, and constantly enrich the types of funds. Around the strategic emerging industries and modern service industries developed vigorously by the State and Henan Province, ZDKY Venture Capital will focus on key areas, strengthen industry research, and strive to promote market-oriented financing capacity through high-quality projects so as to bring more returns to the fund investors while supporting the development of the entity enterprises.

(3) *Alternative assets investment*

Market environment

In 2018, domestic economic downturn, financial “deleveraging” and other factors had a severe impact on alternative investment business. On the one hand, the operating environment of real enterprises was more complex and changeable, terminal demand was reduced, the operating itself had more urgent demand for fund and the project valuation was gradually rational. On the other hand, the capital situation of some enterprises was deteriorating, and was under greater operating pressure, resulting in a sharp rise in the risk of investment projects, and greater difficulties in obtaining investment returns.



SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Business measures and performance

The Company carried out alternative investment business through Central China Blue Ocean. In 2018, Central China Blue Ocean optimized the original organizational structure and investment strategy, strengthened compliance management and team development, timely revised and improved various investment management systems, and regularly conducted compliance risk control inspection, so that the Company achieved a leap forward in the level of corporate governance and operating performance. During the Reporting Period, the overall investment direction of the Company was mainly equity investment, supplemented by financial asset investment; the investment strategy was mainly IPO listing or listed companies' M & A withdrawal, supplemented by fixed income investment; the Company actively made the layout of artificial intelligence, medical health, energy chemicals, ultra-hard materials, municipal engineering, landscape engineering, Maker service and education, financial information consulting services, Internet information services and other high-quality industrial projects.

As at the Reporting Period, the investment scale of Central China Blue Ocean amounted to RMB2.299 billion, including 22 equity investment projects and 17 financial products investment projects. The newly-increased investment amount in 2018 was RMB708 million, including the equity investment of RMB613 million and the financial products investment of RMB95 million. There were 14 withdrawal investment projects of various types, and the recovered investment amount reached RMB306 million.

Outlook for 2019

In 2019, Central China Blue Ocean will continue to do a good job in post-investment management of investment projects and take risk control compliance as the focus to strengthen risk management in the field of equity investment, and raise compliance awareness at the operational level. At the same time, Central China Blue Ocean will increase investment, seize the historic opportunity of science and technology innovation board, continue to focus on the layout of high-quality equity projects with IPO listing, industrial transformation and upgrading in the industry, mixed ownership reform, or other mergers and acquisitions as withdrawing channels.

4. Proprietary trading

Market environment

In 2018, the A share market plunged unilaterally after a high in January, and the Shanghai Composite Index fell by 24.59% in the whole year. The average rate of return of the active management share funds in the industry fell in sync with the market. The macroeconomic downturn has formed favorable support for the bond market. The central bank's monetary policy is stable and neutral, the liquidity is reasonable and abundant, and the interest rate of the money market is downward. The bond market was a bull market in the whole year, and there were 21,188 transactions in the inter-bank market, up by 14% year on year, with the total trading amount of RMB2,211.6 billion, up by 30% year on year. At the end of 2018, the Composite Net Price Index of ChinaBond was 101.92, up by 4.03% from the end of last year; the Comprehensive Full Price Index of ChinaBond was 118.80, up by 4.79% from the end of last year. [Source: Wind Info].



SECTION 4 REPORT OF THE BOARD OF DIRECTORS

From the development trend of the industry, the proportion of foreign capital participating in A share market is rising, and it is expected that value investment will gradually become the mainstream of the market. Future equity investments are likely to move in two directions such as passive Exchange Traded Fund (ETFs), which allocate heavyweights via ETF to gain long-term gains from corporate profits, and hedge funds, which hedge systemic risk to select individual stocks and gain a steady return under risk control. As for fixed income investment, the monetary environment is expected to be further relaxed, economic reverse cycle regulation policy effects may appear, and the bond market is expected to get rid of wide shocks.

Business measures and performance

During the Reporting Period, the Company has adjusted the proprietary equity departments to further improve the professional investment process and relevant systems. Through the above measures, the initiative investment capacity has been further enhanced, and the annual interest rate of active management of equity is better than the market performance.

Fixed income business focuses on fixed income investment to expand fixed income business. The Company grasped the market situation, timely transferred positions, increased the allocation of high-rated bonds, and did long-term control and credit risk prevention and control to ensure investment income. On the basis of consolidating and maintaining the existing customers, the Company continued to expand new high-quality customers, explored trading opportunities, and actively generated income. Bond trading volume in the inter-bank market increased significantly, so the Company was named as the “Active Dealer” of the inter-bank local currency market in 2018 by the National Interbank Funding Center.

Outlook for 2019

In 2019, the deleveraging policy and supply-side reform will achieve phased results, and economic growth is expected to stabilize. Domestic securities market will usher in the science and technology innovation board and registration system, the supply and demand structure of the share market changes essentially, and industry and share division is expected to become more obvious. The equity securities business will further organize the investment process, improve the trading system, strengthen the research on individual shares, and enhance the research and investment decision-making capability. At the same time, the Company will obtain excess returns and control risk exposure through position control and share selection. Fixed income business will improve the level of fine management, give full play to the regional advantages of Henan Province, expand business exchanges with financial institutions, and achieve joint development and win-win cooperation.

5. Overseas business

Market environment

At the beginning of 2018, thanks to the positive GDP data, the cooling measures on the real estate industry, the easing of liquidity constraints and other developments in the Mainland, Hong Kong stocks ushered in strong bull market atmosphere, and the Hang Seng Index rose to 33,000 points, hitting a new high. However, market volatility increased and the Hang Seng Index and Hang Seng China Enterprises Index fell 13.6% and 13.5%, respectively during the Reporting Period. During the Reporting Period, the average daily trading amount in the Hong Kong stock market was HK\$107.4 billion, an increase of 21.71% year-on-year, the total funds raised from initial public offerings was HK\$286.5 billion, an increase of 122.96% year-on-year, and the number of newly-listed companies was 218. [Source: Website of Hong Kong Stock Exchange]



SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Business measures and performance

The Company carried out overseas business through its subsidiary, Central China International. In 2018, upholding the direction of internationalization, marketization and professionalization, Central China International implemented steady compliance policy and moderately aggressive risk control policy around the industry chain of Hong Kong's full license securities business, improved professional quality, strengthened license business, and optimized the fund business, so as to promote the steady development of each business. As at the end of the Reporting Period, the number of securities brokerage business accounts reached 6,740, representing an increase of 27.94% as compared to the end of last year. The market value of client positions amounted to HK\$4.262 billion, and the accumulated securities transaction volume amounted to HK\$18.785 billion, representing an increase of 66.02% year-on-year. The balance of margin financing amounted to HK\$545 million. The number of futures brokerage business accounts reached 127, and the customer fund under custody amounted HK\$38.3961 million, with the total trading volume of 6,328,400 contracts. The AUM reached HK\$4.483 billion. For investment banking business, the Company acted as the sole sponsor for the successful listing of Eggriculture Foods Ltd. (永續農業) (stock code: 08609.HK) and participated in the listing of Ever Reach Group (Holdings) Company Limited (stock code: 03616.HK) and acted as the sole placing agent of Guangdong Adway Construction (Group) Holdings Company Limited's (stock code: 06189.HK) placing project; formed a bond business team to actively promote the bond business, and participated in USD Debt projects of Zhongyuan Aviation Leasing Co., Ltd, Puyang City Investment Group, Xihu Zhongbao Co., Ltd and others as well as the preference share project of Zhongyuan Bank Co., Ltd.

Outlook for 2019

In 2019, under the market environment with many uncertain factors in the Hong Kong stock market, Central China International will organize the operational management, strengthen domestic and foreign linkage, consolidate and upgrade the main business of license plates, and strictly control the risk of investment business, so as to further strengthen and improve internal management, and promote the smooth development of overseas business in strict accordance with the Regulations on the Management of Overseas Establishment, Acquisition and Shareholding Operating Institutions of Securities Companies and Securities Investment Fund Management Companies.

6. Headquarters and others

(1) Securities-backed lending and securities repurchase

Market environment

In 2018, due to various factors such as macro environment and market fluctuation, the risk of stock pledge was exposed in a large area and drew attention from all parties, and the business scale rapidly declined. In the market, there was a substantial increase in the number of litigation cases related to the stock pledge business, the pledge closing of positions, and the provision of asset impairment. The revision and release of Measures for Stock Pledge Repurchase Trading and Registration and Settlement Business further clarified the contents of the financier's the purpose of financing, the concentration degree of stock pledge, the ceiling of pledge rate and others, and regulatory policies were tightening.



SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Business measures and performance

During the Reporting Period, the Company carried out business in strict accordance with the new version of the Measures for Stock Pledge Repurchase Trading and Registration and Settlement Business, and strengthened project due diligence, risk control and compliance management. At the same time, the Company actively communicated with the financier to resolve the risks of stock pledge business for several defaulted projects due to macro environment and market fluctuation, with some results achieved. As at the end of the Reporting Period, the balance to be repurchased of the securities-backed lending business was RMB3.967 billion, a decrease of 27.95% over the end of last year. The Company continuously standardizes the approval process of the securities repurchase business so as to optimize the business operation, having provided 806 customers with transaction authority of securities repurchase business throughout the year. As at the end of the Reporting Period, the balance to be repurchased of the securities repurchase business was RMB25 million, an increase of 66.67% as compared to the end of last year.

Outlook for 2019

In 2019, the Company will optimize the department structure, improve the business system and process, strengthen appropriateness, due diligence, risk control and compliance management of customers, and continue to do a good job in business risk resolution, making overall preparations for the development of securities-backed lending and securities repurchase business in the next step.

(2) *Market-making business on New Third Board*

Market environment

In 2018, the China Securities Regulatory Commission and the National Equities Exchange and Quotations Co., Ltd. successively revised and promulgated such policies as the Guidelines for the Material Asset Restructuring Business of Non-listed Public Companies of the National SME Share Transfer System (for Trial Implementation), the Measures for Stratified Administration of the National SME Share Transfer System and the Market Maker's Evaluation Method of the National SME Share Transfer System (for Trial Implementation), which delivered positive reform information to the market. In 2018, the total transaction amount of the New Third Board market was RMB88.101 billion, a decrease of 60.91% from the previous year, and the total funds raised after the completion of stock issuance was RMB60.443 billion, a decrease of 56.89% from the previous year. By the end of the Reporting Period, there were 10,691 listed enterprises in the New Third Board market, with a total share capital of 632.453 billion shares and a total market value of RMB3,448.726 billion, and the New Third Board market index closed at 718.94, down by 27.65% compared with the end of last year. [Source: Market Statistics Express 2018 of National Equities Exchange and Quotations]

Business measures and performance

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 continuously optimized the market position structure, greatly divested the existing projects and strictly controlled trading risks. Through these measures, the Company withdrew from a total of 99 market-making projects and 43 existing projects were divested in the whole year.



SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Outlook for 2019

In 2019, the Company will actively do a good job of withdrawing from the existing projects, and control business risk. At the same time, the Company will continue to adjust the position structure to provide market-making services for the New Third Board enterprises with abundant liquidity and good fundamentals, and strive to create good benefits.

(3) Regional equity market business

Market environment

In 2018, after the Notice of the General Office of the State Council on Standardizing the Development of Regional Equity Markets GBF [2017] No. 11 and the Trial Measures for Regional Equity Market Supervision and Management Order No. 132 of the CSRC were released, the top-level system for the development of regional equity markets has gradually improved. On 5 December, the executive meeting of the State Council proposed to promote the investment of government equity funds in seed-stage and initial-stage scientific and technological enterprises, and support the establishment of scientific and technological innovation boards in the regional equity market, thus widening new space for the development of regional equity market business.

Business measures and performance

The Company carried out the regional equity market business through the subsidiary Equity Exchange Co.. During the Reporting Period, the Equity Exchange Co. vigorously promoted the function of the regional equity market, and actively matched small and medium-sized enterprises with social capital, and the effectiveness of serving the real economy and small and medium-sized enterprises appear gradually. In the second half of 2018, the Equity Exchange Co. specially launched the “Board for Listing Candidates” for the listing candidate enterprises in Henan Province, with a total of 32 enterprises having been listed on this board and started the transformation from quantity expansion to quality improvement. In August 2018, the first convertible bonds were successfully issued, and 11 convertible bonds totaling RMB650 million were issued throughout the year, opening up new financing channels for listed enterprises. As at the end of the Reporting Period, the total number of listed enterprises exceeded 4,500, representing an increase of 125% over the end of last year; the financing amount reached RMB4.1 billion, up by 105% from the end of last year; there were 295 enterprises and 38.875 billion shares under custody, up by 55.3% and 47.7% respectively compared with those at the end of last year.

Outlook for 2019

In Henan Province, 18 prefectural-level governments and 50 county-level governments have issued the policy of offering prizes and compensation for listing in the regional equity market, thus creating a favorable policy environment for the development of equity centers. In 2019, the Equity Exchange Co. will give full play to the service function of the market platform, continuously optimize the function of “Candidate Listing Board”, improve the incubation ability, and build bridges between off-site and on-site markets, so that more enterprises with larger scale and good benefits can enter the regional equity market; further strengthen the cooperation with financial institutions, increase the supply of market funds, provide comprehensive financial services for listed enterprises, and meet the diversified financing needs of enterprises; promote the system reform standardization of high-quality display board enterprises in Henan Province, and expand the number of enterprises listed in trading boards; improve the management system, strengthen market self-discipline, and ensure the smooth and compliant operation of the market and the quality of market operation.



SECTION 4 REPORT OF THE BOARD OF DIRECTORS

(4) Research business

Market environment

As the size and market share of institutional investors such as funds, insurance, banks and foreign capital are gradually increasing, the demand for market research will gradually increase. After the “New Fortune” election was cancelled, higher requirements will be put on the quality of the research report. With the introduction of science and technology innovation board, the future listing, M&A restructuring and other businesses of enterprises put forward higher requirements for the pricing ability of securities companies, and the synergy among investment banks, direct investment and research institutes was further improved.

Business measures and performance

In 2018, the Company actively responded to the change of market environment, and the Research Institute of the Company established six special working groups to meet the research service requirements of all business departments; the Company strengthened the research on Henan listed enterprise and the variety of major positions of margin financing and securities lending; established the Central China Research Club, and timely delivered research results to investment consultants of the Company; constructed the quantitative trading strategy model and the black-and-white list system of equity pledge; launched WeChat subscription account for the first time, boosting the Institute’s brand and corporate influence; introduced the internal marketization system, implemented the performance appraisal mode with more pay for more work, and raised the enthusiasm of researchers. During the Reporting Period, the Company organized 254 video morning meetings; 43 listed companies investigated (excluding service research), with a year-on-year increase of 30; wrote 947 research reports, with a year-on-year increase of 413; provided research supports to Henan Supervisory Bureau of China Securities Regulatory Commission, State-owned Assets Supervision and Admission Commission of Henan Municipal People’s Government, Securities Association of China, Henan Municipal People’s Government, People’s Bank of China, Zhengzhou Central Sub-Branch and National Council for Social Security Fund, and wrote a number of customized research reports, with content covering proposals on the development of China’s securities industry, the analysis on real estate market in Henan Province and other areas. In 2018, one researcher ranked No. 10 among the Top 100 National Analysts in East Money.

Outlook for 2019

In 2019, the Company will further enhance its research strength, optimize incentive measures and innovative working methods, so as to provide strong support for the Company’s reform and business transformation, with a focus on research support for such businesses as wealth management, continuing to increase publicity to build up the research brand and enhance the influence of the Company.



SECTION 4 REPORT OF THE BOARD OF DIRECTORS

(5) *Micro-lending business*

Market environment

Market environment of micro-lending business: With the support of the guidelines issued by Henan Provincial Government, the Company initiated the establishment of Central China Micro-lending to better provide differentiated financial services for the real economy. As at the end of 2018, there were 247 micro-lending companies in Henan Province, reduced by 35 as compared with the end of the last year, with a loan balance of RMB22.151 billion, reduced by RMB1.697 billion as compared with the end of the last year. [Source: People's Bank of China]

The financial market shock in 2018 adversely affected the production and operation and market expectations of some enterprises. The State has steadily promoted structural deleveraging to dispose risks in the financial sector, the micro-lending institutions established by financial institutions, large-scale enterprises and listed companies have become the main force and backbone force leading the development of the micro-lending industry in Henan Province.

Business measures and performance

The Company conducts micro-lending business through Central China Micro-lending. During the Reporting Period, adhering to the philosophy of serving the real economy, supporting private enterprises, helping local development, relieving the difficulties of private enterprises, and serving small and micro enterprises to provide lending business, Central China Micro-lending released loans totaling RMB1.383 billion for enterprises such as listed companies and their connected enterprises, urban investment companies and private backbone enterprises, companies listed on New Third Board, and enterprises listed on the Equity Exchange Co. in Henan Province. As at the end of the Reporting Period, the balance of loans amounted to RMB1.269 billion.

Outlook for 2019

In 2019, Central China Micro-lending will further strengthen risk control, explore business opportunities and effective credit demand, expand quality customers, broaden financing channels, enhance credit scale and enrich product structure.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

III. PRINCIPAL OPERATIONS DURING THE REPORTING PERIOD

(I) Analysis on financial statements

1. Details of principal items in the consolidated income statement

In 2018, the Group recorded total revenue and other income of RMB2,857.9 million, representing a decrease of 10.5% as compared with 2017; total expenses were RMB2,778.9 million, representing an increase of 10.3% as compared with 2017; recorded profit attributable to shareholders of the Company of RMB65.8 million, representing a decrease of 85.1% as compared with 2017; basic earnings per share amounted to RMB0.02, representing a decrease of 81.8% as compared with 2017; weighted average return on net assets was 0.66%, representing a decrease of 3.58 percentage points as compared with 2017.

(1) Summary of financial results

In 2018, the Group's profit before income tax amounted to RMB101.1 million, representing a decrease of 85.1% as compared to 2017. The key financial results are as follows:

Unit: in RMB million

Item	2018	2017	Change	YOY Change (%)
Revenue				
Commission and fee income	910.4	1,141.5	-231.1	-20.2%
Interest income	1,291.9	1,269.5	22.4	1.8%
Net investment gains	348.0	408.3	-60.3	-14.8%
Other operating income	307.7	373.1	-65.4	-17.5%
Total revenue and other income	2,857.9	3,192.5	-334.6	-10.5%
Total expenses	2,778.9	2,519.0	259.9	10.3%
Share of profits of associates	22.1	6.6	15.5	234.8%
Profit before income tax	101.1	680.1	-579.0	-85.1%
Income tax expense	5.3	158.9	-153.6	-96.7%
Profit for the year	95.9	521.2	-425.3	-81.6%
Profit attributable to shareholders of the Company	65.8	442.0	-376.2	-85.1%

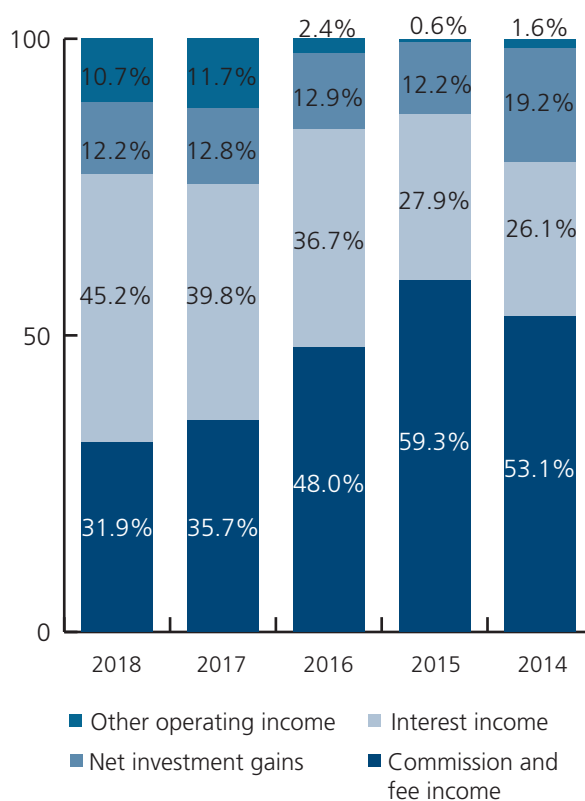
SECTION 4 REPORT OF THE BOARD OF DIRECTORS

(2) Revenue structure

In 2018, total revenue and other income of the Group amounted to RMB2,857.9 million, representing a decrease of 10.5% as compared to 2017. Among which, the proportion of commission and fee income was 31.9%, representing a decrease of 3.8 percentage points as compared to 2017; the proportion of interest income was 45.2%, representing an increase of 5.4 percentage points as compared to 2017; the proportion of net investment gains was 12.2%, representing a decrease of 0.6 percentage point as compared to 2017; the proportion of other revenue and income was 10.7%, representing a decrease of 1.0 percentage point as compared to 2017. The revenue structures of the Group in the past five years are as follow:

Item	2018	2017	2016	2015	2014
Commission and fee income	31.9%	35.7%	48.0%	59.3%	53.1%
Interest income	45.2%	39.8%	36.7%	27.9%	26.1%
Net investment gains	12.2%	12.8%	12.9%	12.2%	19.2%
Other operating income	10.7%	11.7%	2.4%	0.6%	1.6%
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

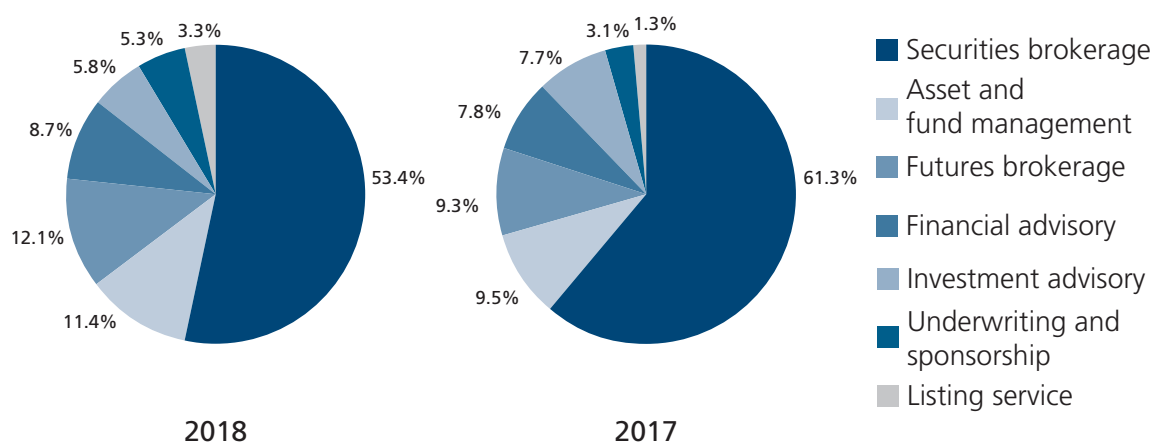
Commission and fee income

In 2018, the Group's commission and fee income consists of the following:

Unit: in RMB million

Item	2018	2017	Changes	YOY Change (%)
Commission and fee income				
Securities brokerage	486.5	700.6	-214.1	-30.6%
Asset and fund management	104.2	108.2	-4.0	-3.7%
Futures brokerage	110.2	105.9	4.3	4.1%
Financial advisory	79.6	88.6	-9.0	-10.2%
Investment advisory	52.4	88.0	-35.6	-40.5%
Underwriting and sponsorship	47.8	35.7	12.1	33.9%
Listing service	29.7	14.5	15.2	104.8%
Total commission and fee income	910.4	1,141.5	-231.1	-20.2%
Commission and fee expenses	175.0	221.0	-46.0	-20.8%
Net commission and fee income	735.4	920.5	-185.1	-20.1%

The Group's commission and fee income consists of:



In 2018, net commission and fee income of the Group amounted to RMB735.4 million, representing a year-on-year decrease of RMB185.1 million or 20.1%. The decrease was primarily attributable to the decrease in commission and fee generated from securities brokerage business.

Commission and fee income generated from securities brokerage business decreased by RMB214.1 million or 30.6% year-on-year, primarily attributable to a decrease in trade volume due to the sluggish securities market in 2018.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Asset and fund management fee income decreased by RMB4.0 million or 3.7% year-on-year, mainly because the Company recorded reduction in its asset management business and thus a decrease in management fee income.

Commission and fee income from futures brokerage increased by RMB4.3 million or 4.1% year-on-year, mainly due to the fact that the change of the model of marketing services of futures brokerage business, which has resulted in continued optimisation of business layout and increase in the total number of clients served.

Financial advisory fee income generated from investment banking business decreased by RMB9.0 million or 10.2% 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 increased by RMB12.1 million or 33.9% year-on-year, primarily because of the increase in the income from securities brokerage business.

Interest income

In 2018, net interest income of the Group amounted to RMB259.7 million, representing a decrease of RMB201.3 million or 43.7% as compared to 2017. The Group's net interest income for 2018 consists of the following:

Unit: in RMB million

Item	2018	2017	Change	YOY Change (%)
Interest income				
Financial assets held under resale agreements	509.9	483.2	26.7	5.5%
Margin financing and securities lending	418.9	439.5	-20.6	-4.7%
Bank deposits	177.0	261.1	-84.1	-32.2%
Loans and advances to clients	126.0	85.6	40.4	47.2%
Financial asset measured at amortised cost	45.4	N/A	N/A	N/A
Financial assets designated as at fair value through other comprehensive income	14.7	N/A	N/A	N/A
Others	—	0.1	-0.1	-100.0%
Total interest income	1,291.9	1,269.5	22.4	1.8%
Interest expenses	1,032.2	808.5	223.7	27.7%
Net interest income	259.7	461.0	-201.3	-43.7%

Interest income from financial assets held under resale agreements increased by RMB26.7 million or 5.5% year-on-year, primarily attributable to the increase in interest income from securities-backed lending business.

Interest income from margin financing and securities lending decreased by RMB20.6 million or 4.7% year-on-year, primarily attributable to the decrease of daily average size of margin financing and securities lending business.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Interest income from bank deposits decreased by RMB84.1 million or 32.2% year-on-year, primarily attributable to the decrease in interest income of the deposits of client funds.

Interest income from loans and advances to clients increased by RMB40.4 million or 47.2% year-on-year, primarily attributable to the increase in interest income of micro-lending business of subsidiaries.

Interest expenses increased by RMB223.7 million or 27.7% year-on-year, primarily attributable to the increase in costs of active financing activities.

Net investment gains

In 2018, net investment gains of the Group amounted to RMB348.0 million, representing a decrease of RMB60.3 million or 14.8% as compared to 2017. The Group's net investment gains for 2018 consist of the following:

Unit: in RMB million

Item	2018	2017	Change	YOY Change (%)
Net investment gains				
Dividends and interest income from financial assets at fair value through profit or loss	569.4	393.4	176.0	44.7%
Net losses from financial assets at fair value through profit or loss	-210.1	-261.2	51.1	N/A
Net gains/(losses) from financial liabilities at fair value through profit or loss	0.1	-20.6	20.7	N/A
Net losses from derivative financial instruments	-6.9	-3.2	-3.7	N/A
Net Gains from disposal of associates	2.1	58.8	-56.7	-96.4%
Net gains from disposal of available-for-sale financial assets	N/A	98.4	N/A	N/A
Dividends and interest income from available-for-sale financial assets	N/A	142.9	N/A	N/A
Others	-6.7	-0.2	-6.5	N/A
Total	348.0	408.3	-60.3	14.8%

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

(3) Operating expenses

In 2018, operating expenses of the Group (excluding commission and fee expenses and interest expenses) amounted to RMB1,571.7 million, representing an increase of RMB82.3 million or 5.5% as compared to 2017. The Group's operating expenses primarily consist of the following:

Unit: in RMB million

Item	2018	2017	Change	YOY Change (%)
Operating expenses				
Staff costs	635.9	716.5	-80.6	-11.2%
Depreciation and amortisation	74.0	71.2	2.8	3.9%
Other operating expenses	542.2	625.8	-83.6	-13.4%
Impairment losses	319.6	75.9	243.7	321.1%
Total	1,571.7	1,489.4	82.3	5.5%

Staff costs decreased by RMB80.6 million or 11.2% year-on-year, primarily attributable to the decrease in provision for remuneration by the parent company based on results.

Depreciation and amortisation increased by RMB2.8 million or 3.9% year-on-year, primarily attributable to the increase of amortisation to intangible assets.

Other operating expenses decreased by RMB83.6 million or 13.4% year-on-year, primarily attributable to the decrease in costs of sale of bulk commodity trading.

Impairment losses increased by RMB243.7 million or 321.1% year-on-year, primarily attributable to the increase in provision for impairment of financial assets held under resale agreements. Details are as follows:

Unit: in RMB million

Item	2018	2017	Change	YOY Change (%)
Impairment losses				
Financial assets held under resale agreements	209.8	9.3	200.5	2155.9%
Loans and advances to clients	42.3	8.3	34.0	409.6%
Margin accounts receivable	14.5	50.2	-35.7	-71.1%
Financial asset measured at amortised cost	15.5	N/A	N/A	N/A
Financial assets at fair value through other comprehensive income	0.1	N/A	N/A	N/A
Available-for-sale financial assets	N/A	7.0	N/A	N/A
Investment in associates	28.7	-	28.7	N/A
Others	8.6	1.1	7.5	681.8%
Total	319.6	75.9	243.7	321.1%



SECTION 4 REPORT OF THE BOARD OF DIRECTORS

2. Analysis on principal items in the consolidated statement of cash flows

Excluding the effect of changes in client margin deposit, the net decrease in cash and cash equivalents amounted to RMB314.2 million, which was because the net cash inflows generated from operating activities was less than the net cash outflows arising from financing activities and investing activities of the Group for the year.

Among which:

- (1) Net cash flow arising from operating activities for 2018 amounted to RMB2,660.0 million, mainly attributable to cash inflow of RMB2,871.4 million due to a decrease in financial assets sold under repurchase agreements; cash inflow of RMB1,924.0 million due to a decrease in margin accounts receivable; and cash inflow of RMB1,226.4 million due to an increase in payable to other financial institutions. The above cash inflows have been partially offset by the cash outflow of RMB4,069.3 million caused by an increase in financial assets designated as at fair value through profit or loss.
- (2) Net cash flow arising from investment activities amounted to RMB-1,014.8 million in 2018, mainly attributable to cash outflow of RMB903.2 million due to cash paid for purchase of associates and purchase and disposal of financial assets at fair value through other comprehensive income;
- (3) Net cash flow arising from financing activities amounted to RMB -1,959.4 million in 2018, mainly attributable to cash outflow of RMB3,589.9 million from redemption of short-term notes and cash outflow of RMB1,500.0 million from redemption of bonds. The above cash outflow was partially offset by cash received from issuance of short-term notes of RMB2,760.5 million and net proceeds received from issuance of bonds of RMB1,500.0 million.

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

As at the end of 2018, total assets of the Group amounted to RMB42,155.3 million, up by 3.7% as compared to RMB40,661.5 million as at the end of 2017. Total liabilities amounted to RMB30,880.2 million, up by 5.7% as compared to RMB29,209.3 million as at the end of 2017. Equity attributable to shareholders of the Company amounted to RMB9,950.9 million, down by 2.2% as compared to RMB10,169.9 million as at the end of 2017.

The asset structure of the Group remained stable with sound asset quality and liquidity. As at the end of 2018, 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 RMB9,884.9 million, representing 23.4 % of our total assets. Margin assets, which primarily included financial assets held under resale agreements, margin accounts receivable and loans and advances to customers, amounted to RMB14,880.8 million, representing 35.3% of our total assets. Financial investment assets, which primarily included investment in associates and investment in financial assets, amounted to RMB16,353.6 million, representing 38.8% of our total assets. Other operating assets, which primarily included property and equipment, investment properties and intangible assets, amounted to RMB1,026.6 million, representing 2.4% of our total assets. Assets classified as held for sale amounted to RMB9.4 million, representing 0.02% of our total assets. In 2018, the Group has made corresponding impairment provision for financial assets held under resale agreements, loans and advances to customers, investment in associates, financial asset measured at amortised cost and margin accounts receivable.

Our gearing ratio increased. As at the end of 2018, the total self-owned liabilities of the Group after deducting accounts payable to brokerage clients and accounts payable to underwriting clients amounted to RMB24,319.2 million, representing an increase of RMB3,070.8 million or 14.5% as compared to RMB21,248.4 million as at the end of 2017. 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 2018 was 68.3%, up by 3.3 percentage points from 65.0% as at the end of 2017.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

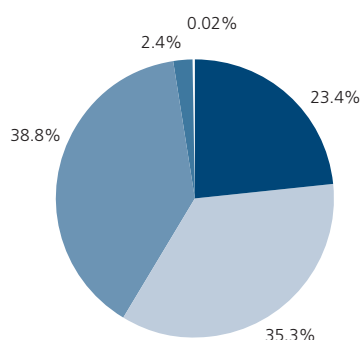
(1) Asset items

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

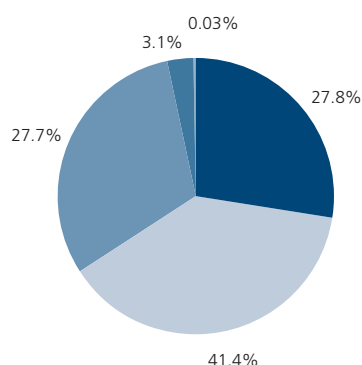
Unit: in RMB million

Item	31 December 2018	31 December 2017	Change	YoY Change (%)
Total assets				
Cash assets	9,884.9	11,248.1	-1,363.2	-12.1%
Margin financing assets	14,880.8	16,831.9	-1,951.1	-11.6%
Financial investment assets	16,353.6	11,247.4	5,106.2	45.4%
Operating assets including other property and equipment	1,026.6	1,320.9	-294.3	-22.3%
Assets classified as held for sale	9.4	13.2	-3.8	-28.8%
Total	42,155.3	40,661.5	1,493.8	3.7%

Total assets of the Group consist of:



31 December 2018



31 December 2017

- Cash assets
- Margin financing assets
- Financial investment assets
- Operating assets including other property and equipment
- Assets classified as held for sale

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Cash assets

As at the end of 2018, cash assets of the Group decreased by RMB1,363.2 million or 12.1% year-on-year, representing 23.4% 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 2018	31 December 2017	Change	YoY Change (%)
Cash assets				
Cash and bank balances (including cash held for brokerage clients)	7,261.8	8,637.1	-1,375.3	-15.9%
Clearing settlement funds	2,340.4	2,350.2	-9.8	-0.4%
Refundable deposits	282.7	260.8	21.9	8.4%
Total	9,884.9	11,248.1	-1,363.2	-12.1%

Changes in cash assets were primarily reflected in cash and bank balances (including cash held for brokerage clients), decreased by RMB1,375.3 million or 15.9% year-on-year, which was primarily attributable the decrease in cash held for brokerage clients under the influence of the market condition.

Margin financing assets

As at the end of 2018, margin financing assets of the Group decreased by RMB1,951.1 million or 11.6% year-on-year, representing 35.3% 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 2018	31 December 2017	Change	YoY Change (%)
Margin financing assets				
Financial assets held under resale agreements	8,916.6	9,207.0	-290.4	-3.2%
Margin accounts receivable	4,720.5	6,353.0	-1,632.5	-25.7%
Loans and advances to customers	1,243.7	1,271.9	-28.2	-2.2%
Total	14,880.8	16,831.9	-1,951.5	-11.6%

Financial assets held under resale agreements decreased by RMB290.4 million or 3.2% as compared to the end of 2017, which was primarily attributable to the decrease in scale of the securities-backed lending business.

Margin accounts receivable decreased by RMB1,632.5 million or 25.7% as compared to the end of 2017, which was primarily attributable to the decrease in the scale of margin financing.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Financial investment assets

As at the end of 2018, financial investment assets of the Group increased by RMB5,106.2 million or 45.4% year-on-year, representing 38.8% 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 2018	31 December 2017	Change	YoY Change (%)
Financial investment assets				
Investment in associates	939.3	492.9	446.4	90.6%
Financial assets at fair value through profit or loss	13,931.8	7,622.5	6,309.3	82.8%
Financial assets at fair value through other comprehensive income	725.6	N/A	N/A	N/A
Financial asset measured at amortised cost	693.9	N/A	N/A	N/A
Derivative financial assets	63.0	59.9	3.1	5.2%
Available-for-sale financial assets	N/A	2,948.5	N/A	N/A
Investment classified as receivables	N/A	83.6	N/A	N/A
Receivables from other financial institutions	—	40.0	-40.0	-100.0%
Total	16,353.6	11,247.4	5,106.2	45.4%

Operating assets including other property and equipment

As at the end of 2018, operating assets including other property and equipment of the Group amounted to RMB1,026.6 million, down by RMB294.3 million or 22.3% year-on-year, representing 2.4% 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 2018	31 December 2017	Change	YoY Change (%)
Operating assets including other property and equipment				
Property and equipment and investment properties	247.1	260.1	-13.0	-5.0%
Intangible assets	158.6	164.4	-5.8	-3.5%
Deferred tax assets	251.3	161.3	90.0	55.8%
Other current assets and other non-current assets	347.6	713.7	-366.1	-51.3%
Goodwill	22.0	21.4	0.6	2.8%
Total	1,026.6	1,320.9	-294.3	-22.3%

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

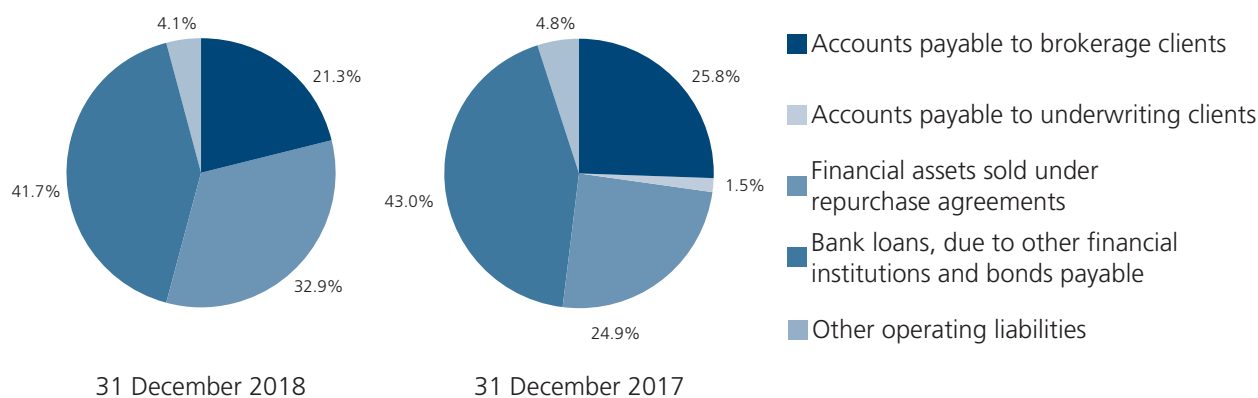
(2) Liability items

As at the end of 2018, total liabilities of the Group amounted to RMB30,880.2 million, representing a year-on-year increase of RMB1,670.9 million or 5.7%. As at the end of 2018, accounts payable to brokerage clients amounted to RMB6,561.1 million, representing a decrease of 12.8% as compared to the end of 2017. The decrease was primarily attributable to the decrease in capital of client from brokerage business. Financial assets sold under repurchase agreements amounted to RMB10,171.8 million, representing an increase of 39.6% as compared to the end of 2017. 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 RMB12,887.1 million, representing an increase of 2.6% as compared to the end of 2017. The increase was primarily attributable to the increase in amount due to other financial institutions from margin financing. Other operating liabilities amounted to RMB1,259.2 million, representing a decrease of 10.3% as compared to the end of 2017. The decrease was primarily attributable to the decrease in accrued staff costs. Major changes in the Group's liabilities are as follows:

Unit: in RMB million

Item	31 December 2018	31 December 2017	Change	YoY Change (%)
Liabilities				
Accounts payable to brokerage clients	6,561.1	7,526.5	-965.4	-12.8%
Accounts payable to underwriting clients	—	434.4	-434.4	-100.0%
Financial assets sold under repurchase agreements	10,171.8	7,284.9	2,886.9	39.6%
Bank loans, due to other financial institutions and bonds payable	12,888.1	12,560.2	327.9	2.6%
Other operating liabilities	1,259.2	1,403.3	-144.1	-10.3%
Total	30,880.2	29,209.3	1,670.9	5.7%

The Group's total liabilities consist of:



SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Bank loans, due to other financial institutions and bonds payable

Unit: in RMB million

Item	31 December 2018	31 December 2017	Change	YoY Change (%)
Bank loans, due to other financial institutions and bonds payable				
Due to banks and non-bank financial institutions	4,116.4	3,199.7	916.7	28.6%
Bonds payable and short-term notes payable	8,771.7	9,360.5	-588.8	-6.3%
Total	12,888.1	12,560.2	327.9	2.6%

Due to banks and non-bank financial institutions increased by RMB916.7 million year-on-year, representing an increase of 28.6%. The increase was primarily attributable to the increase in amount due to other financial institutions from margin financing.

