



海通证券股份有限公司
HAITONG SECURITIES CO., LTD.*

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

Stock Code: 6837



2017
Interim Report

**For identification purpose only*

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IMPORTANT NOTICE

The Board, the Supervisory Committee, Directors, Supervisors and senior management of the Company represent and warrant that the contents of this interim report (this "Report") are true, accurate and complete, and do not contain any false records, misleading statements or material omission and severally and jointly take full responsibility as to the contents herein.

This Report was approved at the 25th meeting of the sixth session of the Board and the 14th meeting of the sixth session of the Supervisory Committee. Directors, Mr. Chen Bin and Mr. Shen Tiedong, were unable to attend the Board meeting in person due to business travel and both had appointed Director, Mr. Zhou Jie, to vote on their behalves. None of the Directors or Supervisors has any objection to this Report.

The 2017 unaudited interim financial report of the Company was prepared in accordance with IFRS and was reviewed by Deloitte Touche Tohmatsu. All the data in this Report has been presented in RMB unless otherwise indicated.

Mr. Zhou Jie, Chairman of the Company, Mr. Li Chuqian, Chief Financial Officer, and Mr. Ma Zhong, who is responsible for the accounting affairs, declare that they represent and warrant the truthfulness, accuracy and completeness of the financial report contained in this Report.

The Company had no profit distribution proposal or proposal on transfer of capital reserve funds into capital for the first half of 2017.

Forward-looking statements, including future plans and development strategies, may be included in this Report. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Neither the Company nor any of its subsidiaries undertakes any obligation to publicly update or revise any forward-looking statement as a result of new information. Investors should be reminded of the risks of investments and not place undue reliance on forward-looking statements.

No appropriation of funds on a non-operating basis by the Company's controlling shareholders, if any, or their respective related parties has occurred.

The Company did not provide external guarantees which were in violation of the stipulated decision-making procedures.

Section I DEFINITION AND MATERIAL RISK WARNINGS

I. DEFINITION

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

Definition of the frequently used terms

A Share(s)	domestic shares of the Company, with a nominal value of RMB1.00 each, which are listed and traded on the Shanghai Stock Exchange
Articles of Association or Articles	the articles of association of Haitong Securities
Board	the board of directors of Haitong Securities
China or PRC	the People's Republic of China excluding, for the purpose of this Report, Hong Kong, the Special Administrative Region of Macau and Taiwan
Code	the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Hong Kong Listing Rules
Company or Haitong Securities	Haitong Securities Co., Ltd.
CSRC	the China Securities Regulatory Commission
Director(s)	the director(s) of Haitong Securities
EUR or Euro	the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty on the Functioning of the European Union, as amended
Fullgoal Fund	Fullgoal Fund Management Co., Ltd. (富國基金管理有限公司)
Group	the Company and its subsidiaries
H Share(s)	ordinary shares in the share capital of the Company with nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange and traded in HK dollars
Haitong Bank	Haitong Bank, S.A.
Haitong Bank Brasil	Haitong Banco de Investimento do Brasil S.A.

Section I DEFINITION AND MATERIAL RISK WARNINGS

Haitong Capital	Haitong Capital Investment Co., Ltd. (海通開元投資有限公司)
Haitong Futures	Haitong Futures Co., Ltd. (海通期貨股份有限公司)
Haitong Innovation Securities	Haitong Innovation Securities Investment Co., Ltd. (海通創新證券投資有限公司)
Haitong International Holdings	Haitong International Holdings Limited (海通國際控股有限公司)
Haitong International Securities	Haitong International Securities Group Limited (海通國際證券集團有限公司), a company listed on the Hong Kong Stock Exchange under the stock code of 665
Haitong UniTrust	Haitong UniTrust International Leasing Co., Ltd. (海通恆信國際租賃股份有限公司)
Haitong UniTrust Shanghai	Haitong UniTrust Financial Leasing (Shanghai) Corporation (海通恆信融資租賃(上海)有限公司)
Haitong UT Capital	Haitong UT Capital Group Co., Limited (海通恆信金融集團有限公司)
Haitong UT Leasing HK	Haitong UT Leasing HK Limited (海通恆信租賃(香港)有限公司)
Haitong Xinchuang	Haitong Xinchuang Investment Management Co., Ltd. (海通新創投資管理有限公司)
Haitong-Fortis PE	Haitong-Fortis Private Equity Fund Management Co., Ltd. (海富產業投資基金管理有限公司)
HFT Investment	HFT Investment Management Co., Ltd. (海富通基金管理有限公司)
HK\$, HKD or HK dollars	the lawful currency of Hong Kong
Hong Kong	the Special Administrative Region of Hong Kong of the PRC
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
HT Asset Management	Shanghai Haitong Securities Asset Management Company Ltd. (上海海通證券資產管理有限公司)
IFRS	the International Financial Reporting Standards

Section I DEFINITION AND MATERIAL RISK WARNINGS

IPO	initial public offering
Model Code	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
NSSF	the National Council for Social Security Fund of the PRC
PRC GAAP	generally accepted accounting principles in the PRC
QDII	Qualified Domestic Institutional Investor
QFII	Qualified Foreign Institutional Investor
Reporting Period	from 1 January 2017 to 30 June 2017
RMB or Renminbi	the lawful currency of the PRC
RQFII	Renminbi Qualified Foreign Institutional Investor
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
SSE	the Shanghai Stock Exchange
Supervisor(s)	the supervisor(s) of Haitong Securities
Supervisory Committee	the supervisory committee of Haitong Securities
SZSE	the Shenzhen Stock Exchange
US\$, USD or U.S. dollars	the lawful currency of the United States of America

Section I DEFINITION AND MATERIAL RISK WARNINGS

II. MATERIAL RISK WARNINGS

The business of the Company may be affected by various factors, such as macro-economic situations and monetary policies, laws and regulations on financial and securities industries, inflation, fluctuation in exchange rate, funding sources available in the market in short-term and long-term, cost of funding and interest rates and its volatility. Fluctuation in the financial markets, a downturn in general economic environment or other risks that generally associated with the securities industry may reduce securities trading and finance activities, affecting the value of relevant financial assets. Therefore, it may materially and adversely affect the Company's operating results and financial position. The Company may also be exposed to the credit risk related to the issuer because of holding the financial assets. Underwriting, investing, margin financing and securities lending or other securities business of the Company may cause itself to hold a large number of specified class of assets, resulting in the concentration risk to be borne by the Company.