Bonds payable and short-term notes payable decreased by RMB588.8 million year-on-year, representing an decrease of 6.3%. The increase was primarily attributable to the decrease in the scale of issuance of beneficiary certificates.

Other operating liabilities

Unit: in RMB million

Item	31 December 2018	31 December 2017	Change	YoY Change (%)
Other operating liabilities				
Accrued staff costs	337.2	422.5	-85.3	-20.2%
Financial liabilities designated as at fair value through profit or loss	380.0	361.4	18.6	5.1%
Deferred income tax liabilities	3.5	10.4	-6.9	-66.3%
Derivative financial liabilities	—	0.5	-0.5	-100.0%
Other current liabilities	538.5	608.5	-70.0	-11.5%
Total	1,259.2	1,403.3	-144.1	-10.3%

Accrued staff costs decreased by RMB85.3 million or 20.2% year-on-year, primarily attributable to the decrease in the provision for staff costs payable.

Financial liabilities designated as at fair value through profit or loss increased by RMB18.6 million year-on-year, primarily attributable to the changes of structured entities included in the scope of consolidation.

Other current liabilities decreased by RMB70.0 million year-on-year, primarily attributable to the decrease in interests payable.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

(3) Equity items

As at the end of 2018, total equity of the Group amounted to RMB11,275.0 million, representing a decrease of 1.5% as compared to the end of 2017. The changes in the Group's equity were as follows:

Unit: in RMB million

Item	31 December 2018	31 December 2017	Change	YoY Change (%)
Share capital	3,869.1	3,923.7	-54.6	-1.4%
Reserves	5,843.7	5,846.1	-2.4	0.0%
Retained earnings	238.2	400.0	-161.8	-40.5%
Non-controlling interests	1,324.1	1,282.3	41.8	3.3%
Total	11,275.0	11,452.1	-177.1	-1.5%

4. 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.

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

Item	2018		2017		Change	
	(in RMB million)	%	(in RMB million)	%	(in RMB million)	%
Brokerage	1,308.2	45.4	1,685.6	52.7	-377.4	-22.4
Investment banking	95.1	3.3	88.5	2.8	6.6	7.5
Investment management	229.6	8.0	259.9	8.1	-30.3	-11.7
Proprietary trading	586.7	20.4	461.4	14.4	125.3	27.2
Overseas business	184.3	6.4	267.3	8.3	-83.0	-31.1
Headquarters and others	495.2	17.2	588.0	18.4	-92.8	-15.8
Inter-segment eliminations	-19.1	-0.7	-151.6	-4.7	132.5	N/A
Total	2,880.0	100.0	3,199.1	100.0	-319.1	-10.0

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

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

Item	2018		2017		Change	
	(in RMB million)	%	(in RMB million)	%	(in RMB million)	%
Brokerage	1,075.6	38.7	1,216.7	48.3	-141.1	-11.6
Investment banking	136.1	4.9	120.7	4.8	15.4	12.8
Investment management	79.9	2.9	85.4	3.4	-5.5	-6.4
Proprietary trading	555.7	20.0	486.4	19.3	69.3	14.2
Overseas business	193.9	7.0	174.1	6.9	19.8	11.4
Headquarters and others	742.0	26.7	440.1	17.5	301.9	68.6
Inter-segment eliminations	-4.3	-0.2	-4.4	-0.2	0.1	N/A
Total	2,778.9	100.0	2,519.0	100.0	259.9	10.3

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	2018		2017		Change	
	(in RMB million)	%	(in RMB million)	%	(in RMB million)	%
Brokerage	232.6	230.1	468.8	68.9	-236.2	-50.4
Investment banking	-41.1	-40.8	-32.2	-4.7	-8.9	27.6
Investment management	149.6	148.0	174.5	25.7	-24.9	-14.3
Proprietary trading	31.0	30.7	-25.0	-3.7	56.0	-224.0
Overseas business	-9.6	-9.5	93.3	13.7	-102.9	-110.3
Headquarters and others	-246.7	-244.0	147.9	21.7	-394.6	-266.8
Inter-segment eliminations	-14.7	-14.5	-147.2	-21.6	132.5	-90.0
Total	101.1	100.0	680.1	100.0	-579.0	-85.1

5. Commitments and contingent liabilities

Please refer to Note 54 to the Consolidated Financial Statements as set out in this report.



SECTION 4 REPORT OF THE BOARD OF DIRECTORS

(II) Access to and ability of financing

Currently the Company meets its operating capital requirement through equity financing and debt financing. As a company listed on both domestic and overseas markets, the Company can obtain equity financing through channels such as further issuance of shares as approved by relevant authorities and according to market conditions and its own needs. Debt financing of the Company primarily consists of long-term financing through the public issuance of corporate bonds, subordinated bonds and private bonds. In addition, the Company obtains short-term funds from investors such as commercial banks through platforms including the Shanghai Stock Exchange, Shenzhen Stock Exchange and the national interbank funding center, and by way of bond repurchases, interbank borrowing and lending, transfer financing and the issuance of beneficiary certificates.

To maintain the liquidity and profitability of its assets, the Company's proprietary capital is centrally managed by its Treasury Department, with comprehensive management systems and corresponding business processes in place. In addition, the Company has been granted comprehensive credit lines with relatively large limit by several banks. The existing financing channels of the Company are effective and sufficient to meet its business development funding needs.

(III) Analysis of investments

1. Overall analysis on external equity investments

As at the end of the Reporting Period, the Group has investments in associate of RMB939 million, representing an increase of RMB446 million or 90.58%, as compared to the end of last year. For details of investments in subsidiaries, please refer to Note 23 to the Consolidated Financial Statements as set out in this report.

(1) Material equity investments

Please refer to Note 22 and 23 to the Consolidated Financial Statements as set out in this report.

(2) Material non-equity investments

There were no material non-equity investments during the Reporting Period.

(IV) Analysis of major subsidiaries and companies in which the Company has invested

Central China Futures : Central China Futures has a registered capital of RMB330 million and in which the Company holds 51.357% of the equity interest. At the end of 31 December 2018, the total assets and net assets of Central China Futures amounted to RMB1,125 million and RMB408 million respectively. In 2018, Central China Futures recorded operating income of RMB320 million and net profit of RMB18.56 million.

ZDKY Venture Capital : ZDKY Venture Capital has a registered capital of RMB2 billion and is 100% owned by Central China Securities. As of 31 December 2018, the total assets and net assets of ZDKY Venture Capital amounted to RMB1,247 million and RMB1,002 million respectively. In 2018, ZDKY Venture Capital recorded operating income of RMB72.55 million and net profit of RMB26.86 million.

The main reasons for the substantial changes of the results of ZDKY Venture Capital during the reporting period were as follows : ZDKY Venture Capital transformed from wholly-owned subsidiary to private equity subsidiary according to the regulatory requirements, as a result of which, for the one hand, it had huge revenue for the orderly withdrawal of quality equity investment programs in 2017 while there was less withdrawal of quality equity investment programs in 2018; for the other hand, since the existing entrusted loans were being on due in 2017, it did not continue engaging in relevant business in 2018.



SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Central China International : Central China International has a registered capital of HK\$760 million and is 100% owned by Central China Securities. At the end of 31 December 2018, the total assets and net assets of Central China International amounted to HK\$3,490 million and HK\$1,339 million respectively. In 2018, Central China International recorded operating income of HK\$113 million and net loss of HK\$9.30 million.

The main reason for the decrease of operating results of Central China International as compared with last year were as follows: Due to the downturn of the stock market with fluctuation in Hong Kong for the year 2018, the fair value of trading financial assets of Central China International decreased with the market, and created a floating loss; a relatively large increase of the financing cost of Central China International.

Central China Blue Ocean: Central China Blue Ocean has a registered capital of RMB3 billion and is 100% owned by Central China Securities. At the end of 31 December 2018, the total assets and net assets of Central China Blue Ocean amounted to RMB3,090 million and RMB2,496 million respectively. In 2018, Central China Blue Ocean recorded operating income of RMB202 million and net profit of RMB113 million.

Equity Exchange Co.: Equity Exchange Co. has a registered capital of RMB350 million and in which the Company holds 35% of the equity interest. At the end of 31 December 2018, the total assets and net assets of Equity Exchange Co. amounted to RMB389 million and RMB340 million respectively. For the year of 2018, Equity Exchange Co. recorded operating income of RMB50.61 million and net profit of RMB7.64 million.

(V) 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. Please refer to Note 23 to the Consolidated Financial Statements as set out in this report. After taking into account the factors such as investment decision rights owned by the company, variable return exposure and the use of investment decision power to influence variable returns, the Company included the structured entities controlled by the Company in the scope of consolidated statements in respect of the structured entity who act as a manager or investment adviser and the structured entity that holds a product share.

(VI) 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 Company completed the relocation of 2 securities branch offices and 8 securities branches within the same city at home, and the capital increase, disposal and change of 1 subsidiary. 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

The Company is constantly adjusting and optimizing its operation branch network. During the Reporting Period, the Company relocated a total of 8 securities branches within the same city, of which the Company completed the relocation of Pingdingshan Jianshe Road Securities Branch in Henan Province, Shenzhen Longcheng Avenue Securities Branch in Guangdong Province, Xuchang Balong Road Securities Branch in Henan Province, Zhengzhou Free Trade Zone Securities Branch in Henan Province, Ruzhou Chengyuan Road Securities Branch in Henan Province, Jiyuan City Jiyuan Avenue Securities Branch in Henan Province, Hui Country Gongcheng Avenue Securities Branch in Henan Province, Mianchi Country Huanghe Road Securities Branch in Henan Province; and preparing the relocation of Beijing Jiuxianqiao Road Securities Branch.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

(2) Establishment and change of branch offices

During the Reporting Period, the Company completed the relocation of Shenzhen branch office and Xinyang branch office within the same city. For details, please refer to I. (I) 2. "Administrative licensing of relocation of branch offices during the Reporting Period" in Section 12 of this report.

(3) Establishment and changes of subsidiaries

On 26 March 2018, the Company obtained "Reply to the Opinion on the Capital Increase by Central China Securities Co., to Central China International Financial Holdings Company Limited" (Ji Gou Bu Han [2018] No. 643). On 28 September 2018, based on the arrangement for business development, the Company made capital increase of HK\$260 million to Central China International. Central China International has made relevant registration changes in accordance with the administrative regulations of the Registrar of Companies in Hong Kong.

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 2018, 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 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.

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, there were activated 1,175 dormant cash accounts and activated 2,092 dormant securities accounts (as of the end of the period, there were 395,601 dormant cash accounts and 666,149 dormant securities accounts); the Company standardized 11 unqualified cash accounts and 13 unqualified securities accounts (as of the end of the period, there were 1,160 unqualified cash accounts and 1,226 unqualified 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: RMB account

Type of account		2018	2017	YoY Change
Dormant accounts	Cash account	395,601	396,776	-1,175
	Securities account	666,149	668,241	-2,092
Unqualified accounts	Cash account	1,160	1,171	-11
	Securities account	1,226	1,239	-13
Judicially frozen accounts	Cash account	6	6	0
	Securities account	12	12	0
Risk disposal accounts	Cash account	0	0	0
	Securities account	0	0	0



SECTION 4 REPORT OF THE BOARD OF DIRECTORS

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.

As for internet financing, the Company actively promoted the development of an online standardized service system, and further facilitated the integration of financial technology and business development. The Company coordinated its “Three Apps and One WeChat Public Account” (三端一微) by accelerating the integration of mobile integrated financial services platforms to improve customer experience, improving the function of the platforms to enhance the stickiness of customers, strengthening the planning and promotion of platform activities and contents to promote product transformation.

As for futures brokerage, acting as the platform for Central China Futures to conduct risk management business, the risk management subsidiary wholly owned by Central China Futures focused on the supply-side structural reform, facilitating transformation and upgrade of entity enterprises, exploring a lot at “insurance + futures” and the over-the-counter derivative business and covering a variety of products including eggs and apples. It gradually established the pricing model and risk hedging model through improving the mechanism development and accelerating talent recruitment, and improved its capability serving entity enterprises with its business developing healthily and steadily supported by professional industry service capability, strategy research capability and capability of integrated use of financial derivatives. Central China Futures will promote the mechanism development of innovative business and establish a sound mechanism of risk monitoring, identifying, warning and disposal for innovative business according to the regulatory requirements, so as to ensure the sustainable development of innovative business.



SECTION 4 REPORT OF THE BOARD OF DIRECTORS

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

(I) Industry landscape and development trend

In 2018, the securities industry continued its comprehensive and strict supervision in recent years, and the SFC issued a series of regulatory policies involving such business areas as industry brokerage, credit, assets management and innovation, focusing on cracking down on market manipulation, maintaining market order, guarding against and dissolving market risks and holding the bottom line against systemic financial risks. At the same time, it further improved the delisting system of listed companies, formed the delisting mechanism of the survival of the fittest listed companies, raised the quality of listed companies, and safeguarded the legitimate rights and interests of investors. In recent years, as the securities industry gradually returns to the origin of serving the real economy, various businesses gradually move towards stable and compliant operation and various negative factors gradually become eliminated, the cyclically turning point of the securities industry has gradually become clear.

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. With the help of Internet and mobile Internet, individual securities companies have realized extraordinary development, which has drawn high attention of the industry. Financial technology will have a far-reaching impact on certain business areas of the securities industry. The gradual release of securities business license plate is the general trend. Other types of financial institutions represented by commercial banks have already entered into the securities industry. The securities industry is opening to the outside world at an accelerating pace. In the near future, the companies in the industry will face the competition of foreign securities companies from various business fields, the overall competition landscape of the industry will tend to be complicated and the competition will become heated.

The Central Economic Work Conference at the end of 2018 pointed out that “the capital market plays a decisive role in financial operation. Through deepening reform, we should create a normative, transparent, open, dynamic and resilient capital market”. The position and role of the capital market in the whole economic and financial operation have been raised to an unprecedented level. Meanwhile, the reform of China’s capital market in all aspects in 2019 will be carried forward at a faster rate; the thinking of regulators will be constantly changed according to the specific operation state of the market, but will be adjusted dynamically around the development direction of the capital market as a whole. With the rapid development of the science and technology innovation board and registration system, the double-track system of the A-share market is in full swing. In addition, although the domestic economy has not yet clearly touched the bottom and the multiple tests of international political and economic changes, its position in the capital market has been unprecedentedly improved. Various measures to activate the market such as stabilizing expectations and raising confidence were continuously introduced. With the overall valuation of A-shares at a historically low level and the expectation of continuous inflow of medium and long-term funds, the overall operation of the capital market in 2019 is expected to be stable and optimistic, the overall operating environment of the industry is expected to be improved, and the securities industry is expected to enter a new cycle.

(II) Development strategies of the Company

The Company will continue to deepen reform, improve professional service level in an all-round way, build core competitiveness, and strive to spend another three years or so to raise the level of compliance risk control of the Company and significantly improve the professional ability of cadres and employees, thereby bringing the Company’s capital strengths and profitability to top the list of securities companies across China and the rank of some important business areas to move significantly forward, to achieve a “Second Take-off”.



SECTION 4 REPORT OF THE BOARD OF DIRECTORS

(III) Operating plan

The operation and management thought of the Company for the year of 2019 is to earnestly implement the guidance of the Central Economic Work Conference, the relevant meetings of Henan Provincial Committee and Henan Provincial Government and the arrangement and deployment of the CSRC, continue to deepen reform, accelerate the transition to wealth management, comprehensively improve quality and increase efficiency. With sound operating performance, the Company will take the key step of the “Second Take-off”.

1. The Company will continue to deepen reform and implement two “comprehensives”, that’s, the fixation of all staff and posts and comprehensive performance evaluation, to ensure the overall promotion of the Company, balanced development of each line, the overall performance of reform achievements. The key points are to speed up the pilot work of the Company’s professional manager system; accelerate the transformation of brokerage business into wealth management, and actively explore the reform of the headquarters and organizations with branches as profit centers, and enable them to become a “one-stop” integrated financial service platform; speed up the implementation of comprehensive performance assessment, establish and improve the incentive and restraint mechanism, and further mobilize the enthusiasm of various business lines; optimize the compensation system of the Company, and further retain and attract talented people to ensure the smooth progress of the overall reform of the Company.
2. The Company will improve quality and efficiency in an all-round way and win over from good business performance. The Company will vigorously develop the businesses such as the margin financing and securities lending and derivatives, actively explore new modes of investment advisory service, speed up the development of comprehensive platforms of branches, and strive to increase the wealth management business by a large margin; continuously enhance the core competitiveness, actively grasp the market opportunities, and further enhance the level of proprietary investment returns; grasp the opportunities of the new round of capital market reform and opening, improve the performance of investment banks in an all-round way, and strive to enter to top the list of securities companies across China as soon as possible. Around the development of capital market, the Company will speed up the exploration of new profit model of assets management business, support the transformation of corporate wealth management. At the same time, Equity Exchange Co. strives to accumulate the number of listed enterprises and the amount of financing to a new level, and strive to improve the quality of listed enterprises. The investment business continuously adjusts the business structure, vigorously improves the profitability, continuously enhances the market-oriented fund raising ability, further enlarges the fund management scale, and strives to enhance the level of ROE. The futures business will seize the favorable opportunities and accelerate the transformation and development. The international business will actively explore the business mode suitable for its own characteristics. The micro-lending business will steadily enlarge the asset scale and conduct prudent risk management to realize higher income level.
3. The Company will continue to strengthen the development of the middle-stage and background and improve the efficiency of management. The Company will further enhance the compliance risk control level to ensure the healthy development of the Company; actively promote the basic support capability to serve the business development of the Company; vigorously promote the level of comprehensive service support to ensure the efficient operation of the Company.



SECTION 4 REPORT OF THE BOARD OF DIRECTORS

(IV) Potential risks

In 2018, the Company continued to implement the supervision requirements and internal systems such as the Comprehensive Risk Management Standards for Securities Companies, optimized the comprehensive risk management system, improved the risk management system, perfected the risk management organization structure, strengthened the development of risk management information technology, enhanced the risk response mechanism, etc. The Company has formulated the risk preference and tolerance system, which was organically combined with the Company's development strategy, evaluates the extreme risks through regular and irregular stress tests, and covered the whole company with a multi-level risk management system. The Company continuously promoted the development of risk management information system, establish special budget for risk management information system, constructed centralized, time-effective and quantitative risk management technical pillars, effectively improved the information level of risk management of the Company, and further enhanced the ability of the Company in risk identification, quantitative evaluation and control. The Company will include all subsidiaries into the comprehensive risk management system, and explore the establishment of an effective subsidiary risk management model, so as to ensure that the comprehensive risk management system is compatible with the Company's development strategy and provides guarantee for the sound and sustainable development of the Company's businesses.

Major risks include: credit risk, market risk, liquidity risk, operational risk, compliance risk and information technology 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:



SECTION 4 REPORT OF THE BOARD OF DIRECTORS

1. Credit risk and policies

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.

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, investment experience and risk appetite, and under the guidance of the business management department in accordance with the Company's systems of continuous management. 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 repurchase, the Company has made provision for impairment.



SECTION 4 REPORT OF THE BOARD OF DIRECTORS

2. Market risk and policies

Market risk refers to the risk that the fair value of the financial instruments held is adversely affected by changes in the market prices. 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. The Company continuously strengthens the mechanism development and internal management as well as hedges and slowly releases the exchange rate risk through a series of measures to support the expansion of overseas business of the Company.

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, 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.



SECTION 4 REPORT OF THE BOARD OF DIRECTORS

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 loss resulting from flaws or error of personnel, internal procedures, systems and external events. 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 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.

5. Compliance risk and policies

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, etc.



SECTION 4 REPORT OF THE BOARD OF DIRECTORS

6. Information technology risk, policies and investment

The Company is in an industry highly relies on information technology. Information technology risk has become one of the main risks faced by securities companies. Information technology capability has become an important aspect of the core competitiveness of securities companies. Any hardware and software failure and security breaches in the information technology systems and communication systems and insufficient emergency management capability of disaster recovery systems may severely affect the Company's ordinary business. Any failure to improve the information systems in a prompt, effective and steady way would adversely affect the Company's competitiveness, operations and working efficiency, etc. Through continuously improving and optimizing the IT operation systems, responding to the business demands actively and promptly and increasing efforts on new technology application, security reinforce and infrastructure upgrading, etc. as well as applying steady and efficient technology architecture, the Company has consolidated its foundation in the operation and management of the information systems, which efficiently supports the Company's business development.

As for potential information system risk, the Company has continuously improved its level of IT operation and management, information security control methods, emergency management capability of information systems and all-round risk management, etc., so as to ensure the safe operation of information systems. (1) The Company actively promotes the normalization, standardization, streamlining and refinement development, proactively conducts self-inspection rectification, continuously improves and optimizes the IT operation systems, so as to ensure full safe operation of information systems. (2) Through putting more efforts on core network equipment update, communication lines integration, cloud computing capacity expansion, application of new monitoring platform, transaction market speed optimization, data security reinforcement, infrastructure update, etc., the Company has consolidated its foundation in the operation and management of the information systems, which further improves the robustness of information systems. (3) In terms of safety and emergency, the Company has improved the safety, effectiveness and stability, etc. of information systems through regular penetration testing and vulnerability scanning, real-time security information warning, host security reinforcement, periodic security self-examination, and regular emergency drills, etc. (4) The Company has actively implemented the requirements of the Regulations for Overall Risk Management of Securities Companies (《證券公司全面風險管理規範》), whereby it continuously promotes the development of a comprehensive risk management system and a compliance management platform system, so as to enhance the Company's overall compliance risk control capabilities.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

V. PROFIT DISTRIBUTION AND PROFIT DISTRIBUTION PROPOSAL

Please refer to Section 5 I. "PROPOSAL OF PROFIT DISTRIBUTION TO HOLDERS OF ORDINARY SHARES OR CAPITALISATION ISSUE" in this report.

VI. DIRECTORS

Please refer to Section 7 "DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES".

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

During the Reporting Period, none of the Directors of the Company has any interest in business that competes or may compete, either directly or indirectly, with the Company.

VIII. PERMITTED INDEMNITY PROVISION

Please see Section 8 I. (2) 1. "Composition of the Board" in this report.

IX. 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 2018, based on the information acquired by the Company and the knowledge of the Directors, the Directors, Supervisors and chief executive 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 position/ short position/ lending pool
Jian Mingjun	H share	Beneficial owner	750,000	0.019	0.063	Long position
		Beneficiary of a trust	539,754	0.014	0.045	Long position

Save as disclosed above, as of 31 December 2018, 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.

SECTION 4 REPORT OF THE BOARD OF DIRECTORS

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

As of 31 December 2018, pursuant 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 position/short position/lending pool
Henan Investment Group	A Share	Beneficial owner	822,983,847	21.271	30.781	Long position
	H Share	Beneficial owner/Interest of corporation controlled by the substantial shareholder	69,338,000 ^{Note 1}	1.792	5.801	Long position
Bohai Industrial Investment Fund	A Share	Beneficial owner	608,000,000	15.714	22.740	Long position
Bohai Industrial Investment Fund Management Co., Ltd. (on behalf of the Bohai Industrial Investment Fund)	A Share	Investment manager	608,000,000	15.714	22.740	Long position
Anyang Iron & Steel Group Citigroup Inc.	A Share	Beneficial owner	177,514,015	4.588	6.639	Long position
	H Share	Person having a security interest/Interest of corporation controlled by the substantial shareholder/Approved lending agent	132,131,333 ^{Note 2}	3.415	11.054	Long position
				27,780,333 ^{Note 2}	0.718	2.324
ICBC International Asset Management Limited	H Share	Investment manager	95,949,000	2.480	8.027	Long position

Notes:

- As known to the Directors, as at 31 December 2018, Henan Investment Group (through Stock Connect's Southbound trading) directly held a long position in 22,605,000 H Shares of the Company, and through its indirect wholly-owned subsidiary, Dahe Paper (Hong Kong) Co., Limited, indirectly held a long position in 46,733,000 H shares of the Company.
- Citigroup Inc., through a series of its controlled corporations, indirectly held a long position in 132,131,333 H shares of the Company, of which 27,780,333 shares were held in the capacity of approved lending agent, and a short position in 72,000 H shares of the Company.

Save as disclosed above, as of 31 December 2018, 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

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

Details of the repurchase of H shares of the Company during the reporting period, please refer to Section 6 I. 2. (2) "Repurchase of H shares of the Company" of this report. Save for the above, neither the Company nor any of its subsidiaries purchased, sold or repurchased any securities of the Company during the reporting period.

XII. NON-COMPETITION UNDERTAKING OF CONTROLLING SHAREHOLDERS

Please refer to Section 8 VI. "EXPLANATION ON LACK OF INDEPENDENCE OR INDEPENDENT OPERATING ABILITY IN TERMS OF BUSINESS, PERSONNEL, ASSETS, ORGANIZATIONS AND FINANCE BY THE COMPANY FROM ITS CONTROLLING SHAREHOLDER" in this report.

XIII. OTHER DISCLOSURES

(I) Share capital

Please refer to Note 40 to the Consolidated Financial Statements as set out in this report.

(II) Pre-emptive rights arrangement

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

(III) Sufficiency of public float

From the date on which the Company's H shares were listed to the date of this report, according to the information obtained by the Company and the knowledge of the Directors, the public float of the Company has been in compliance with the relevant regulations of Rule 8.08 and Rule 13.32 of the Hong Kong Listing Rules.

(IV) 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.

(V) Director and Supervisor service contract

No Director or Supervisor of the Company has 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).

(VI) 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.



SECTION 4 REPORT OF THE BOARD OF DIRECTORS

(VII) Rights of Directors and Supervisors to acquire shares or debentures

During the Reporting Period, no arrangements to which the Company, any of its subsidiaries, its holding company or any subsidiaries of its holding company is or was a party enabling the Directors or Supervisors of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or other body corporate.

(VIII) Donations

During the Reporting Period, the Group's charitable and other donations amounted to approximately RMB34.4 thousand.

(IX) Employees

Please refer to Section 7 VI. "EMPLOYEES OF THE PARENT COMPANY AND ITS MAJOR SUBSIDIARIES" of this report.

(X) Property, plants, equipment and investment properties

As at the end of the Reporting Period, for details of the Group's property, plants and equipment, investment properties, please refer to the Consolidated Statement of Financial Position and Note 18 and Note 19 to the Consolidated Financial Statements as set out in this report.

(XI) 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 41 to the Consolidated Financial Statements as set out in this report.

All references in this section to other parts, sections or notes in this report form part of the Report of the Board of Directors.



SECTION 5 SIGNIFICANT EVENTS

I. PROPOSAL OF PROFIT DISTRIBUTION TO HOLDERS OF ORDINARY SHARES OR CAPITALISATION ISSUE

(I) Formulation, implementation 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 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.

On 16 October 2018, the Profit Distribution Plan for the first half of 2018 was considered and approved by the 2018 second extraordinary general meeting of the Company to distribute a cash dividend of RMB0.10 (tax inclusive) for every 10 shares.

The Company's proposed profit distribution plan for the second half of 2018 is not to distribute a cash dividend, nor capitalize capital reserve into share capital.

The formation of the aforesaid profit distribution plan is of high transparency and in compliance with regulations and the Articles of Association and approval procedures that the criteria and proportion 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 so as to fully protect the legitimate rights and interests of minority shareholders.

SECTION 5 SIGNIFICANT EVENTS

(II) Profit distribution plans or proposals for ordinary shares for the past three years (including the Reporting Period)

Unit: Yuan Currency: RMB

Year of distribution	Number of bonus shares for every 10 shares (share)	Amount of dividend for every 10 shares (tax inclusive)	Capitalisation shares for every 10 shares (share)	Amount of cash dividends (tax inclusive)	Net profit attributable to owners of ordinary shares of the Company as shown in the consolidated financial statements during the year of distribution	Percentage of net profit attributable to owners of ordinary shares of the Company as shown in the consolidated financial statements (%)
2018	0	0.10	0	38,690,707.00	65,787,558.62	58.81
2017	0	1.08	0	421,850,107.60	441,982,592.67	95.44
2016	0	2.21	0	797,145,368.70	718,646,243.11	110.92

II. PERFORMANCE OF UNDERTAKINGS

Undertakings by undertaking related parties including de facto controller, shareholders, related parties, acquirer and the Company made or subsisting during 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
Undertaking in relation to the initial public offering	Shares subject to trading moratorium	Henan Investment Group	Undertakings by shareholders in relation to voluntary moratorium on trading of shares	36 months since the date of initial offering of A shares by Central China Securities and listing on the stock exchange	Yes	Yes
	Non-competition	Henan Investment Group	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 trading moratorium	Bohai Industrial Investment Fund Management Co., Ltd. (representing Bohai Industrial Investment Fund)	Undertakings by shareholders in relation to voluntary moratorium on trading of shares	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 trading moratorium	Anyang Iron & Steel Group	Undertakings by shareholders in relation to voluntary moratorium on trading of shares	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 trading moratorium	Pingmei Shenma	Undertakings by shareholders in relation to voluntary moratorium on trading of shares	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 trading moratorium	Anyang Economic Development	Undertakings by shareholders in relation to voluntary moratorium on trading of shares	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 trading moratorium	Jiangsu SOHO	Undertakings by shareholders in relation to voluntary moratorium on trading of shares	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 trading moratorium	Xuchang Superlift Construction Materials Science & Technology Co., Ltd.	Undertakings by shareholders in relation to voluntary moratorium on trading of shares	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 trading moratorium	Guangzhou Liby Investment Co., Ltd.	Undertakings by shareholders in relation to voluntary moratorium on trading of shares	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 trading moratorium	Shenhuo Group	Undertakings by shareholders in relation to voluntary moratorium on trading of shares	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 trading moratorium	Henan Jinlong Industrial Co., Ltd.	Undertakings by shareholders in relation to voluntary moratorium on trading of shares	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 trading moratorium	Jiaozuo Economic and Technology Development	Undertakings by shareholders in relation to voluntary moratorium on trading of shares	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 trading moratorium	Shandong Weihai Huanqiu Fishing Tackle Industrial Co., Ltd.	Undertakings by shareholders in relation to voluntary moratorium on trading of shares	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 trading moratorium	Jiangsu Huiyou Woollen Sweater Co., Ltd.	Undertakings by shareholders in relation to voluntary moratorium on trading of shares	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 trading moratorium	Zhangjiagang Freetrade Science & Technology Co., Ltd.	Undertakings by shareholders in relation to voluntary moratorium on trading of shares	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 trading moratorium	Shenzhen Rising	Undertakings by shareholders in relation to voluntary moratorium on trading of shares	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 trading moratorium	Hebi Construction & Investment	Undertakings by shareholders in relation to voluntary moratorium on trading of shares	12 months since the date of initial offering of A shares by Central China Securities and listing on the stock exchange	Yes	Yes
	Non-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. ANALYSIS AND EXPLANATION BY THE COMPANY ON THE REASON AND INFLUENCE OF CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Ministry of Finance promulgated the revised Accounting Standards for Enterprises No. 14 — Revenues in 2017, which was adopted by the Group in the preparation of the financial statements of 2018. The adoption of the aforesaid standards didn't have significant impacts on the financial condition, operating results and cash flow of the Group.

The Ministry of Finance promulgated the revised Accounting Standards for Enterprises No. 22 — Recognition and Measurement of Financial Instruments, Accounting Standards for Enterprises No. 23 — Transfer of Financial Assets, Accounting Standards for Enterprises No. 24 — Hedging, and Accounting Standards for Enterprises No. 37 — Presentation of Financial Instruments (hereinafter referred to as the "New Financial Instruments Standards", and the standards before revision are otherwise known as the "Former Financial Instruments Standards") in 2017. The New Financial Instruments Standards were adopted in the preparation of the financial statements of 2018 by the Group.

The New Financial Instruments Standards were implemented since 1 January 2018. Such changes constituted the changes in accounting policies, and the adjustments of the relevant amount were recognised in financial statements. The Group chose not to restate the information of the comparison period. The adjustments of the book value of financial assets and financial liabilities were recorded into the retained earnings and other reserves at the beginning of the current period from the date when the standards were implemented.

In December 2018, the Ministry of Finance issued the Notification concerning Revising, Printing and Issuing the Format of Financial Statements of Financial Enterprises in 2018 (Cai Kuai [2018] No.36). The Group prepared financial statements and adjusted the presentation of items of financial statements as required in the Accounting Standards for Enterprises and the aforesaid notification from the date when the notification was issued, which didn't have significant impacts on the financial statements.

SECTION 5 SIGNIFICANT EVENTS

IV. APPOINTMENT OR TERMINATION OF SERVICE 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	7 years
Name of the overseas accounting firm	PricewaterhouseCoopers
Remuneration of the overseas accounting firm	298.00
Term of the audit services provided by overseas accounting firm	5 years

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

Explanation of appointment or termination of service of accounting firms

During the Reporting Period, the Company re-appointed ShineWing Certified Public Accountants (Special General Partnership) as its external auditors for 2018 for providing domestic audit services in accordance with the China's Accounting Standards for Business Enterprises, with a service term of 1 year. The total fees for audit and review services (including internal control audit) for the year of 2018 were RMB1,350,000, including RMB1,050,000 of audit fees for financial and special supervision report and RMB300,000 of internal control audit fees.

During the Reporting Period, the Company re-appointed PricewaterhouseCoopers as its overseas auditors for 2018 for providing audit and review services in accordance with the International Financial Reporting Standards, with a service term of 1 year. The total audit and review fees for the year of 2018 were RMB2,980,000, including RMB1,980,000 of annual audit fees and RMB1,000,000 of interim review fees.



SECTION 5 SIGNIFICANT EVENTS

V. MATERIAL LITIGATION AND ARBITRATION

The Group had not been involved in any material litigation or arbitration during the Reporting Period.

VI. PUNISHMENT ON AND RECTIFICATION OF THE COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDER, DE FACTO CONTROLLER AND ACQUIRER

In December 2017, Henan Branch of the CSRC carried out a special inspection on the investment banking business of the Company, and issued 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》(河南證監局行政監管措施決定書[2018]1號) to the Company on 9 February 2018. Upon the receipt of relevant letter, the Company attached great importance, forthwith organised the rectification and submitted the rectification report to the Henan Branch of the CSRC. For details, please refer to the relevant announcement (Announcement No.: 2018-010) disclosed by the Company on the website of SSE on 13 February 2018 and the announcement disclosed on the HKEXnews website of the Hong Kong Stock Exchange on 12 February 2018.

On 2 August 2018, the Company received the Decision Letter on the Administrative Penalty of the CSRC ([2018] No.76) 中國證監會《行政處罰決定書》([2018]76號). For details, please refer to the relevant announcement (Announcement No.: 2018-050) disclosed by the Company on SSE on 3 August 2018 and the announcement disclosed on the HKEXnews website of the Hong Kong Stock Exchange on 2 August 2018.

Save as disclosed above, the Company has no other punishment or public censure by the CSRC, the Securities Association of China, stock exchanges, financial futures exchanges, fiscal and taxation, foreign exchange and audit authorities.

VII. CREDIBILITY OF THE COMPANY, ITS CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER DURING THE REPORTING PERIOD

During the Reporting Period, none of the Group, its controlling shareholder or de facto controller had unperformed enforceable court judgments, unpaid debts with larger sum at maturity or bad credibility record.



SECTION 5 SIGNIFICANT EVENTS

VIII. CONNECTED TRANSACTIONS

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

On 13 July 2018, Central China Blue Ocean entered into the Hebi Magnesium Trading Centre Company Limited Capital Contribution Agreement (《鶴壁鎂交易中心有限責任公司出資人協議書》) with Henan Coal Storage and Distribution Trading Centre Company Limited (河南煤炭儲配交易中心有限公司) and other capital contributors, pursuant to which Central China Blue Ocean, Henan Coal Storage and Distribution Trading Centre Company Limited and other capital contributors agreed to establish Hebi Magnesium Trading Centre Company Limited (鶴壁鎂交易中心有限責任公司) with a registered capital of RMB100 million. Upon completion of the transaction contemplated under the Hebi Magnesium Trading Centre Company Limited Capital Contribution Agreement, the Group will, through Central China Blue Ocean, hold 10% of the equity interest in Hebi Magnesium Trading Centre Company Limited. Henan Investment Group holds approximately 21.3% of the issued share capital of the Company and is the largest substantial shareholder of the Company. Meanwhile, Henan Investment Group holds approximately 64.2% of the equity interest in Henan Yuneng Holdings Co., Ltd., which holds approximately 80% of the equity interest in Henan Coal Storage and Distribution Trading Centre Company Limited, which in turn is the indirect subsidiary of Henan Investment Group, and thus Henan Coal Storage and Distribution Trading Centre Company Limited is an associate of Henan Investment Group pursuant to Rule 14A.13(1) of the Hong Kong Listing Rules. Accordingly, Henan Coal Storage and Distribution Trading Centre Company Limited is a connected person of the Company under Rule 14A.07(1) of the Hong Kong Listing Rules. The transaction contemplated under the the Hebi Magnesium Trading Centre Company Limited Capital Contribution Agreement constitutes a connected transaction of the Group under Chapter 14A of the Hong Kong Listing Rules. For details of the connected transaction mentioned above, please refer to the announcement of the Company dated 13 July 2018 published on HKEXnews website of the Hong Kong Stock Exchange.

Save as disclosed above, there are no other related party transactions or continuing related party transactions as set out in Note 55 to the Consolidated Financial Statements as set out in this report which constitutes connected transactions or continuing connected transactions that need to be disclosed under the Hong Kong Listing Rules. The connected transactions of the Company are in compliance with the disclosure requirements under Chapter 14A of the Hong Kong Listing Rules.

SECTION 5 SIGNIFICANT EVENTS

IX. MATERIAL CONTRACTS AND CONTRACT PERFORMANCE

Guarantees

Unit: Yuan Currency: RMB

Guarantees provided by the Company (excluding the guarantees for subsidiaries)

Total amount of guarantees incurred during the Reporting Period (excluding the guarantees provided for subsidiaries)	0
Total balance of guarantees at the end of the Reporting Period (A) (excluding the guarantees provided for subsidiaries)	0

Guarantees provided by the Company and its subsidiaries for subsidiaries

Total amount of guarantees provided for subsidiaries during the Reporting Period	614,741,920.00
Total guarantee balance provided for subsidiaries at the end of the Reporting Period (B)	527,121,920.00

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

Total amount of guarantees (A+B)	527,121,920.00
Percentage of total guarantee over the net assets of the Group (%)	5.30

Including:

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

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 assume 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 International's overseas loans, the balance of which amounting to RMB527,121,920.00 in total (equivalent to HK\$601,600,000.00).



SECTION 5 SIGNIFICANT EVENTS

X. OTHER SIGNIFICANT EVENTS

Re-election and appointment of Directors, Supervisors and senior management of the Company

The term of the Fifth Session of the Board and the Supervisory Committee of the Company expired in September 2018. In accordance with relevant laws and regulations including the Company Law, the Securities Law and the Articles of Association, the Company held the 54th meeting of the Fifth Session of the Board and the 23rd meeting of the Fifth Session of the Supervisory Committee on 29 August 2018, at which the proposals in relation to the recommendation of candidates for Directors of the sixth session of the Board and the recommendation of candidates for Supervisors of the sixth session of the Supervisory Committee were considered and approved. On the same day, the Company held a meeting of the Labour Union Committee, at which the employee representative supervisors of the the sixth session of the Supervisory Committee were elected. The Company held the second extraordinary general meeting in 2018 on 16 October 2018, at which the Directors and Supervisors of the Company were elected. On the same day, the Company held the first meeting of the sixth session of the Board and the first meeting of the sixth session of the Supervisory Committee, at which the chairman and the vice chairman of the Board as well as the chairman of the Supervisory Committee were elected and the members of senior management of the Company were appointed.

For details, please refer to the relevant announcements (Announcement No.: 2018–052, 2018–053, 2018–054, 2018–059, 2018–060 and 2018–061) disclosed by the Company on SSE on 30 August 2018 and 17 October 2018 and the announcements disclosed on the HKEXnews website of the Hong Kong Stock Exchange on 29 August 2018 and 16 October 2018.

XI. CONVERTIBLE CORPORATE BONDS

Issuance of Convertible 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 issue 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 (《中原證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 reduction of issue 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 reduce the issue 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.

On 17 May 2018, the Company considered and approved the Resolution on the Extension of the Validity Period of Issuance of A Share Convertible Bonds and the Authorization Period in relation to the Issuance at the 2017 Annual General Meeting, 2018 First Class Meeting for Holders of A Shares and 2018 First Class Meeting for Holders of H Shares, and agreed to the related resolution on the extension of the validity period of this public issuance of A share convertible corporate bonds for 12 months from the previous maturity date to 21 May 2019.

For details of the aforementioned, please refer to the relevant announcements disclosed by the Company on 23 May 2017, 15 July 2017, 16 September 2017, 1 November 2017, 16 January 2018 and 18 May 2018 (Announcement No.: 2017-040, 2017-061, 2017-076, 2017-087, 2018-004 and 2018-034) and the announcements disclosed on the HKEXnews website of the Hong Kong Stock Exchange on 22 May 2017, 31 October 2017, 15 January 2018 and 17 May 2018.

SECTION 6 CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

I. CHANGES IN ORDINARY SHARE CAPITAL

1. Changes in ordinary shares

	Prior to the change		Issuance of new shares	Bonus shares	Increase/decrease (+, -) Capitalisation issue	Other	Sub-total	After the change	Unit: Share
	Number of shares	Percentage (%)							
I. Shares subject to trading moratorium	1,973,723,215	50.3022				-1,102,760,193	-1,102,760,193	870,963,022	22.5109
1. State-owned shares									
2. State-owned legal person shares	1,270,705,700	32.3851				-399,742,678	-399,742,678	870,963,022	22.5109
3. Other domestic shares	703,017,515	17.9171				-703,017,515	-703,017,515		
Of which:									
Held by domestic non-state-owned legal person	703,000,000	17.9167				-703,000,000	-703,000,000		
Held by domestic natural person	17,515	0.0004				-17,515	-17,515		
4. Foreign shares									
Of which:									
Held by overseas legal person									
Held by overseas natural person									
II. Tradable shares not subject to trading moratorium	1,950,011,485	49.6978				1,048,096,193	1,048,096,193	2,998,107,678	77.4891
1. RMB-denominated ordinary shares	699,982,485	17.8397				1,102,760,193	1,102,760,193	1,802,742,678	46.5937
2. Domestic-listed foreign shares									
3. Overseas-listed foreign shares	1,250,029,000	31.8581				-54,664,000	-54,664,000	1,195,365,000	30.8954
4. Others									
III. Total number of ordinary shares	3,923,734,700	100.0000				-54,664,000	-54,664,000	3,869,070,700	100.0000



SECTION 6 CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

2. Explanation on changes in ordinary shares

(1) Unlocking of the shares of the Company subject to trading moratorium

On 3 January 2018, a total of 1,102,760,193 shares subject to trading moratorium under the Company's initial public offering held by 16 promoters including Bohai Industrial Investment Fund Management Co., Ltd. (渤海產業投資基金管理有限公司) (on behalf of Bohai Industrial Investment Fund), and 5 shareholders, including Zhang Xu, who were voluntarily subject to the lock-up during the subscription of shares under initial public offering, were unlocked. The shares were listed and commenced trading from 3 January 2018.

For details of the above, please refer to the relevant announcement of the Company disclosed on SSE on 26 December 2017 (Announcement No.: 2017-099).

(2) Repurchase of H shares of the Company

In order to safeguard the interests of minority investors, optimise the Company's shareholding structure, improve the Company's financial indicators and raise the return on net assets of the Company, the Company researched and proposed an H share repurchase plan according to the actual situation, which is in compliance with the relevant provisions of the Company Law, the Securities Law and the Hong Kong Listing Rules.

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 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 less than RMB3,798,731,800.

On 18 May 2018, the Company completed the implementation of repurchase of its H shares. The Company has repurchased 54,664,000 H shares on a cumulative basis on the Hong Kong Stock Exchange through on-market share buy-back, representing 4.37% and 1.39% of the total issued H shares and total issued share capital of the Company immediately preceding such repurchase, respectively. On 23 May 2018, the Company completed the cancellation of all shares repurchased. On 11 July 2018, the Company completed the registration of changes with the administrative department of industry and commerce and obtained the business licence reissued by the Henan Administration for Industry & Commerce, with the Company's registered capital changed to RMB3,869,070,700.

SECTION 6 CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

The following table sets out the details of the repurchase of shares in 2018:

Month	Number of shares repurchased	Highest price per share (HK\$)	Lowest price per share (HK\$)	Total price (HK\$)
February 2018	6,188,000	3.28	3.02	19,407,620
April 2018	14,795,000	3.09	2.85	44,491,210
May 2018	33,681,000	3.08	2.90	100,329,640
Total	54,664,000	3.28	2.85	164,228,470

For details of the above, please refer to the relevant announcements of the Company disclosed on SSE on 23 May 2017, 26 January 2018 and 13 July 2018 (Announcement no.: 2017-040, 2018-007 and 2018-045), the circular disclosed on the HKEXnews website of the Hong Kong Stock Exchange on 5 May 2017 and the announcement disclosed on the HKEXnews website of the Hong Kong Stock Exchange on 12 February 2018.

3. Impact of changes in ordinary shares on financial indicators including earnings per share and net assets per share for the last year and the last period

The earnings per share and net assets per share for 2017 are RMB0.017 and RMB2.570, respectively based on the total issued share capital of the Company before the implementation of the H share repurchase, i.e. 3,923,734,700 shares; the earnings per share and net assets per share for 2018 are RMB0.017 and RMB2.572, respectively based on the reduced total issued share capital of the Company upon completion of the H share repurchase, i.e. 3,869,070,700 shares.



SECTION 6 CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

II. ISSUANCE AND LISTING OF SECURITIES

Issuances of securities during the Reporting Period

Unit: 0'000 Share Currency: RMB

Type of shares and derivative securities	Date of issuance	Issue price (or interest rate)	Issue size	Date of listing	Amount approved for listing and trading	Date of termination of trading
Subordinated bonds	26 April 2018	5.58%	150,000	18 May 2018	150,000	27 April 2021

Particulars about issuances of securities during 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 coupon interest rate of 5.58% on 26 April 2018.

SECTION 6 CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

III. SHAREHOLDERS AND DE FACTO CONTROLLER

(I) Total number of shareholders

Total number of ordinary shareholders as at the end of the Reporting Period	126,514 (of which 126,470 were holders of A shares and 44 were registered holders of H shares)
Total number of ordinary shareholders as at the end of last month prior to the date of disclosure of this report	130,117 (of which 130,071 were holders of A shares and 46 were registered holders of H shares)

(II) Shareholdings of the top ten shareholders, the top ten holders of tradable shares (or shareholders not subject to trading moratorium) as at the end of the Reporting Period

Unit: Share

Shareholdings of the top 10 shareholders

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 subject to trading moratorium	Shares pledged or frozen Status	Number of shares	Nature of shareholders
HKSCC Nominees Limited	-54,644,100	1,195,149,900	30.89		None		Overseas legal person
Henan Investment Group		822,983,847	21.27	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	15.71		None		Others
Anyang Iron and Steel Group		177,514,015	4.59		Pledged	50,930,000	State-owned legal person
Pingmei Shenma		75,046,245	1.94		None		State-owned legal person
National Council for Social Security Fund (Transfer Account No.1)		70,000,000	1.81	49,979,175	None		Others
Anyang Economic Development		48,824,693	1.26		Pledged	24,412,346	State-owned legal person
Jiangsu SOHO Holdings		27,073,089	0.70		None		State-owned legal person
Guangzhou Liby Investment Co., Ltd.		20,000,000	0.52		None		Domestic non state-owned legal person
Shenhua Group		17,749,930	0.46		Pledged	17,749,900	State-owned legal person

SECTION 6 CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

Shareholdings of the top 10 shareholders not subject to trading moratorium

Name of shareholders	Number of tradable shares not subject to trading moratorium	Type and number of shares	
		Type	Number
HKSCC Nominees Limited	1,195,149,900	Overseas-listed foreign shares	1,195,149,900
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	RMB-denominated ordinary shares	608,000,000
Anyang Iron and Steel Group	177,514,015	RMB-denominated ordinary shares	177,514,015
Pingmei Shenma	75,046,245	RMB-denominated ordinary shares	75,046,245
Anyang Economic Development	48,824,693	RMB-denominated ordinary shares	48,824,693
Jiangsu SOHO Holdings	27,073,089	RMB-denominated ordinary shares	27,073,089
National Council for Social Security Fund (Transfer Account No.1)	22,020,825	RMB-denominated ordinary shares	22,020,825
Guangzhou Liby Investment Co., Ltd.	20,000,000	RMB-denominated ordinary shares	20,000,000
Shenhua Group	17,749,930	RMB-denominated ordinary shares	17,749,930
Henan Jinlong Industrial Co., Ltd.	16,000,000	RMB-denominated ordinary shares	16,000,000
Explanation on related party or concert party relationship among the above shareholders	The Company is not aware of any related party relationship among the above-mentioned shareholders or whether they are parties acting in concert as defined in the Measures for the Administration of the Takeover of Listed Companies (《上市公司收購管理辦法》).		

SECTION 6 CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

Shareholdings of the top 10 holders of tradable shares subject to trading moratorium and the lock-up conditions

Unit: Share

No.	Name of shareholders subject to trading moratorium	Number of shares held subject to trading moratorium	Listing and trading of shares subject to trading moratorium		Lock-up conditions
			Date eligible for listing and trading	Number of shares newly eligible for listing and trading	
1	Henan Investment Group	822,983,847	3 January 2020	822,983,847	Not transferable within 36 months commencing from the listing date
2	National Council for Social Security Fund (Transfer Account No.1)	47,979,175	3 January 2020	47,979,175	Not transferable within 36 months commencing from the listing date
Explanation on related party or concert party relationship among the above shareholders		The Company is not aware of any related party relationship among the above-mentioned shareholders or whether they are parties acting in concert as defined in the Measures for the Administration of the Takeover of Listed Companies (《上市公司收購管理辦法》).			

SECTION 6 CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

IV. CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER

(I) Controlling shareholder

Name	Henan Investment Group Co., Ltd.
Person in charge of the entity or legal representative	Liu Xinyong
Date of incorporation	18 Decemeber 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 abovementioned, 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	<p>The controlling interests in domestic listed companies are: 738,700,684 shares in YUNENG Holdings (the shares of which are listed on Shenzhen Stock Exchange, stock code: 001896) which accounts for 64.20% of its total share capital; 278,907,035 shares in City Development Environment (the shares of which are listed on Shenzhen Stock Exchange, stock code: 000885) which accounts for 56.19% of its total share capital; and 407,835,649 shares in Ancai Hi-Tech (the shares of which are listed on SSE, stock code: 600207) which accounts for 47.26% of its total share capital.</p> <p>The investments in domestic listed companies include those in China Aviation Optical (the shares of which are listed on Shenzhen Stock Exchange, stock code: 002179) and Zhengzhou Bank (the shares of which are listed on Shenzhen Stock Exchange, stock code: 002936).</p> <p>The investments in overseas listed companies include those in Zhongyuan Bank (the shares of which are listed on Hong Kong Stock Exchange, stock code: 01216) and Zhengzhou Bank (the shares of which are listed on Hong Kong Stock Exchange, stock code: 06196).</p>
Other description	None

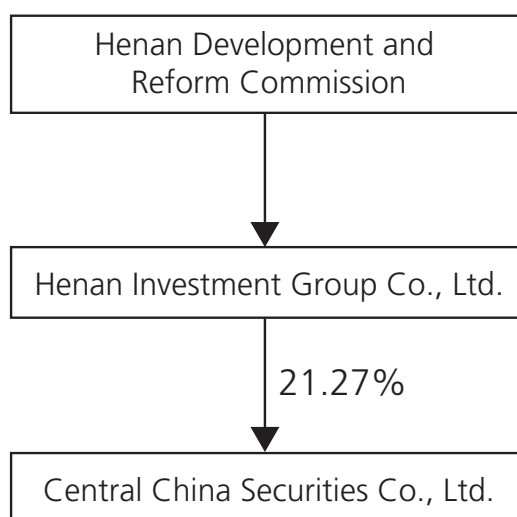
SECTION 6 CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

(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. Chart of the ownership and controlling relationships among the Company, the de facto controller and the controlling shareholder



(III) Other description on controlling shareholder and de facto controller

Henan Investment Group is under the 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 INFORMATION ON SHAREHOLDERS

V. OTHER INSTITUTIONAL SHAREHOLDER WITH SHAREHOLDING OVER 10%

Unit: hundred million Yuan Currency: RMB

Name of legal person shareholders	Person in charge of the entity 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)	Lin Jingzhen	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.

I. CHANGES IN THE SHAREHOLDING AND REMUNERATION

Changes in the shareholding and remuneration of incumbent Directors, Supervisors and senior management and those leaving office during the Reporting Period

Name	Positions ^(new)	Gender	Age	Date of taking office	Date of leaving office	Number of A shares held at the beginning of the year	Number of A 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 received remuneration from related parties of the Company
Jian Mingjun	Chairman of the Board and executive Director	Male	56	10 September 2015	16 October 2021				N/A	64.33	No
Chang Junsheng	President Executive Director Vice Chairman President	Male	48	11 September 2017 17 May 2018 16 October 2018 25 April 2018	25 April 2018 16 October 2021 16 October 2021 16 October 2021				N/A	95.34	No
Li Xingjia	Non-executive Director	Male	54	12 October 2015	16 October 2021				N/A		Yes
Wang Lixin	Non-executive Director	Male	52	10 September 2015	16 October 2021				N/A	3.60	Yes
Zhang Qiang	Non-executive Director	Male	55	10 September 2015	16 October 2018				N/A		No
Tian Shengchun	Non-executive Director	Male	44	16 October 2018	16 October 2021				N/A	3.60	No
Zhang Xiaopi	Non-executive Director	Male	33	10 September 2015	16 October 2021				N/A		No
Yu Zeyang	Non-executive Director	Male	49	10 September 2015	16 October 2018				N/A		No
Lu Benson Cheng	Non-executive Director	Male	37	1 November 2018	16 October 2021				N/A	0.60	No
Yuan Dejun	Independent non-executive Director	Male	68	10 September 2015	16 October 2018				N/A	20.83	No
Yuen Chi Wai	Independent non-executive Director	Male	43	10 September 2015	16 October 2021				N/A	25.00	No
Ning Jincheng	Independent non-executive Director	Male	62	10 September 2015	16 October 2021				N/A	25.00	No
Yu Xugang	Independent non-executive Director	Male	50	7 December 2015	16 October 2021				N/A	25.00	No
Zhang Dongming	Independent non-executive Director	Female	66	16 October 2018	16 October 2021				N/A	4.17	No
Lu Zhili	Chairman of the Supervisory Committee	Male	52	10 September 2015	16 October 2021				N/A	57.63	No
Gao Zongyuan	Shareholder Representative Supervisor	Male	52	17 May 2018	16 October 2021				N/A		Yes
Wang Jinchang	Shareholder Representative Supervisor	Male	45	10 September 2015	26 February 2018				N/A		Yes
Zhang Xiansheng	Shareholder Representative Supervisor	Male	53	17 May 2018	16 October 2021				N/A		No

SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Positions ^(Note)	Gender	Age	Date of taking office	Date of leaving office	Number of A shares held at the beginning of the year	Number of A 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 received remuneration from related parties of the Company
Xie Junsheng	Shareholder Representative Supervisor	Male	52	13 October 2016	16 October 2021			N/A	N/A	No	No
Xiang Siying	Independent Supervisor	Female	55	10 September 2015	16 October 2021			N/A	N/A	12.00	No
Xia Xiaoning	Independent Supervisor	Male	58	9 May 2016	16 October 2021			N/A	N/A	12.00	No
Han Junyang	Employee representative Supervisor	Male	49	10 September 2015	16 October 2021			N/A	N/A	63.85	No
Zhang Lu	Employee representative Supervisor	Female	50	16 June 2017	16 October 2021			N/A	N/A	67.56	No
Xiao Yichen	Employee representative Supervisor	Female	34	12 January 2018	16 October 2021			N/A	N/A	39.95	No
Zhu Jianmin	Executive Vice President	Male	55	10 September 2015	16 October 2021			N/A	N/A	45.33	No
Zhu Junhong	Vice President	Female	49	10 September 2015	16 October 2021			N/A	N/A	49.52	No
	Chief Accountant, Person in-charge-of Finance Department			10 September 2015	29 January 2018						
Xu Haijun	Vice President	Male	48	3 September 2016	16 October 2021			N/A	N/A	47.22	No
	Secretary to the Board			10 September 2015	18 January 2018						
Li Zhaoxin	Chief Accountant, Person in-charge-of Finance Department	Male	49	29 January 2018	16 October 2021			N/A	N/A	44.45	No
	Chief Compliance Officer			12 April 2018	16 October 2021						
Hua Jinzhong	Vice President	Male	46	12 April 2018	16 October 2021			N/A	N/A	33.85	No
	Vice President			25 February 2019	16 October 2021						
Xie Xiuzhu	Vice President	Female	48	3 September 2016	25 February 2019			N/A	N/A	46.99	No
	Chief Compliance Officer			29 December 2015	12 April 2018						
Zhao Huiwen	Vice President	Female	42	9 January 2019	16 October 2021			N/A	N/A	113.91	No
Zhu Qiben	Secretary to the Board	Male	54	18 January 2018	16 October 2021			N/A	N/A		No
	Chief Risk Officer			29 December 2015	18 January 2018						
Zhao Lifeng	Vice President	Male	46	10 September 2015	10 July 2018			N/A	N/A	65.27	No
Wang Jing	Chief Risk Officer	Female	—	18 January 2018	2 December 2018			N/A	N/A	70.80	No
	Employee Representative Supervisor			10 September 2015	12 January 2018						
Total	/	/	/	/	/			/	/	1,037.80	/

SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Notes:

1. Jian Mingjun: his remuneration before tax is temporarily fixed at RMB643,300, which is subject to the approval of the Board, the general meeting and relevant authorities.
2. Chang Junsheng: represents remuneration for the first 10 months of 2018 and temporarily fixed at RMB953,400 before tax, which is subject to the approval of the Board, the general meeting and relevant authorities.
3. Lu Zhili: his remuneration before tax is temporarily fixed at RMB576,300, which is subject to the approval of the Supervisory Committee, the general meeting and relevant authorities.
4. Zhu Jianmin, Zhu Junhong, Xu Haijun, Xie Xuezhong, Li Zhaoxin: the remuneration before tax listed at the above table is temporarily-fixed amount, which is subject to the approval of the Board and relevant authorities.
5. Hua Jinzhong: represents remuneration for the first 9 months of 2018 and temporarily fixed at RMB338,500 before tax, which is subject to the approval of the Board and relevant authorities.
6. Zhao Lifeng: represents remuneration for the first 7 months of 2018 and temporarily fixed at RMB652,700 before tax, which is subject to the approval of the Board and relevant authorities.

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. 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 the Securities Association of China. 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.</p>
Chang Junsheng	<p>Born in 1971, Mr. Chang Junsheng holds a master's degree in management and obtains the qualification of a certified public accountant. He is deputy secretary of the Party Committee, vice chairman, director and president of the Company. He began to work in July 1993, and has successively worked at Beijing Construction Engineering Group Corporation and Zhonghaiheng Industry Development Co., Ltd. He worked at the CSRC from March 1998 to February 2018, and successively served as the assistant managing officer and managing officer of the issuance supervision department, the assistant researcher, deputy division head, researcher and head of audit division II of the issuance supervision department, division head of regulatory division I of the regulatory department of non-listed companies, and the deputy director of the issuance regulatory department.</p>



SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Major working experience
Li Xingjia	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. 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, while serving as the chairman of the board of Yuneng Holdings Company Limited. He has also worked in Henan Investment Group as the temporary officer responsible for asset management department I, the chief technology officer and deputy general manager.
Wang Lixin	Born in 1966, Mr. Wang Lixin holds a master's degree. He is a director, 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 the direct investment department of BOC International Holdings Limited.
Tian Shengchun	Born in 1975, Mr. Tian Shengchun is a senior engineer with an on-duty master's degree of University of Science and Technology Beijing. He is currently the deputy head of the planning & development department of Anyang Iron & Steel. He began to work in 1998, and successively served as the assistant engineer, engineer, officer and deputy director of the general office of Anyang Iron & Steel Group No.4 Steel Mill, the investment administrator of the investment management division of the planning department of Anyang Iron & Steel Group, the director of external investment management office of the strategic investment division of Anyang Iron & Steel Group, the director of the policy research office of the planning and development department of Anyang Iron & Steel Group, the chief Level II management expert of Anyang Iron & Steel Group.
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.
Lu Benson Cheng	Born in 1982, Mr. Lu Benson Cheng holds an executive master's degree in business administration of Tsinghua PBC School of Finance. He is currently the managing director of Zhuhai Rongze Tongyuan Investment Management Partnership (Limited Partnership). He once worked as an analyst in the banking department of Morgan Stanley Asia, the executive director in the investment department of Goldman Sachs (Asia) Special Situations Group, managing director of ICBC International Holdings Co., Ltd., and the managing director of Tianjin ICBC International Investment Advisory Partnership (Limited Partnership).



SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Major working experience
Yuen Chi Wai	Born in 1975, Mr. Yuen Chi Wai holds a bachelor's degree in commerce. He is the senior member of Hong Kong Institute of Certified Public Accountants, and the senior member of Australia Institute of Certified Public Accountants. He has rich financial, corporate governance and risk management experience. He has successively served as an auditor in Charles Mar Fan & Co., Arthur Andersen, PricewaterhouseCoopers (Hong Kong), and Beijing and Shenzhen Branch of PricewaterhouseCoopers, the chief financial officer, company secretary and assistant president of Bolina Holding Co., Ltd (the shares of which are listed on Hong Kong Stock Exchange, stock code: 1190), the managing director of Venture Executive Services Limited, the director of Weida Capital Co., Ltd. and the senior consultant of XiangXing International Holding Limited (the shares of which are listed on Hong Kong Stock Exchange, stock code: 8157).
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. Currently he concurrently serves as an arbitrator of Shenzhen Arbitration Commission and Zhengzhou Arbitration Commission, and a lawyer of Henan Shidao Law Firm. 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 Xi'an Hongsheng Science & Technology Development Co., Ltd. (the shares of which are listed on SSE, stock code: 600817) since January 2019.
Yu Xugang	Born in 1968, Mr. Yu Xugang holds a doctoral degree of law in Peking University. He was a partner at Beijing Dacheng Law Offices, LLP and a senior partner at Beijing Dacheng Law Offices, LLP. He has been an independent director of Dafeng Port Heshun Technology Company Limited (the shares of which are listed on Hong Kong Stock Exchange, stock code: 08310) since May 2016, and an independent director of Huachuang Yang'an Co., Ltd. (the shares of which are listed on SSE, stock code: 600155) since December 2016.
Zhang Dongming	Born in 1953, Ms. Zhang Dongming holds a doctoral degree of economics. She is currently a retired researcher of Chinese Academy of Fiscal Sciences (formerly known as the Institute of Fiscal Sciences of the Ministry of Finance). She began to work in September 1969, and successively served as the worker of Mudanjiang Air Force May Seventh Cadre School, an officer of the Industrial Transport Department of Dongcheng District, Beijing City, the section chief of the Graduate Faculty of the Institute of Fiscal Sciences of the Ministry of Finance, the deputy division head and division head of the academic affairs office, senior economist and researcher, the researcher of the Foreign Financial Research Center.



SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Major working experience
Lu Zhili	Born in 1966, Mr. Lu Zhili holds a master degree of economics. He is a senior economist. He joined the company since the registration in November 2002, served as 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 is currently a director of Central China Futures since March 2008. Before joining the Company, he served as the manager and assistant to general manager of the securities issuance department and chairman and assistant to general manager of the research department of Henan Securities from September 1992 to November 2002.
Cao Zongyuan	Born in 1966, Mr. Cao Zongyuan is a senior accountant with a master's degree of economics. He served as a credit loan administrator of the Financial Development Company of the Department of Finance of Henan Province from June 1989 to January 1992, the credit officer, deputy director and director of the credit department of Henan Economic Technology Development Company from January 1992 to July 2001, the assistant to general manager and deputy general manager of Henan Economic Technology Development Company from July 2001 to October 2007, temporary person in charge and director of the asset management department VIII of Henan Investment Group from October 2007 to September 2008, the general manager of Xupingnan Expressway Co., Ltd. from September 2008 to July 2013, the director of the asset management department I and II of Henan Investment Group from July 2013 to June 2016. He has been the director of the financial management department of Henan Investment Group from June 2016 till now.
Zhang Xiansheng	Born in 1965, Mr. Zhang Xiansheng holds an on-duty master's degree of CPC School of Henan Province. He is a senior accountant and certified public accountant. He served as an officer of the financial section of the Coking Plant of Anyang Iron & Steel Group from August 1983 to April 1990, an officer, vice section chief, section chief, assistant to division head and deputy division head of the financial division of Anyang Iron & Steel Group from April 1990 to April 2006, the secretary to the Board, person in charge of finance and head of the finance division of Anyang Iron & Steel Co., Ltd. (the shares of which are listed on SSE, stock code: 600569) from April 2006 to July 2015, the head of the audit department of Anyang Iron & Steel Group from July 2015 to December 2016, and the head of the audit and legal affairs department from December 2016 to November 2017. He has been the supervisor of Anyang Iron & Steel Co., Ltd. since November 2015. He has been the head of the financial department of Anyang Iron & Steel Group since November 2017.
Xie Junsheng	Born in 1967, Mr. Xie Junsheng holds a bachelor's degree of economics. He is a senior accountant. He was in charge of the financial economy in the inspection section of the Treasury Bureau of Anyang City from September 1989 to June 1994, served as the deputy general manager of Anyang City Treasury and Security Company from July 1994 to December 2002, and the deputy general manager in Anyang Economic Technology Development Co., Ltd from December 2002 to October 2010. He has been the deputy general manager of Anyang Economic Development since October 2010.



SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Major working experience
Xiang Siying	<p>Born in 1963, Ms. Xiang Siying holds a master's degree of economics and a master's degree in business administration. She served as an officer of the foreign economic office and the general office of the rural management and administration in the Ministry of Agriculture of China from September 1988 to July 1991, an investment analyst of the Chinese representative division of International Finance Corporation from May 1993 to August 1996, an investment officer in the East Asia and Pacific Branch and Global Manufacturing and Consumer Service Branch Washington District of International Finance Corporation from August 1996 to March 2004, the executive general manager of the investment banking division and direct investment division of China International Finance Corporation Limited from March 2004 to June 2010, the executive director of CDH Investments Fund Management Company from June 2010 to March 2016, an advisor of CDH Investments Fund Management Company from March 2016 to March 2018, an independent director of China Ocean Industry Group Limited (the shares of which are listed on the Hong Kong Stock Exchange, stock code: 00651) since May 2008, and an independent director of Huili Resources (Group) Limited (the shares of which are listed on the Hong Kong Stock Exchange, stock code: 01303) since September 2017..</p>
Xia Xiaoning	<p>Born in 1960, Mr. Xia Xiaoning holds a bachelor's degree in engineering. He served for Asian Development Bank from March 1989 to March 1995 and his last position held was investment officer. He worked at AIF Capital Limited from April 1995 to September 2008 and his last position held was senior partner and managing director. He served as the chief executive officer of CITP Advisors (Hong Kong) Limited from December 2008 to September 2012. He has been the senior consultant to Vision Finance Group Limited since September 2012, and an independent non-executive director of China Medical & HealthCare Group Limited (the shares of which are listed on the Hong Kong Stock Exchange, stock code: 0383) since December 2016.</p>
Han Junyang	<p>Born in 1970, Mr. Han Junyang holds a bachelor's degree in computer and application. He joined the Company since its registration in November 2002. He served as the deputy general manager of Information Technology Headquarter of the Company from November 2002 to August 2003, the deputy general manager of the Brokerage Business Headquarter from August 2003 to March 2005, the general manager of Hangzhou branch of the Company from March 2005 to December 2008 and the general manager of the Information Technology Headquarter of the Company from December 2008 to August 2017. He has been the general manager of the Brokerage Business Headquarter and the Internet Finance Headquarter since August 2017. Before joining the Company, he worked at Henan Securities from July 1993 to November 2002, 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.</p>



SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Major working experience
Zhang Lu	Born in 1969, Ms. Zhang Lu holds a master's degree in law, and obtains the national legal professional qualification. She joined the Company since its registration in November 2002, served as a staff member and deputy general manager of the Compliance Management (Legal Affairs) Headquarter from November 2002 to December 2013, the deputy director and director of the office of the Board of the Company from December 2013 to March 2017. She has been the general manager of the Investment Banking Comprehensive Management Headquarter (currently renamed as the Investment Banking Operation Management Headquarter) since March 2017. Before joining the Company, she served as the staff member and deputy general manager at Jingliu Road securities branch of Henan Securities from May 1993 to November 2002.
Xiao Yichen	Born in 1984, Ms. Xiao Yichen holds a master's degree in accounting. 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 I of the investment banking comprehensive management department of the Company from December 2014 to January 2018, the assistant to general manager of the investment banking comprehensive management department from January 2018 to April 2018. She has been the business director of the Quality Control Headquarter since May 2018.
Zhu Jianmin	Born in 1963, Mr. Zhu Jianmin is a member of Communist Party of China and 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 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, the standing vice president of the Company since September 2015 and the deputy secretary of the Party Committee of the Company since September 2018. He is currently a member of the Professional Committee of Securities Brokerage of Securities Association of China and the executive vice president of the Henan Securities and Futures Association.
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 is currently a member of the Professional Committee of Finance, Accounting and Risk Control of Securities Association of China.



SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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.
Li Zhaoxin	Born in 1969, Mr. Li Zhaoxin holds 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 Henan SASAC from October 2004 to November 2017 and held various positions such as the deputy division head of the property rights administration division, a researcher at the planning and development division and the division head 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.
Hua Jinzhong	Born in 1972, Mr. Hua Jinzhong is a member of the CPC, senior accountant, certified public accountant, certified public assets estimator, and certified public tax agent with a master's degree in management. He worked at Henan Laien (Group) Co., Ltd. from November 1993 to April 2001, and China Great Wall Asset Management Company Zhengzhou Representative Office from April 2001 to October 2004. He worked at Henan Branch of the CSRC from October 2004 to March 2018, and successively served as the managing officer, deputy division head and deputy office director of the supervision division of the listed company, the deputy division head of the new business supervision division, division head of the company inspection division, and the director of office (Party affairs office). He has been the chief compliance officer of the Company since April 2018, the acting chief risk officer of the Company since December 2018, and was appointed as the vice president of the Company in February 2019.

SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Major working experience
Zhao Huiwen	Born in 1977, Ms. Zhao Huiwen is a certified public accountant and asset estimator with a master's degree. She once served as the managing officer of the Inspection Bureau I of the CSRC, deputy division head and division head of the comprehensive division of the Inspection Bureau of the CSRC, the head of the audit division V of the issuance supervision department of the CSRC, and the division head of the supervision division VI of the institution department of the CSRC. She joined the Company in October 2018, and has been the vice president of the Company since January 2019.
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 the Company's 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 the Company since January 2018.

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

(I) Positions held in shareholders

Name	Name of shareholder	Positions held in shareholder	Date of taking office	Date of leaving office
Li Xingjia	Henan Investment Group	director and deputy general manager	June 2010	
Tian Shengchun	Anyang Iron & Steel Co., Ltd.	deputy division director	July 1998	
Wang Lixin	Bohai Industrial Investment Fund Management Co., Ltd.	deputy general manager	June 2013	
Cao Zongyuan	Henan Investment Group	director of the financial management department	June 2016	
Zhang Xiansheng	Anyang Iron & Steel Group	head of financial department	November 2017	
Xie Junsheng	Anyang Economic Development	deputy general manager	October 2010	

SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

(II) Positions held in other entities

Name	Name of other institutions	Position held in other institutions	Date of taking office	Date of leaving office
Jian Mingjun	Central China International Henan Securities and Futures Association	Chairman Director	January 2015 June 2013	
Chang Junsheng	Central China International Policy Advisory Committee of the Fourth Board of Director of the Shanghai Stock Exchange Securities Association of China Institute of Financial Law of Henan Law Society Listing Cultivation Committee under the Board of Directors of Shenzhen Stock Exchange	Director Committee member Director Vice president Committee member	March 2018 March 2018 June 2018 August 2018 November 2018	
Li Xingjia	Henan Natural Gas Storage and Transportation Co., Ltd.	Chairman	August 2018	
Zhang Xiaoqi	Central China International Investment Company Limited Beijing Maoyuan Capital Investment Management Co., Ltd.	General manager Deputy general manager	December 2015 March 2014	
Tian Shengchun	Anyang Iron & Steel Automation Software Co., Ltd.	Director	September 2018	
Yu Zeyang	Pingdingshan Tianan Coal Mining Co., Ltd. Henan Xindaxin Materials Co., Ltd.	Supervisor Director	May 2010 June 2013	
Lu Benson Cheng	Zhuhai Rongze Tongyuan Investment Management LP	Managing director	January 2014	
Yuen Chi Wai	Venture Executive Services Limited Weida Capital Co., Ltd. Xiangxing International Holding Limited	Managing director Director Senior Consultant	August 2014 October 2015 July 2017	
Ning Jincheng	Law Faculty of Zhengzhou University Shenzhen Arbitration Commission Zhengzhou Arbitration Commission Henan Shi Dao Law Firm	Professor, doctoral tutor Arbitrator Arbitrator Lawyer	November 2010 May 2012 May 2009 November 2016	
Yu Xugang	Xi'An Hongsheng Technology Co., Ltd. Beijing Dacheng Law Offices Dafeng Port Heshun Technology Company Limited Hua Chuang Yang'an Co., Ltd.	Independent Director Senior partner Independent Director Independent Director	January 2019 January 2004 May 2016 December 2016	
Lu Zhili	Central China Futures	Director	March 2008	
Cao Zongyuan	Central China Trust Co., Ltd. Henan Investment Group Guarantee Co., Ltd. Henan Asset Management Company Limited Zhongyuan Yuze Financial Leasing (Shanghai) Co., Ltd. Henan Yuze Financial Leasing Co., Ltd. Zhongyuan Capital International Holdings Co., Ltd. Zhongfu Payment Service Co., Ltd.	Director Executive director Director Chairman Chairman Director Executive director	April 2016 November 2015 April 2018 December 2015 March 2019 November 2018 December 2015	
Zhang Xiansheng	Anyang Iron & Steel Co., Ltd.	Supervisor	November 2015	
Xie Junsheng	Angang Group Yongtong Ductile Iron Pipe Co., Ltd.	Director	December 2017	

SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Name of other institutions	Position held in other institutions	Date of taking office	Date of leaving office
Xiang Siying	China Ocean Industry Group Limited (the shares of which are listed on Hong Kong Stock Exchange, stock code: 0651)	Independent director	May 2008	
	Huili Resources (Group) Limited (the shares of which are listed on Hong Kong Stock Exchange, stock code: 01303)	Independent director	September 2017	
Xia Xiaoning	Vision Finance Group Limited	Senior consultant	September 2012	
Zhu Jianmin	China Medical & HealthCare Group Limited	Independent director	December 2016	
	Henan Zhongyuan Big Data Exchange Center Brokerage Business Commission of Securities Association of China	Director Committee member	February 2017 April 2018	
Zhu Junhong	Henan Securities and Futures Fund Association	Vice president	June 2013	
	Finance and Accounting Commission of Securities Association of China	Committee member	April 2018	
Xu Haijun	Investment Banking Commission of Securities Association of China	Committee member	April 2018	
	Institute of Commercial Law of Henan Law Society	Vice president	July 2017	
	Henan Asset Management Company Limited	Director	August 2017	
	Central China International Financial Group Limited	Director	October 2017	
	Central China International Securities Co., Ltd.	Chairman of the Board	May 2018	
	Central China International Finance Limited	Chairman of the Board	October 2017	
	Central China International Asset Management Co., Ltd.	Chairman of the Board	February 2016	
	Central China International Futures Co., Ltd.	Director	February 2017	
	Central China International Holdings Co., Ltd.	Director	October 2017	
	Central China Financial Holdings Co., Ltd.	Director	October 2017	
	Central China Consulting Service (Shenzhen) Co., Ltd.	Director	May 2016	
Hua Jinzhong	Henan Institute of Certified Public Accountants	Managing Director	August 2013	
	Zhengzhou Arbitration Commission	Arbitrator	June 2014	
Xie Xuezhu	Self-disciplinary Regulatory Committee of Securities Association of China	Committee member	April 2018	
	Taiping Fund Management Co., Ltd.	Supervisor	January 2013	
	ZZKY Venture Capital	Chairman of the Supervisory Committee	November 2016	
Explanations	Nil			



SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

III. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Decision-making procedures of remuneration of Directors, Supervisors and senior management

The remuneration and assessment of the Company's Directors shall be proposed by the Remuneration and Nomination Committee under the Board 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 assessment of the senior management shall be proposed by the Remuneration and Nomination Committee under the Board 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 Remuneration and Nomination Committee under the Board according to the industry and market conditions, subject to the 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 assessment 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.