Risks that the Company mainly faces in its operations include: policy risks that adversely affect operations of securities companies, which arise from changes to relevant laws, regulations, regulatory policies and trading rules of securities industry due to national macro-control measures; compliance risks that may expose the Company to legal sanctions or regulatory penalties, significant financial losses or reputational damages, resulting from failure to comply with laws and regulations, regulatory requirements, rules, relevant standards formulated by self-disciplined organizations, and code of conduct applicable to the business activities of securities companies; reputation risks arising from negative comments to the Company given by relevant stakeholders as a result of the Company's operations, management activities or external events; higher liquidity risks exposed to the Company by issuing bonds, income receipts, subordinated bonds, short-term corporate bonds, which would enhance the Company's capital adequacy and expand its financing channels, but may lead to the increase of the Company's leverage ratio; credit risks generated when clients or counterparties fail to perform their obligations set out in the contracts, or when the value of collateral provided by them has shortfall; market risks resulting from the Company's loss in relevant business invested by self-owned fund due to the adverse changes in market prices (stock price, interest rate, exchange rate, or commodity price, etc.); adverse effect on the Company's business due to failure to attract, retain or hire the management and qualified professionals or replace them with suitable candidates as the operations of the Company mainly rely on such professionals while the market competition is intensive; operational risks resulting from deficiency and defects of the internal process, improper business operations by employees, default of information technology and external affairs; and new risks generated as the Company expands its businesses into Europe, Hong Kong and other countries and regions with the development of the international strategy of integration. Furthermore, these risks are correlated in certain ways, thus may consequently cause systemic risks through their correlation.

For details of the abovementioned risks and the countermeasures have been or to be taken by the Company, investors are advised to read carefully about certain contents concerning "Potential Risks and Prevention Measures" in section IV "Report of the Board of Directors" of this Report, and pay special attention to above risk factors.

Section II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

I. CORPORATE INFORMATION

Chinese name of the Company	海通證券股份有限公司
Chinese abbreviation of the Company	海通證券
English name of the Company	Haitong Securities Co., Ltd.
English abbreviation of the Company	Haitong Securities
Legal representative of the Company	Zhou Jie
General manager of the Company	Qu Qiuping
Authorized representatives of the Company	Zhou Jie, Jiang Chengjun
Joint company secretaries	Jiang Chengjun, Wong Wai Ling

Registered Capital and Net Capital of the Company

	As at the end of this Reporting Period	<i>Unit and Currency: RMB</i> As at the end of last year
Registered capital	11,501,700,000.00	11,501,700,000.00
Net capital	72,634,266,705.73	78,663,534,022.30

Scope of business of the Company

Securities brokerage; securities proprietary trading business; securities underwriting and sponsoring; securities investment advisory; financial consultation relating to securities trading and investment activities; direct investment business; securities investment fund consignment; provision of intermediary introduction business for the futures companies; margin financing and securities lending business; agency sales of financial products; the stock options market making business; other businesses approved by the CSRC. In addition, the Company is permitted to establish subsidiaries to engage in investment business such as investing in financial products.

Each individual business qualification of the Company

1. Online securities entrustment business qualification (Zheng Jian Xin Xi Zi [2001] No. 3)
2. Qualification for lending and purchase of bonds, bond transactions and bond repurchase business in the national inter-bank lending market and the bond market (Yin Ban Han [2001] No. 819)
3. Qualification for lending transactions and bond transactions in the national inter-bank lending center (Zhong Hui Jiao Fa [2001] No. 306)
4. Qualification for acquisition of securities business departments (Hu Zheng Ji Bian [2002] No. 090)
5. Open-end securities investment fund consignment business qualification (Zheng Jian Ji Jin [2002] No. 076)
6. Securities company engaged in relevant innovative activity trials (Zhong Zheng Xie Han [2005] No. 079)
7. Qualification for short-term commercial paper underwriting business (Yin Fa [2005] No. 173)
8. Qualification for quotation transfer business (Zhong Zheng Xie Han [2006] No. 3)
9. Trader Qualification for Shanghai Stock Exchange Fixed Income Securities Consolidated Electric Trading Platform (Shang Zheng Hui Han [2007] No. 86)
10. Qualification for Association of PRC Inter-bank Market Trader (August 2007)

Section II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

11. Qualification for overseas securities investment management business as a qualified domestic institutional investor (Zheng Jian Xu Ke [2008] No. 146)
12. A-grade clearing participant qualification of China Securities Depository and Clearing Corporation Limited (Zhong Guo Jie Suan Han Zi [2008] No. 22)
13. Qualification for provision of intermediary introduction business for the futures companies (Zheng Jian Xu Ke [2008] No. 479) (Hu Zheng Jian Ji Gou Zi [2010] No. 122)
14. Qualification for direct investment business trials (Ji Gou Bu Bu Han [2008] No. 421)
15. Qualification for implementation of the broker system (Hu Zheng Jian Ji Gou Zi [2009] No. 302)
16. Qualification of Providing Trading Units for Insurance Agency Investors (Bao Jian Zi Jin Shen Zheng [2009] No. 1)
17. Qualification for margin financing and securities lending business (Zheng Jian Xu Ke [2010] No. 315)
18. Qualification of Engaging of Stock Index Futures Hedging Business through Proprietary Trading of the Company (Hu Zheng Jian Ji Gou Zi [2010] No. 372)
19. Qualification for Securities House Assigned by NSSF (August 2011)
20. Qualification for Fund Evaluation Business (Zhong Zheng Xie Fa [2010] No. 070)
21. Qualification of Engaging of Stock Index Futures through Asset Management (Hu Zheng Jian Ji Gou Zi [2011] No. 237)
22. Stock repo transaction business trials (Ji Gou Bu Bu Han [2011] No. 512) (Shang Zheng Jiao Zi [2011] No. 37)
23. Qualification for issuance of overseas listed foreign shares (Zheng Jian Xu Ke [2011] No. 1821) (H Share)
24. Trial business of bond collateralized repo with quotes (Ji Gou Bu Bu Han [2011] No. 585)
25. Partnership independent custody business trials (Ji Gou Bu Bu Han [2012] No. 686)
26. Over-the-counter transaction business (Zhong Zheng Xie Han [2012] No. 825)
27. Pilot Qualification of Engaging of Margin and Securities Refinancing Business (Zhong Zheng Jin Han [2012] No. 113)
28. Pilot Qualification of Underwriting of Private Debts for SMEs (Zhong Zheng Xie Han [2012] No.561)
29. Qualification for foreign exchange operation in the securities business (SC201307)
30. Qualification for issuance of short-term financing bonds (Ji Gou Bu Bu Han [2013] No. 407, Department of Fund and Intermediary Supervision Han [2014] No. 1551)
31. Qualification for Distribution of Financial Products (Hu Zheng Jian Ji Gou Zi [2013] No.180)
32. Pilot qualification of conducting capital consumption payment services for client securities (Ji Gou Bu Bu Han [2013] No. 741)
33. Qualification of the 11th batch of insurance agency for 2013 (Hu Bao Jian Xu Ke [2013] No. 204)
34. Qualification for agency distributing precious metal spot contract such as gold and proprietary trading for gold spot contract (Ji Gou Bu Bu Han [2013] No. 959)
35. Custody qualification of security investment funds (Zheng Jian Xu Ke [2013] No. 1643)
36. Qualification for agency business of securities pledge registration (February 2014)
37. Internet securities business trials (Zhong Zheng Xie Han [2014] No. 358)
38. Membership qualification on the Gold Exchange (Certificate Number: No. T004)

Section II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

39. Pilot Issuance of Short-term Corporate Bonds by Securities Companies (Shang Zheng Duan Zhai [2014] No. 4)
40. Business Pilot of Financing-oriented Option Exercise with respect to Share Incentive Schemes of Listed Companies (Shenzhen Han [2014] No. 321)
41. Qualification for the stock options market making business (Zheng Jian Xu Ke [2015] No. 153)
42. Principal market maker in SSE 50 ETF options contracts (Shang Zheng Han [2015] No. 214)
43. Business Qualification for Options Settlement (Zhong Guo Jie Suan Han Zi [2015] No. 20)
44. Futures Membership Certificate (Certificate Number: NO. G02008)
45. Qualification for Offshore Proprietary Business (Ji Gou Bu Han [2015] No. 1204)
46. No Comment Letter on Innovative Program of One-way Video Account Opening (Zhong Guo Jie Suan Ban Zi [2015] No. 461)
47. Qualification for Inter-bank Gold Price Asking Transactions (Shang Jin Jiao Fa [2015] No. 120)
48. Qualification for Carrying on Main Underwriting Business of Debt Financial Instruments for Non-Financial Enterprises
49. Qualification for Note Dealing (Yin Ban Fa [2016] No. 224)
50. Qualification for Relevant Business on Tools Mitigating Credit Risk (2017)

The Company holds membership qualification on the Shanghai Stock Exchange and the Shenzhen Stock Exchange and warrant clearing business qualification in China Securities Depository and Clearing Corporation Limited. All subsidiaries of the Company conduct their operation legally or upon obtaining the relevant business qualifications as approved by the relevant regulatory departments.

II. CONTACT PERSONS AND CONTACT METHODS

	Secretary to the Board	Representative of Securities Affairs
Name	Jiang Chengjun	Sun Tao
Correspondence address	12/F, Haitong Securities Building, No. 689 Guangdong Road, Shanghai, PRC (Postal Code: 200001)	12/F, Haitong Securities Building, No. 689 Guangdong Road, Shanghai, PRC (Postal Code: 200001)
Tel	8621-23219000	8621-23219000
Fax	8621-63410627	8621-63410627
E-mail	jiangcj@htsec.com	sunt@htsec.com

III. CHANGES IN CORPORATE INFORMATION

Registered address	No. 689 Guangdong Road, Shanghai, PRC
Postal code of registered address	200001
Business address	No. 689 Guangdong Road, Shanghai, PRC
Postal code of business address	200001
Internet website	http://www.htsec.com
E-mail	haitong@htsec.com
Principal place of business in Hong Kong	21st Floor, Li Po Chun Chambers, 189 Des Voeux Road Central, Central, Hong Kong
Search index for changes in registration during the Reporting Period	http://www.sse.com.cn
Unified social credit code in the business license	9131000013220921X6
General Compliance Officer	Wang Jianye

Section II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

IV. CHANGES IN INFORMATION DISCLOSURE AND PLACE OF INSPECTION

Newspapers designated by the Company for information disclosure	China Securities Journal, Shanghai Securities News, Securities Times
Website designated by the CSRC for publication of interim reports	http://www.sse.com.cn
Website designated by the Hong Kong Stock Exchange for publication of interim reports	http://www.hkexnews.hk
Place where interim reports of the Company are available	Office of the Board, 12/F, Haitong Securities Building, No. 689 Guangdong Road, Shanghai, PRC

V. INFORMATION ON THE COMPANY'S SHARES

Type of shares	Places of listing	Stock name	Stock code	Stock name before changes	Share Registrar
A Share	Shanghai Stock Exchange	Haitong Securities	600837	–	Shanghai Branch of China Securities Depository and Clearing Corporation Limited
H Share	Hong Kong Stock Exchange	Haitong Securities	6837	–	Computershare Hong Kong Investor Services Limited