Payment of remuneration of Directors, Supervisors and senior management

For details about the payment of remuneration of Directors, Supervisors and senior management, please refer to I. "CHANGES IN THE SHAREHOLDING AND REMUNERATION" in this section in this report and Note 11 to the Consolidated Financial Statements as set out in this report.

According to relevant state provisions and with reference to personal will, the Directors who concurrently hold positions in other entities, namely Mr. Li Xingjia, Mr. Zhang Qiang and Mr. Yu Zeyang, and the Supervisors who concurrently hold positions in other entities, namely Mr. Wang Jinchang, waived their allowance since July 2016, and the Director, namely Mr. Tian Shengchun and the Supervisors, namely Mr. Cao Zongyuan, Mr. Zhang Xiansheng and Mr. Xie Junsheng, waived their allowance since their appointment while they would continue to perform their relevant duties.

SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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

Name	Position	Change	Reason for the change
Jian Mingjun	President	Resigned	Work adjustment
Chang Junsheng	Executive Director	Elected	
Zhang Qiang	President Director	Appointed Resigned	Re-election and appointment of the Board
Tian Shengchun	Director	Elected	
Yu Zeyang	Director	Resigned	Re-election and appointment of the Board
Lu Benson Cheng	Director	Elected	
Yuan Dejun	Independent Director	Resigned	Re-election and appointment of the Board
Zhang Dongming	Independent Director	Elected	
Wang Jinchang	Supervisor	Resigned	Work adjustment
Cao Zongyuan	Supervisor	Elected	
Zhang Xiansheng	Supervisor	Elected	
Xiao Yichen	Employee Representative Supervisor	Elected	
Zhu Junhong	Chief Accountant, Person in-charge-of Finance Department	Resigned	Work adjustment
Xu Haijun	Secretary to the Board	Resigned	Work adjustment
Li Zhaoxin	Chief Accountant, Person in-charge-of Finance Department	Appointed	
Hua Jinzhong	Chief Compliance Officer	Appointed	
Xie Xuezhu	Vice President Chief Compliance Officer	Appointed Resigned	Work adjustment
Zhu Qiben	Vice President Secretary to the Board	Resigned Appointed	Work adjustment
Zhao Lifeng	Chief Risk Officer	Resigned	Work adjustment
Wang Jing	Vice President Employee Representative Supervisor	Resigned Appointed	Resignation Work adjustment
Zhao Huiwen	Chief Risk Officer Vice President	Resigned Appointed	Pass away

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

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 Order of Rectification against Central China Securities Co., Ltd." (《河南證監局行政監管措施決定書([2017]10號)《關於中原證券股份有限公司實施責令改正等措施的決定》》). The Company attaches great importance to self-examination and self-correction and arranges rectification measures to continue the rectification and improvement work. In accordance with the requirements of the regulatory authorities, the Company submitted a special written rectification report to the Henan Branch of the CSRC in a timely manner, and implemented two internal compliance inspections in August and November 2017, and submitted a compliance inspection report to the Henan Branch of the CSRC.

For information on other punishments, please refer to Section 5 VI. "PUNISHMENT ON AND RECTIFICATION OF THE COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDER, DE FACTO CONTROLLER AND ACQUIRER".

SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

VI. EMPLOYEES OF THE PARENT COMPANY AND ITS MAJOR SUBSIDIARIES

(I) Employees

Number of in-service employees of the parent company	2,475
Number of in-service employees of the major subsidiaries	362
Total number of in-service employees	2,837
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
Brokerage business personnel	1,708
Investment banking personnel	264
Asset management business personnel	66
Securities investment business personnel	46
Researcher	39
International business personnel	66
Legal compliance, risk control and audit personnel	74
IT personnel	63
Financial personnel	74
Administration and management personnel	374
Others	63
Total	2,837

Education level

Type of education level	Number of persons
Doctorate	18
Master	615
University graduates	1,903
College graduates and below	301
Total	2,837



SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

(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, Chartered Financial Analyst, Certified International Investment Analyst, etc..

During the Reporting Period, the Company provided employee training at all levels, diversified business and compliance training and innovative training program by means of face-to-face teaching or mobile online training, in order to enhance their professional skills and quality and promote the strategic development of the Company. During the Reporting Period, the Company incurred training expenditure amounting to RMB6,010,300. The headquarters successively organized 13 internal training classes totaling 184 hours, which were attended by 1,265 employees; external training classes totaling 3,312 hours attended by 313 employees; subsequent online occupational training programs were also organized with the per capita courses of 15 hours. The Company organized and implemented a series of pertinent and foresighted occupational and business training programs, and built a platform for further study, in order to enhance the comprehensive quality and business skills of employees, and realized the mutual benefits of both the Company and employees. In future, the Company will strengthen and expand the employee training, focus on the practicality of the training, continuously provide human resources and cultivate more excellent employees for the sustainable development of the Company.



SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

(IV) Labour outsourcing

Total working hours on labor outsourcing

Approximately 16,377 hours

Total payment for labor outsourcing

Approximately RMB238,800

VII. OTHERS

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 complete 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.

During 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 the Company amounted to 379.



SECTION 8 CORPORATE GOVERNANCE REPORT

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 domestic and overseas listing place, and is committed to maintaining and improving its good social image. Strictly complying with the Company Law, Securities Law and other laws, regulations and regulatory provisions, the Company has completed and improved its corporate governance and formed a corporate governance structure under which the general meeting, the Board, the 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. Save as disclosed in "Chairman and President" in this section, the Company strictly complied with all provisions of the Corporate Governance Code and met requirements for most recommended best practices specified in the Corporate Governance Code during the Reporting Period.

(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 strictly complied with the relevant requirements of the Articles of Association and Rules of Procedure for General Meetings to ensure that the calling, proposing, notice giving, convening and voting procedures for general meetings are legal and valid, and all shareholders, especially minority shareholders, could enjoy equal status and fully exercise their rights as shareholders.

The general meeting 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;
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;



SECTION 8 CORPORATE GOVERNANCE REPORT

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;
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

The Board of the Company is the decision-making body of the Company and is responsible to the general meeting. The Company strictly follows the Articles of Association and related laws and regulations to formulate the Rules of Procedure for Board Meetings. The calling, convening, transacting and voting procedures for Board meetings are strictly follow the Rules of Procedure for Board Meetings, ensuring the standard operation of the Board.

1. Composition of the Board

Four specialized committees, namely the Development and Strategy Committee, Risk Control Committee, Remuneration and Nomination Committee and Audit Committee have been established under the Board of the Company. The Company appoints and changes directors in strict accordance with the provisions of the Articles of Association. The number of Directors and the composition of the Board are in compliance with the requirements of laws and regulations. Pursuant to the requirements of the Articles of Association, the Company's Board comprises 11 Directors. The 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. As at the end of the Reporting Period, the Company's Board comprises 11 Directors, including 2 executive Director (Mr. Jian Mingjun and Mr. Chang Junsheng), 5 non-executive Directors (Mr. Li Xingjia, Mr. Wang Lixin, Mr. Tian Shengchun, Mr. Zhang Xiaoqi and Mr. Lu Benson Cheng) and 4 independent non-executive Directors (Mr. Yuen Chi Wai, Mr. Ning Jincheng, Mr. Yu Xugang and Ms. Zhang Dongming). Mr. Jian Mingjun is the Chairman of the Company, and Mr. Chang Junsheng is the Vice 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). All Directors are qualified to serve as directors of securities companies and listed companies.



SECTION 8 CORPORATE GOVERNANCE REPORT

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.

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 and the issuance of corporate bonds of the Company;
8. to formulate plans for material acquisitions, purchase 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, chief financial officer and other senior management as nominated by the president and determine their remunerations;
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;



SECTION 8 CORPORATE GOVERNANCE REPORT

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.

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.



SECTION 8 CORPORATE GOVERNANCE REPORT

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 each 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 Concurrently 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 Mingjun 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. In order to optimise the corporate governance structure, strengthen the internal control development, and improve the efficiency of decision-making, Mr. Jian Mingjun tendered his resignation from his position as the president of the Company to the Board of the Company on 25 April 2018, with effective from 25 April 2018. On 25 April 2018, the Company held the 52nd meeting of the 5th session of the Board, at which the Proposal on Change of the President of the Company was considered and approved and Mr. Chang Junsheng was appointed as the president of the Company, with his term of office from 25 April 2018 until the expiry of the term of the current session of the Board. The Company has re-complied with the requirements of Provision A.2.1 of the Corporate Governance Code. The roles of chairman and president of the Company are held by different individuals to ensure the independence of their respective responsibilities and the balance of authorisation. For details of the above issues, please refer to the announcements of the Company disclosed on the HKEXnews of the Hong Kong Stock Exchange on 6 September 2017, 11 September 2017 and 25 April 2018.



SECTION 8 CORPORATE GOVERNANCE REPORT

4. The Board and the management

The powers and duties of the Board and the management are clearly set out in the Articles of Association, which provides for an adequate check and balance mechanism to ensure good corporate governance and internal control. The duties of the Board includes convening general meetings, executing the resolutions passed at general meetings, determining the business and investment plans of the Company, formulating the plans for profit distribution and making up losses of the Company, formulating proposals for the increase or reduction of registered capital and the issue of corporate bonds of the Company, formulating plans for major acquisition, repurchase of the shares of the Company or the merger, division, dissolution or change of the nature of incorporation of the Company, deciding on the establishment of the internal management organisation or branch of the Company, appointing or removing the president, secretary to the Board, chief compliance officer, chief auditing officer and deciding on their remuneration, appointing or removing the senior management, such as the vice president and financial officer, of the Company pursuant to the nominations of the president and deciding on their remuneration, and formulating the basic management system of the Company. The management of the Company is responsible for organising the implementation of resolutions of the Board, organising the implementation of the annual business and investment plans of the Company, consistently executing the financial budget of the Company, formulating the specific rules of the Company and deciding on the employment and dismissal of employees.

(3) Supervisors and the Supervisory Committee

The Company's Supervisory Committee is responsible to all shareholders, and responsible for supervising the legal compliance of the Company's finances and the Company's directors, presidents and other senior management in performing their duties, and safeguarding the lawful rights and interests of the Company and its shareholders. The calling, convening, transacting and voting procedures for Supervisory Committee meetings are strictly follow the Rules of Procedure for Supervisory Committee Meetings, ensuring the standard operation of 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. 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. On 12 January 2018, Ms. Wang Jing, an employee representative Supervisor, resigned as a Supervisor of the Company due to change of works. On 26 February 2018, Mr. Wang Jinchang, a shareholder representative Supervisor, resigned as a Supervisor of the Company due to change of works. On 16 October 2018, the Company held the second extraordinary general meeting 2018 to elect the sixth session of the Supervisory Committee of the Company. The sixth session of the Supervisory Committee of the Company is comprised of 3 employee representative Supervisors elected by the Labour Union Committee and 6 shareholder representative Supervisors elected by the second extraordinary general meeting 2018. As at the end of the Reporting Period, the Company's Supervisory Committee comprises 9 Supervisors, including the chairman of the Supervisory Committee (Mr. Lu Zhili), 3 shareholder representative Supervisors (Mr. Cao Zongyuan, Mr. Zhang Xiansheng and Mr. Xie Junsheng), 2 independent Supervisors (Ms. Xiang Siying and Mr. Xia Xiaoning), 3 employee representative Supervisors (Mr. Han Junyang, Ms. Zhang Lu and Ms. Xiao Yichen).



SECTION 8 CORPORATE GOVERNANCE REPORT

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;
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.

The Supervisors shall attend the Board meeting as observers and raise inquiries or suggestions on matters need to be resolved by the Board.

SECTION 8 CORPORATE GOVERNANCE REPORT

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
2017 Annual General Meeting	17 May 2018	http://www.sse.com.cn/ http://www.hkexnews.hk	18 May 2018 17 May 2018
2018 First Class Meeting for Holders of A Shares	17 May 2018	http://www.sse.com.cn/ http://www.hkexnews.hk	18 May 2018 17 May 2018
2018 First Class Meeting for Holders of H Shares	17 May 2018	http://www.sse.com.cn/ http://www.hkexnews.hk	18 May 2018 17 May 2018
2018 First Extraordinary General Meeting	25 July 2018	http://www.sse.com.cn/ http://www.hkexnews.hk	26 July 2018 25 July 2018
2018 Second Extraordinary General Meeting	16 October 2018	http://www.sse.com.cn/ http://www.hkexnews.hk	17 October 2018 16 October 2018

Particulars of general meetings

During the Reporting Period, the Company convened 5 general meetings in total, including 1 annual general meeting, 2 extraordinary general meetings, 1 A share class meeting and 1 H share class meeting, with the information about the meetings and resolutions set out as follows:

1. The Company convened the 2017 Annual General Meeting on 17 May 2018, and considered and approved the Resolution on the Election of Mr. Chang Junsheng as a Director of the Fifth Session of the Board, the Work Report of the Board for the Year of 2017, the Work Report of the Supervisory Committee for the year of 2017, the Profit Distribution Plan for the Second Half of 2017, the Annual Report for the Year of 2017 and the Summary of the Report, the Final Accounts Report for the Year of 2017, the Resolution on the Re-appointment of Domestic and Overseas Auditing Firms for the Year of 2018, the Remuneration and Evaluations of the Directors for the Year of 2017, the Remuneration and Evaluations of the Supervisors for the Year of 2017, the Proposal of Determination of Remuneration of the Legal Representative (Chairman) of Central China Securities Co., Ltd. for the Year of 2016, the Proposal of Determination of Remuneration of the President (Executive Director) of Central China Securities Co., Ltd. for the Year of 2016, the Proposal of Determination of Remuneration of the Chairman of Supervisory Committee of Central China Securities Co., Ltd. for the Year of 2016, the Resolution on the Business Scale and Affordable Risk Limits of Securities Proprietary Trading for the Year of 2018, the Resolution on the Provision of Guarantee for the Subsidiary Central China International Financial Holdings Company Limited, the Resolution on the Estimated Ordinary Related Party/Connected Transactions for the Year of 2018, the Resolution on the Amendments to the Articles of Association, the Resolution on the Amendments to the Rules of Procedures for the Meeting of the Supervisory Committee, the Resolution on the Extension of the Validity Period of Issuance of A Share Convertible Bonds and the Authorisation Period in relation to the Issuance and the Resolution on the Election of Supervisors of the Fifth Session of the Supervisory Committee of the Company. In addition to the above-mentioned resolutions, Work Report of the President for the Year of 2017 and Duty Report of Independent Directors for the Year of 2017 were also received.



SECTION 8 CORPORATE GOVERNANCE REPORT

2. The Company convened the 2018 First Class Meeting for Holders of A Shares on 17 May 2018, and considered and approved the Resolution on the Extension of the Validity Period of Issuance of A Share Convertible Bonds and the Authorisation Period in relation to the Issuance.
3. The Company convened the 2018 First Class Meeting for Holders of H Shares on 17 May 2018, and considered and approved the Resolution on the Extension of the Validity Period of Issuance of A Share Convertible Bonds and the Authorisation Period in relation to the Issuance.
4. The Company convened the 2018 First Extraordinary General Meeting on 25 July 2018, and considered and approved the Resolution on the Purchase of Liability Insurance for Directors, Supervisors and Senior Management of the Company, the Resolution on the Determination of Remuneration of the Legal Representative of Central China Securities Co., Ltd. for the Year of 2015, the Resolution on the Determination of Remuneration of the President of Central China Securities Co., Ltd. for the Year of 2015, the Resolution on the Determination of Remuneration of the Chairman of the Supervisor Committee of Central China Securities Co., Ltd. for the Year of 2015 and the Resolution on the Determination of Remuneration of Zhou Jianzhong, the Former Chairman of the Supervisor Committee of Central China Securities Co., Ltd. for the Year of 2015.
5. The Company convened the 2018 Second Extraordinary General Meeting on 16 October 2018, and considered and approved the Profit Distribution Plan for the First Half of 2018, the Resolution on the Election of Directors of the Sixth Session of the Board of Directors of the Company, the Resolution on the Election of Independent Directors of the Sixth Session of the Board of Directors of the Company and the Resolution on the Election of Supervisors of the Sixth Session of the Supervisory Committee of the Company.

SECTION 8 CORPORATE GOVERNANCE REPORT

III. PERFORMANCE OF DUTIES BY DIRECTORS

(I) Directors' attendance at Board meetings and general meetings

Name of Directors	Whether or not an independent director	Number of attendances at board meetings required	Attendance at board meetings				Number of absences	Not attend in person for 2 consecutive meetings	Attendance at general meetings
			Number of attendance in person	Number of attendance through communication	Number of attendance by proxy				
Jian Mingjun	No	12	12	8	0	0	No	4	
Chang Junsheng	No	4	4	1	0	0	No	2	
Li Xingjia	No	12	11	8	1	0	No	5	
Wang Lixin	No	12	11	8	1	0	No	1	
Zhang Qiang	No	10	7	7	3	0	No	0	
Tian Shengchun	No	2	2	1	0	0	No	0	
Yu Zeyang	No	10	9	8	1	0	No	3	
Zhang Xiaoqi	No	12	11	9	1	0	No	1	
Lu Benson Cheng	No	2	2	1	0	0	No	0	
Yuan Dejun	Yes	10	10	7	0	0	No	0	
Yuen Chi Wai	Yes	12	12	8	0	0	No	5	
Ning Jincheng	Yes	12	11	8	1	0	No	4	
Yu Xugang	Yes	12	12	8	0	0	No	1	
Zhang Dongming	Yes	2	2	1	0	0	No	0	
Number of board meetings convened during the year								12	
Among all: number of meetings held on site								2	
Number of meetings held through communication								8	
Number of meeting held on site combined with communication								2	

(II) Particulars of meetings of the Board

During the Reporting Period, the Board convened a total of 12 meetings, and the details and resolution passed are as follow:

1. The Company convened the 45th meeting of the Fifth Session of the Board on 9 January 2018, and considered and approved the Resolution on the Remuneration Standards for The President of Central China Securities Co., Ltd.;
2. The Company convened the 46th meeting of the Fifth Session of the Board on 18 January 2018, and considered and approved the Resolution on Change of the Secretary to the Board, the Resolution on the Appointment of Chief Risk Officer, the Resolution on Formulation of Internal Control Assessment System of Central China Securities Co., Ltd.;
3. The Company convened the 47th meeting of the Fifth Session of the Board on 29 January 2018, and considered and approved the Resolution on Change of the Chief Accountant and Principal Officer of Finance Department, the Resolution on Risk Preference and Tolerance for the Year of 2018;



SECTION 8 CORPORATE GOVERNANCE REPORT

4. The Company convened the 48th meeting of the Fifth Session of the Board on 7 March 2018, and considered and approved the Resolution on Nomination of Mr.Chang Junsheng as a Director Candidate of the Fifth Session of the Board by the Controlling Shareholder of the Company;
5. The Company convened the 49th meeting of the Fifth Session of the Board on 29 March 2018, and considered and approved the Work Report of the Board for the Year of 2017, the Work Report of the President for the Year of 2017, the Duty Report of Independent Directors for the Year of 2017, the Results Announcement for the Year Ended 31 December 2017, the Annual Report for the Year of 2017 and the Summary of the Report, the Work Report of the Audit Committee of the Board for the Year of 2017, the Work Report of the Risk Control Committee of the Board for the Year of 2017, the Work Report of the Development and Strategy Committee of the Board for the Year of 2017, the Work Report of the Remuneration and Nomination Committee of the Board for the Year of 2017, the 2017 Social Responsibility Report, the 2017 Compliance Report, the Distribution Plan of Profits for the Second Half of 2017, the Final Accounts Report for the Year of 2017, the Resolution on the Re-appointment of Domestic and Overseas Auditing Firm for the Year of 2018, the Resolution on Provision for Impairment on Assets, the Resolution on the Changes in Accounting Policies, 2017 Internal Control Assessment Report, the Remuneration and Evaluations of the Directors for the Year of 2017, the Proposal of Determination of Remuneration of the Legal Representative (Chairman) of Central China Securities Co., Ltd. for the Year of 2016, the Proposal of Determination of Remuneration of the President (Executive Director) of Central China Securities Co., Ltd. for the Year of 2016, the Proposal of Determination of Remuneration of the Vice President and Chief Risk Officer of Central China Securities Co., Ltd. for the Year of 2016, the Resolution on the Change of Names and Roles and Responsibilities of Wealth Management Center (Product Management Center) and Research Department, the Resolution on the Business Scale and Size of Investment by Funds at the Disposal of the Company in Asset Management for the Year of 2018, the Resolution on the Determination of Business Scale of Margin Financing and Securities Lending, Stock Pledge, Agreed Repurchase and Refinancing for the Year of 2018, the Resolution on the Business Scale and Risk Limits of Securities Proprietary Trading for the Year of 2018, Special Report on the Deposit and the Actual Use of Proceeds for 2017, the Resolution on the Provision of Guarantee for the Subsidiary Central China International Financial Holdings Company Limited, the Resolution on the Estimated Ordinary Related Party/Connected Transactions for the Year of 2018, the Resolution on Amendments to the Articles of Association, the Resolution on Formulation of the Management System of Suspension and Exemption of Information Disclosure of Central China Securities Co., Ltd., the Resolution on the Extension of the Validity Period of Issuance of A Share Convertible Bonds and the Authorisation Period in relation to the Issuance and the Resolution on the Convention of 2017 Annual General Meeting, 2018 First Class Meeting for Holders of A Shares and First Class Meeting for Holders of H Shares;
6. The Company convened the 50th meeting of the Fifth Session of the Board on 12 April 2018, and considered and approved the Resolution on Change of the Chief Compliance Officer, the Resolution on Compliance Management Department and the Legal Affairs Headquarter Ceasing Co-working, the Resolution on Adjustment of Internal Control Structure of Investment Banking Business, Establishment, Change of Name and Adjustment of Function of Investment Banking Business Line;
7. The Company convened the 51th meeting of the Fifth Session of the Board on 24 April 2018, and considered and approved the 2018 First Quarterly Report of Central China Securities Co., Ltd.;



SECTION 8 CORPORATE GOVERNANCE REPORT

8. The Company convened the 52th meeting of the Fifth Session of the Board on 25 April 2018, and considered and approved the Resolution on Change of the President of the Company;
9. The Company convened the 53th meeting of the Fifth Session of the Board on 8 June 2018, and considered and approved the Resolution on Co-opting Mr. Chang Junsheng as the Member of Special Committee of the Fifth Session of the Board of the Company, the Resolution on Setting Liquidity Management Risk Limits for the Year of 2018, the Resolution on the Purchase of Liability Insurance for Directors, Supervisors and Senior Management of the Company, the Resolution on Revision of the 'Compliance Management Measures of Central China Securities Co., Ltd.', the 'Compliance Evaluation Management Measures of Central China Securities Co., Ltd.' and the 'Measures for Implementation of Evaluation of Effectiveness of Compliance Management of Central China Securities Co., Ltd.', the Resolution on Revision of the 'Management System of Information Disclosure of Central China Securities Co., Ltd.', the Resolution on Reasonable Adjustment of Remuneration Structure of the President of the Company, the Resolution on the Determination of Remuneration of the Legal Representative of Central China Securities Co., Ltd. for the Year of 2015, the Resolution on the Determination of Remuneration of the President of Central China Securities Co., Ltd. for the Year of 2015, the Resolution on the Determination of Remuneration of Zhu Jianmin, the Standing Vice President of Central China Securities Co., Ltd. for the Year of 2015, the Resolution on the Determination of Remuneration of Zhu Junhong, the Vice President of Central China Securities Co., Ltd. for the Year of 2015, the Resolution on the Determination of Remuneration of Xu Haijun, the Vice President of Central China Securities Co., Ltd. for the Year of 2015, the Resolution on the Determination of Remuneration of Xie Xuezhu, the Vice President of Central China Securities Co., Ltd. for the Year of 2015, the Resolution on the Determination of Remuneration of Zhao Jizeng, the Former Vice President of Central China Securities Co., Ltd. for the Year of 2015, the Resolution on the Determination of Remuneration of Fang Jianmin, the Former Vice President of Central China Securities Co., Ltd. for the Year of 2015, the Resolution on the Determination of Remuneration of An Xiaolang, the Former Chief Auditing Officer of Central China Securities Co., Ltd. for the Year of 2015, the Resolution on the Determination of Remuneration of Zhao Lifeng, the Vice President of Central China Securities Co., Ltd. for the Year of 2015, the Resolution on Amendments to the 'Articles of Association', the Resolution on the Convention of 2018 First Extraordinary General Meeting;
10. The Company convened the 54th meeting of the Fifth Session of the Board on 29 August 2018, and considered and approved the Resolution on Consideration of the Half Year Report of 2018 and the Summary of the Report, the Interim Results Announcement for the Six Months ended 30 June 2018 and the 2018 Interim Report of Central China Securities Co., Ltd., the Resolution on the Election of Directors Candidates of the Sixth Session of the Board, the Profit Distribution Plan for the First Half of 2018, the Resolution on the Provision for Credit Impairment, the Resolution on the Establishment of the Asset Management Department, Cancellation of the Shanghai Asset Management Branch Office and Establishment of the Logistics Service Center, the Resolution on Revision of 'Management System of Related Party/Connected Transactions of Central China Securities Co., Ltd.', the Resolution on the Convention of 2018 Second Extraordinary General Meeting of Central China Securities Co., Ltd.;



SECTION 8 CORPORATE GOVERNANCE REPORT

11. The Company convened the 1st meeting of the sixth session of the Board on 16 October 2018, and considered and approved the Resolution on the Election of Jian Mingjun as Chairman of the Company, the Resolution on the Election of Chang Junsheng as Vice Chairman of the Company, the Resolution on the Election of the Members of Audit Committee of the Board of the Company, the Resolution on the Election of the Members of Development and Strategy Committee of the Board of the Company, the Resolution on the Election of the Members of Remuneration and Nomination Committee of the Board of the Company, the Resolution on the Election of the Members of Risk Control Committee of the Board of the Company, the Resolution on the Appointment of Senior Management Personnel, the Resolution on the Appointment of Securities Affairs Representative;
12. The Company convened the 2nd meeting of the sixth session of the Board on 30 October 2018, and considered and approved the 2018 Third Quarterly Report, the Implementation Plans for Enhancing Technological Innovation, the Resolution on Establishment of Three Branches, Self-inspection Report on Investment Matters of the Company and the Resolution on Disposal of Vacant Properties of the Company and Plan of Transfer.

(4) Particulars of Directors' trainings

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, the Company arranged a special training for all Directors and sent "Monthly Performance Report" to the Directors each month to keep them informed of the latest business development of the Company in a timely manner. Details of the trainings for Directors are specified as follows:

1. In January 2018, all the Directors and Supervisors of the Company were arranged to study the Implementation Rules for Disposal of Shares by Shareholders, Directors, Supervisors and senior management of Companies Listed on the Shanghai Stock Exchange.
2. In June 2018, Mr. Zhang Qiang and Mr. Yu Zeyang, all being Directors, participated in the first training session for Directors, Supervisor and senior management of listed companies in Henan in 2018.
3. In September 2018, Mr. Jian Mingjun and Mr. Chang Junsheng, all being Directors, participated in the follow-up training for securities practitioner organized by the Securities Association of China.

IV. THE SPECIALISED COMMITTEES UNDER THE BOARD

(I) Composition of Specialised Committees under the Board

The Development and Strategy Committee, Risk Control Committee, Remuneration and Nomination Committee and Audit Committee have been established under the Sixth 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.



SECTION 8 CORPORATE GOVERNANCE REPORT

As at the date of this Report, the composition of specialised committees under the Board of the Company is as follow:

1. Development and Strategy Committee

Chairperson: Jian Mingjun (executive Director)

Members: Chang Junsheng (executive Director), Li Xingjia (non-executive Director),
Wang Lixin (non-executive Director), Tian Shengchun (non-executive Director)

2. Risk Control Committee

Chairperson: Jian Mingjun (executive Director)

Members: Zhang Xiaoqi (non-executive Director), Ning Jincheng (independent non-executive Director)

3. Remuneration and Nomination Committee

Chairperson: Yuen Chi Wai (independent non-executive Director)

Members: Chang Junsheng (executive Director), Lu Benson Cheng (non-executive Director),
Ning Jincheng (independent non-executive Director),
Yu Xugang (independent non-executive Director)

4. Audit Committee

Chairperson: Zhang Dongming (independent non-executive Director)

Members: Yuen Chi Wai (independent non-executive Director), Tian Shengchun (non-executive Director)

(II) Responsibilities of and meetings held by the specialised committees under the Board

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 authorised by the Board.

During the Reporting Period, the Development and Strategy Committee held one meeting with all members of the Development and Strategy Committee attended, and considered and approved the Work Report of the Board for the Year of 2017, the Work Report of the President for the Year of 2017, the Work Report of the Development and Strategy Committee of the Board for the Year of 2017, the 2017 Social Responsibilities Report, the Resolution on Determination of the Business Scale and Size of Investment by Fund at the Disposal of the Company in Asset Management for the Year of 2018, the Resolution on Determination of the Business Scale of Margin Financing and Securities Lending, Stock Pledge, Agreed Repurchase and Refinancing for the Year of 2018, the Resolution on the Business Scale and Risk Limits of Securities Proprietary Trading for the Year of 2018, and the Resolution on the Change of Names and Roles and Responsibilities of Wealth Management Center (Product Management Department) and Research Department, which were submitted to the Board for consideration.



SECTION 8 CORPORATE GOVERNANCE REPORT

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 and opining on compliance reports and risk evaluation reports approved by the Board; reviewing the Company's risk management and internal control system; 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; formulating, examining and supervising the code of professional conduct and compliance manual (if applicable) of the employees and Directors; and other duties as specified in the Articles of Association. 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 with all members of the Risk Control Committee attended, and considered and approved the Work Report of the Risk Control Committee of the Board for the Year of 2017, the 2017 Internal Control Assessment Report and the 2017 Compliance Report, which were submitted to the Board for consideration.

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 nine meetings with all members attended, focusing mainly on matters in relation to the remuneration of the chairman of the Board and president of the Company, and the concurrent holding of the position of president by the chairman of the Board, the details of which are as follows:

- (1) The Remuneration and Nomination Committee convened the 1st meeting of 2018 on 8 January 2018, and considered and approved the Resolution on the Standard of Remuneration of the President, which was submitted to the Board for consideration.
- (2) The Remuneration and Nomination Committee convened the 2nd meeting of 2018 on 17 January 2018, and considered and approved the Resolution on the Change of Secretary to the Board and the Resolution on the Appointment of Chief Risk Officer, which were submitted to the Board for consideration.
- (3) The Remuneration and Nomination Committee convened the 3rd meeting of 2018 on 28 January 2018, and considered and approved the Resolution on the Change of Chief Accountant and Principal Officer of Finance Department, which was submitted to the Board for consideration.



SECTION 8 CORPORATE GOVERNANCE REPORT

- (4) The Remuneration and Nomination Committee convened the 4th meeting of 2018 on 6 March 2018, and considered and approved the Resolution on the Nomination of Mr. Chang Junsheng as a Director Candidate of the Fifth Session of the Board by the Controlling Shareholder of the Company', which was submitted to the Board for consideration.
- (5) The Remuneration and Nomination Committee convened the 5th meeting of 2018 on 28 March 2018, and considered and approved the Work Report of the Remuneration and Nomination Committee of the Board for the Year of 2017, the Special Statement of the Remuneration and Assessment of the Directors for the Year of 2017, the Proposal of Determination of Remuneration of the Legal Representative (Chairman) of Central China Securities Co., Ltd. for the Year of 2016, the Proposal of Determination of Remuneration of the President (Executive Director) of Central China Securities Co., Ltd. for the Year of 2016 and the Proposal of Determination of Remuneration of the Vice President and Chief Risk Officer of Central China Securities Co., Ltd. for the Year of 2016, which were submitted to the Board for consideration.
- (6) The Remuneration and Nomination Committee convened the 6th meeting of 2018 on 9 April 2018, and considered and approved the Resolution on the Change of the Chief Compliance Officer, the Resolution on Compliance Management Department and the Legal Affairs Headquarter Ceasing Co-working and the Resolution on Adjustment of Internal Control Structure of Investment Banking Business, Establishment, Change of Name and Adjustment of Function of Investment Banking Business Line, which were submitted to the Board for consideration.
- (7) The Remuneration and Nomination Committee convened the 7th meeting of 2018 on 24 April 2018, and considered and approved the Resolutions on the Change of the President of the Company, which was submitted to the Board for consideration.
- (8) The Remuneration and Nomination Committee convened the 8th meeting of 2018 on 7 June 2018, and considered and approved the Resolution on Reasonable Adjustment of Remuneration Structure of the President of the Company, the Resolution on the Determination of Remuneration of the Legal Representative of Central China Securities Co., Ltd. for the Year of 2015, the Resolution on the Determination of Remuneration of the President of Central China Securities Co., Ltd. for the Year of 2015, the Resolution on the Determination of Remuneration of Zhu Jianmin, the Standing Vice President of Central China Securities Co., Ltd. for the Year of 2015, the Resolution on the Determination of Remuneration of Zhu Junhong, the Vice President of Central China Securities Co., Ltd. for the Year of 2015, the Resolution on the Determination of Remuneration of Xu Haijun, the Vice President of Central China Securities Co., Ltd. for the Year of 2015, the Resolution on the Determination of Remuneration of Xie Xuezhu, the Vice President of Central China Securities Co., Ltd. for the Year of 2015, the Resolution on the Determination of Remuneration of Zhao Jizeng, the Former Vice President of Central China Securities Co., Ltd. for the Year of 2015, the Resolution on the Determination of Remuneration of Fang Jianmin, the Former Vice President of Central China Securities Co., Ltd. for the Year of 2015, the Resolution on the Determination of Remuneration of An Xiaolang, the Former Chief Auditing Officer of Central China Securities Co., Ltd. for the Year of 2015, the Resolution on the Determination of Remuneration of Zhao Lifeng, the Vice President of Central China Securities Co., Ltd. for the Year of 2015, which were submitted to the Board for consideration.
- (9) The Remuneration and Nomination Committee convened the 9th meeting of 2018 on 28 August 2018, and considered and approved the Resolutions on the Election of Director Candidates of the Sixth Session of the Board, which was submitted to the Board for consideration.



SECTION 8 CORPORATE GOVERNANCE REPORT

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; and other duties specified by the Articles of Association.

During the Reporting Period, the Audit Committee had convened a total of four meetings with all members attended, focusing mainly on discussing the Company's results announcement for the year ended 31 December 2017, 2017 annual report, distribution of profits for 2017, re-appointment of domestic and overseas auditing firms, the work report of the Audit Committee of the Board for the year of 2017 and giving suggestions to the Board. The meetings of the Audit Committee were as follows:

- (1) The Audit Committee held the 1st meeting of 2018 on 28 March 2018, and considered and approved the Annual Report for the Year of 2017 and the Work Report of the Audit Committee of the Board for the Year of 2017, the 2017 Compliance Report, the Profit Distribution Plan for the Second Half of 2017, the Final Accounts Report for the Year of 2017, the Resolution on the Re-appointment of Domestic and Overseas Auditing Firm for the Year of 2018, the Resolution on Provision for Impairment on Assets, Resolution on Changes in Accounting Policies, the 2017 Internal Control Evaluation Report, the Special Report on Deposit and Actual Use of Proceeds Raised for the Year 2017, the Resolution on Provision of Guarantee for the Subsidiary Central China International Financial Holdings Company Limited and the Resolution on the Estimated Ordinary Related Party/Connected Transactions for the Year of 2018, which were submitted to the Board for consideration. The Audit Work in 2017 and the Audit Plan in 2018 were also heard during the meeting and were submitted to the Board for consideration.
- (2) The Audit Committee held the 2nd meeting of 2018 on 22 April 2018, and considered and approved the 2018 First Quarterly Report, which was submitted to the Board for consideration.
- (3) The Audit Committee held the 3rd meeting of 2018 on 28 August 2018, and considered and approved the Resolution on the Half Year Report of 2018 and the Summary of the Report, the Interim Results for the Six Months ended 30 June 2018 and the 2018 Interim Report of Central China Securities Co., Ltd., the Profit Distribution Plan for the First Half of 2018, the Resolution on Provision for Credit Impairment, the Resolution on Revision of 'Management System of Related Party/Connected Transactions of Central China Securities Co., Ltd.', which were submitted to the Board for consideration.
- (4) The Audit Committee held the 4th meeting of 2018 on 29 October 2018, and considered and approved the 2018 Third Quarterly Report, which was 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.