Section II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

VI. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE COMPANY

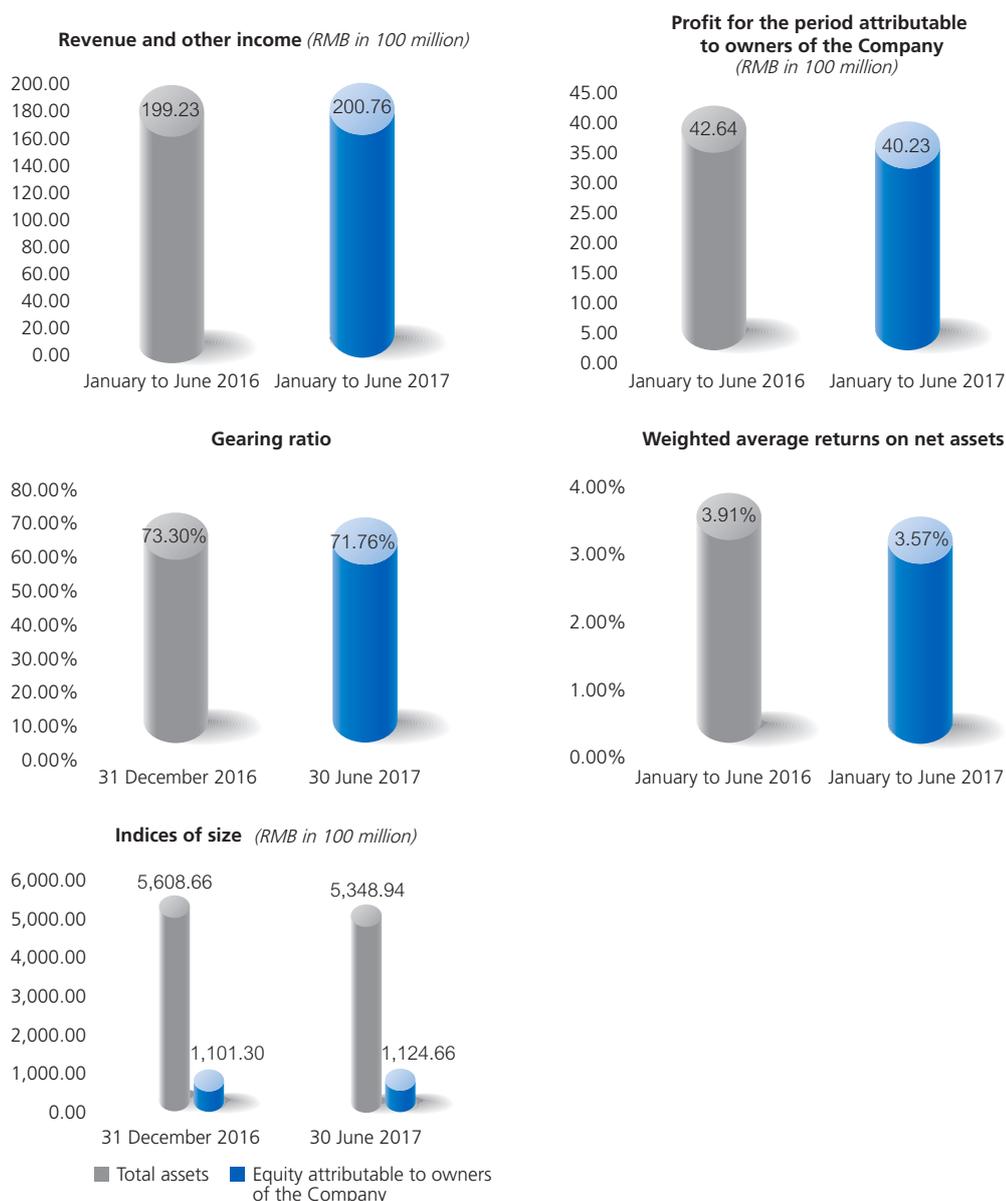
(All of the accounting data and financial indicators set out in this Report are prepared in accordance with IFRS unless otherwise indicated)

(1) Major accounting data and financial indicators

Items	January to June 2017	January to June 2016	As compared with the corresponding period of last year
Operating results (RMB'000)			<i>Changes</i>
Revenue and other income	20,075,598	19,922,694	0.77%
Profit before income tax	5,810,403	5,494,816	5.74%
Profit for the period – attributable to owners of the Company	4,023,478	4,264,300	-5.65%
Net cash used in operating activities	-149,087	-14,127,751	–
Earnings per share (RMB/share)			<i>Changes</i>
Basic earnings per share	0.35	0.37	-5.41%
Diluted earnings per share	0.35	0.37	-5.41%
Index of profitability			<i>Changes</i>
Weighted average returns on net assets (%)	3.57	3.91	-0.34 percentage point
Items	30 June 2017	31 December 2016	As compared with the end of last year
Indices of size (RMB'000)			<i>Changes</i>
Total assets	534,894,317	560,865,846	-4.63%
Total liabilities	410,773,016	438,907,445	-6.41%
Accounts payable to brokerage clients	95,371,425	104,059,287	-8.35%
Equity attributable to owners of the Company	112,465,675	110,130,127	2.12%
Total share capital ('000)	11,501,700	11,501,700	–
Net assets per share attributable to owners of the Company (RMB/share)	9.78	9.58	2.09%
Gearing ratio (%) ⁽¹⁾	71.76	73.30	-1.54 percentage points

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

Section II COMPANY PROFILE AND KEY FINANCIAL INDICATORS



(2) Particulars of major accounting data

In the first half of 2017, the trading volume of stocks and funds in Shanghai and Shenzhen stock markets decreased by approximately 19% as compared with the corresponding period of last year. The decrease in trading volume brings some challenges to the Company's operations. The Company adhered to a sound operation and its main businesses were stable in the first half of 2017. The Group's revenue and other income and profit for the period attributable to owners of the Company from January to June 2017 amounted to RMB20,076 million and RMB4,023 million, representing an increase of 0.77% and a decrease of 5.65% as compared with the corresponding period of last year.

In the first half of 2017, the Group maintained stable operations of all of its businesses, reasonable asset structure, adequate liquidity and high-quality assets.

Section II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

(3) DIFFERENCES OF ACCOUNTING DATA UNDER IFRS AND PRC GAAP

The net profits for the periods from January to June 2017 and from January to June 2016 and the net assets as at 30 June 2017 and 31 December 2016 as stated in the consolidated financial statements of the Group prepared in accordance with PRC GAAP are consistent with those prepared in accordance with IFRS.

(4) THE NET CAPITAL AND RELEVANT RISK CONTROL INDICATORS OF THE COMPANY

As at 30 June 2017, the net capital of the Company was RMB72,634 million, representing a decrease of RMB6,030 million as compared with the net capital of RMB78,664 million as at the end of last year. During the Reporting Period, all risk control indicators including net capital of the Company met the regulatory requirements.

Items	As at 30 June 2017 <i>RMB'000</i>	As at 31 December 2016 <i>RMB'000</i>
Net capital	72,634,267	78,663,534
Net assets	103,277,947	101,244,982
Risk coverage ratio	235.01%	258.90%
Capital leverage ratio	26.52%	27.64%
Liquidity coverage ratio	191.18%	155.23%
Net stable fund ratio	129.16%	131.65%
Net capital/net assets	70.33%	77.70%
Net capital/liabilities	49.46%	52.56%
Net assets/liabilities	70.33%	67.65%
Proprietary equity securities and securities derivatives/net capital	28.46%	29.66%
Proprietary non-equity securities and derivatives held/net capital	87.52%	80.98%

Note: The above data is calculated based on the financial information prepared in accordance with PRC GAAP.

Section III SUMMARY OF THE COMPANY'S BUSINESS

I. PARTICULARS OF THE PRINCIPAL BUSINESSES ENGAGED BY THE COMPANY, ITS OPERATING MODELS AND INDUSTRIES IT OPERATES IN DURING THE REPORTING PERIOD

(1) Principal businesses and operating models of the Company during the Reporting Period

The Company is principally engaged in the securities and futures brokerage business, investment banking business, proprietary trading business, direct investment business, asset management business, financial leasing business and offshore business.

Securities and futures brokerage business refers to trading securities and futures for customers based on their engagement and requirement in return for customers' commission.

Investment banking business refers to the provision of intermediary services for enterprises that raise long-term capital by ways of share and bond issuance in the capital market, and the provision of financial consultancy services for the optimization of corporate capital structure, consolidation of industries and facilitation of business transformation, and requirement in return for fees as agreed in contracts.

Proprietary trading business refers to the utilization of the Company's own funds as principal in the capital market with an aim of generating investment gains.

Direct investment business refers to the Company's investment in the equity interests of non-public companies with its own funds as the principal, and obtaining return by the disposal of its equity interests upon their listing or acquisition in the future.

Asset management business refers to the provision of investment management services for customers' assets by the Company, as an asset manager, such as securities and other financial products, in accordance with the methods, conditions, requirements and limitations as set forth in asset management contracts.

Financial leasing business refers to the delivery of use right of a specific commodity by the Company as a lessor to the lessee in return for fees paid by the lessee.

The Company conducts its offshore business mainly through Haitong International Securities and Haitong Bank. The core business of Haitong International Securities covers corporate financing, brokerage and margin financing, investment management, fixed income, foreign exchange and commodity, structural investment and financing, cash and stocks as well as stock derivatives. Haitong Bank conducts its business with specialties in capital market, merger and acquisition, financial consultancy and project financing, etc.

Section III SUMMARY OF THE COMPANY'S BUSINESS

(2) Development stage and periodic characteristic of industries the Company operates in during the Reporting Period

In the first half of 2017, Shanghai-Shenzhen CSI 300 Index increased by 10.78%, the Small and Medium Enterprises Board Index increased by 7.33% and ChiNext Board Index decreased by 7.34%, which showed an obvious differentiation in A share market. With tightening monetary policy and continuous enhancement in deleveraging, market rate stayed at a historical high level and ChinaBond New Composite Index (net price) declined by 2.39%. The trading volume of stock and fund in the Shanghai Stock Exchange and the Shenzhen Stock Exchange amounted to RMB106 trillion, representing a decrease of 19% compared with the corresponding period of last year. The competition for brokerage business became increasingly fierce and average commission rate in the market continued to decrease. IPO market had been on an upward trend since the second half of last year, approval for refinancing and restructuring projects continued to be tightened, and the bond underwriting business sustained impact from the continuously rising market rate. Affected by the financial deleveraging and strengthened regulation, asset management business of securities firms gradually returned to active management, and passageway business shrank significantly. In general, the capital market kept the overall tone of "Steady Progress". Under the regulatory philosophy of "lawful, overall and stringent regulation", the basic system for the industry was gradually improved, and the industry's ability to serve the real economy was enhanced constantly.

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

For changes in major assets which accounted for over 5% of the total assets of the Group as at the end of the Reporting Period and range of such change during the Reporting Period exceeded 30%, see item No. 1. "Analysis on principal components of consolidated statement of financial position" under paragraph II (II) in Section IV for details.

Of which: off-shore assets was RMB153,475,866.68 thousand, accounting for 28.69% of the total assets.

III. ANALYSIS ON CORE COMPETITIVENESS DURING THE REPORTING PERIOD

In the process of long-standing business operations, the Company has gradually formed its characteristic core competitiveness, which is mainly embodied in:

(1) Leading capital strength in the industry

The Company has taken the market opportunities and strengthened its capital strength rapidly through several strategic equity financing and bond financing. In the first half of 2017, the Company accumulatively raised funds of RMB38.0 billion by corporate bonds, Euro bonds, short-term financing bills, gold forward transactions, refinancing and syndicated loans, which provided sufficient capital assurance for implementation of business development and major business strategies. The Company ranked second among all securities firms in the PRC from 2009 to 2016 in terms of its total assets and its net assets. Sufficient capital provided the Company with first-mover advantage with regard to implementing business transformation and accelerating business innovation.