SECTION 8 CORPORATE GOVERNANCE REPORT

V. PERFORMANCE OF DUTY BY SUPERVISORS

(I) Supervisors' attendance at meetings of the Supervisory Committee and general meetings

Name of Supervisors	Whether or not an independent Supervisor	Number of attendances at meetings of the Supervisory Committee	Attendance at meetings of the Supervisory Committee				Attendance at general meetings	
			Number of attendance in person	Number of attendance through communication	Number of attendance by proxy	Number of absences	Not attend in person for 2 consecutive meetings	Number of attendance
Lu Zhili	No	6	6	2	0	0	No	5
Cao Zongyuan	No	4	4	3	0	0	No	2
Zhang Xiansheng	No	4	3	2	1	0	No	1
Xie Junsheng	No	6	6	3	0	0	No	1
Xiang Siying	Yes	6	5	2	1	0	No	1
Xia Xiaoning	Yes	6	5	2	1	0	No	4
Han Junyang	No	6	6	2	0	0	No	5
Zhang Lu	No	6	6	3	0	0	No	5
Xiao Yichen	No	6	6	2	0	0	No	5

Number of meetings of the Supervisory Committee convened during the Reporting Period	6
Of which: Number of meetings held on site	2
Number of meetings held through communication	2
Number of meeting held on site combined with communication	2

(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 6 meetings in total during the Reporting Period, namely as follows substantially:

- On 29 March 2018, the Company convened the 20th meeting of the Fifth Session of the Supervisory Committee and considered and approved the Work Report of the Supervisory Committee for 2017, the Profit Distribution Plan for the Second Half of 2017, the Resolution on Provision for Impairment on Assets, the Resolution on Changes in Accounting Policies, the Special Report on Deposit and Actual Use of Proceeds Raised for the Year of 2017, the Resolution on the Estimated Ordinary Related Party/Connected Transactions for the Year of 2018, the 2017 Social Responsibility Report, the Results Announcement for the Year Ended 31 December 2017, the Annual Report for the Year of 2017 and the Summary of the Report, the Proposal of Determination of Remuneration of the Chairman of Supervisory Committee for the Year of 2016, the Remuneration and Evaluations of the Supervisors for the Year of 2017, the Resolution on the Amendments to the 'Rules of Procedures for the Meeting of the Supervisory Committee', the Resolution on the Election of Supervisors of the Fifth Session of the Supervisory Committee, the 2017 Annual Compliance Report, the 2017 Internal Control Assessment Report. Meanwhile, the 2017 Audit Report and the 2017 Annual Risk Management Report were also received;



SECTION 8 CORPORATE GOVERNANCE REPORT

2. On 24 April 2018, the Company convened the 21th meeting of the Fifth Session of the Supervisory Committee and considered and approved 2018 First Quarterly Report of Central China Securities Co., Ltd.;
3. On 8 June 2018, the Company convened the 22th meeting of the Fifth Session of the Supervisory Committee and considered and approved the Resolution on the Determination of Remuneration of the Chairman of the Supervisory Committee of Central China Securities Co., Ltd. for the Year of 2015, the Resolution on the Determination of Remuneration of Mr. Zhou Jianzhong, the Former Chairman of the Supervisory Committee of Central China Securities Co., Ltd., for the Year of 2015.
4. On 29 August 2018, the Company convened the 23th meeting of the Fifth Session of the Supervisory Committee and considered and approved the Resolution on Consideration of the Half Year Report of 2018 and the Summary of the Report, the Interim Results for the Six Months ended 30 June 2018 and the 2018 Interim Report, the Resolution on the Election of Supervisor Candidates of the Sixth Session of the Supervisory Committee, the Profit distribution Plan for the first half of 2018, the Resolution on Provision for Credit Impairment, Measures for Evaluating the Performance of Directors, Supervisors and Senior Management of Board of Supervisors of Central China Securities Co., Ltd. (Trial) and Measures for Financial Review of Supervisory Committee of Central China Securities Co., Ltd. (Trial);
5. On 16 October 2018, the Company convened the 1st meeting of the sixth session of the Supervisory Committee and considered and approved the Resolution on the Election of Lu Zhili as the Chairman of Supervisory Committee of Central China Securities Co., Ltd., the Resolution on Establishment of the Performance Monitoring and Evaluating Committee of the Supervisory Committee of Central China Securities Co., Ltd., the Resolution on Establishment of the Financial Monitoring Committee of the Supervisory Committee of Central China Securities Co., Ltd., the Resolution on the Election of the Members of the Performance Monitoring and Evaluating Committee of the Supervisory Committee of Central China Securities Co., Ltd., the Resolution on the Election of the Members of the Financial Monitoring Committee of the Supervisory Committee of Central China Securities Co., Ltd.;
6. On 30 October 2018, the Company convened the 2nd meeting of the sixth session of the Supervisory Committee and considered and approved the 2018 Third Quarterly Report.



SECTION 8 CORPORATE GOVERNANCE REPORT

VI. EXPLANATION ON LACK OF INDEPENDENCE OR INDEPENDENT OPERATING ABILITY IN TERMS OF BUSINESS, PERSONNEL, ASSETS, ORGANIZATIONS AND FINANCE BY THE COMPANY FROM ITS CONTROLLING SHAREHOLDER

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.

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 AUDIT REPORT ON INTERNAL CONTROL

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



SECTION 8 CORPORATE GOVERNANCE REPORT

For details of the Audit Report on Internal Control, please see the Audit Report on Internal Control of Central China Securities Co., Ltd. for 2018 disclosed by the Company on the same date of this report on the website of the SSE.

IX. 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.

The Board of Directors is responsible for continuously supervising on and for the risk management and internal control system of the Company, for reviewing the effectiveness of such risk management and internal control and for a sound, proper and effective internal control system to safeguard the assets of the Group. Such risk management and internal control system aims at managing instead of eliminating risk of failure in striking business and as far as avoiding major misstatement or loss is concerned, only reasonable instead of absolute guarantee can be made. The Board, through Audit Committee, reviews the effectiveness of the internal control system of the Group on an annual basis.

During the Reporting Period, the Board, through the Audit Committee, completed the annual review on the internal control system of the Group, which covered major control areas, including financial control, operation control and compliance control, and considered the Group's resources in other functions such as accounting, internal auditing and financial reporting. No major problems have been identified in the internal control through the review. The Board believes that, during the review year and as at the date of this report, the existing risk management and internal control system is effective and adequate.



SECTION 8 CORPORATE GOVERNANCE REPORT

(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.

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. During the Reporting Period, the sound system of internal control over financial reporting of the Company ran well and can ensure the quality of financial information and the annual financial report meeting the requirement of the accounting standards, giving a true, exact and complete view of its financial position, operating results, cash flow and relevant information. According to the assessment of the significant defect in internal control over financial reporting of the Company, during the Reporting Period, the Company did not have any significant defect in internal control over financial reporting.

(III) Establishment of internal control system

Since its establishment, the Company has been attaching great importance to the development of internal rules and regulations and management system. From the level of corporate governance, it has strengthened the system control from top to bottom for various businesses and management work. Based on relevant laws and regulations and according to the actual situation, the Company has comprehensively considered its internal environment, risk assessment, control activities, information and communication, internal supervision and other factors to develop a more comprehensive internal control system, and kept supplementing, revising and improving the internal control system according to requirements in respect of industry regulation, 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.

1. Procedures used for identifying, evaluating and managing major risks

For the procedures used for identifying, evaluating and managing major risks, please refer to IV, (IV) "Potential risks" in Section 4 of this report.



SECTION 8 CORPORATE GOVERNANCE REPORT

2. Procedures remedying the defects of the internal control

The internal control evaluation conducted annually by Company conducts self-evaluation on the effectiveness of the internal control, formulates and timely carries out rectifications on the defects of the internal control identified every year. The Internal Audit Department of the Company proposes rectifications and management recommendation for the problems identified by the audit and urges the implementation of the rectifications; the Compliance Department updates compliance management rules on a regular basis and supervises and improves business and management rules and supervise the implementation in accordance with the requirements of laws and regulations and supervision. The Risk Control Department carries out effective monitoring, identifications, warning and reporting on the various business risks in day-to-day management, and effective management over risk incidents that have occurred and potential defects, updates and revises risk management rules and procedures, etc. to adapt to ever-changing risk forms and management demands.

3. Management rules on inside information

The Board is the organization managing the inside information of the Company and should ensure the true, accurate and complete registration of the inside information. The chairman of the Board is the key personnel accountable for management over the confidentiality of inside information and the registration of the insiders. The secretary to the Board is responsible for the daily management, registration and filings of insiders. The office of the Board is the daily operation department transferring, registering, disclosing, filing and reporting inside information to supervising departments.

X. ESTABLISHMENT OF COMPLIANCE MANAGEMENT SYSTEM OF THE COMPANY

(I) Establishment of compliance management system

During the Reporting Period, under the supervision and guidance of the supervisory department, the Board and management of the Company attached great importance to the compliance management, and promoted the compliance culture throughout the Company with the compliance operation as the primary development objective, which gradually enhanced its capability to control compliance risks and improved the standardization of the operation and management or practices of the Company.

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 headquarters and compliance officers of all departments, allocated qualified officers in a timely manner in different departments, branches and subsidiaries at all levels, defined the responsibilities of the compliance management organizations and positions at all levels and the communication and reporting channels, and established cooperative work mechanism between the compliance management department and other internal control departments, which effectively controlled the compliance operation of each business and unit of the Company.



SECTION 8 CORPORATE GOVERNANCE REPORT

2. Continuously improve the Company's compliance management system. Firstly, the Company organized the comprehensive classification of various rules and regulations released from its establishment to the end of February 2018 according to the supervisory requirements and internal control management requirements of the Company. Secondly, it organized the revision and improvement of more than 40 compliance management systems according to the latest trend of supervision and actual situations of the Company, covering compliance management, compliance supervision and inspection, compliance publicity and training, compliance assessment and accountability, compliance performance guarantee, anti-money laundering and core affairs management of the investment banking, and effectively established the compliance management system of the Company. Thirdly, it supervised and urged each unit to continuously optimize their compliance management mechanism and working process, integrate the compliance management requirements into the system and process of each business, and realize the full process control over specific business through compliance management, which guaranteed the refined and feasible business system.

(II) Inspections completed by the compliance management department

In 2018, the Company organized 15 inspections on the securities brokerage business, securities business on its own account, investment banking business, asset management business, business of subsidiaries, anti-money laundering business, etc. in combination with the actual operation and management conditions and main risks in the business operation according to the supervision and self-regulatory requirements, which effectively identified and resolved the compliance risks or potential hazards.

(III) Work 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 headquarters departments, branches and subsidiaries of the Company. During the Reporting Period, the audit department of the Company completed 72 audits in total, including 2 ordinary audits to function departments of headquarters; 17 audits to economic responsibility of the officers-in-charge of each department and branch; 48 ordinary audits to branches; and 5 ordinary audits to subsidiaries. It also organized and conducted 1 assessment on internal control of the Company. In addition, the audit department and the compliance control department formed a joint inspection team to conduct special inspections on certain businesses of the Company.

Certain problems in the operational management of the Company were objectively reflected through supervision and inspection carried out by the auditors. The audit department continued to pay attention to the follow-up and rectification of the problems and deepened audit communication. As a result, the risk prevention awareness and active compliance awareness of the audited entities increased continuously, and the internal control of the Company was further improved.



SECTION 8 CORPORATE GOVERNANCE REPORT

(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 Securities Association of China and conducted regular and irregular stress tests. In 2018, 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 2018, 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. During the Reporting Period, all risk control indicators including net capital of the Company met the regulatory requirements.

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.

XI. 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:



SECTION 8 CORPORATE GOVERNANCE REPORT

Shareholders may convene extraordinary general meetings or class general meetings and put forward proposals at such meetings according to Article 78 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 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 107 "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 108 "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.



SECTION 8 CORPORATE GOVERNANCE REPORT

(2) Company Secretary

The Company appointed Ms. Kwong Yin Ping, Yvonne, president of SWCS Corporate Services Group (Hong Kong) Limited (formerly known as 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. During the Reporting Period, Ms. Kwong Yin Ping, Yvonne received no less than 15 hours of professional trainings in accordance with Rule 3.29 of the Hong Kong Listing Rules.

(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 fully 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 to be 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 Articles of Association dated 7 August 2018 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.



SECTION 8 CORPORATE GOVERNANCE REPORT

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.

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

Since its listing, the Company has been always attaching great importance to the investor relations. It maintains a good image in the capital market by establishing sound relationship between the Company and investors. The Company has formulated the information submission and disclosure measures in accordance with laws, rules and department regulations such as the Company Law, the Securities Law and the Administrative Measures for the Information Disclosure of the Listed Companies.

In terms of daily communication, the Company establishes the complete regular communication mechanism, reports the operation conditions of the Company to shareholders on a regular basis via mobile internet and annual general meetings, and continuously recommends the investment value of the Company. In 2018, the Company browsed the E Interactive Platform of Shanghai Stock Exchange and investors’ emails, and answered investors’ hotline on a daily basis, and gave prompt replies to questions concerned by investors. It organized the reception of investors and investigations by analysts for more than 19 times, which effectively enhanced the degree of participation in the Company by shareholders and investors, and guaranteed the open and transparent operation.

Attaching great importance to the platform development, the Company completed the optimization of the investor relations page on its website in 2018, added the regular report column, optimized and updated the existing columns, which greatly facilitated the browse over the website.

The Company focuses on reports on the Company on the public media and the transaction of its shares, verifies the authenticity of reports with related parties, promptly analyzes and judges the possible enterprise expectations of investors according to public opinions on the capital, and provides guidance for the development of investor relations.



SECTION 8 CORPORATE GOVERNANCE REPORT

(7) Appointment and remuneration of auditors

Please refer to Section 5 IV. "APPOINTMENT AND DISMISSAL OF ACCOUNTING FIRMS" of this report.

(8) Review by the Audit Committee

The Audit Committee has reviewed the Company's 2018 Audit Report and 2018 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 9 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
2018 Subordinated Bonds (Tranche 1) of Central China Securities Co., Ltd.	18 Central China 01	150323	2018/4/26	2021/4/27	15.00	5.58	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", "17 Central China 01" and "17 Central China 02" in full as scheduled. "16 Central China 02" was due on 26 October 2018, the repayment and interest payment of which were settled in full as scheduled. "18 Central China 01" has not reached the maturity date and interest payment date and there are no due repayment and interest payment.

SECTION 9 CORPORATE BONDS

II. 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”, “17 Central China 02” and “18 Central China 01”, 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.

III. ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE COMPANY FOR THE LAST TWO YEARS ENDED 31 DECEMBER 2018

Unit: Yuan Currency: RMB

Major indexes	2018	2017	Changes compared with the corresponding period of last year (%)	Reason for change
EBITDA	1,180,463,489.16	1,525,677,451.31	-22.63	Mainly due to the decrease in profit for the year
Current ratio	1.53	1.83	-16.39	
Quick ratio	1.53	1.83	-16.39	
Gearing ratio (%)	68.32	64.98	5.14	
EBITDA to total debts ratio	5.04	7.55	-33.25	Mainly due to the decrease in EBITDA and the increase in total debt
Interest coverage ratio	1.10	1.88	-41.49	Mainly due to the decrease in profit for the year
Cash interest coverage ratio	4.42	-6.13	N/A	Mainly due to changes in net cash flows from operating activities
EBITDA interest coverage ratio	1.17	1.97	-40.61	Mainly due to the decrease in EBITDA
Loan repayment ratio (%)	100	100	0.00	
Interest payment ratio (%)	100	100	0.00	



SECTION 9 CORPORATE BONDS

IV. 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 were settled in full as scheduled according to contractual terms or relevant agreements and there was no default recorded.

V. BANKING FACILITIES OF THE COMPANY DURING THE REPORTING PERIOD

As of the end of the Reporting Period, the Company obtained total banking facilities amounting RMB30.2 billion, in which RMB2.9 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 repayment and interest payment.

VI. 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.

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

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 9 May 2018 on the website of SSE (announcement no.: 2018-031). On 2 August 2018, the Company received the Decision Letter on the Administrative Penalty of the CSRC ([2018] No. 76), the details of which please refer to VI. "PUNISHMENT ON AND RECTIFICATION OF THE COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDERS, DE FACTO CONTROLLER AND ACQUIRER" in Section 5 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 10 FINANCIAL REPORT

CONTENT

	Page
Independent Auditor's Report	161
Consolidated Financial Statements	
Consolidated Income Statement	168
Consolidated Statement of Comprehensive Income	169
Consolidated Statement of Financial Position	170
Consolidated Statement of Changes in Equity	172
Consolidated Statement of Cash Flows	174
Notes to the Consolidated Financial Statements	176



SECTION 11 DOCUMENTS AVAILABLE FOR INSPECTION

The annual report with the signature of the legal representative of the Company.

The financial statements signed by the legal representative, the person in-charge-of financial affairs and head of the accounting department and chopped with the official chop of the Company.

The auditor's report chopped with the official chop of the accounting firm and signed and chopped by the certified public accountant.

Original copies of all documents and announcements disclosed on the website designated by the CSRC during the Reporting Period.

Annual report disclosed in other securities markets.

Other relevant materials.



SECTION 12 INFORMATION DISCLOSURE OF SECURITIES COMPANY

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

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

Newly established operation branches	Relocation of branch offices	Relocation of operation branches
3	2	8

1. 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	Approval for establishing one Securities Branch in each of Shangcai County, Zhumadian City, Baofeng County, Pingdingshan City and Zhecheng County, Shangqiu City, Henan Province	Shangcai County, Zhumadian City, Baofeng County, Pingdingshan City and Zhecheng County, Shangqiu City, Henan Province	Yu Zheng Jian Fa [2018] No. 315	19 December 2018	Under preparation

2. 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. Shenzhen Branch Office	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: Unit 04 & 05, 31F, Shenzhen China Life Insurance Building, No. 123 Fu Hua One Road, Futian CBD, Shenzhen City, Guangdong Province	8 August 2018
2	Central China Securities Co., Ltd. Xinyang Branch Office	Central China Securities Co., Ltd. Xinyang Branch Office	Hongyunxin Square Office Building, No. 136 Zhongshan Road, Shihe District, Xinyang City, Henan Province	21 December 2018

SECTION 12 INFORMATION DISCLOSURE OF SECURITIES COMPANY

3. 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. Pingdingshan Xinhua Road Securities Branch	Central China Securities Co., Ltd. Pingdingshan Jianshe Road Securities Branch	37 Middle Jianshe Road (Renmin Plaza), Weidong District, Pingdingshan City, Henan Province	5 January 2018
2	Central China Securities Co., Ltd. Shenzhen Mintian Road Securities Branch	Central China Securities Co., Ltd. Shenzhen Longcheng Avenue Securities Branch	Unit 907, Genzon Times Square Tower, 89 Longcheng Avenue, Center City, Longcheng Street, Longgang District, Shenzhen City, Guangdong Province	26 January 2018
3	Central China Securities Co., Ltd. Xuchang Liancheng Avenue Securities Branch	Central China Securities Co., Ltd. Xuchang Balong Road Securities Branch	Future East Coast Huacheng, South Balong Road, Xuchang City, Henan Province	5 February 2018
4	Central China Securities Co., Ltd. Zhengzhou Business Outer Ring Road Securities Branch	Central China Securities Co., Ltd. Zhengzhou Free Trade Zone Securities Branch	Room 202, Floor 5A, 138 Jingbei First Road, Zhengzhou Area (Jingkai), Pilot Free Trade Zone, Henan Province	8 March 2018
5	Central China Securities Co., Ltd. Ruzhou Fengxue Road Securities Branch	Central China Securities Co., Ltd. Ruzhou Chengyuan Road Securities Branch	1-2F, West side of the Chengyuan Road, Ruzhou City, Henan Province	25 July 2018
6	Central China Securities Co., Ltd. Jiyuan Jishui Street Securities Branch	Central China Securities Co., Ltd. Jiyuan City Jiyuan Avenue Securities Branch	The 14th Shop of the Street Shops from West to East, Commercial and Residential Building 1, Area A, Jishui Garden, South side of the Xueyuan Road, Jiyuan City, Henan Province	20 August 2018
7	Central China Securities Co., Ltd. Hui County Sumen Avenue Securities Branch	Central China Securities Co., Ltd. Hui County Gongcheng Avenue Securities Branch	North to the East Gongcheng Avenue, Hui County, Henan Province	29 August 2018
8	Central China Securities Co., Ltd. Mianchi County Huimeng Road Securities Branch	Central China Securities Co., Ltd. Mianchi County Huanghe Road Securities Branch	Shop 06, Building 1, Xinhua International Community, Middle Huanghe Road, Mianchi County, Henan Province	9 October 2018

SECTION 12 INFORMATION DISCLOSURE OF SECURITIES COMPANY

(II) Administrative licensing of appointment of Directors, Supervisors and senior management

No.	Date	Content
1	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.
2	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	6 March 2018	The Company received the Reply on Approval for Appointment of Zhang Xiansheng as a Supervisor of Securities Company (Yu Zheng Jian Fa [2018] No. 38) (《關於核准張憲勝證券公司監事任職資格的批覆》(豫證監發[2018]38號)) issued by Henan Branch of the CSRC, which approved the appointment of Zhang Xiansheng as a supervisor of the securities company.
4	22 March 2018	The Company received the Reply on Approval for Appointment of Cao Zongyuan as a Supervisor of Securities Company (Yu Zheng Jian Fa [2018] No. 57) (《關於核准曹宗遠證券公司監事任職資格的批覆》(豫證監發[2018]57號)) issued by Henan Branch of the CSRC, which approved the appointment of Cao Zongyuan as a supervisor of the securities company.
5	3 April 2018	The Company received the Reply on Approval for Appointment of Hua Jinzhong as a Senior Management of Securities Company (Yu Zheng Jian Fa [2018] No. 69) (《關於核准花金鐘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]69號)) issued by Henan Branch of the CSRC, which approved the appointment of Hua Jinzhong as a senior management of the securities company.
6	19 April 2018	The Company received the Reply on Approval for Appointment of Chang Junsheng as a Senior Management of Securities Company (Yu Zheng Jian Fa [2018] No. 77) (《關於核准常軍勝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]77號)) issued by Henan Branch of the CSRC, which approved the appointment of Chang Junsheng as a senior management of the securities company.
7	3 September 2018	The Company received the Reply on Approval for Appointment of Zhang Dongming as an Independent Director of Securities Company (Yu Zheng Jian Fa [2018] No. 225) (《關於核准張東明證券公司獨立董事任職資格的批覆》(豫證監發[2018]225號)) issued by Henan Branch of the CSRC, which approved the appointment of Zhang Dongming as an independent director of the securities company.
8	3 September 2018	The Company received the Reply on Approval for Appointment of Tian Shengchun as a Director of Securities Company (Yu Zheng Jian Fa [2018] No. 226) (《關於核准田聖春證券公司董事任職資格的批覆》(豫證監發[2018]226號)) issued by Henan Branch of the CSRC, which approved the appointment of Tian Shengchun as a director of the securities company.

SECTION 12 INFORMATION DISCLOSURE OF SECURITIES COMPANY

No.	Date	Content
9	1 November 2018	The Company received the Reply on Approval for Appointment of Lu Benson Cheng as a Director of Securities Company (Yu Zheng Jian Fa [2018] No. 277) (《關於核准陸正心證券公司董事任職資格的批覆》(豫證監發[2018]277號)) issued by Henan Branch of the CSRC, which approved the appointment of Lu Benson Cheng as a director of the securities company.
10	19 December 2018	The Company received the Reply on Approval for Appointment of Zhao Huiwen as a Senior Management of Securities Company (Yu Zheng Jian Fa [2018] No. 316) (《關於核准趙慧文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]316號)) issued by Henan Branch of the CSRC, which approved the appointment of Zhao Huiwen as a senior management of the securities company.

(III) Other administrative licensing

No.	Date	Content
1	18 January 2018	The Company received the Reply on Approval for 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)) issued by the CSRC, which approved the change of registered capital of the Company.
2	31 July 2018	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 [2018] No. 198) (《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[2018]198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 "C" under class "C" in 2018 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 the 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 168 to 296 which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated income statement for the year then ended;
- 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 2018, 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 judgement, 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:

- Expected credit impairment allowance of Financial assets at amortized costs, Margin accounts, Financial assets held under resale agreements, Loans and advances to customers and Financial assets at fair value through other comprehensive income (debt instruments)
- Consolidation of structured entities



INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter

How our audit addressed the Key Audit Matter

Expected credit impairment allowance of Financial assets at amortised costs, Margin accounts, Financial assets held under resale agreements, Loans and advances to customers and Financial assets at fair value through other comprehensive income (debt instruments)

Refer to Notes 25, 27, 28, 29 and 33 to the consolidated financial statements.

As at 31 December 2018, the Group recognized the following financial assets in its consolidated statement of financial position: Financial assets at amortized cost amounted to RMB711.87 million with a credit loss allowance of RMB17.98 million; Margin accounts amounted to RMB4,800.79 million with a credit loss allowance of RMB80.29 million; Financial assets held under resale agreements amounted to RMB9,142.64 million with a credit loss allowance of RMB226.07 million; Loans and advances to customers amounted to RMB1,308.02 million with a credit loss allowance of RMB64.30 million; Financial assets at fair value through other comprehensive income (debt instruments) amounted to RMB725.63 million with a credit loss allowance of RMB0.26 million. The credit impairment losses for the aforesaid financial assets recognized in the Group's consolidated income statement for the year ended 31 December 2018 amounted to RMB282.28 million.

The credit loss allowances as at 31 December 2018 for the aforesaid financial assets represented Management's best estimates of the expected credit losses ("ECL") in accordance with International Financial Reporting Standard 9: "Financial Instruments".

We reviewed the ECL modelling methodologies and assessed their reasonableness. We also assessed models implementation on a sample basis to ascertain that the models reflected the methodologies established by Management.

We examined the application of the SICR criteria and credit impairment definition by testing the fair value of the collateral of Margin accounts and Financial assets held under resale agreements; and we examined the external credit ratings and negative information related to debt instruments, on a sample basis.

For forward-looking scenarios, we examined the basis of determining the economic indicators, number of scenarios and relative weightings; assessed the reasonableness of the economic indicators forecasted under the different scenarios; and performed sensitivity analysis on economic indicators and relative weightings.

We examined major data inputs to the ECL models for selected samples, including historical data and data at the measurement date for accuracy and completeness.

For credit-impaired assets under Stage 3, we tested on a sample basis the credit loss allowance computed by Management with reference to financial information of the borrowers and guarantors, and the latest collateral valuations, as appropriate.

Based on the above procedures performed, we considered the models, key parameters, significant judgments and assumptions adopted by Management and the measurement results to be acceptable.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter

How our audit addressed the Key Audit Matter

Expected credit impairment allowance of Financial assets at amortised costs, Margin accounts, Financial assets held under resale agreements, Loans and advances to customers and Financial assets at fair value through other comprehensive income (debt instruments) (Continued)

Management applied a three-stage impairment model to calculate the ECL. For such financial assets classified under Stages 1 and 2, Management assessed credit loss allowances using the risk parameter modelling approach that incorporated key parameters, including probability of default, loss given default and exposure at default. For credit impaired financial assets classified under Stage 3, Management assessed the credit loss allowances by estimating the cash flows expected to arise from the financial assets after taking into consideration of forward looking factors.

The measurement model for ECL involves significant management judgements and assumptions for each type of product and investment, primarily including the following:

- (1) Selection of the appropriate models and assumptions;
- (2) Determination of the criteria for significant increase in credit risk ("SICR");
- (3) Establishment of the number and relative weightings of forward-looking scenarios;

The Group developed a number of complex models, adopted numerous parameters and data inputs, and applied significant management judgements and assumptions in measuring the ECL. The amounts involved were significant to the Group's financial statements. This led to this matter being identified as a key audit matter.



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 and Note 52 to the consolidated financial statements.</p> <p>The Group acted as asset manager for, or invested in, a number of investment funds asset management plans, trust schemes and wealth management products which were structured entities.</p> <p>Management made significant judgements when concluding on whether the Group controlled, and therefore should consolidate, these structured entities.</p> <p>Management has determined that the Group had control of certain structured entities based on their assessment of: i) the Group's power over the entities; ii) its exposure to variable returns from its involvement with those entities; and iii) its ability to use its power to affect the amount of its returns from these structured entities. Those structured entities over which Management has concluded the Group had control have been consolidated and their aggregated total assets were RMB739.15 million as at 31 December 2018.</p> <p>The significant judgements exercised by Management in assessing whether the Group had control over the structured entities and the amount of such structured entities on the consolidated statement of financial position of the Group resulted in this matter being identified as a key audit matter.</p>	<p>We read a sample of the contracts from the Group's asset management and investment portfolio to assess: i) the extent of power the Group had over its structured entities; ii) the Group's exposure or rights to variable returns from its involvement with those structured entities; and iii) the relationship between the Group's power and returns with respect to the structured entities.</p> <p>We selected a sample of Management's calculations of the Group's exposure or rights to variable returns from its involvement with the structured entities. We then traced the data used in these calculations back to the related contracts and re-performed the calculations to test their accuracy.</p> <p>Based on the procedures performed above, the judgements made by Management when concluding whether to consolidate or not the structured entities are supportable.</p>

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.



INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION (CONTINUED)

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.

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, 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 judgement 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.



INDEPENDENT AUDITOR'S REPORT

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

- 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.
- 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, 28 March 2019

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018 (All amounts in RMB'000 unless otherwise stated)

	Note	Year ended 31 December	
		2018	2017
Revenue			
– Commission and fee income	5	910,394	1,141,509
– Interest income	6	1,291,898	1,269,523
– Net investment gains	7	347,964	408,345
		2,550,256	2,819,377
Other operating income	8	307,661	373,117
Total revenue and other income		2,857,917	3,192,494
Commission and fee expenses	9	(175,036)	(221,011)
Interest expenses	10	(1,032,165)	(808,506)
Staff costs	11	(635,930)	(716,544)
Depreciation and amortization	12	(74,005)	(71,225)
Other operating expenses	13	(542,173)	(625,773)
Impairment losses	14	(319,576)	(75,892)
Total expenses		(2,778,885)	(2,518,951)
Operating profit		79,032	673,543
Share of profit of associates		22,086	6,566
Profit before income tax		101,118	680,109
Income tax expense	15	(5,260)	(158,946)
Profit for the year		95,858	521,163
Attributable to:			
Equity holders of the Company		65,789	441,983
Non-controlling interests		30,069	79,180
		95,858	521,163
Earnings per share attributable to ordinary equity holders of the Company (expressed in RMB yuan per share)			
– Basic and diluted	16	0.02	0.11

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018 (All amounts in RMB'000 unless otherwise stated)

	Note	Year ended 31 December	
		2018	2017
Profit for the year		95,858	521,163
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Financial assets at fair value through other comprehensive income			
– Changes in fair value		4,469	
– Income tax effect on changes in fair value		(1,117)	
Available-for-sale financial assets			
– Changes in fair value			(27,530)
– Income tax effect on changes in fair value			6,025
– Reclassification adjustments for loss included in the consolidated income statement, net			(26,110)
Foreign currency translation differences		40,847	(57,758)
Other comprehensive income for the period, net of tax		44,199	(105,373)
Total comprehensive income for the period		140,057	415,790
Total comprehensive income attributable to:			
– Shareholders of the Company		88,748	356,469
– Non-controlling interests		51,309	59,321
		140,057	415,790

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018 (All amounts in RMB'000 unless otherwise stated)

		As at 31 December	
	Note	2018	2017
Assets			
Non-current assets			
Property and equipment	18	229,038	238,207
Investment properties	19	18,105	21,876
Goodwill	20	22,042	21,362
Land use rights and intangible assets	21	158,630	164,390
Investment in associates	22	939,294	492,860
Available-for-sale financial assets	24		2,182,786
Financial assets at fair value through other comprehensive income	25	471,936	
Financial assets at fair value through profit or loss	26	1,095,561	674,084
Financial assets at amortized costs	27	5,089	
Financial assets held under resale agreements	28	378,822	1,103,609
Loans and advances to customers	29	275,904	445,500
Deferred income tax assets	30	251,316	161,342
Refundable deposits	31	282,711	260,826
Other non-current assets	32	25,759	30,270
Total non-current assets		4,154,207	5,797,112
Current assets			
Margin accounts receivable	33	4,720,498	6,352,971
Available-for-sale financial assets	24		765,684
Financial assets at fair value through other comprehensive income	25	253,692	
Financial assets at fair value through profit or loss	26	12,836,196	6,948,419
Investment classified as receivables			83,591
Financial assets at amortized cost	27	688,805	
Financial assets held under resale agreements	28	8,537,746	8,103,408
Loans and advances to customers	29	967,819	826,370
Due from other financial institutions		-	40,000
Derivative financial assets	34	62,986	59,938
Clearing settlement funds	35	2,340,353	2,350,216
Cash held for brokerage clients	36	4,654,821	5,845,016
Cash and bank balances	37	2,606,941	2,792,078
Other current assets	38	321,865	683,477
Total		37,991,722	34,851,168
Assets classified as held for sale	39	9,353	13,188
Total current assets		38,001,075	34,864,356
Total assets		42,155,282	40,661,468

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018 (All amounts in RMB'000 unless otherwise stated)

		As at 31 December	
	Note	2018	2017
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital	40	3,869,071	3,923,735
Reserves	41	5,843,673	5,846,099
Retained earnings		238,155	400,018
Equity attributable to shareholders of the Company		9,950,899	10,169,852
Non-controlling interests		1,324,141	1,282,267
Total equity		11,275,040	11,452,119
Liabilities			
Non-current liabilities			
Financial assets sold under repurchase agreements	42	1,502,926	–
Bonds payable	43	4,097,519	6,496,635
Deferred income tax liabilities	30	3,461	10,360
Total non-current liabilities		5,603,906	6,506,995
Current liabilities			
Financial assets sold under repurchase agreements	42	8,668,864	7,284,879
Bonds payable	43	4,136,652	1,500,000
Bank loans	44	1,874,987	2,184,703
Financial liabilities at fair value through profit or loss	45	380,028	361,418
Tax payable	46	59,563	93,179
Short-term notes payable	47	537,577	1,363,870
Due to other financial institutions	48	2,241,402	1,015,000
Derivative financial liabilities		–	471
Accounts payable to underwriting clients		–	434,400
Accounts payable to brokerage clients	49	6,561,060	7,526,503
Other current liabilities	50	816,203	937,931
Total current liabilities		25,276,336	22,702,354
Total liabilities		30,880,242	29,209,349
Total equity and liabilities		42,155,282	40,661,468

The accompanying notes form an integral part of these consolidated financial statements.