Section III SUMMARY OF THE COMPANY'S BUSINESS

(2) Excellent comprehensive business platform

The Company has developed into a financial service conglomerate covering various businesses including brokerage, investment banking, asset management, direct equity investment, alternative investment and financial leasing. The Company has strong customer base in brokerage business, high market influence in investment banking business, increasing size in asset management business steadily, and top market ranking in innovative business. The Company's comprehensive financing platform has strong scale and cross-selling potential, which provided support for its business development.

(3) Extensive branch network with a substantial and stable customer base

As at 30 June 2017, the Company had 331 securities and futures business departments (including 290 securities business departments and 41 futures business departments) spanning across 30 provinces, direct-controlled municipalities and autonomous regions in the PRC, as well as branches and subsidiaries in 14 countries or regions including Asia, Europe, North America and South America, etc. Leveraging on its branch network across the PRC and strategic international business presence, the Company has built a large and stable customer base. As at 30 June 2017, the Company had approximately 10.6 million customers onshore and offshore.

(4) Leading innovation capabilities in the market

The Company always treats innovation as the key driving force in promoting strategic transition. In recognition of its strong capital position, effective risk management and proven execution capabilities, the Company is frequently designated by the regulatory authorities as one of the first few securities firms to participate in pilot programs for new businesses, which creates a new arena for profit growth of the Company. The Company has maintained its leading positions in innovative businesses such as clients' financing business and OTC business, etc. developed in recent years. In the meantime, the Company continued the pace of self-innovation, and continuously provided innovative business solutions and enriched its serving methods for onshore and offshore customers. The proportion of revenue generated from innovative businesses continued increasing, and exceeded 48% in the first half of 2017, which effectively offset the adverse effect by the revenue decrease in traditional businesses.

Section III SUMMARY OF THE COMPANY'S BUSINESS

(5) Leading international business platform in the industry

The Company has taken the lead in establishing an international business platform by acquiring and consolidating Haitong International Securities and Haitong Bank and setting up a branch in the free trade zone in China. Haitong International Securities continues to maintain its dominant position in the PRC securities firms in Hong Kong. According to data from Bloomberg, in the first half of 2017, Haitong International Securities ranked first among the PRC investment banks in Hong Kong in terms of the number of equity financing projects and financing amount and ranked first among global investment banks in respect of volume of G3+CNH bonds issued by Chinese securities firms and financing amount. Haitong International Securities achieved the successful transformation in its comprehensive trading business and became the first and sole PRC securities institution in Hong Kong to be included in Group A securities firms in Hong Kong (top 14 securities firms in terms of transaction volume in the market).

With its businesses developed across the western markets, Haitong Bank aims to support cross-border business communication among China, Europe, North America, South America and Africa. Haitong Bank is an important part of the Company's international strategy, as it has professional knowledge about the local market of Iberia and over 20 years' experience in overseas market, which will promote the Company's business presence in more places.

The Company's branch in the free trade zone in China is among the first batch securities institutions entered into the FTU system of the free trade zone, and the first PRC securities firm that has successfully implemented a cross-border financing project under FT. Benefiting from its leading all-round international business platform in the industry, the Company will capture the increasing opportunities of cross-border business, satisfy customers' demands for cross-border business and enhance its international influence.

(6) Sound corporate governance, effective risk management and internal control systems

The Company has adhered to the mindset of "proper and even conservative risk control" and has navigated through several market and business cycles, regulatory reforms and industry transformations and developments during over 30 years of its operations. The Company is the only major PRC securities firm founded in the 1980s that remains in operation and retains the same brand without receiving government-backed capital injections or being acquired or restructured. The Company practices the idea of overall risk management and keeps improving its existing risk control system to effectively manage market risk, credit risk, liquidity risk, operational risk and reputational risk. The Company has also established effective risk isolation mechanism and appropriate precautionary mechanisms across its business lines to prevent potential conflicts of interests. In addition, the Company has established an independent and centralized internal audit and compliance system in order to monitor its operations and transactions effectively.

Section IV REPORT OF THE BOARD OF DIRECTORS

I. DISCUSSION AND ANALYSIS OF THE BOARD ON THE COMPANY'S OPERATION DURING THE REPORTING PERIOD

In the first half of 2017, the Company has been making smooth progress with its operation and management, maintained stable development of each of its business line, achieved significant progress in its goal of becoming a conglomerate, maintained industry-leading level of internationalization, gained preliminary results with the integration of offshore businesses, and maintained its top ranking in terms of key financial and business indicators. The Company promoted in-depth reform and transformation of its branch organization and aims to integrate front-line business, consolidate back-line operation control, optimize performance appraisal and build a comprehensive financial platform. By steadfastly driving for restructuring and optimization of organization, the Company made effort to improve regional business development capabilities and to advance the professionalism of compliance and risk management. By strengthening assets and liabilities management, the Company effectively secured its funding needs for business development and reduced its overall financing cost. By consistently promoting the development of conglomeration and offshore business integration, the contributions from subsidiaries of the Company have continually improved and its certain subsidiaries have become leading players in their fields. With its Hong Kong business further consolidating its leadership position in the Hong Kong market with key business indicators ranking the top among PRC investment banks in Hong Kong, the Company maintained its leading position in the internationalization progress. By integrating Haitong Bank's India business into Haitong International Securities, the business in India market has been gradually moving in the right development direction and thus the Company has achieved preliminary results in such integration. The internationalization strategy by acquiring Haitong Bank will gradually release the development potential.

II. OPERATIONS DURING THE REPORTING PERIOD

As at 30 June 2017, the total assets of the Group amounted to RMB534,894 million and the equity attributable to owners of the Company amounted to RMB112,466 million. For the period from January to June 2017, the revenue and other income of the Group amounted to RMB20,076 million, representing an increase of 0.77% as compared with the same period of last year, and profit for the period attributable to owners of the Company amounted to RMB4,023 million, representing a decrease of 5.65% as compared with corresponding period of last year; the weighted average returns on net assets was 3.57%, representing a decrease of 0.34 percentage point as compared with corresponding period of last year.

Section IV REPORT OF THE BOARD OF DIRECTORS

Statement of the Principal Business of the Group

Unit: RMB'000

Item	Segment income	Segment expense	Segment profit margin	Segment income movement as compared with corresponding period of last year	Segment expense movement as compared with corresponding period of last year	Segment profit margin movement as compared with corresponding period of last year
Securities and futures brokerage business	6,758,486	4,768,757	29.44%	-17.31%	-11.06%	Decreasing by 4.96 percentage points
Asset management business	1,080,228	469,693	56.52%	72.95%	11.04%	Increasing by 24.25 percentage points
Proprietary trading business	3,155,467	2,367,537	24.97%	-2.69%	-1.44%	Decreasing by 0.94 percentage point
Investment banking business	1,066,721	347,461	67.43%	18.61%	11.88%	Increasing by 1.96 percentage points
Direct investment business	1,122,003	142,170	106.70%	111.48%	229.97%	Increasing by 13.06 percentage points
Financial leasing business	2,013,169	1,188,655	40.96%	27.65%	17.50%	Increasing by 5.10 percentage points
Offshore business	3,582,401	3,617,452	3.13%	3.17%	17.40%	Decreasing by 9.04 percentage points

Section IV REPORT OF THE BOARD OF DIRECTORS

(I) Analysis of the Principal Business

1. *Principal Business by Sector, Product and Region*

➤ *Securities and futures brokerage business*

In the first half of 2017, the Company had 4.43% market share in terms of stock and fund trading volume. The Company continued to push forward the reform and transformation of branch organization and strengthen the expansion of customer base and construction of channels. As a result, the number of brokerage customers maintained a rapid growth momentum with 787,000 new customers.

The Company continued to improve its Internet finance services and expand its digital operation mode, and successfully updated and launched various versions of E-Haitong Cai (e海通財) with multi-dimensional optimization in interface design, improvement in service scenarios as well as ten new innovative functions including intelligent public sentiment, analysis of margin financing and securities lending accounts. The Company also actively conducted research on expansion of its digital operation and created a series of special topics on the WeChat official account under the major brand of "Haiboshi" (海博士). As of the end of June 2017, the number of users of E-Haitong Cai (e海通財) reached 16 million, representing an increase of 109% as compared with that of the corresponding period of last year, and the active ratio consistently ranked among the top players in the industry.

In the first half of 2017, the number of accounts for new Southbound Trading customers of the Company reached 6,793 with a total trading amount of RMB86.3 billion and a market share of 10.26%, ranking among the top in the industry.

In respect of futures brokerage business, in the first half of 2017, the market share of Haitong Futures hit a record high with an agency trading amount of RMB8.5 trillion, accounting for 9.89% of the market, and representing an increase of 2.22 percentage points as compared with corresponding period of last year. The Company's market shares on Shanghai Futures Exchange and China Financial Futures Exchange were 11.86% and 7.87%, respectively, and its market shares on Shanghai Futures Exchange, Dalian Commodity Exchange and Zhengzhou Commodity Exchange maintained the top in the industry.

Under the policies focusing on de-leveraging, risk prevention and bubbles suppression in financial markets, the Company's financing business maintained a steady growth in general. As at 30 June 2017, the financing business of the Company had a balance of RMB148,639 million, representing an increase of RMB8,009 million as compared with the end of 2016, of which, the balance of stock pledge was RMB105,797 million, representing an increase of RMB10,920 million as compared with the end of 2016 and ranking second in the industry.

Section IV REPORT OF THE BOARD OF DIRECTORS

In respect of prime brokerage (“PB”) business, the Company has diversified its business channels, enhanced risk control measures and strengthened entry approval. In the first half of 2017, the business scale of PB business amounted to RMB279.3 billion, representing an increase of 146% as compared with corresponding period of last year, of which, the new projects of custody business reached 359 with an amount of RMB106.6 billion, representing an increase of 44% as compared with corresponding period of last year, and the new projects of outsourcing business reached 675 with an amount of RMB60.4 billion, representing an increase of 85% as compared with the corresponding period of last year.

The Company continued to maintain its leading position in the market in terms of research and was widely recognized by customers. In the first half of 2017, the Company issued a total of 4,598 research reports, conducted various research events of approximately 650, convened 136 teleconferences, and organized various seminars, investment salons and high-end forums over 120. The Company actively facilitated the integration and penetration of domestic and overseas research and research sales teams and established an internationalized research and service platform of Haitong. The Company also strengthened the expansion of private fund customers with its subsisting investment funds of MOM projects amounting to RMB435 million and overall product scale amounting to RMB19.6 billion as of the end of June 2017, representing an increase of 15% as compared with the end of last year.

In the first half of 2017, the Company’s securities and futures brokerage business achieved a total profit of RMB1,990 million, accounting for 34.2% of the Group’s total profit.

➤ *Investment banking business*

In the first half of 2017, the Company’s investment banking departments actively responded to changes in policies and market environment, and adjusted its approach to adapt to new review philosophy and market environment, which resulted in good business performance, with key business indicators ranking among the top players in the industry. In the first half of 2017, the Company kept recruiting talents, expanding teams and strengthening the echelon construction of investment banking talents, which provided strong support for the business development.