JIAN Mingjun

Chairman of the Board and Executive Director

CHANG Junsheng

Executive Director and President

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018 (All amounts in RMB'000 unless otherwise stated)

	Attributable to shareholders of the Company										
	Share capital	Capital reserve	Surplus reserve	General reserve	Transaction risk reserve	Revaluation reserve	Other reserves	Foreign currency translation reserve	Retained earnings	Non-controlling interests	Total equity
As at 31 December 2017	3,923,735	3,814,111	759,323	667,203	606,410	(26,801)	20,501	5,352	400,018	1,282,267	11,452,119
Change in accounting policy	-	-	589	(360)	393	7,390	-	16	(8,210)	(587)	(769)
Reclassification	-	-	-	-	-	20,107	-	-	(20,107)	-	-
As at 1 January 2018	3,923,735	3,814,111	759,912	666,843	606,803	696	20,501	5,368	371,701	1,281,680	11,451,350
Net profit for the year	-	-	-	-	-	-	-	-	65,789	30,069	95,858
Other comprehensive income for the year	-	-	-	-	-	3,352	-	19,607	-	21,240	44,199
Total comprehensive income for the year	-	-	-	-	-	3,352	-	19,607	65,789	51,309	140,057
Capital injected by equity holders	-	-	-	-	-	-	-	-	-	18,670	18,670
Stock repurchase (Note 1)	(54,664)	(78,735)	-	-	-	-	-	-	-	-	(133,399)
Appropriation to general reserve	-	-	-	25,226	-	-	-	-	(25,226)	-	-
Dividends distributed by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	(27,518)	(27,518)
Cash dividend recognized as distribution	-	-	-	-	-	-	-	-	(174,109)	-	(174,109)
Others	-	-	-	-	-	-	(11)	-	-	-	(11)
Balance at 31 December 2018	3,869,071	3,735,376	759,912	692,069	606,803	4,048	20,490	24,975	238,155	1,324,141	11,275,040

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018 (All amounts in RMB'000 unless otherwise stated)

	Attributable to shareholders of the Company										
	Share capital	Capital reserve	Surplus reserve	General reserve	Transaction risk reserve	Revaluation reserve	Other reserves	Foreign currency translation reserve	Retained earnings	Non-controlling interests	Total equity
As at 1 January 2017	3,923,735	3,838,270	697,014	599,109	564,871	30,987	3,871	33,076	891,184	964,653	11,546,770
Net profit for the year	-	-	-	-	-	-	-	-	441,983	79,180	521,163
Other comprehensive income for the year	-	-	-	-	-	(57,790)	-	(27,724)	-	(19,859)	(105,373)
Total comprehensive income for the year	-	-	-	-	-	(57,790)	-	(27,724)	441,983	59,321	415,790
Cash dividend recognised as distribution	-	-	-	-	-	-	-	-	(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)	-	-	-	-	-	-	-	281,226	257,067
Changes due to the placement of the associates from other shareholders	-	-	-	-	-	-	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	1,282,267	11,452,119

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018 (All amounts in RMB'000 unless otherwise stated)

	Year ended 31 December	
	2018	2017
Cash flows from operating activities		
Profit before income tax	101,118	680,109
Adjustments for:		
Depreciation and amortization	74,005	71,225
Impairment losses	319,576	75,892
Net losses on disposal of property and equipment	28	373
Foreign exchange gains	2,532	1,291
Net gains from disposal of available-for-sale financial assets		(98,411)
Dividends and interest income from available-for-sale financial assets		(142,958)
Net losses from disposal of subsidiaries	-	233
Net gains from disposal of associates	(2,076)	(58,807)
Share of profit of associates	(22,086)	(6,566)
Interest expenses of short-term notes	31,128	28,413
Interest expenses of bonds	439,140	343,994
Interest expenses of bank loans	75,687	35,786
Changes in fair value of financial instruments at fair value through profit or loss	111,328	87,056
	1,130,380	1,017,630
Net decrease/(increase) in operating assets:		
Net decrease/(increase) in margin accounts receivable	1,924,036	(283,873)
Net (increase)/decrease in financial assets at fair value through profit or loss	(4,069,257)	216,880
Net increase in derivative financial instruments	(3,048)	(59,599)
Net decrease/(increase) in financial assets held under resale agreements	123,241	(3,304,639)
Net (increase)/decrease in refundable deposits	(21,885)	229,252
Net decrease in cash held for brokerage clients	1,190,195	1,875,661
Net (increase)/decrease in clearing settlement funds	(121,763)	680,716
Net increase in loans and advances to customers	(14,204)	(760,032)
Net (increase)/decrease in due from other financial institutions	40,000	(40,000)
Net (increase)/decrease in other assets	(189,326)	42,001
Net increase/(decrease) in operating liabilities:		
Net increase in financial assets sold under repurchase agreements	2,871,403	1,676,900
Net increase in due to other financial institutions	1,226,402	615,000
Net decrease in accounts payable to brokerage clients	(965,443)	(2,841,587)
Net increase/(decrease) in financial liabilities at fair value through profit or loss	16,410	(846,759)
Net (decrease)/increase in other liabilities	(341,384)	409,549
Income tax paid	(135,807)	(224,002)
Net cash inflow/(outflow) from operating activities	2,659,950	(1,596,902)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018 (All amounts in RMB'000 unless otherwise stated)

	Year ended 31 December	
	2018	2017
Cash flows from investing activities		
Dividends and interest received from available-for-sale financial assets		142,958
Proceeds from disposal of property and equipment, intangible assets and other long-term assets	1,305	609
Purchase of property and equipment, intangible assets and other long-term assets	(48,776)	(88,889)
Net cash flow from purchase and disposal of available-for-sale financial assets		(334,783)
Net cash flow from purchase and disposal of investment classified as receivables		(83,591)
Net cash flow from purchase and disposal of financial assets at amortized cost	(64,182)	
Net cash paid from disposal of subsidiaries	–	(233)
Cash received from disposal of associates	–	171,532
Cash paid for investment in associates	(492,159)	(297,734)
Net cash flow from purchase and disposal of financial assets at fair value through other comprehensive income	(410,992)	
Net cash outflow from investing activities	(1,014,804)	(490,131)
Cash flows from financing activities		
Dividends paid	(201,627)	(783,981)
Repurchase of stocks	(133,398)	–
Capital injection of subsidiaries from non-controlling shareholders	18,670	257,067
Cash received from issuance of short-term notes	2,760,523	2,497,560
Cash paid for redemption of short-term notes	(3,589,908)	(1,543,690)
Cash paid for redemption of bonds	(1,500,000)	(3,400,000)
Cash received from issuance of bonds	1,500,000	2,500,000
Net (decrease)/increase of bank loans	(308,453)	1,468,257
Payments of interest on debts	(505,185)	(550,575)
Net cash outflow from financing activities	(1,959,378)	444,638
Net decrease in cash and cash equivalents	(314,232)	(1,642,395)
Cash and cash equivalents at the beginning of the year	2,999,543	4,643,229
Effect of exchange rate changes on cash and cash equivalents	(2,532)	(1,291)
Cash and cash equivalents at the end of the year (Note 51)	2,682,779	2,999,543

The accompanying notes form an integral part of these consolidated 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. 91410000744078476K 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 2018, the registered capital of the Company is RMB3,869.07 million.

The principal 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 at headquarters (stock pledged repurchase and securities repurchase transactions, the new OTC market making business, micro-credit, 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 598,100,000 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 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 placement, 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 RMB3,923.73 million. The Company repurchased 54.66 million ordinary shares of H share from the secondary market in May 2018, after this repurchase, total share capital of the Company was decreased to RMB3,869.07 million.

These consolidated financial statements were authorised for issue by the Board of Directors on 28 March 2019.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

2 BASIS OF PREPARATION (CONTINUED)

The consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instruments, financial assets/liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, which 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 2018 and adopted by the Group

(1)	Amendments to IFRS 2	Share-based Payment
(2)	Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
(3)	IFRS 9	Financial Instruments
(4)	IFRS 15	Revenue from Contracts with Customers
(5)	IFRIC 22	Foreign Currency Transactions and Advance Consideration
(6)	Amendments to IAS 40	Transfer of Investment Property
(7)	Amendments to IAS 28	Investments in Associates and Joint Ventures – included in the Annual Improvements to IFRSs 2014–2016 Cycle

(1) Amendments to IFRS 2: Share-based Payment

On 20 June 2016, the IASB issued an amendment to IFRS 2, "Share-based Payment", addressing three classification and measurement issues. The amendments address the accounting for cash-settled share-based payments and equity-settled awards that include a "net settlement" feature in respect of withholding taxes.

The amendments clarify the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash settled to equity-settled. The amendments also introduce an exception to the principles in IFRS 2 that will require an award to be treated as if it is wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

(2) Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The IASB issued amendments to IFRS 4, Insurance Contracts, Applying IFRS 9 Financial Instruments with IFRS 4, which provides two alternative measures to address the different effective dates of IFRS 9 and the forthcoming insurance contracts standard. These measures include a temporary option for companies whose activities are predominantly connected with insurance to defer the effective date of IFRS 9 until the earlier of the effective date of the forthcoming insurance contracts standard and the annual reporting periods beginning on or after 1 January 2021, as well as an approach that allows an entity to remove from profit or loss the effects of certain accounting mismatches that may occur before the forthcoming insurance contracts standard is applied.

(3) 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.

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 2018 and adopted by the Group (continued)

(3) IFRS 9: Financial Instruments (continued)

IFRS 9 introduces a principle-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 retains the requirements for classification and measurement previously included in IAS 39.

(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.

(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.

(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.

(7) 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.

There were no significant impacts from the amendments above on the Group's consolidated financial statements. In addition, the impacts of IFRS 9 to the Group's financial statement is set out in Note 3.2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

2 BASIS OF PREPARATION (CONTINUED)

2.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates by the Group

Standards and amendments relevant to the Group that are not yet effective in the current interim period and have not been adopted before their effective dates by the Group.

			<i>Effective for annual periods beginning on or after</i>
(1)	IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
(2)	IFRS 16	Leases	1 January 2019
(3)	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	The Annual Improvements to IFRSs 2015– 2017 Cycle	1 January 2019
(4)	Amendments to IFRS 9	Prepayment Features with Negative Compensation	1 January 2019
(5)	Amendments to IAS 19	Employee Benefits Regarding Plan Amendment, Curtailment or Settlement	1 January 2019
(6)	Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
(7)	Amendments to IAS 1 and IAS 8	The Definition of Material	1 January 2020
(8)	Amendments to IFRS 3	The Definition of A Business	1 January 2020
(9)	IFRS 17	Insurance Contracts	1 January 2022
(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. Early application of the amendments continues to be permitted.

(1) 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 will not have 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 and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates by the Group (continued)

(2) 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 of short lease term, in the statement of financial position. Accordingly, a lessee should recognize 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.

For operating lease existed before the commencement day, the lease liability is initially recognized at the commencement day and measured at an amount equal to the present value of the lease payments during the lease term that are not yet paid. The lessee uses as the discount rate the incremental borrowing rate. The measurement of right-of-use asset would be the amount of lease liability (adjusted by the amount of any previously recognized prepaid lease payments relating to that lease). The cumulative effect of applying the standard is recognized as an adjustment to the opening balance of retained earnings at the date of initial application, and it does not restate comparative information. The right-of-use asset is depreciated in subsequent periods. The lease liability is measured in subsequent periods using the effective interest rate method.

The adoption of IFRS 16 is not expected to have a significant impact on the net assets of the Group as at 1 January 2019.

(3) Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23: The 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 and the amendments to IAS 23 – Borrowing costs. The Group anticipates that the adoption of these amendments will not have 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 and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates by the Group (continued)

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

The IASB issued a narrow-scope amendment to IFRS 9 to enable companies to measure at amortised cost some prepayable financial assets with negative compensation. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than unpaid amounts of principal and interest. To qualify for amortised cost measurement, the amendments require the negative compensation must be 'reasonable compensation for early termination of the contract' and the asset must be held within a 'held to collect'. However, the standard does not define 'reasonable compensation' and significant judgement may be required to assess if this test is met. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(5) Amendments to IAS 19: Employee Benefits Regarding Plan Amendment, Curtailment or Settlement

The IASB issued amendments to IAS 19: Employee benefits regarding plan amendment, curtailment or settlement. These amendments require any entity that changes the terms or the membership of a defined benefit plan to use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement, and to recognize in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus. The Group anticipates that the adoption of the amendments will not have an impact on the Group's consolidated financial statements.

(6) Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

The IASB issued amendments to IAS 28: Investments in Associates and Joint Ventures to clarify that companies account for long-term interests in an associate or joint venture to which the equity method is not applied should be using IFRS 9. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(7) Amendments to IAS 1 and IAS 8: The Definition of Material

The IASB issued amendments to the definition of material in IAS 1 and IAS 8. The amended definition is: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendment clarifies that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information. It also states that an entity assesses materiality in the context of the financial statements as a whole.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

2 BASIS OF PREPARATION (CONTINUED)

2.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates by the Group (continued)

(7) Amendments to IAS 1 and IAS 8: The Definition of Material (continued)

The amendment also clarifies the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(8) Amendments to IFRS 3: The Definition of A Business

The IASB issued amendments to the definition of a business in IFRS 3. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(9) IFRS 17: Insurance Contracts

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of: discounted probability-weighted cash flows, an explicit risk adjustment, and a contractual service margin ("CSM") representing the unearned profit of the contract which is recognized as revenue over the coverage period.

The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features. The Group anticipates that the adoption of these amendments will not have 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 and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates by the Group (continued)

(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 will not have 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

The Company's functional and presentation currency is RMB.

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.

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.



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 (continued)

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.

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.

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

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.

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.



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)

3.1.6 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.

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.

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

(a) *Initial recognition, classification and measurement of financial instruments*

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

Financial assets

Financial assets are classified on the basis of the Group's business model for managing the assets and the cash flow characteristics of the assets in the following measurement categories: (i) Amortised cost; (ii) Fair value through other comprehensive income ("FVOCI"); (iii) Fair value through profit or loss ("FVPL").

Business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the "SPPI test"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

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)

(a) *Initial recognition, classification and measurement of financial instruments* (continued)

Financial assets (continued)

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows represent SPPI.

The classification requirements for debt instruments assets and equity instruments assets are described as below:

Debt Instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as government bonds, corporate bonds and subordinated bonds. Classification and subsequent measurement of debt instruments depend on: (i) the Group's business model for managing the asset; and (ii) the cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- (i) Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent SPPI and that are not designated as at FVPL, are measured at amortised cost.
- (ii) Fair value through other comprehensive income: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI and that are not designated as at FVPL, are measured at FVOCI.
- (iii) Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL.

The Group may also irrevocably designate financial assets at fair value through profit or loss if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.

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)

(a) *Initial recognition, classification and measurement of financial instruments* (continued)

Financial assets (continued)

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at FVPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns.

Financial liabilities

Financial liabilities are classified as and subsequently measured at amortised cost, except for financial liabilities at FVPL, which is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition.

An entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss: (i) it eliminates or significantly reduces the measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch'); (ii) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the portfolio is provided internally on that basis to the entity's key management personnel.

(b) *Reclassification of financial assets*

When the Group changes its business model for managing financial assets, it shall reclassify all affected financial assets, and apply the reclassification prospectively from the reclassification date. The Group does not restate any previously recognized gains, losses (including impairment gains or losses) or interest. Reclassification date is the first day of the first reporting period following the change in business model that results in the Group reclassifying 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)

3.1.9 Financial instruments (continued)

(c) *Subsequent measurement of financial instruments*

Subsequent measurement of financial instruments depends on the categories:

Amortised cost

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition: (i) minus the principal repayments; (ii) plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and; (iii) for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses ("ECL") and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate. For purchased or originated credit-impaired ("POCI") financial assets, the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for: (i) POCI financial assets, whose interest income is calculated, since initial recognition, by applying the credit-adjusted effective interest rate to their amortised cost; and (ii) financial assets that are not POCI but have subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss allowance). If, in a subsequent period, the financial assets improve their qualities so that they are no longer credit-impaired and the improvement in credit quality is related objectively to a certain event occurring after the application of the above-mentioned rules, then the interest income is calculated by applying the effective interest rate to their gross carrying amount.

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)

(c) *Subsequent measurement of financial instruments* (continued)

Fair value through other comprehensive income

Debt instruments

Movements in the carrying amount are taken through other comprehensive income ("OCI"), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss.

Equity instruments

The equity instrument investments that are held for purposes other than to generate investment returns are designated as FVOCI. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognized in profit or loss when the Group's right to receive payments is established, and it is probable that future economic benefits associated with the item will flow to the Group, and the amounts of the dividends can be measured reliably.

Financial assets at fair value through profit or loss

Debt instruments

A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within "Net investment gains" in the period in which it arises.

Equity instruments

Gains and losses on equity investments at FVPL are included in the "Net investment gains" line in the statement of profit or loss.

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)

(c) *Subsequent measurement of financial instruments* (continued)

Financial liabilities at fair value through profit or loss

Gains or losses on financial liabilities designated as at FVPL are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in profit or loss. The gains and losses from financial liabilities including the effects of credit risk variance should be recognized in current profit and loss by the Group.

(d) *Fair value of financial instruments*

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. Fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair values of quoted financial assets and financial liabilities in active markets are based on current bid prices and ask prices, as appropriate. If there is no active market, the Group establishes fair value by using valuation techniques. These include the use of market approach, income approach and cost approach. When using valuation techniques, unobservable market inputs would not be used unless relevant observable inputs are not available or not practicable to access.

Default Valuation Adjustments (DVA) are applied to the Group's financial liabilities at fair value through profit or loss, and assumes that DVA stay the same before and after the transfer of the liability. DVA refer to risk that enterprises fail to perform the obligation, including but not limited to their own credit risk.

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)

(d) *Fair value of financial instruments* (continued)

The Group uses the following hierarchy for determining and disclosing the fair values of financial assets and financial liabilities based on the inputs used when determining the fair value:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs).

The level of fair value measurement depends on the lowest level of input that is significant to the entire fair value measurement.

(e) *Impairment of financial assets*

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and FVOCI.

ECL is the weighted average of credit losses with the respective risks of a default occurring as the weights. Credit loss is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets).

The Group measures the ECL of a financial instrument reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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)

(e) *Impairment of financial assets* (continued)

For financial instruments whose impairment losses are measured using the ECL model, the Group assesses whether their credit risk has increased significantly since their initial recognition, and applies a three-stage impairment model to calculate their impairment allowance and recognize their ECL, as follows:

Stage 1: The Group measures the loss allowance for a financial instrument at an amount equal to the next 12 months ECL if the credit risk of that financial instrument has not increased significantly since initial recognition.

Stage 2: The Group measures the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk of that financial instrument has increased significantly since initial recognition, but is not yet deemed to be credit-impaired.

Stage 3: The Group measures the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the financial instrument is credit-impaired.

The Group applies the impairment requirements for the recognition and measurement of some loss allowance for debt instruments that are measured at FVOCI. The loss allowance is recognized in OCI and the impairment loss is recognized in profit or loss, and it should not reduce the carrying amount of the financial asset in the statement of financial position.

The Group has measured the loss allowance for a financial instrument at an amount equal to the lifetime ECL in the previous reporting period, but determines to measure it at an amount equal to the next 12 months ECL at the current reporting date if the credit risk of that financial instrument has increased significantly since initial recognition is no longer met, and the amount of ECL reversal is recognized in profit or loss.

(f) *Derivative financial instruments*

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Derivatives are recognized as assets when the fair value is positive and as liabilities when the fair value is negative.

The changes on fair value of derivative financial instruments are directly recognized in the consolidated income statement. The difference between fair value and carrying amount is recognized as investment income when disposing.

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)

(g) Derecognition of Financial Instruments

A financial asset is derecognized, when one of the following criteria is satisfied: (i) the rights to receive cash flows from the assets have expired; (ii) the Group has transferred substantially all the risks and rewards of ownership of the financial asset; (iii) the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has not retained control.

When equity financial assets designated as at FVOCI are derecognized, the cumulative gain or loss previously recognized in OCI is reclassified to retained earnings. When other financial assets are derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in "Net investment gains".

A financial liability is derecognized when it is wholly or partly extinguished, that is when the obligation is wholly or partly discharged. Fair value gains and losses are reclassified to profit or loss. When financial liabilities designated as at FVPL are derecognized, cumulative gains and losses are subsequently reclassified from other comprehensive income to retained earnings.

(h) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a current legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. Otherwise, financial assets and financial liabilities are reported separately.

Financial instruments – Accounting policies applied prior to 1 January 2018

Financial instruments are contracts which become one enterprise's financial assets, at the same time become another enterprises' financial liabilities or equity instruments.

(a) Initial recognition and derecognition of financial instruments

The Group recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument.

All regular way purchases and sales of financial instruments are recognized and derecognized using trade date accounting. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned. Trade date is the date that the Group commits to purchase or sell the financial instrument.

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)

Financial instruments – Accounting policies applied prior to 1 January 2018 (continued)

(a) Initial recognition and derecognition of financial instruments (continued)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized, which means to derecognize a financial asset from the account and statement of financial position of the Group when:

- (i) The rights to receive cash flows from the assets have expired; or
- (ii) The Group has transferred its rights to receive cash flows from the asset; or has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; and (a) the Group has transferred substantially all the risks and rewards of ownership of the financial asset; or (b) the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability.

When the Group has made substantial modifications to a part of the contract terms of an existing financial liability, the relevant portion of the existing financial liability is derecognized, while the financial liability under modified terms is recognized as a new financial liability.

On derecognition of a financial liability in its entirety or partially, the difference between the carrying amount and the consideration paid (including non-cash assets transferred or new financial liabilities assumed) shall be recognized in the consolidated income statement.

If the Group repurchases a part of a financial liability, the Group shall allocate the previous carrying amount of the financial liability between the part that continues to be recognized and the part that is derecognized based on the relative fair values of those parts on the date of the repurchase. The difference between the carrying amount allocated to the part derecognized and the consideration paid (including any non-cash assets transferred or liabilities assumed) for the part derecognized shall be recognized in the consolidated income statement.

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)

Financial instruments – Accounting policies applied prior to 1 January 2018 (continued)

(b) Classification and measurement of financial instruments

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. Financial assets are measured at fair value when they are recognized initially. The transaction cost attributable to the acquisition of the financial assets is recognized as profit or loss for the financial assets at fair value through profit or loss, and is included in the initial cost of the other financial assets.

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss and other financial liabilities. The transaction cost attributable to the acquisition of the financial liabilities is recognized as profit or loss for the financial liabilities at fair value through profit or loss, and is included in the initial cost of the other financial liabilities.

Subsequent measurement of financial instruments depends on their classification as follows:

(i) Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss include financial assets and financial liabilities held for trading, and financial assets and financial liabilities designated as at fair value through profit or loss.

A financial asset or financial liability is classified as held for trading if it is acquired for the purpose of sale or repurchase in the near term. Derivatives are also classified as held for trading except for the derivative that is a financial guarantee contract or a designated effective hedging instrument.

Such financial instruments are subsequently measured at fair value. Gains or losses arising from the difference between fair value and previous carrying amount are recognized in profit or loss as net investment gains or losses. Realized gains or losses upon disposal of held-for-trading financial assets are recognized as net investment gains or losses. Dividends and interest accrued during the holding period from financial assets measured at fair value through profit or loss are recognized as net investment gains.

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)

Financial instruments – Accounting policies applied prior to 1 January 2018 (continued)

(b) Classification and measurement of financial instruments (continued)

(i) Financial assets and financial liabilities at fair value through profit or loss (continued)

Financial assets or financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if one of the following criteria is satisfied:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial assets or financial liabilities or recognizing the gains and losses on different bases;
- A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information is provided internally on that basis to key management personnel;
- Hybrid instruments containing one or more embedded derivatives, unless the embedded derivative(s) does not significantly modify the cash flows or it is clear with little or no analysis that the embedded derivative(s) would not be separately recorded;
- Hybrid instruments containing embedded derivatives which need to be separated but cannot be separately measured on acquisition date or subsequent balance sheet date.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets, with fixed or determinable payments quoted in an active market and a fixed maturity, which the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortized cost using the effective interest rate method. If there are no significant differences between the contractual interest rates or coupon rates and effective interest rates, held-to-maturity investments are measured at amortized cost using the contractual interest rates or coupon rates.

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)

Financial instruments – Accounting policies applied prior to 1 January 2018 (continued)

(b) Classification and measurement of financial instruments (continued)

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortized cost using the effective interest rate method. If there are no significant differences between the contractual interest rates and effective interest rates, loans and receivables are measured at amortized cost using the contractual interest rates. When loans and receivables are collected, differences between the amount received and the carrying amount are recognized in the consolidated income statement.

(iv) 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. Available-for-sale financial assets are subsequently measured at fair value. When the fair value cannot be reliably measured, equity investment classified as available-for-sale financial assets are carried at cost. When available-for-sale financial assets are disposed of, the difference between the consideration received plus cumulative gains or losses previously recorded in equity arising from changes of fair value and the carrying amount are recognized as net investment gains or losses.

(v) Other financial liabilities

Other financial liabilities are non-derivative financial liabilities that are not classified or designated as financial liabilities at fair value through profit or loss. Other liabilities are subsequently measured at amortized cost using the effective interest rate method.

(vi) Reclassification of financial assets

When the Group changes its intention over held-to-maturity investments, they are reclassified as available-for-sale financial assets. If the Group sells or reclassifies more than an insignificant amount of held-to-maturity investments before maturity, it shall reclassify any remaining held-to-maturity investments as available-for-sale financial assets, and shall not classify any financial assets as held to maturity during the current and the two subsequent financial years.

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)

Financial instruments – Accounting policies applied prior to 1 January 2018 (continued)

(c) Fair value of financial instruments

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. Fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair values of quoted financial assets and financial liabilities in active markets are based on current bid prices and ask prices, as appropriate. If there is no active market, the Group establishes fair value by using valuation techniques. These include the use of market approach, income approach and cost approach. When using valuation techniques, unobservable market inputs would not be used unless relevant observable inputs are not available or not practicable to access.

The Group uses the following hierarchy for determining and disclosing the fair values of financial assets and financial liabilities based on the inputs used when determining the fair value:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs).

The level of fair value measurement depends on the lowest level of input that is significant to the entire fair value measurement.

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)

Financial instruments – Accounting policies applied prior to 1 January 2018 (continued)

(d) Impairment of financial assets

The Group assesses at each financial reporting date whether there is objective evidence that a financial asset is impaired and impairment allowance shall be made. The objective evidence of impairment is a result of one or more events that occurred after the initial recognition of financial assets and has an impact on the estimated future cash flows of the financial assets that can be reliably measured.

(i) Financial assets carried at amortized cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence of impairment, the impairment loss is recognized in the consolidated income statement. The Group performs a collective assessment for all other financial assets that are not individually significant or for which impairment has not yet been identified by including the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account and recognized in the consolidated income statement. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

(ii) Available-for-sale financial assets

If objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss recognized in other comprehensive income is reclassified from equity to the profit or loss and is measured as the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated income statement.

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)

Financial instruments – Accounting policies applied prior to 1 January 2018 (continued)

(d) Impairment of financial assets (continued)

(ii) Available-for-sale financial assets (continued)

In the case of equity investments classified as available-for-sale, objective evidence includes a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is “significant” or “prolonged” requires judgement. “Significant” is evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. A significant or prolonged decline in the fair value of an equity instrument is an indicator of impairment in such investments where a decline in the fair value of an equity instrument is below its initial cost by 50% or more; or fair value is below cost for one year or longer, upon which circumstances an impairment loss is recognized.

Impairment losses of available-for-sale equity instruments are not reversed through the consolidated income statement. Increases in their fair value after the impairment are recognized directly in other comprehensive income.

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 recognized in the profit or loss, the previously recognized impairment loss is reversed through the consolidated income statement.

(iii) Financial assets carried at cost

If there is objective evidence that a financial asset is impaired, the difference between the carrying amount and the present value of the future cash flows discounted at the original effective interest rate of return for a similar financial asset, is recognized as an impairment loss through profit or loss. The impairment losses are not reversed once recognized.

(e) Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date the derivative contract is entered into and are subsequently remeasured at their fair value. Derivatives are recognized as assets when the fair value is positive and as liabilities when the fair value is negative.

The changes on fair value of derivative financial instruments are directly recognized in the consolidated income statement.

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)

Financial instruments – Accounting policies applied prior to 1 January 2018 (continued)

(f) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a current legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

3.1.10 Reverse repurchase agreements and financial assets sold under repurchase agreements

Financial assets transferred as collateral in connection with repurchase agreements, involving fixed repurchase dates and prices, are not derecognized. They continue to be recorded as original financial assets before transferred. The corresponding liability is included in financial assets sold under repurchase agreements.

Consideration paid for financial assets held under agreements to resell are recorded as reverse repurchase agreements, the related collateral accepted is not recognized in the consolidated financial statements.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortized over the period of the respective transaction using the effective interest method and is recognized through profit or loss.

3.1.11 Margin financing and securities lending services

Margin financing and securities lending services refer to the lending of funds by the Group to clients for purchase of securities, or lending of securities by the Group to clients for securities selling, for which the clients provide the Group with collateral.

The Group recognizes margin accounts at initial recognition, and recognizes interest income accordingly. Securities lent are not derecognized, but still accounted for as the original financial assets, and interest income is recognized accordingly.

Securities trading on behalf of margin financing and securities lending clients are accounted for as securities brokerage services.



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 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.

3.1.13 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 realizable 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 realizable 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.

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)

3.1.14 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.

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 3.1.19).

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)

3.1.15 Investment properties

Property held for rental purpose that is not occupied by the Group is classified as investment property. Investment properties comprise of 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%

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.

3.1.16 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.

3.1.17 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 3.1.19).

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 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.

3.1.19 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.

3.1.20 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.

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 Employee benefits (continued)

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.

3.1.21 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)

3.1.22 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.

3.1.23 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 de-recognised.

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)

3.1.24 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.

3.1.25 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.

3.1.26 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.

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.

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 The impact of changes in significant accounting policies

The adoption of IFRS 9 from 1 January 2018 has resulted in changes in accounting policies and adjustments to the relevant amounts previously recognized in the consolidated financial statements. As permitted by the transitional provision of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening retained earnings and other reserves of the current year. Consequently, according to the requirements of the new financial instruments standard, the Group makes relevant disclosures on current information.

The classification and the carrying amount of financial assets

The classification and the carrying amount of financial assets in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

	IAS 39		IFRS 9		
	Classification	Carrying amount	Classification	Carrying amount	
Cash and bank balances	Amortized costs	2,792,078	Cash and bank balances	Amortized costs	2,792,078
Cash held for brokerage clients	Amortized costs	5,845,016	Cash held for brokerage clients	Amortized costs	5,845,016
Clearing settlement funds	Amortized costs	2,350,216	Clearing settlement funds	Amortized costs	2,350,216
Refundable deposits	Amortized costs	260,826	Refundable deposits	Amortized costs	260,826
Margin accounts receivables	Amortized costs	6,352,971	Margin accounts receivables	Amortized costs	6,352,053
Financial assets held under resale agreements	Amortized costs	9,207,017	Financial assets held under resale agreements	Amortized costs	9,207,212
Loans and advances to customers	Amortized costs	1,271,870	Loans and advances to customers	Amortized costs	1,271,821
Investment classified as receivables	Amortized costs	83,591	Financial assets at amortized cost	Amortized costs	556,113
Due from other financial institutions	Amortized costs	40,000	Due from other financial institutions	Amortized costs	40,000
Financial assets as at fair value through profit or loss	FVPL	7,622,503	Financial asset at fair value through profit or loss	FVPL	9,801,209
Available-for-sale financial assets	FVOCI	2,948,470	Financial assets at fair value through other comprehensive income	FVOCI	298,154
Derivative financial assets	FVPL	59,938	Derivative financial assets	FVPL	59,938

The overall impact of the adoption of IFRS 9 on the net assets in the consolidated financial statements is about RMB0.77 million.

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 The impact of changes in significant accounting policies (continued)

Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	IAS 39 Carrying amount 31 December 2017	Reclassification	Re- measurement	IFRS 9 Carrying amount 1 January 2018
Financial assets at fair value through profit or loss	7,622,503			
Addition: from available-for-sale financial assets (IAS 39)		2,173,787		
Re-measurement: from cost to fair value			4,919	
Financial assets at fair value through profit or loss (IFRS 9)				9,801,209
	IAS 39 Carrying amount 31 December 2017	Reclassification		IFRS 9 Carrying amount 1 January 2018
Available-for-sale financial assets (IAS 39)	2,948,470			
Less: to financial assets at fair value through profit or loss			(2,173,787)	
Less: to financial assets at amortized costs			(475,000)	
Less: to other current assets			(1,400)	
Financial assets at fair value through other comprehensive income (IFRS 9)				298,283

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 The impact of changes in significant accounting policies (continued)

Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

	IAS 39 Carrying amount 31 December 2017	Reclassification	Re- measurement	IFRS 9 Carrying amount 1 January 2018
Investment classified as receivables (IAS 39)	83,591			
Addition: from available-for-sale financial assets (IAS 39)		475,000		
Re-measurement: ECL allowance			(2,478)	
Financial assets at amortized costs (IFRS 9)				556,113
	IAS 39 Carrying amount 31 December 2017	Re-measurement Expected credit loss allowance	IFRS 9 Carrying amount 1 January 2018	
Margin accounts receivable	6,352,971		(918)	6,352,053
Financial assets held under resale agreements	9,207,017		195	9,207,212
Loans and advances to customers	1,271,870		(49)	1,271,821
Total	16,831,858		(772)	16,831,086

3.3 Significant accounting judgements and estimates

During the preparation of the Group's financial statements, management will make judgements, estimates and assumptions about the impact of future uncertainties on revenue, expenses, assets and liabilities, and disclosure of contingent liabilities. At the end of the reporting period, management makes the following judgements and main assumptions on major future uncertainties, which may lead to adjustments in the book value of assets and liabilities during the accounting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

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

3.3 Significant accounting judgements and estimates (continued)

(1) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for debt instruments financial assets measured at amortized cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior of the client (such as the likelihood of customers default and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determine criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and associated ECL.

Inputs, assumptions and estimation techniques

The ECL of different financial portfolios is measured by the Group on either a 12-month or lifetime basis depending on whether they are in Stage 1, 2 or 3 as defined above.

A pervasive concept in measuring ECL in accordance with IFRS9 is that it should consider forward-looking information. The assessment of SICR and the calculation of ECL both incorporated forward-looking information. The Group has performed historical data and identified the key economic variables impacting credit risk and ECL for each financial instrument portfolio. These economic variables and their associated impact on the PD vary by product type. The impact of these economic variables on the PD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates.

Details of the significant accounting judgements and estimates above please refer to Note 57.2.

(2) Classification of financial assets

When the Group determines the classification of financial assets, a number of significant judgements in the business model and the contractual cash flow characteristics of the financial assets are required.

Factors considered by the Group in determining the business model for a group of financial assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

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

3.3 Significant accounting judgements and estimates (continued)

(2) Classification of financial assets (continued)

When the Group assesses whether the contractual cash flows of the financial assets are consistent with basic lending arrangements, the main judgements are described as below: whether the principal amount may change over the life of the financial asset (for example, if there are repayments of principal); whether the interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin and cost, associated with holding the financial asset for a particular period of time.

(3) Fair value of financial instruments

For financial instruments where there is a lack of active market, the Group uses valuation methods to determine its fair value. Valuation methods include referring to the transaction price determined when fair transactions are conducted between economic entities with complete information and willingness to buy and sell in the market, referring to the fair value of another similar financial instrument in the market, or using cash flow discount analysis and option pricing model to estimate. Valuation methods maximize the use of observable market information. However, when observable market information is unavailable, management will estimate the significant non-observable information included in the valuation methods.

(4) Income tax

The Group needs to make a judgement on future tax treatment of certain transactions to confirm income tax. In accordance with relevant tax regulations, the Group carefully judges the impact of income tax on transactions and accordingly calculates income tax. The deferred income tax assets can only be recognized when there is a possibility of future taxable profits and can be used to offset the temporary differences. This requires a major judgement on the tax treatment of certain transactions and a significant estimate of the possibility of having sufficient future taxable profits to offset deferred income tax assets.

(5) Consolidation of structured entities

Management needs to make important judgements on whether to control and merge structured entities, confirming whether it will affect accounting methods and the financial situation and operating results of the Group.

In assessing control, the Group needs to consider: 1) the power of the investor to the investee; 2) the variable return enjoyed by the investee in the relevant activities; and 3) the ability to use the power of the investee to influence the amount of its return. If one or more of the three control elements mentioned above change, the Group will reassess whether control still exists.

In judging whether the Group controls the structured entities, it also needs to consider whether the Group's decision-making behavior is carried out as a principal or as an agent. Considerations usually include the scope of decision-making power of the Group to the structured entities, the substantive rights enjoyed by other parties, the level of remuneration of the Group, and the risk that the Group bears variable returns for holding other interests of the structured entities.

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:

(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%.

(2) Value added tax

The Group is subject to value-added taxes on its income from principal businesses at 6%.

In accordance with the "Circular regarding the Value-added Taxes Policies for Financial, Real Estate Development and Education Ancillary and Other Services" (Cai Shui [2016] No.140), the "Supplementary Circular regarding Issues concerning Value-added Taxes Policies for Asset Management Products" (Cai Shui [2017] No.2) and the "Circular on the Relevant Issues concerning Value-added Tax Levied on Asset Management Products" (Cai Shui [2017] No.56), the Group shall pay VAT at rate of 3% for related asset management taxable activities undertaken after 1 January 2018.

After the implementation of the VAT Pilot Programs, the Group's income is presented at value net of its respective VAT in the consolidated income statement.

(3) Urban maintenance and construction taxes and educational surcharges are charged at 7% and 3% of turnover taxes payable, respectively.

(4) Vehicle and vessel taxes, property taxes and stamp duties are levied in accordance with the provisions of the relevant tax laws and regulations.

5 COMMISSION AND FEE INCOME

	Year ended 31 December	
	2018	2017
Securities brokerage	486,527	700,626
Asset management and fund management	104,218	108,173
Futures brokerage	110,237	105,870
Investment advisory	52,366	88,001
Financial advisory	79,571	88,579
Underwriting and sponsorship	47,762	35,724
Listing service	29,713	14,536
Total	910,394	1,141,509

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

6 INTEREST INCOME

	Year ended 31 December	
	2018	2017
Financial assets held under resale agreements	509,854	483,192
Margin financing and securities lending	418,923	439,562
Bank deposits	176,974	261,070
Loans and advances to customers	126,022	85,609
Financial assets at amortized costs	45,358	
Financial assets at fair value through other comprehensive income	14,744	
Others	23	90
Total	1,291,898	1,269,523

7 NET INVESTMENT GAINS

	Year ended 31 December	
	2018	2017
Dividends and interest income from financial assets at fair value through profit or loss	569,389	393,406
Net losses from financial assets at fair value through profit or loss	(210,040)	(261,180)
Net gains/(losses) from financial liabilities at fair value through profit or loss	124	(20,582)
Net losses from derivative financial instruments	(6,893)	(3,242)
Net gains from disposal of associates	2,076	58,807
Net gains from disposal of available-for-sale financial assets		98,411
Dividends and interest income from available-for-sale financial assets		142,958
Others	(6,692)	(233)
Total	347,964	408,345

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

8 OTHER OPERATING INCOME

	Year ended 31 December	
	2018	2017
Income from bulk commodity trading	235,218	313,499
Government grants ⁽¹⁾	26,704	21,613
Rental income	3,270	3,527
Others	42,469	34,478
Total	307,661	373,117

(1) This item consists other grants from local governments.

9 COMMISSION AND FEE EXPENSES

	Year ended 31 December	
	2018	2017
Securities brokerage	110,912	156,170
Futures brokerage	52,324	55,800
Financial advisory	4,573	3,708
Underwriting and sponsorship	6,201	3,946
Asset and fund management	1,026	1,387
Total	175,036	221,011

10 INTEREST EXPENSES

	Year ended 31 December	
	2018	2017
Corporate bonds	439,140	343,994
Financial assets sold under repurchase agreements	367,944	315,953
Due to other financial institutions	86,269	48,432
Bank loans	75,687	35,786
Short-term notes payable	31,128	28,413
Accounts payable to brokerage clients	26,823	34,162
Securities lending	5,169	1,766
Others	5	–
Total	1,032,165	808,506

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

11 STAFF COSTS (INCLUDING DIRECTORS' AND SUPERVISORS' REMUNERATION)

	Year ended 31 December	
	2018	2017
Salaries and bonus	418,128	479,462
Pension	104,304	111,838
Other social security benefits	81,585	90,813
Labor union funds and employee education funds	16,433	19,042
Other welfare	15,480	15,389
Total	635,930	716,544

11.1 Emoluments of the directors and supervisor

Emoluments of the directors and supervisors of the Company paid by the Group(after tax) for the years ended 31 December 2018 and 2017 are set out below:

Name	Year ended 31 December 2018				Total
	Remuneration	Salaries, allowances and other welfares	Pension	Discretionary bonus	
Executive Directors					
Jian Mingjun (Chairman) ⁽¹⁾	-	456	33	-	489
Chang Jun Sheng (President) ⁽²⁾	-	637	25	-	662
Non-executive Directors					
Yuan Zhiwei	210	-	-	-	210
Yuan Dejun	175	-	-	-	175
Ning Jincheng	210	-	-	-	210
Yu Xugang	210	-	-	-	210
Zhang DongMing ⁽³⁾	35	-	-	-	35
Lu ZhengXin ⁽⁴⁾	5	-	-	-	5
Wang LiXin	31	-	-	-	31
Zhang Xiaoqi	31	-	-	-	31
Supervisors					
Lu Zhili	-	423	23	-	446
Xiao YiChen ⁽¹²⁾	-	221	7	75	303
Zhang Lu	-	280	13	216	509
Han JunYang	-	240	13	227	480
Xiang Siying	101	-	-	-	101
Xia Xiaoning	101	-	-	-	101
Total	1,109	2,257	114	518	3,998

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 supervisor (continued)

Name	Year ended 31 December 2017				Total
	Remuneration	Salaries, allowances and other welfares	Pension	Discretionary bonus	
Executive Directors					
Jian Mingjun (Chairman)	–	426	107	833	1,366
Zhou Xiaoquan (President)	–	313	76	1,317	1,706
Non-executive Directors					
Yuen Chiwai	210	–	–	–	210
Yuan Dejun	210	–	–	–	210
Ning Jincheng	210	–	–	–	210
Yu Zeyang ⁽⁵⁾	–	–	–	–	–
Wang Lixin	31	–	–	–	31
Zhang Qiang ⁽⁶⁾	–	–	–	–	–
Li Xingjia	–	–	–	–	–
Yu Xugang	210	–	–	–	210
Zhang Xiaoqi	31	–	–	–	31
Supervisors					
Lu Zhili	–	327	86	688	1,101
Lai Bulian ⁽⁷⁾	–	–	–	266	266
Zhang Lu ⁽⁸⁾	–	117	20	20	157
Wang Jing ⁽⁹⁾	–	189	34	333	556
Han Junyang	–	234	34	345	613
Xiang Siying	100	–	–	–	100
Xie Junsheng ⁽¹⁰⁾	–	–	–	–	–
Yan Changkuan ⁽¹¹⁾	–	–	–	–	–
Xia Xiaoning	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 supervisor (continued)

- (1) Jian Mingjun ceased to be president since 25 April, 2018.
- (2) Since 25 April, 2018, Chang Junsheng has served as President.
- (3) Zhang Dongming has been an independent director since 16 October, 2018.
- (4) Lu Zhengxin has served as non-executive director since 1 November, 2018.
- (5) Yu Zeyang ceased to be a non-executive director since 16 October, 2018.
- (6) Zhang Qiang ceased to be a non-executive director since 16 October, 2018.
- (7) Lai Bulian has ceased to act as employee representative supervisor since 16 June, 2017.
- (8) Zhang Lu has been an employee representative supervisor since 16 June, 2017.
- (9) Wang Jing has no longer been an employee representative supervisor since 12 January, 2018.
- (10) Xie Junsheng has been a shareholder representative supervisor since 13 October, 2016.
- (11) Yan Changkuan has no longer been a shareholder representative supervisor since 27 December, 2017.
- (12) Xiao Yichen has served as employee representative supervisor since 12 January, 2018.
- (13) Wang Jinchang has no longer been a shareholder representative supervisor since 26 February, 2018.

11.2 The five highest paid individuals

For the year ended 31 December 2018, the five highest paid individuals do not include any directors and supervisors (for the year ended 31 December 2017: no directors or supervisors).

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	
	2018	2017
Salaries, allowances and other welfares	1,474	2,872
Pension	85	142
Discretionary bonus	14,260	12,165
Total	15,819	15,179

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	
	2018	2017
RMB1,000,001 to RMB1,500,000	4	–
RMB1,500,001 to RMB2,000,000	–	–
RMB2,000,001 to RMB2,500,000	–	3
RMB2,500,001 to RMB3,000,000	–	1
RMB3,000,001 to RMB3,500,000	–	–
RMB3,500,001 to RMB4,000,000	–	–
RMB4,000,001 to RMB4,500,000	–	–
RMB6,000,001 to RMB6,500,000	–	–
Greater than RMB8,500,000	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, or for leaving the Group.

12 DEPRECIATION AND AMORTISATION

	Year ended 31 December	
	2018	2017
Depreciation of property and equipment	34,371	33,692
Amortisation of intangible assets	26,509	24,022
Amortisation of leasehold improvement and long-term deferred expenses	12,240	12,239
Depreciation of investment properties	885	960
Total	74,005	71,225

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

13 OTHER OPERATING EXPENSES

	Year ended 31 December	
	2018	2017
Cost of bulk commodity trading	232,218	309,506
Rental expenses	68,468	62,393
Electronic device operating costs	29,189	21,212
Securities investors protection fund	26,885	10,100
Consulting fees	21,606	22,069
Communication costs	17,073	20,223
Travel expenses	16,581	17,764
Tax and surcharges	13,394	15,909
Business entertainment expenses	12,843	16,542
Incidental fees	10,218	12,124
Property management fees	9,083	8,233
Utilities	8,730	8,625
Exchange annual fees	7,246	8,802
Publicity expense	5,215	7,949
Advertising expenses	3,776	5,929
Auditor's remuneration		
– Audit services	6,703	5,420
– Non-audit services	96	284
Compensation	1,210	12,250
Others	51,639	60,439
Total	542,173	625,773

14 IMPAIRMENT LOSSES

	Year ended 31 December	
	2018	2017
Financial assets held under resale agreements	209,817	9,318
Loans and advances to customers	42,348	8,296
Margin accounts receivable	14,518	50,167
Available-for-sale financial assets		7,044
Financial assets at amortized cost	15,467	
Financial assets at fair value through other comprehensive income	131	
Investment in associates	28,714	–
Others	8,581	1,067
Total	319,576	75,892

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

15 INCOME TAX EXPENSE

	Year ended 31 December	
	2018	2017
Current		
– Mainland China	82,777	190,964
– Hong Kong	15,956	15,150
Deferred		
– Mainland China	(75,795)	(47,309)
– Hong Kong	(17,680)	141
Total	5,260	158,946

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	
	2018	2017
Profit before income tax	101,118	680,109
Tax calculated at applicable statutory tax rate of 25%	25,280	170,027
Effects of different applicable rates of tax prevailing in various regions	814	(5,429)
Income not subject to tax ⁽¹⁾	(26,597)	(17,725)
Items not deductible for tax purposes ⁽²⁾	4,332	8,627
Others	1,431	3,446
Total	5,260	158,946

(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

(All amounts in RMB'000 unless otherwise stated)

16 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit for the period attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the period.

	Year ended 31 December	
	2018	2017
Profit attributable to shareholders of the Company	65,789	441,983
Weighted average number of ordinary shares in issue	3,916,400	3,923,735
Basic and diluted earnings per share (in RMB yuan)	0.02	0.11

For year ended 31 December 2018 and 2017, there were no potential dilutive ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

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 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).

The 2018 interim profit distribution was approved in the 2018 second extraordinary general shareholders' meeting held on 16 October 2018 in Zhengzhou. Total dividend of RMB38,690,707 was declared and paid out as of 31 December 2018 (RMB0.01 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

(All amounts in RMB'000 unless otherwise stated)

18 PROPERTY AND EQUIPMENT

	Buildings	Motor vehicles	Electronics and other equipment	Construction in progress	Total
Cost					
1 January 2018	176,889	25,931	329,925	7,542	540,287
Additions	–	415	19,741	4,433	24,589
Transfer from investment properties	5,170	–	–	–	5,170
Disposals	–	(834)	(19,696)	–	(20,530)
Exchange difference	–	63	23	–	86
31 December 2018	182,059	25,575	329,993	11,975	549,602
Accumulated depreciation					
1 January 2018	(47,311)	(18,224)	(236,545)	–	(302,080)
Additions	(4,647)	(1,323)	(28,401)	–	(34,371)
Transfer from investment properties	(2,517)	–	–	–	(2,517)
Disposals	–	608	17,843	–	18,451
Exchange difference	–	(18)	(29)	–	(47)
31 December 2018	(54,475)	(18,957)	(247,132)	–	(320,564)
Carrying amount					
31 December 2018	127,584	6,618	82,861	11,975	229,038

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 2017	176,670	27,725	319,453	4,051	527,899
Additions	–	1,768	25,498	3,491	30,757
Transfer to investment properties	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 to investment properties	(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

19 INVESTMENT PROPERTIES

	1 January 2018	Transfer in	Transfer out	Additions	31 December 2018
Buildings	39,489	–	(5,607)	–	33,882
Accumulated depreciation	(17,613)	–	2,721	(885)	(15,777)
Carrying amount	21,876				18,105

	1 January 2017	Transfer in	Transfer out	Additions	31 December 2017
Buildings	39,708	–	(219)	–	39,489
Accumulated depreciation	(16,755)	–	102	(960)	(17,613)
Carrying amount	22,953				21,876

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

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.

21 LAND USE RIGHTS AND INTANGIBLE ASSETS

	Land use rights	Software	Trading rights and others	Total
Cost				
1 January 2018	105,480	176,977	35,054	317,511
Increases	–	20,709	–	20,709
Exchange difference	–	12	40	52
31 December 2018	105,480	197,698	35,094	338,272
Accumulated amortisation				
1 January 2018	(9,889)	(109,465)	(33,767)	(153,121)
Increases	(2,637)	(23,760)	(112)	(26,509)
Exchange difference	–	12	–	12
31 December 2018	(12,526)	(133,237)	(33,879)	(179,642)
Net carrying amount				
31 December 2018	92,954	64,461	1,215	158,630

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

21 LAND USE RIGHTS AND INTANGIBLE ASSETS (CONTINUED)

	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

22 INVESTMENT IN ASSOCIATES

Details of the investment in associates, unlisted, are as below:

	Year ended 31 December	
	2018	2017
Balance at beginning of the year	492,860	370,422
Capital contribution	492,159	273,620
Transfer to held for sale	–	(13,188)
Transfer to consolidated structured entities	–	(14,730)
Disposal	(39,097)	(129,830)
Impairment loss	(28,714)	–
Share of results	22,086	6,566
Balance at end of the year	939,294	492,860

The capital contribution and disposal of investment in associates are mainly composed of those invested by Zhongding Kaiyuan Venture Capital Management Co., Ltd. and Henan Zhongyuan Kechuang Venture Capital Investment Fund (limited partnership). Both are the subsidiaries of the Company and registered in Mainland China.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

22 INVESTMENT IN ASSOCIATES (CONTINUED)

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	31	31
					December 2017	December 2018
Henan Shengtongjuyuan Venture Capital Fund (limited partnership)	Zhengzhou	423,500	Non-securities equity investment	19.98%	42,300	82,909
Henan Zhongping Finance and Guaranty Co., Ltd.	Zhengzhou	200,000	Guarantee business	25.00%	50,717	49,326
Henan Longfengshan Agriculture and Animal Husbandry Co., Ltd.	Zhumadian	124,930	Cultivation	4.32%	21,209	29,826
Henan Liying Environmental Science and Technology Co., Ltd.	Shangqiu	59,200	Environment	6.76%	21,798	22,406
Henan Asset Management Co., Ltd.	Zhengzhou	5,000,000	Assets Management	10.00%	126,431	479,559
Henan Dahe Fortune Cube Media Holdings Co., Ltd.	Zhengzhou	200,000	Media	15.00%	14,662	29,722
Luoyang JALON Micro-Nano New Materials Co., Ltd.	Luoyang	43,360	Manufacturing	2.45%	23,442	35,657
Tangyin County Innovation Industry Investment Fund (limited partnership)	Anyang	100,000	Non-securities equity investment	15.00%	24,908	1,405
Minquan County Innovation Industry Investment Fund (limited partnership)	Shangqiu	100,000	Non-securities equity investment	16.50%	20,207	20,351

The Group has a significant influence over these associates as it has seats in the Board of Directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

22 INVESTMENT 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 2018	31 December 2017
Profit from continuing operations	22,086	6,566
Total comprehensive income	22,086	6,566

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 2018. 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.

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		
				31 December 2018	31 December 2017	Directly held/ indirectly held
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")	Beijing, PRC, limited liability company	Investment holding in Mainland China	2,000,000	100.00%	100.00%	Direct
Central China International Financial Holdings Co., Ltd. ("CCIFHC")	Hong Kong, PRC, limited liability company	Investment management, fund management in Hong Kong	760,000 (HKD)	100.00%	100.00%	Direct
Central China Blue Ocean Investment Management Co., Ltd. ("CCBO")	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") ⁽¹⁾	Zhengzhou, PRC, limited liability company	Investment management in Mainland China	350,000	35.00%	35.00%	Direct

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

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 2018	31 December 2017	
"Yanhuang No.2" ⁽²⁾	Zhengzhou, PRC, structured entity	Asset management in Mainland China	24,479	14.10%	11.37%	Direct
"Huimin No.1" ⁽²⁾	Zhengzhou, PRC, structured entity	Asset management in Mainland China	85,958	25.84%	39.22%	Direct
Henan Zhongyuan Kechuang Venture Capital Investment Fund (Limited partnership) ⁽²⁾	Zhengzhou, PRC, limited partnership	Non-securities brokerage and consulting in Mainland China	500,000	50%	50.00%	Indirect
Henan Zhongzheng Kaiyuan Venture Capital Fund (Limited partnership) ⁽²⁾	Luoyang, PRC, limited partnership	Asset management in Mainland China	110,000	15.55%	11.45%	Indirect
Anyang Purun High-Tech Industry Investment Fund (Limited partnership) ⁽²⁾	Zhengzhou, PRC, limited liability company	Asset management in Mainland China	100,000	13.00%	9.10%	Indirect
Henan Kaiyuan CSI Yuchai Agricultural Venture Capital Fund (Limited partnership) ⁽²⁾	Zhengzhou, PRC, limited liability company	Asset management in Mainland China	100,000	20.00%	16.10%	Indirect

(1) 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.

(2) According to the investment contract, the Company considers it has control over these entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

23 SUBSIDIARIES AND CONSOLIDATED STRUCTURED ENTITIES (CONTINUED)

23.2 Consolidated structured entities

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 2018, six of the controlled structured entities have been consolidated (31 December 2017: 11).

The identifiable assets and liabilities of the structured entities and limited partnerships listed above are as follows:

	31 December 2018	31 December 2017
Current assets	547,617	370,108
Non-current assets	191,536	10
Total assets	739,153	370,118
Current liabilities	60,694	361,726
Non-current liabilities	–	1,099
Total liabilities	60,694	362,825

The operating results of the structured entities listed above for the year 2018 and 2017 are as follows:

	Year ended 31 December	
	2018	2017
Revenue	22,572	(13,645)
Loss	(7,581)	(12,726)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

24 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Non-current assets

	31 December 2017
At fair value	
Specified asset management schemes	163,060
Debt securities	809,322
Trust schemes	350,000
Collective asset management schemes	93,765
Investment funds	111,651
Targeted asset management schemes	427,909
<hr/>	
Subtotal	1,955,707
At cost	
Investments in unlisted companies	229,456
Less: impairment losses	(2,377)
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Subtotal	227,079
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Total	2,182,786
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Analyzed as	
Listed outside Hong Kong	695,416
Listed in Hong Kong	50,448
Unlisted	1,436,922
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Total	2,182,786
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Analyzed into:	
Cost	2,233,702
Change of fair value	(50,916)
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Total	2,182,786
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

24 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

Current assets

	31 December 2017
At fair value	
Collective asset management schemes	123,486
Equity securities	163,887
Specified asset management schemes	75,362
Trust schemes	165,000
Investment funds	39,645
Debt securities	198,304
Total	765,684
Analyzed as:	
Listed outside Hong Kong	279,266
Listed in Hong Kong	86,945
Unlisted	399,473
Total	765,684
Analyzed into:	
Cost	810,473
Change of fair value	(44,789)
Total	765,684

As at 31 December 2017, the Group set aside an impairment allowance of RMB79.89 million for the financial assets available-for-sale, include RMB70.45 million for the Da Cheng Xi Yellow River Bridge specified asset management scheme based on independent valuation.

As at 31 December 2017, available-for-sale financial assets of the Group included securities lent to clients amounted to RMB4.02 million.

As at 31 December 2017, the Group has RMB767.88 million securities used as collateral for repurchase agreements (Note 42) and securities borrowing business.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

25 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2018
Non-current	
Debt securities	471,936
Analyzed into:	
Listed outside Hong Kong	471,936
Analyzed into:	
Cost	468,130
Change of fair value	3,806
Total	471,936
Current	
Debt securities	253,692
Analyzed into:	
Listed outside Hong Kong	253,692
Analyzed into:	
Cost	253,450
Change of fair value	242
Total	253,692

As at 31 December 2018, the fair value of securities classified as financial assets at fair value through other comprehensive income of the Group which have been pledged as collateral for repurchase agreements (Note 42) were RMB308.08 million. The Impairment of RMB0.26 million has been provided in respect of the financial assets at fair value through other comprehensive income held by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

26 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2018	31 December 2017
Non-current		
Equity investments for unlisted companies	667,073	312,093
Debt securities	20,000	361,991
Trust scheme products	100,233	–
Fund investments	90,902	–
Asset management schemes	217,353	–
Total	1,095,561	674,084
Analyzed into:		
Unlisted	1,095,561	674,084
Total	1,095,561	674,084
Current		
Debt securities	8,822,289	5,255,466
Fund investments	2,487,450	1,034,055
Equity securities	1,091,910	658,898
Wealth management products	303,816	–
Asset management schemes	81,231	–
Trust scheme products	49,500	–
Total	12,836,196	6,948,419
Analyzed into:		
Listed outside Hong Kong	9,360,332	5,529,079
Listed in Hong Kong	104,434	25,601
Unlisted	3,371,430	1,393,739
Total	12,836,196	6,948,419

As at 31 December 2018, the fair value of financial assets at fair value through profit or loss pledged as collateral for repurchase agreements (Note 42) and securities borrowing business by the Group were RMB4,928.16 million and RMB240.34 million respectively (31 December 2017: RMB4,487.92 million in total).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

26 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

As at 31 December 2018, financial assets at fair value through profit or loss of the Group included securities lent to clients amounted to RMB1.98 million (31 December 2017: nil).

27 FINANCIAL ASSETS AT AMORTIZED COSTS

	31 December 2018
Non-current	
Trust schemes	5,098
Less: impairment allowance	(9)
Total	5,089
Analyzed into:	
Unlisted	5,089
Current	
Trust schemes	371,415
Debt instruments	335,358
Less: impairment allowance	(17,968)
Total	688,805
Analyzed into:	
Unlisted	688,805

28 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

Non-current assets

	31 December 2018	31 December 2017
Analyzed by collateral:		
– Equity securities	379,170	1,107,400
Less: Impairment allowance	(348)	(3,791)
Total	378,822	1,103,609

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

28 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (CONTINUED)

Current assets

	31 December 2018	31 December 2017
Analyzed by asset type:		
– Debt securities	5,895,784	4,401,887
– Equity securities	2,867,683	3,714,178
Less: Impairment allowance	(225,721)	(12,657)
Total	8,537,746	8,103,408

Collateral held by the Group as part of certain 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 2018, the fair value of securities of the Group which have been placed as collateral were RMB2,921.74 million (Note 42) (31 December 2017: RMB3,069.18 million).

The guarantee ratio of two agreements with stock collateral of RMB493.01 million were below one and overdue, the guarantee ratio of two agreements with stock collateral of RMB400.00 million were below one but not overdue, the guarantee ratio of two agreements with stock collateral of RMB400.00 million were below mandatory liquidation line and overdue, the guarantee ratio of one agreement with stock collateral of RMB67.10 million was below mandatory liquidation but not overdue. The directors of the Company, taking into consideration of the value of collateral, concluded that provision of RMB226.07 million was recognized as of 31 December 2018.

29 LOANS AND ADVANCES TO CUSTOMERS

Non-current assets

	31 December 2018	31 December 2017
Micro-loans	278,135	450,000
Entrusted loans	8,371	–
Less: Impairment allowance	(10,602)	(4,500)
Total	275,904	445,500

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

29 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Current assets

	31 December 2018	31 December 2017
Micro-loans	994,516	778,000
Entrusted loans	27,000	65,336
Less: Impairment allowance	(53,697)	(16,966)
Total	967,819	826,370

Entrusted loans represent the Group's lending to third parties via domestic commercial banks in Mainland China, with interest rates ranging from 8% to 12% per annum. The mainly interest rates of loan business carried out by Henan Zhongyuan Micro-credit Co., Ltd. ("HZMC") range from 9% to 17.28% per annum.

30 DEFERRED INCOME TAX ASSETS AND LIABILITIES

The movements in deferred income tax assets during the year are as follows:

	Provision for asset impairment	Employee benefits payable	Changes in fair value of financial instruments	Accrual and others	Total
As at 1 January 2017	33,968	74,142	–	9,819	117,929
Income statement charge	11,725	9	23,084	6,074	40,892
Tax charge relating to components of other comprehensive income	–	–	2,657	–	2,657
Exchange difference	–	–	–	(136)	(136)
As at 31 December 2017	45,693	74,151	25,741	15,757	161,342

	Provision for asset impairment	Employee benefits payable	Changes in fair value of financial instruments	Others	Total
As at 31 December 2017	45,693	74,151	25,741	15,757	161,342
The impact of accounting policy changes	622	–	(679)	–	(57)
As at 1 January 2018	46,315	74,151	25,062	15,757	161,285
Income statement charge	47,789	(10,411)	48,354	151	85,883
Tax charge relating to components of other comprehensive income	4,074	–	–	–	4,074
Exchange difference	–	–	–	74	74
As at 31 December 2018	98,178	63,740	73,416	15,982	251,316

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

30 DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

The movements in deferred income tax liabilities during the year are as follows:

	Changes in fair value of financial instruments	Others	Total
As at 1 January 2017	(15,987)	(12,720)	(28,707)
Income statement charge	(4,457)	10,733	6,276
Tax charge relating to components of other comprehensive income	12,071	–	12,071
As at 31 December 2017	(8,373)	(1,987)	(10,360)

	Changes in fair value of financial instruments	Others	Total
As at 31 December 2017	(8,373)	(1,987)	(10,360)
The impact of accounting policy changes	–	–	–
As at 1 January 2018	(8,373)	(1,987)	(10,360)
Income statement charge	5,604	1,987	7,591
Tax charge relating to components of other comprehensive income	(646)	(46)	(692)
As at 31 December 2018	(3,415)	(46)	(3,461)

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:

	Year ended 31 December	
	2018	2017
Balance at beginning of the year	150,982	89,222
Change in accounting policy	(57)	–
Credit to the statement of comprehensive income (Note 15)	93,475	47,168
Debited/(Credited) to other comprehensive income	3,381	14,728
Exchange difference	74	(136)
Balance at end of the year	247,855	150,982

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

31 REFUNDABLE DEPOSITS

	31 December 2018	31 December 2017
Deposits to Stock Exchanges		
– Shanghai Stock Exchange	23,371	29,376
– Shenzhen Stock Exchange	20,037	17,071
– Hong Kong Stock Exchange	2,031	407
– National Equities Exchange and Quotations	880	1,549
Deposits to Futures and Commodities Exchanges		
– China Financial Futures Exchange	34,712	37,211
– Shanghai Futures Exchange	54,788	73,734
– Zhengzhou Commodities Exchange	82,938	31,450
– Dalian Commodities Exchange	45,900	31,629
Deposits to China Securities Finance Corporation Limited	16,053	38,399
Deposits to Shanghai International Energy Exchange Center	2,001	–
Total	282,711	260,826

32 OTHER NON-CURRENT ASSETS

	31 December 2018	31 December 2017
Leasehold improvements (<i>Note 32.1</i>)	24,520	28,545
Long-term deferred expenses	1,239	1,725
Total	25,759	30,270

32.1 Leasehold improvements

Leasehold improvements of the Group is amortised over the expected beneficial period.

	Year ended 31 December	
	2018	2017
Balance at beginning of year	28,545	19,205
Additions	7,988	21,055
Amortisation	(12,239)	(11,738)
Exchange difference	226	23
Balance at end of year	24,520	28,545

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

33 MARGIN ACCOUNT RECEIVABLE

	31 December 2018	31 December 2017
Margin accounts receivable		
– Individuals	4,428,457	5,992,480
– Institutions	372,334	425,148
Subtotal	4,800,791	6,417,628
Less: Impairment allowance	(80,293)	(64,657)
Total	4,720,498	6,352,971

As at 31 December 2018, seven margin accounts receivables were credit-impaired assets, with amount of RMB85.43 million (31 December 2017: two margin accounts receivable were credit-impaired assets, with amount of RMB76.83 million).

As at 31 December 2018, the Group received collateral with fair value amounted to RMB13,540.89 million (31 December 2017: RMB18,554.28 million) in margin financing business.

34 DERIVATIVE FINANCIAL ASSETS/LIABILITIES

The derivative financial assets and liabilities of the Group mainly represent stock index futures contracts and the commodity futures contracts and stock options. The Group settles its future gains or losses on position on a daily basis, with the corresponding receipts and payments as at 31 December 2018 and 31 December 2017 included in “clearing settlement funds”.

	31 December 2018			31 December 2017		
	Contractual value	Fair value		Contractual value	Fair value	
		Assets	Liabilities		Assets	Liabilities
Stock index futures	108,279	–	–	22,084	–	–
Commodity futures	33,563	–	–	15,067	–	–
Stock options	–	–	–	886	–	(471)
Equity derivative	435,465	62,986	–	557,138	59,938	–
	577,307	62,986	–	595,175	59,938	(471)

35 CLEARING SETTLEMENT FUNDS

	31 December 2018	31 December 2017
Clearing settlement funds held for clients	2,264,515	2,142,751
Proprietary clearing settlement funds	75,838	207,465
Total	2,340,353	2,350,216

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

36 CASH HELD FOR BROKERAGE CLIENTS

The Group maintains separate banking accounts with banks 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 recognize 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.

37 CASH AND BANK BALANCES

	31 December 2018	31 December 2017
Cash on hand	266	545
Deposits in banks	2,606,675	2,791,533
Total	2,606,941	2,792,078

38 OTHER CURRENT ASSETS

	31 December 2018	31 December 2017
Interest receivable	4,409	449,077
Accounts receivable	103,448	104,032
Indemnity receivables	92,422	–
Others receivables	94,659	110,170
Others	63,745	52,033
Less: Impairment allowance	(36,818)	(31,835)
Total	321,865	683,477

As at 31 December 2018, the other receivable included RMB92,422 thousand due from certain shareholders and senior management of Central China International Financial Group Limited arising from their indemnity of an investment loss incurred by the Group. Such indemnity arrangement has been resolved during the meetings of board of directors as well as shareholders of Central China International Financial Group Limited. The Group is of the opinion that there is no significant collectibility issue of the receivable.

39 ASSETS CLASSIFIED AS HELD FOR SALE

	31 December 2018	31 December 2017
Investment in associates	9,119	13,188
Investment properties	234	–
Total	9,353	13,188

The assets mainly 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 2018 and 31 December 2017. The Board of Directors of the Company made a disposal decision of Taiping Fund Management Co., Ltd. in September 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

40 SHARE CAPITAL

All shares issued by the Company are fully paid common shares, with a notional value of RMB 1.00 per share. The number of shares and nominal value of the Company's share capital are as follows:

	31 December 2018	31 December 2017
Issued and fully paid ordinary shares of RMB 1.00 each		
– Domestic shares	2,673,706	2,673,706
– H shares	1,195,365	1,250,029
Total	3,869,071	3,923,735
Share Capital		
– Domestic shares	2,673,706	2,673,706
– H shares	1,195,365	1,250,029
Total	3,869,071	3,923,735

The company repurchased 54.66 million shares from the H share market in February to May 2018. After this repurchase, the share capital decreased RMB54.66 million, the capital reserve decreased 78.73 million.

41 RESERVES

	31 December 2018	31 December 2017
Capital reserve (1)	3,735,376	3,814,111
Statutory surplus reserve (2)	611,556	611,163
Discretionary surplus reserve (2)	148,356	148,160
General reserve (3)	692,069	667,205
Transaction risk reserve (3)	606,803	606,410
Revaluation reserve (4)	4,048	(26,803)
Foreign currency translation reserve (5)	24,975	5,352
Other reserves	20,490	20,501
Total	5,843,673	5,846,099

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

41 RESERVES (CONTINUED)

(1) Capital reserve

Capital reserve primarily includes share premium arising from the issuance of new shares at prices in excess of par value.

(2) Surplus reserve, general reserve and transaction risk 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 capitalization.

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 10% 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.

According to the 14th meeting of the 4th Board of Directors of the company at 2013 and after the deliberation and approval of the 2013 Extraordinary General Meeting of Shareholders, during the company's bonds' existence period, 5% of the annual net profit will be used to withdraw the discretionary surplus reserve, and 11% of its annual net profit will be used to withdraw the general risk reserve.

Pursuant to the relevant regulatory requirements, the Company's subsidiaries are required to appropriate certain amount of its net profit as general reserve.

(3) Revaluation reserve

The investment revaluation reserve represents the fair value changes of financial assets at fair value through other comprehensive income (31 December 2017: Available-for-sale financial assets).

(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 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

Non-current liabilities

	31 December 2018	31 December 2017
Analysed by asset type:		
– Margin accounts receivable	1,502,926	–
Analysed by transaction type:		
– Pledged	1,502,926	–
Analysed by counterparty:		
– Bank	500,000	–
– Non-bank financial institutions	1,002,926	–
Total	1,502,926	–

Current liabilities

	31 December 2018	31 December 2017
Analysed by asset type:		
– Debt securities	8,668,864	7,084,879
– Margin accounts receivable	–	200,000
Total	8,668,864	7,284,879
Analysed by transaction type:		
– Pledged	6,836,429	3,721,057
– Sold	1,832,435	3,563,822
Total	8,668,864	7,284,879
Analysed by counterparty:		
– Bank	7,778,864	3,660,730
– Non-bank financial institutions	890,000	3,624,149
Total	8,668,864	7,284,879

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

42 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS (CONTINUED)

The carrying value of the financial assets pledged or sold under repurchase agreements of the Group was listed as below:

	31 December 2018	31 December 2017
Pledged		
Financial assets at fair value through profit and loss	4,928,160	1,877,967
Financial assets at fair value through other comprehensive income	308,084	
Financial assets held under resale agreements	1,567,313	856,901
Available-for-sale financial assets		523,954
Margin accounts receivable	1,737,183	–
Securities borrowing	516,800	438,851
Subtotal	9,057,540	3,697,673
Sold		
Financial assets at fair value through profit and loss	414,315	953,307
Financial assets at fair value through other comprehensive income	135,854	
Financial assets held under resale agreements	1,354,424	2,212,279
Securities borrowing	–	414,164
Subtotal	1,904,593	3,579,750
Total	10,962,133	7,277,423

43 BONDS PAYABLE

Non-current liabilities

	31 December 2018	31 December 2017
Subordinated bonds	4,097,520	5,000,000
Corporate bond	–	1,496,635
Total	4,097,520	6,496,635

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

43 BONDS PAYABLE (CONTINUED)

Current liabilities

	31 December 2018	31 December 2017
Subordinated bonds	2,573,068	1,500,000
Corporate bond	1,563,583	–
Total	4,136,651	1,500,000

On 23 April 2014, the Group issued RMB1.50 billion five-year corporate bonds at par value, paying annual interest at 6.20%.

On 22 April 2016, the Group issued RMB2.50 billion three-year subordinated bonds at par value, paying annual interest at 4.20%.

On 26 October 2016, the Group issued RMB1.50 billion two-year subordinated bonds at par value, paying annual interest at 3.30%.

On 26 July 2017, the Group issued RMB1.50 billion three-year subordinated bonds at par value, paying annual interest at 5.15%.

On 17 November 2017, the Group issued RMB1.00 billion three-year subordinated bonds at par value, paying annual interest at 5.49%.

On 27 April 2018, the Group issued RMB1.50 billion three-year subordinated bonds at par value, paying annual interest at 5.58%.

44 BANK LOANS

	31 December 2018	31 December 2017
Unsecured loans	1,208,427	1,098,520
Guaranteed loans	565,206	909,094
Pledged loans	101,354	177,089
Total	1,874,987	2,184,703

As at 31 December 2018, the interest rates on the short-term borrowings of the Company were in the range of 2.44% to 6.53%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

45 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2018	31 December 2017
Non-controlling interests in consolidated structured entities	380,028	361,418
Total	380,028	361,418

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. The Group has the obligation to pay other investors upon maturity dates of the SEs based on net carrying amount and the related terms of those schemes.

46 TAX PAYABLE

	31 December 2018	31 December 2017
Corporate income tax	48,948	80,673
Individual income tax withheld	3,378	4,441
Value added tax	5,735	6,786
Others	1,502	1,279
Total	59,563	93,179

47 SHORT-TERM NOTES PAYABLE

Current liabilities

	31 December 2018	31 December 2017
Beneficiary certificates	537,577	1,363,870

As at 31 December 2018, the annual interest rates on the short-term notes payable are in the range of 3.40% to 7.00%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

48 DUE TO OTHER FINANCIAL INSTITUTIONS

	31 December 2018	31 December 2017
Refinancing business	500,298	900,000
Credit lending business	1,741,104	115,000
	2,241,402	1,015,000

As at 31 December 2018, RMB500 million of the balance represented placements from China Securities Finance Corporation Limited (“CSF”), bearing the interest rate at 4.00% per annum. RMB1,741 million of the balance represented placements from Zhejiang Deqing Rural Commercial Bank and Leshan Sanjiang Rural Commercial Bank, Jiujiang Bank, Tianjin Rural Commercial Bank, Huaxia Bank, bearing interest rates from 2.89% to 4.30% per annum.

49 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 2018, cash collateral received from clients for margin financing and securities lending arrangements amounted to RMB750.75 million (31 December 2017: RMB701.19 million), and are included in the Group’s accounts payable to brokerage clients.

50 OTHER CURRENT LIABILITIES

	31 December 2018	31 December 2017
Salaries, bonus, allowances and benefits	337,210	422,504
Accounts payable	323,196	202,481
Other payables	105,029	53,233
Interest payable	2,081	218,265
Others	48,687	41,448
Total	816,203	937,931

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

50 OTHER CURRENT LIABILITIES (CONTINUED)

50.1 Salaries, bonus, allowances and benefits

	1 January 2018	Current year charge	Current year payment	31 December 2018
Salaries and bonus	347,020	418,128	(532,682)	232,466
Pension	249	104,304	(75,123)	29,430
Other social security contributions	166	81,585	(81,749)	2
Labour union funds and employee education funds	73,380	16,433	(15,538)	74,275
Other welfare	1,689	15,480	(16,132)	1,037
Total	422,504	635,930	(721,224)	337,210

	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

51 CASH AND CASH EQUIVALENTS

For the purpose of statement of cash flows, cash and cash equivalents include amounts that can be used to meet short-term cash commitments.

	31 December 2018	31 December 2017
Cash on hand	266	545
Deposits in banks	2,606,675	2,791,533
Proprietary clearing settlement funds	75,838	207,465
Total	2,682,779	2,999,543

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

52 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, the Group did not consider itself acting as 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 RMB11,613 million and RMB21,690 million as at 31 December 2018 and 31 December 2017 respectively. For the unconsolidated trust schemes, wealth management products and investment funds invested by the Group, there is no available public information on the size of those structured entities which are operated and managed by third parties.

As at 31 December 2018 and 31 December 2017, the maximum exposure of relevant balance sheet items of the Group arising from these unconsolidated structured entities, were set out as below:

	31 December 2018	31 December 2017
Financial assets at fair value through profit or loss	2,488,573	475,870
Available-for-sale financial assets		1,014,723
Financial assets at amortized costs	375,000	
Other current assets	325,135	43,187
Total	3,188,708	1,533,780

For the year ended 31 December 2018, the income derived from these unconsolidated structured entities held by the Group was as follows:

	Year ended 31 December	
	2018	2017
Net investment gains	63,195	1,286
Fee and commission income	74,263	79,745
Total	137,458	81,031

As at 31 December 2018 and 31 December 2017, 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)

53 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.

53.1 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.

53.2 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.

As at 31 December 2018, the carrying amount of securities lent to clients is RMB1,906 million (31 December 2017: RMB3,583 million).

54 COMMITMENTS AND CONTINGENT LIABILITIES

54.1 Capital commitments

	31 December 2018	31 December 2017
Contracted but not provided for	50,482	62,659

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

54 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

54.2 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 2018	31 December 2017
Within 1 year	40,783	60,440
1 to 3 years	50,109	65,441
Over 3 years	56,428	17,150
Total	147,320	143,031

54.3 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.

As at 31 December 2018 and 31 December 2017, the management of the Group believes that the Group was not involved in any material legal, or arbitration proceedings that if adversely determined, would have material impact on its financial position or results of operations of the Group.

55 RELATED PARTY TRANSACTIONS

55.1 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 group's immediated parent entity of the company is Henan Investment Group Limited. The registered place is Zhengzhou, Henan, with a holding ratio of 21.27%.

Ultimated controlling party of the Company is Henan Province Development and Reform Commission.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

55 RELATED PARTY TRANSACTIONS (CONTINUED)

55.1 Related parties (continued)

The following table lists the Group's significant related legal entities as at 31 December 2018:

Enterprise	The relationship with the Group
Henan Investment Group	The controlling shareholder of the Company
Bohai Industrial Investment Fund Management Co., Ltd. (representing Bohai Industrial Investment Fund)	Major shareholder holding over 5% shares of the Company
Henan Longfengshan Agriculture and Animal Husbandry Co., Ltd.	The associate invested by the subsidiary of the Company
Zhongyuan Trust Co., Ltd.	Controlled by the controlling shareholder of the Company

55.2 Related party transactions and balances

55.2.1 Controlling shareholder and enterprise controlled by the controlling shareholder of the Company and the company

Transactions during the year

		Year ended 31 December	
		2018	2017
Henan Investment Group	Commission and fee income	75	–
Zhongyuan Trust Co., Ltd.	Commission and fee income	7,301	2,543
Zhongyuan Trust Co., Ltd.	Interest income	43,358	15,995

Balances at the end of the year

		31 December 2018	31 December 2017
Zhongyuan Trust Co., Ltd.	Financial assets measured at amortized cost	443,000	
Zhongyuan Trust Co., Ltd.	Available for sale		480,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

55 RELATED PARTY TRANSACTIONS (CONTINUED)

55.2 Related party transactions and balances (continued)

55.2.2 The associate invested by the subsidiary of the Company

Transactions during the year:

		Year ended 31 December	
		2018	2017
Henan Longfengshan Agriculture and Animal Husbandry Co., Ltd.	Interest income	5,421	1,259

Balances at the end of the year

		31 December 2018	31 December 2017
Henan Longfengshan Agriculture and Animal Husbandry Co., Ltd.	Loans and advances to customers	45,000	40,000

The above related party transactions are conducted in accordance with the principle of fair market value.

55.2.3 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 Group, including members of the board of directors, board of supervisors and other members of the senior management.

	Year ended 31 December	
	2018	2017
Key management compensation	7,283	12,926

55.2.4 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 the 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

(All amounts in RMB'000 unless otherwise stated)

56 SEGMENT INFORMATION

The Group manages business operations by the following segments in accordance with the nature of the operations and the services provided, starting from 2018, the information of the prior year has been updated for comparing purpose.

- (a) Brokerage business: securities trading and brokering services; futures trading and brokering and futures information advisory and training services; Margin trading and securities lending;
- (b) Investment banking: corporate finance and financial advisory services to institutional clients;
- (c) Proprietary trading: trading in financial products;
- (d) Investments and asset management: Alternative investments and funds related businesses, in addition to portfolio management and maintenance, investment advisory and transaction execution services;
- (e) Overseas business: the overseas operations segment mainly represents the business operation of overseas subsidiaries of the Company, which mainly engage in brokerage, margin financing, trading and investment and financial planning and advisory services;
- (f) Other businesses: primarily the treasury function from the headquarter and Micro-credit operation.

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 period.

The Group mainly operates its business in Henan Province, the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

56 SEGMENT INFORMATION (CONTINUED)

	Year ended 31 December 2018							
	Brokerage business	Investment banking	Proprietary trading	Investment and asset management	Overseas business	Other	Elimination	Total
Total revenue and other income								
Commission and fee income	621,547	94,654	—	75,905	87,577	33,828	(3,117)	910,394
Interest income	406,864	—	283,176	34,570	44,647	522,641	—	1,291,898
Net investment (losses)/gains and share of profits and losses of associates	250	—	290,271	115,592	49,175	(70,585)	(14,653)	370,050
Other gains/(loss)	279,572	400	13,225	3,496	2,894	9,370	(1,296)	307,661
Total expenses	(1,075,616)	(136,143)	(555,697)	(79,926)	(193,872)	(741,974)	4,343	(2,778,885)
Profit before income tax	232,617	(41,089)	30,975	149,637	(9,579)	(246,720)	(14,723)	101,118
Total assets	8,265,878	32,631	10,571,775	3,939,369	3,058,810	21,520,956	(5,234,137)	42,155,282
Total liabilities	7,562,913	45,103	10,535,733	424,009	1,885,902	10,614,660	(188,078)	30,880,242
Supplemental information								
Depreciation and amortisation	30,993	529	2,557	1,650	2,563	35,713	—	74,005
Capital expenditure	20,741	721	903	210	441	25,760	—	48,776

	Year ended 31 December 2017							
	Brokerage business	Investment banking	Proprietary trading	Investment and asset management	Overseas business	Other	Elimination	Total
Total revenue and other income								
Commission and fee income	865,127	88,404	—	82,064	80,273	28,797	(3,156)	1,141,509
Interest income	477,398	—	281,063	40,286	61,622	409,154	—	1,269,523
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
Other gains/(loss)	344,487	100	252	8,222	6,343	14,999	(1,286)	373,117
Total expenses	(1,216,735)	(120,742)	(486,409)	(85,357)	(174,056)	(440,074)	4,422	(2,518,951)
Profit before income tax	468,859	(32,238)	(25,048)	174,540	93,273	147,896	(147,173)	680,109
Total assets	9,541,419	487,727	7,306,672	3,773,789	3,057,802	21,320,679	(4,826,620)	40,661,468
Total liabilities	8,813,440	491,983	7,284,144	429,963	2,126,433	10,130,858	(67,472)	29,209,349
Supplemental information								
Depreciation and amortisation	35,165	488	2,212	1,305	2,608	29,447	—	71,225
Capital expenditure	23,191	361	2,560	1,520	6,441	54,816	—	88,889



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

57 FINANCIAL RISK MANAGEMENT

57.1 Overview

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 monitors and manages risks through its IT systems.

The financial risk management framework is structured into four levels consisting of (i) Board 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 and Supervisory Committee

The Board 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 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

57 FINANCIAL RISK MANAGEMENT (CONTINUED)

57.1 Overview (continued)

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.

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

57 FINANCIAL RISK MANAGEMENT (CONTINUED)

57.1 Overview (continued)

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.

57.2 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's credit risks mainly come from financial assets which include bank balances, cash held for brokerage clients, clearing settlement funds, Financial assets at fair value through other comprehensive income, financial assets held under resale agreements, financial assets at amortized costs, margin accounts receivable, entrusted loans, 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 to 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 2018 and 31 December 2017, the Group's collateral asset 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 it settles on behalf of customers, so as to mitigate and manage the credit risk properly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

57 FINANCIAL RISK MANAGEMENT (CONTINUED)

57.2 Credit risk (continued)

The Group enters into entrusted lending business 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 entrusted 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 with proper approval process.

Control of credit risk from securities financing business is realized primarily through risk education for customers, credit investigation and verification on customers, credit management, risk assessment on collateralized (pledged) securities, reasonable setting of indication of defaulting customers, financing of customers with insufficient guaranteed securities and normal customers, the Company will perform the provision for impairment in accordance with prudential principles by complying with the accounting standards of IFRS 9.

Expected credit loss measurement

From the commencement date of IFRS 9 on 1 January, 2018, the measurement of the expected credit loss allowance for debt instruments of financial assets measured at amortized cost and FVOCI is an area that requires the use of models and assumptions about future economic conditions and credit behavior of clients (such as the likelihood of customers defaulting and the resulting losses).

The Group has applied a 'three-stage' impairment model for expected credit losses ("ECL") measurement based on changes in credit quality since initial recognition of financial assets as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in "Stage 1" and has its credit risk continuously monitored by the Group;
- If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit-impaired;
- If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3".

Stage 1: The Group measures the loss allowance for a financial instrument at an amount equal to the next 12 months ECL; Stages 2 and 3: The Group measures the loss allowance for a financial instrument at an amount equal to the lifetime ECL. Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition and the Group has measured the loss allowance for such a financial instrument at an amount equal to the lifetime ECL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

57 FINANCIAL RISK MANAGEMENT (CONTINUED)

57.2 Credit risk (continued)

Expected credit loss measurement (continued)

For such financial assets classified under Stages 1 and 2, management assesses credit loss allowances using the risk parameter modelling approach that incorporates key parameters, including probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"). For credit-impaired financial assets classified under Stage 3, management assesses the credit loss allowances by estimating the cash flows expected to arise from the financial assets after taking into consideration forward looking factors.

The measurement of ECL adopted by management according to IFRS 9, involves judgements, assumptions and estimations.

- Selection of the appropriate models and assumptions;
- Determination of the criteria for SICR;
- Establishment of the number and relative weightings of forward-looking scenarios for each type of product;

Measuring ECL – inputs, assumptions and estimation techniques

The ECL are measured on either a 12-month (12M) or Lifetime basis depending on whether SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired.

ECL are the discounted product of PD having considered the forward-looking impact, EAD, and LGD.

- PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. For margin loan financing, the Company determines the PD by borrower, based on factors including the coverage ratio of margin loans to underlying collateral value and, the volatility of such collateral's valuation. For debt securities investments, the external credit rating and related PD are taken into consideration.
- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. For margin loan financing, the Company determines LGD, based on factors including the realizable value of collateral upon forced liquidation taking into consideration the estimated volatility over the realization period. For debt securities investments, LGD is determined based on assessed publicly available information from credit rating agencies, and the type of securities.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

57 FINANCIAL RISK MANAGEMENT (CONTINUED)

57.2 Credit risk (continued)

Expected credit loss measurement (continued)

The criteria of Significant increase in credit risk (SICR)

The Company evaluates the financial instruments at each financial statement date after considering whether SICR has occurred since initial recognition. An ECL allowance for financial assets is recognized according to the stage of ECL, which reflects the reasonable information and evidence available about the SICR and is also forward-looking. The Company considers a financial instrument to have experienced SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

The Company considers margin financing to have experienced a significant increase in credit risk if margin calls were triggered by a decrease of the ratio of margin loan to collateral below liquidation line. As at 31 December 2018, more than 90% of the margin financing business of the Company has been rated as investment grade or above which did not experience any significant increase in credit risk.

A financial instrument is considered to have experienced a significant increase in credit risk if the borrower or the debtor is past due on its contractual payments.

The Company has used the low credit risk exemption for financial instruments, such as cash and bank accounts, settlement reserve, refundable deposits, financial assets held under resale agreements (debt instruments) for the year ended 31 December 2018.

Definition of credit-impaired assets

The Company considers whether a financial instrument is credit-impaired according to IFRS 9 based on criteria, which is consistent with the internal credit risk management practice. The consideration includes quantitative criteria and qualitative criteria. The Company defines a financial instrument as credit-impaired, which is fully aligned with the definition of in default, when it meets one or more of the following criteria:

- The borrower is more than 90 days past due on its contractual payments;
- For margin financing and stock pledge repurchase agreements, a forced liquidation of a client's position triggered when the collateral valuation falling short of the related loan amounts;
- The latest external ratings of issuers of debt securities or debt securities themselves are in default grade;
- The debtor is in significant financial difficulty;
- An active market for that financial asset has disappeared because of financial difficulties;
- Concessions have been made by the lender relating to the debtor's financial difficulty;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructure.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

57 FINANCIAL RISK MANAGEMENT (CONTINUED)

57.2 Credit risk (continued)

Expected credit loss measurement (continued)

Definition of credit-impaired assets (continued)

When a financial asset is considered to be credit-impaired, it may be from multiple events, not due to a separately identifiable event.

Forward-looking information

The assessment of SICR and the calculation of ECL incorporate forward-looking information.

The Company has analyzed historical data and identified the economic variable impacting credit risk and ECL for each financial instrument portfolio. The economic variable includes macro-economic coincident index, which ranges from 90 to 105 in optimistic scenario, base case scenario and pessimistic scenario. The impact of the economic variable on the PD has been determined by performing historical statistical regression analysis to forecast the expected changes in the variable on default rates.

In addition to the base economic scenario, the Company's Expert Team also identifies other possible scenarios along with scenario weightings. The number of other scenarios used is set based on the analysis of each major product type to ensure non-linearities are captured. The number of scenarios and their attributes are reassessed at each financial statement date.

As at 1 January 2018 and 31 December 2018, for all portfolios the Company concluded that three scenarios appropriately captured non-linearities of economic variable. The scenario weightings are determined by a combination of statistical analysis and expert judgement, taking account of the range of possible outcomes each chosen scenario is representative of.

The assessment of SICR is performed using the Lifetime PD under each of the base, and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. The Group measures ECL as either a probability weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Company considers these forecasts to represent its best estimate of the possible outcomes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

57 FINANCIAL RISK MANAGEMENT (CONTINUED)

57.2 Credit risk (continued)

Expected credit loss measurement (continued)

Sensitivity analysis

The allowance for credit losses is sensitive to the inputs used in internally developed models, macroeconomic variable in the forward-looking forecasts, economic scenario weighting and other factors considered when applying expert judgment. Changes in these inputs, assumptions and judgments impact the assessment of SICR and the measurement of ECL.

At 31 December 2018, the Company concluded for all portfolios that three scenarios are appropriate, being the optimistic scenario, base case scenario and pessimistic scenario. As at 31 December 2018, the incremental impact of using the probability-weighted ECL against the base scenario was less than 5%.

The decremental impact would be less than 5%, assuming a 10% increase of probability-weighting of the optimistic scenario and a 10% decrease of the probability-weighting of the base case scenario when measuring the ECL derived from using aforesaid three scenarios. The incremental impact would be less than 5%, assuming a 10% increase on probability-weighting of the pessimistic scenario and a 10% decrease on probability-weighted of the base case scenario when measuring the ECL derived from using aforesaid three scenarios.

Meanwhile, the Company also uses sensitivity analysis to monitor any significant increase in credit risk. At 31 December 2018, assuming no significant increase in credit risk since initial recognition was identified, and all the financial assets in Stage 2 moved to Stage 1, the decremental impact on ECL recognized in the consolidated financial statements would be less than 5%.

Collateral and other credit enhancements

The Company employed a range of policies and credit enhancements to mitigate credit risk exposure to an acceptable level. The most common of these is accepting collateral for funds advanced or guarantees. The Company determined the type and amount of collaterals according to the credit risk evaluation of counterparties. The collaterals under margin financing and reverse repurchase agreements are primarily stocks, debt securities, funds etc. Management will exercise margin calls according to related agreements based on the market value fluctuation of collaterals.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

57 FINANCIAL RISK MANAGEMENT (CONTINUED)

57.2 Credit risk (continued)

Expected credit loss measurement (continued)

Credit risk exposure analysis

The clients' margin loan financing assets were considered by Management to be in good condition, and the coverage ratio of margin loan to underlying collateral value was over liquidation line for more than 90% of margin financing, stock pledge repurchase agreement and financial assets held under resale agreements (debt instruments) of the Company as at 31 December 2018. High thresholds of margin loans to collateral ratios indicates that probability of default was low. For debt securities investments, the Company employed open market credit ratings.

(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 2018	31 December 2017
Refundable deposits	282,711	260,826
Other current assets	267,306	648,634
Loans and advances to customers	1,243,723	1,271,870
Margin accounts receivable	4,720,498	6,352,971
Available-for-sale financial assets		1,863,215
Financial assets held under resale agreements	8,916,568	9,207,017
Financial assets at fair value through other comprehensive income	725,628	
Financial assets at amortized costs	693,894	
Financial assets at fair value through profit or loss	9,173,095	5,617,457
Derivative financial assets	62,986	59,938
Investment classified as receivables		83,591
Clearing settlement funds	2,340,353	2,350,216
Cash held for brokerage clients	4,654,494	5,845,016
Bank balances	2,606,675	2,791,533
Total	35,687,931	36,352,284

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

57 FINANCIAL RISK MANAGEMENT (CONTINUED)

57.2 Credit risk (continued)

(2) Credit quality

	31 December 2018
Stage 1	
– Loans and advances to customers	1,172,256
– Margin accounts receivable	4,715,365
– Financial assets at fair value through other comprehensive income	725,628
– Financial assets at amortized costs	629,071
– Financial assets held under resale agreements	7,782,529
Subtotal	15,024,849
Less: allowances for impairment losses	(33,932)
Subtotal	14,990,917
Stage 2	
– Financial assets at amortized costs	51,000
– Financial assets held under resale agreements	267,100
Subtotal	318,100
Less: allowances for impairment losses	(8,169)
Subtotal	309,931
Stage 3	
– Loans and advances to customers	135,766
– Margin accounts receivable	85,426
– Financial assets held under resale agreements	1,093,008
– Financial assets at amortized costs	31,800
Subtotal	1,346,000
Less: allowances for impairment losses	(346,797)
Subtotal	999,203
Total	16,300,051

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

57 FINANCIAL RISK MANAGEMENT (CONTINUED)

57.2 Credit risk (continued)

(2) Credit quality (continued)

	31 December 2017
Individually assessed and impaired gross amount	
– Loans and advances to customers	15,336
– margin accounts receivable	76,825
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Subtotal	92,161
Less: allowances for impairment losses	(66,029)
<hr/>	
Subtotal	26,132
Neither overdue nor impaired	
– Loans and advances to customers	1,278,000
– margin accounts receivable	6,340,803
– financial assets held under resale agreements	4,821,578
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Subtotal	12,440,381
Less: collectively assessed allowances for impairment losses	(36,542)
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Subtotal	12,403,839
<hr/>	
Total	12,429,971

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

57 FINANCIAL RISK MANAGEMENT (CONTINUED)

57.2 Credit risk (continued)

(3) Loans and advances to customers analysed by economic sector concentrations

	31 December 2018		31 December 2017	
	Gross loan balance	Percentage	Gross loan balance	Percentage
Loans and advances to customers				
– Culture, sports and entertainment	367,000	28%	50,000	4%
– Manufacturing	365,200	28%	336,448	26%
– Leasing and business services	174,330	13%	145,000	11%
– Agriculture, forestry, farming, fishing	151,453	11%	218,000	17%
– Real estate	125,000	10%	465,000	36%
– Wholesale and retail trade	91,500	7%	3,388	1%
– Others	33,539	3%	75,500	5%
Total	1,308,022	100%	1,293,336	100.00%

Loans and advances to customers analysed by geographical sector concentrations

All loans and advances to customers are located in the Henan Province.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

57 FINANCIAL RISK MANAGEMENT (CONTINUED)

57.2 Credit risk (continued)

(4) Loans and advances to customers analysed by types of collateral

	31 December 2018		31 December 2017	
	Gross loan balance	Percentage	Gross loan balance	Percentage
Loans and advances to customers				
– Loans secured by monetary assets	93,000	7%	129,000	10%
– Guaranteed loans	1,185,022	92%	1,109,336	86%
– Loans secured by tangible assets other than monetary assets	30,000	1%	55,000	4%
Total	1,308,022	100%	1,293,336	100.00%

(5) Overdue Loans and advances to customers by period

	Within 3 months	3 months to 1 year	1 year to 3 years
	31 December 2018		
Loans and advances to customers			
– Guaranteed loans	7,000	100,395	8,371
– Loans secured by tangible assets other than monetary assets	5,000	15,000	–
As a percentage of loans and advances to customers	0.92%	8.82%	0.64%
31 December 2017			
Loans and advances to customers			
– Guaranteed loans			8,336
As a percentage of loans and advances to customers			0.65%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

57 FINANCIAL RISK MANAGEMENT (CONTINUED)

57.2 Credit risk (continued)

(6) Financial assets held under resale agreements-ECL

	For year ended 31 December 2018			
	Stage of assets			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
1 January 2018	16,067	–	185	16,252
Increase	–	1,754	209,079	210,773
Decrease	(772)	–	(184)	(956)
Write-off	–	–	–	–
Transfers to stage 1	–	–	–	–
Transfers to stage 2	(1,315)	1,315	–	–
Transfers to stage 3	(8,660)	–	8,660	–
Foreign exchange and other movements	–	–	–	–
31 December 2018	5,320	3,069	217,680	226,069

(7) Loans and advances to customers-ECL

	For year ended 31 December 2018			
	Stage of assets			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
1 January 2018	13,179	–	8,336	21,515
Increase	1,332	–	41,418	42,750
Decrease	–	–	(402)	(402)
Write-off	–	–	–	–
Transfers to stage 1	–	–	–	–
Transfers to stage 2	–	–	–	–
Transfers to stage 3	(1,697)	–	1,697	–
Foreign exchange and other movements	–	–	436	436
31 December 2018	12,814	–	51,485	64,299

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

57 FINANCIAL RISK MANAGEMENT (CONTINUED)

57.2 Credit risk (continued)

(8) Financial assets at amortized costs-ECL

	For year ended 31 December 2018			
	Stage of assets			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
1 January 2018	2,478	–	–	2,478
Increase	42	4,939	11,495	16,476
Decrease	(1,009)	–	–	(1,009)
Write-off	–	–	–	–
Transfers to stage 1	–	–	–	–
Transfers to stage 2	(161)	161	–	–
Transfers to stage 3	(60)	–	60	–
Foreign exchange and other movements	32	–	–	32
31 December 2018	1,322	5,100	11,555	17,977

(9) Financial assets at fair value through other comprehensive income-ECL

	For year ended 31 December 2018			
	Stage of assets			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
1 January 2018	129	–	–	129
Increase	131	–	–	131
Decrease	–	–	–	–
Write-off	–	–	–	–
Transfers to stage 1	–	–	–	–
Transfers to stage 2	–	–	–	–
Transfers to stage 3	–	–	–	–
Foreign exchange and other movements	–	–	–	–
31 December 2018	260	–	–	260

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

57 FINANCIAL RISK MANAGEMENT (CONTINUED)

57.2 Credit risk (continued)

(10) Margin accounts receivable-ECL

	For year ended 31 December 2018			
	Stage of assets			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
1 January 2018	14,457	–	51,117	65,574
Increase	3,416	–	14,771	18,187
Decrease	(3,669)	–	–	(3,669)
Write-off	–	–	–	–
Transfers to stage 1	–	–	–	–
Transfers to stage 2	–	–	–	–
Transfers to stage 3	–	–	–	–
Foreign exchange and other movements	12	–	189	201
31 December 2018	14,216	–	66,077	80,293

57.3 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.

57.3.1 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 utilizes 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

57 FINANCIAL RISK MANAGEMENT (CONTINUED)

57.3 Market risk (continued)

57.3.1 Interest rate risk (continued)

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):

As at 31 December 2018	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	2,607,003	-	-	-	-	266	2,607,269
Cash held for brokerage clients	4,654,494	-	-	-	-	-	4,654,494
Clearing settlement funds	2,340,353	-	-	-	-	-	2,340,353
Financial assets at fair value through profit and loss	219,722	702,815	5,115,001	2,406,560	1,429,981	4,057,678	13,931,757
Financial assets held under resale agreements	6,437,896	610,471	1,489,379	378,822	-	-	8,916,568
Refundable deposits	-	-	-	-	-	282,711	282,711
Loans and advances to customers	112,129	105,550	750,975	275,069	-	-	1,243,723
Other current assets	-	-	-	-	-	267,306	267,306
Financial assets at fair value through other comprehensive income	69,937	-	191,975	290,706	173,010	-	725,628
Financial assets at amortized cost	70,878	-	618,025	4,991	-	-	693,894
Due from other financial institutions	-	-	-	-	-	-	-
Derivative financial assets	-	-	-	-	-	62,986	62,986
Margin accounts receivable	435,893	1,440,546	2,844,059	-	-	-	4,720,498
Sub-total	16,948,305	2,859,382	11,009,414	3,356,148	1,602,991	4,670,947	40,447,187
Financial liabilities							
Short-term notes payable	(274,571)	(116,522)	(146,484)	-	-	-	(537,577)
Bonds payable	-	-	(4,136,652)	(4,097,519)	-	-	(8,234,171)
Derivative financial liabilities	-	-	-	-	-	-	-
Due to other financial institutions	(500,299)	-	(1,741,104)	-	-	-	(2,241,403)
Financial assets sold under repurchase agreements	(8,671,790)	-	-	(1,500,000)	-	-	(10,171,790)
Accounts payable to brokerage clients	(5,819,162)	-	-	-	-	(727,800)	(6,546,962)
Other current liabilities	-	-	-	-	-	(779,157)	(779,157)
Bank loans	(228,374)	(448,283)	(1,198,330)	-	-	-	(1,874,987)
Financial liabilities at fair value through profit or loss	(34,741)	-	-	(345,287)	-	-	(380,028)
Sub-total	(15,528,937)	(564,805)	(7,222,570)	(5,942,806)	-	(1,506,957)	(30,766,075)
Interest rate sensitivity gap	1,419,368	2,294,577	3,786,844	(2,586,658)	1,602,991	3,613,990	6,517,122

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

57 FINANCIAL RISK MANAGEMENT (CONTINUED)

57.3 Market risk (continued)

57.3.1 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 designated 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

57 FINANCIAL RISK MANAGEMENT (CONTINUED)

57.3 Market risk (continued)

57.3.1 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 decrease 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.

	For year ended 31 December	
	2018	2017
Profit before income tax		
Increases by 25 bps	11,431	15,514
Decreases by 25 bps	(11,431)	(15,514)
	<hr/>	
	For year ended 31 December	
	2018	2017
Other comprehensive income before income tax		
Increases by 25 bps	352	586
Decreases by 25 bps	(352)	(586)

When conducting interest rate sensitivity analysis, the Group makes the following general assumptions in determining commercial terms and financial parameters:

- Different interest-earning 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 behaviors 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

57 FINANCIAL RISK MANAGEMENT (CONTINUED)

57.3 Market risk (continued)

57.3.2 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 2018 and 31 December 2017. 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 2018 HKD in RMB equivalent	31 December 2017 HKD in RMB equivalent
Net on-balance sheet position	1,096,075	911,601

57.3.3 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 manages 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

57 FINANCIAL RISK MANAGEMENT (CONTINUED)

57.3 Market risk (continued)

57.3.3 Price risk (continued)

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.

	For year ended 31 December 2018	
	2018	2017
Profit before income tax		
Increase by 10%	386,066	188,999
Decrease by 10%	(386,066)	(188,999)
<hr/>		
Other comprehensive income before income tax		
Increase by 10%	72,563	86,220
Decrease by 10%	(72,563)	(86,220)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

57 FINANCIAL RISK MANAGEMENT (CONTINUED)

57.4 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 centralized manner. Through early warnings and focusing on individually large amounts of funds, the Group achieves the objective of centralized control and management of liquidity risk. By striking 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 reports their implementation to the management to update the liquidity position periodically.

Surplus cash held by the operating outlets 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 2018, the Group holds cash and cash equivalents of approximately RMB2,683 million that are expected to readily generate cash flows for managing liquidity risk (31 December 2017: RMB3,000 million). In addition, the Group holds part of financial assets at fair value through profit or loss of RMB13,932 million as at 31 December 2018, which could be readily realised to provide a further source of cash if the need arose. Further the Group holds cash held for brokerage clients of RMB4,654 million, clients' clearing settlement funds of RMB2,340 million, which could be used to settle the Group's account payable to brokerage clients whenever needed (31 December 2017: RMB5,845 million and RMB2,350 million respectively).

The tables below present the cash flows payable by the Group for non-derivative financial liabilities by remaining contractual maturities as at 31 December 2018 and 31 December 2017. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

57 FINANCIAL RISK MANAGEMENT (CONTINUED)

57.4 Liquidity risk (continued)

As at 31 December 2018	On demand	Within 1 month	1-3 months	3 months to 1 year	1 to 5 years	Undated	Total
Short-term notes payable	-	273,448	117,910	149,571	-	-	540,929
Bonds payable	-	-	-	4,413,850	4,299,550	-	8,713,400
Financial assets sold under repurchase agreements	-	8,673,266	-	-	1,633,091	-	10,306,357
Due to other financial institutions	-	1,741,275	-	510,869	-	-	2,252,144
Accounts payable to brokerage clients	727,800	5,819,162	-	-	-	-	6,546,962
Bank loans	-	227,737	452,054	1,233,717	-	-	1,913,508
Financial liabilities at fair value through profit or loss	-	34,741	-	-	345,287	-	380,028
Other current liabilities	-	-	-	-	-	779,157	779,157
Total	727,800	16,769,629	569,964	6,308,007	6,277,928	779,157	31,432,485

As at 31 December 2017	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	-	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 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)

57 FINANCIAL RISK MANAGEMENT (CONTINUED)

57.5 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.

58 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.

58.1 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 amortized 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

58 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

58.1 Financial instruments not measured at fair value (continued)

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.

58.2 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 categorized.

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).

The following table presents the Group's financial assets and liabilities that are measured at fair value as at 31 December 2018 and 31 December 2017.

As at 31 December 2018	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Equity securities	707,022	384,889	–	1,091,911
– Debt securities	2,203,443	6,146,856	491,990	8,842,289
– Investment funds	22,557	2,507,716	48,078	2,578,351
– Asset management schemes	–	243,716	54,868	298,584
– Investment in unlisted companies	–	–	667,073	667,073
– Wealth management products	–	–	303,816	303,816
– others	–	–	149,733	149,733
Financial assets at fair value through other comprehensive income				
– Debts securities	401,979	323,649	–	725,628
Derivative assets	–	–	62,986	62,986
Total	3,335,001	9,606,826	1,778,544	14,720,371
Financial liabilities as at fair value through profit or loss	–	–	(380,028)	(380,028)
Total	–	–	(380,028)	(380,028)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

58 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

58.2 Financial instruments measured at fair value (continued)

As at 31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Equity securities	275,799	360,428	22,671	658,898
– Debt securities	1,238,762	3,634,710	743,985	5,617,457
– Investment funds	22,310	990,410	21,335	1,034,055
– Fixed income of investment to non-listed company	–	–	312,093	312,093
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
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)

For the years ended 31 December 2018 and 2017, 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)

58 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

58.2 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.

(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 maximize 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.

(c) Valuation methods for specific investments

As at 31 December 2018 and 31 December 2017, the Group'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.

For National Equities Exchange and Quotations listed equity securities, the fair value is determined based on the closing price as at the reporting date and adjusted by the valuation techniques due to the low transaction frequency. The adjustment is based on the potential maximum losses that could occur at a given level of confidence due to variation in interest rates, stock prices and exchange rates over a certain period, which are all observable.

- (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-ended 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

58 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

58.2 Financial instruments measured at fair value (continued)

(c) Valuation methods for specific investments (continued)

(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 statement 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.

(d) Financial instruments in Level 3

The following table presents the changes in Level 3 instruments for the year ended 31 December 2018 and for the year ended 31 December 2017.

	Financial assets at fair value through profit or loss
Balance at 1 January 2018	1,326,664
Purchase	716,645
Settlement	(264,765)
Balance at 31 December 2018	1,778,544
Total gains or losses for the period included in profit or loss for assets held at the end of the period, under "Net investment gains"	49,808
Change in unrealized gains or losses for the period included in profit or loss for assets held at the end of the period	(70,799)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

58 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

58.2 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
Purchase	574,525
Settlement	(352,827)
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Balance at 31 December 2017	683,640
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Total gains for the year included in profit or loss for assets held at the end of year, under "Net investment gains"	34,327
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Change in unrealized gains for the year included in OCI for assets held at the end of the year	28
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	Financial assets at fair value through profit or loss
Balance at 1 January 2017	611,643
Purchase	1,117,301
Settlement	(628,860)
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Balance at 31 December 2017	1,100,084
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Total gains for the year included in profit or loss for assets held at the end of year, under "Net investment gains"	54,629
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Change in unrealized gains for the year included in profit or loss for assets held at the end of the year	23,229
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

58 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

58.2 Financial instruments measured at fair value (continued)

(d) Financial instruments in Level 3 (continued)

	Financial liabilities at fair value through profit or loss
Balance at 1 January 2018	361,418
Consolidation of SEs	60,694
Settlement	(42,084)
Balance at 31 December 2018	380,028
Total gains or losses for the period included in profit or loss for assets held at the end of the period, under "Net investment gains"	(2,549)
Change in unrealized gains or losses for the period included in profit or loss for assets held at the end of the period	(2,549)
	Financial liabilities at fair value through profit or loss
Balance at 1 January 2017	1,208,177
Consolidation of SEs	30,000
Purchase	260
Settlement	(877,019)
Balance at 31 December 2017	361,418
Total gains or losses for the year included in profit or loss for assets held at the end of the year, under "Net investment gains"	(20,652)
Change in unrealized gains or 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)

58 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

58.2 Financial instruments measured at fair value (continued)

(d) Financial instruments in Level 3 (continued)

	Derivative assets
Balance at 1 January 2018	59,938
Increase	3,048
Balance at 31 December 2018	62,986
Total gains or losses for the period included in profit or loss for assets held at the end of the period, under "Net investment gains"	803
Change in unrealized gains or losses for the period included in profit or loss for assets held at the end of the period	803
	Derivative assets
Balance at 1 January 2017	–
Increase	59,938
Balance at 31 December 2017	59,938
Total gains or losses for the period included in profit or loss for assets held at the end of the period, under "Net investment gains"	–
Change in unrealized gains or losses for the period included in profit or loss for assets held at the end of the period	–

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

58 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

58.2 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 assets at fair value through profit or loss – 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
Financial assets at fair value through profit or loss – 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
Private convertible bonds	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)

58 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

58.2 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 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
Financial assets at fair value through profit or loss – Unlisted equity	Level 3	<ul style="list-style-type: none"> Using comparable company method by selecting comparable companies in the same industry as the target company's important financial indicators; consider liquidity discount, estimate the expected exit date of equity, calculate the volatility of comparable companies, adopt the option model, calculate the liquidity discount of comparable companies. 	<ul style="list-style-type: none"> Expected recovery date Stock price volatility 	<ul style="list-style-type: none"> The earlier recovery date is expected, the higher fair value is valued The higher stock price volatility is displayed, the higher fair value is valued

59 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 2018, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements are not material to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

60 BALANCE SHEET AND EQUITY MOVEMENT OF THE COMPANY

Balance sheet of the Company

	Note	As at 31 December	
		2018	2017
Assets			
Non-current assets			
Property and equipment		210,734	218,107
Investment properties		28,095	32,168
Intangible assets		154,071	160,020
Investments in subsidiaries and consolidated structured entities		4,231,900	3,976,369
Other non-current assets		21,936	24,056
Available-for-sale financial assets			1,361,835
Financial assets at fair value through profit or loss		470,909	–
Financial assets at fair value through other comprehensive income		430,506	
Deferred income tax assets		184,811	130,884
Refundable deposits		73,214	95,317
Financial assets held under resale agreements		378,815	7,953,793
Total non-current assets		6,184,991	13,952,549
Current assets			
Other current assets		120,345	560,182
Margin accounts receivable		4,358,080	5,722,069
Available-for-sale financial assets			331,729
Financial assets held under resale agreements		8,519,656	1,103,609
Due from other financial institutions		–	40,000
Financial assets at fair value through profit or loss		9,766,293	5,435,181
Financial assets at fair value through other comprehensive income		253,692	
Clearing settlement funds		2,190,298	2,114,166
Cash held for brokerage clients		4,217,811	5,242,931
Cash and bank balances		1,819,498	1,432,091
Assets of disposal group classified as held for sale		9,353	13,188
Total current assets		31,255,026	21,995,146
Total assets		37,440,017	35,947,695
Equity and liabilities			
Share capital		3,869,071	3,923,735
Reserves		5,792,516	5,870,331
Retained earnings		42,728	271,988
Total equity		9,704,315	10,066,054

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

60 BALANCE SHEET AND EQUITY MOVEMENT OF THE COMPANY (CONTINUED)

Balance sheet of the Company (continued)

	As at 31 December	
	2018	2017
Liabilities		
Non-current liabilities		
Financial assets sold under repurchase agreements	1,502,926	–
Bonds payable	4,097,519	6,496,635
Deferred income tax liabilities	1,058	1,277
Total non-current liabilities	5,601,503	6,497,912
Current liabilities		
Other current liabilities	677,094	830,809
Accounts payable to underwriting clients	–	434,400
Tax payable	14,636	46,583
Due to other financial institutions	2,241,402	1,015,000
Financial assets sold under repurchase agreements	8,668,864	7,284,879
Bond payable	4,136,652	1,500,000
Short-term notes payable	537,577	1,363,870
Derivative financial liabilities	–	471
Accounts payable to brokerage clients	5,857,974	6,907,717
Total current liabilities	22,134,199	19,383,729
Total liabilities	27,735,702	25,881,641
Total equity and liabilities	37,440,017	35,947,695

The statement of financial position of the Company was approved by the Board of Directors on 28 March 2019 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)

60 BALANCE SHEET AND EQUITY MOVEMENT OF THE COMPANY (CONTINUED)

Equity movement of the Company

	Share capital	Capital reserve	Surplus reserve	General reserve	Transaction risk reserve	Revaluation reserve	Retained earnings	Total equity
As at 31 December 2017	3,923,735	3,860,143	759,323	640,795	606,410	3,660	271,988	10,066,054
Change in accounting policy	-	-	589	432	393	(3,780)	2,515	149
As at 1 January 2018	3,923,735	3,860,143	759,912	641,228	606,803	(120)	274,503	10,066,204
Net profit for the year	-	-	-	-	-	-	(57,667)	(57,667)
Other comprehensive income for the year	-	-	-	-	-	3,295	-	3,295
Total comprehensive income for the year	3,923,735	3,860,143	759,912	641,228	606,803	3,174	216,836	10,011,831
Capital injected by equity holders	-	-	-	-	-	-	-	-
Stock repurchase(Note1)	-	-	-	-	-	-	-	-
Appropriation to general reserve	-	-	-	-	-	-	-	-
Dividends distributed by subsidiaries to non-controlling interests	-	-	-	-	-	-	(174,108)	(174,108)
Cash dividend recognized as distribution	-	-	-	-	-	-	-	-
Owner (shareholder) reduces capital	(54,664)	(78,744)	-	-	-	-	-	(133,408)
Balance at 31 December 2018	3,869,071	3,781,399	759,912	641,228	606,803	3,174	42,728	9,704,315

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

60 BALANCE SHEET AND EQUITY MOVEMENT OF THE COMPANY (CONTINUED)

Equity movement of the Company (continued)

	Share capital	Capital reserve	Surplus reserve	General reserve	Transaction risk reserve	Revaluation reserve	Retained earnings	Total equity
As at 1 January 2017	3,923,735	3,838,825	697,014	595,102	564,871	564,871	767,341	10,431,615
Net profit for the year	-	-	-	-	-	-	415,393	415,393
Other comprehensive income for the year	-	-	-	-	-	(41,067)	-	(41,067)
Total comprehensive income for the year	3,923,735	3,838,825	697,014	595,102	564,871	3,660	1,182,734	10,805,941
Cash dividend recognised as distribution	-	-	-	-	-	-	-	-
Dividends distributed by subsidiaries to non-controlling interests	-	-	-	-	-	-	(761,205)	(761,205)
Appropriation to surplus reserve	-	-	62,309	-	-	-	(62,309)	-
Appropriation to general reserve	-	-	-	45,693	-	-	(45,693)	-
Appropriation to transaction risk reserve	-	-	-	-	41,539	-	(41,539)	-
Net capital contribution/reduction for subsidiaries by non-controlling shareholders	-	-	-	-	-	-	-	-
Changes due to the placement of the associates from other shareholders	-	-	-	-	-	-	-	-
Owner (shareholder) investing capital	-	6,611	-	-	-	-	-	6,611
Internal transfer of owner's equity — other	-	14,707	-	-	-	-	-	14,707
Balance at 31 December 2017	3,923,735	3,860,143	759,323	640,795	606,410	3,660	271,988	10,066,054

61 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

61.1 Dividend

On 28 March 2019, the Board of Directors of the Company decided not to make profit distribution in the second half of 2018. The resolution is still subject to approval by the shareholders' meeting.

61.2 Long-term bond

From January 1, 2019 to the date of issuance of the financial statements, the company issued bonds 19 Zhongyuan 01 with a coupon rate of 3.9% and a total amount of RMB2 billion. The duration is 3 years.

61.3 Shareholders reduce shareholding

The company's major shareholder, Bohai Industrial Investment Fund Management Co., Ltd. (hereinafter referred to as "Bohai Company", representing the Bohai Industrial Investment Fund holding the company's shares) holds 608,000,000 shares of the company's unrestricted shares, accounting for 15.71% of the company's total share capital, announced the reduction of shareholding in the company in 15 February 2019. As of the date of issuance of the financial statements, the above reduction has not been completed.



中州证券

Central China Securities Co., Ltd.