In the first half of 2017, the Company’s equity financing business achieved a significant growth in income. In particular, the Company completed 18 IPO underwritten projects, ranking second in the market; five major asset restructuring projects, ranking fourth in the market; and eight NEEQ listing projects and 21 NEEQ private placement projects. (Source: WIND Information)

Section IV REPORT OF THE BOARD OF DIRECTORS

The Company continued to demonstrate its innovative capability in bond underwritten business. The Company underwritten enterprise bonds and corporate bonds with the underwritten amounts of RMB8.18 billion and RMB27.9 billion, respectively, and ranked second and the third in the market. With consistent adherence to innovation in its bonds underwritten business, the Company successfully launched China's first "17 gold bond" linking interest with gold price. As the main underwriter, the Company successfully launched the 7th tranche of China Aluminum SCP to overseas investors, and became one of the first two securities companies acting as the main underwriter of "Bond Express". (Source: WIND Information)

The investment banking business has a pipeline of potential projects. As at 30 June 2017, the Company had 36 IPO projects pending for CSRC's approval, ranking third in the market; four major asset restructuring projects in the process of approval, ranking fourth in the market; and 67 bond projects submitted for approval.

In the first half of 2017, the Company's investment banking business achieved a total profit of RMB719 million, accounting for 12.4% of the Group's total profit.

➤ *Proprietary trading business*

In the first half of 2017, the Company actively developed non-trend investment businesses, including EFT and arbitrage, on-floor futures and over-the-counter (OTC) futures. The Company kept reasonable leverage in its fixed income investment business area while developed FICC arbitrage business with treasury futures, currency market and gold lease market. During downturn of the market, the Company still achieved good investment results and outperformed market weighted indicators for the same period. Its multiple indicators, including return on investment and transaction volume, ranked among the top players, and its several innovative businesses had been in leading positions in the market.

In the first half of 2017, the Company's proprietary trading business achieved a total profit of RMB788 million, accounting for 13.6% of the Group's total profit.

➤ *Direct investment business*

After nearly 10 years of development, the Company's direct investment business has stepped into the harvest stage and become one of the stable sources of profit for the Company. In respect of the realization of return from direct investment business, in the first half of 2017, the Company exited nine investment projects, four of which were on an absolute basis and five were on a partial basis. In respect of exit from direct investment projects by IPO, in the first half of 2017, the Company completed IPO of two companies in investment projects, securities of which have been listed and traded on the Shanghai Stock Exchange and the Shenzhen Stock Exchange, and IPO of other two direct investment projects have been approved and are currently pending for listing.

Section IV REPORT OF THE BOARD OF DIRECTORS

In the first half of 2017, the Company's direct investment business achieved a total profit of RMB1,197 million, accounting for 20.6% of the Group's total profit.

➤ *Asset management business*

As at 30 June 2017, the asset management business of the Company mainly comprises three divisions, namely, HT Asset Management, Fullgoal Fund and HFT Investment, with an aggregate amount of asset under management of RMB1.2 trillion. HT Asset Management adapted to the regulatory situation in the first half of 2017, proactively shrank its channel management scale and enhanced its active management capability, with an amount of asset under management of RMB583 billion. Fullgoal Fund and HFT Investment had an amount of asset under management of RMB420 billion and RMB210 billion, respectively. In the first half of 2017, the Company had 26 PE investment projects with an investment amount of approximately RMB1.1 billion and seven new investment projects with exit strategy of IPO. As at 30 June 2017, it had assets under management of over RMB20 billion.

In the first half of 2017, the Company's asset management business achieved a total profit of RMB611 million, accounting for 10.5% of the Group's total profit.

➤ *Financial leasing business*

In the first half of 2017, Haitong UniTrust officially commenced its listing on the main board of the Hong Kong Stock Exchange. In respect of debt financing, with its corporate rating improved to AAA, Haitong UniTrust successfully launched short term financing bills and corporate bonds with superior new financing costs than similar comparable leasing companies in the market. Under the premise of implementing reasonable control over liquidity risks, Haitong UniTrust proactively adjusted the financing structure and term, and actively diversified its financing channels to make full use of multiple debt financing measures, including corporate bonds, short-term financing bills, asset-backed special programs and innovative structure syndicated loans at the free trade zone to provide funding support for business development. Haitong UniTrust made stable development in retail business fields, including transportation and logistics and micro- and small-sized enterprise, which realized the balanced development of the business scale and income of the financial leasing business.

In the first half of 2017, the Company's financial leasing business achieved a total profit of RMB825 million, accounting for 14.2% of the Group's total profit.

Section IV REPORT OF THE BOARD OF DIRECTORS

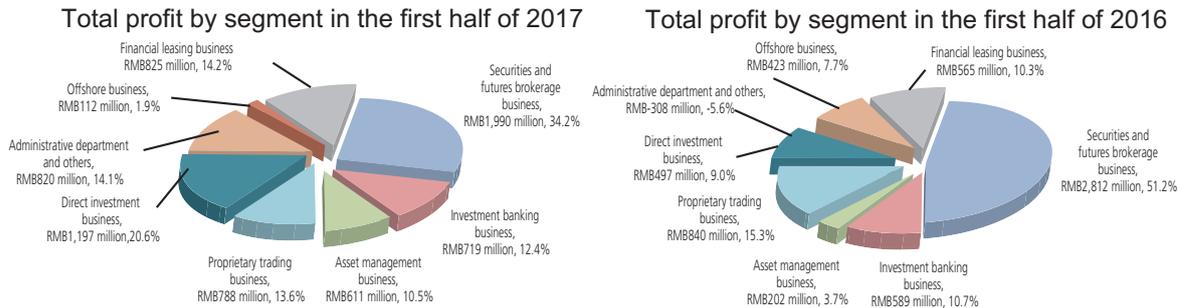
➤ *Offshore business*

Haitong International Securities gradually consolidated its leading position in the Hong Kong market. During the first half of 2017, Haitong International Securities was awarded as the “Best Investment Bank”, the “Best Securities Broker”, the “Best Equity Financing Institution” and the “Best Debt Financing Institution” among PRC financial institutions in Hong Kong SAR by Finance Asia, becoming the first PRC financial institution garnering four awards for investment bank during the past 20 years. Its primary business areas were ranked among the top players in the industry, and ranked first among PRC investment banks in Hong Kong in terms of the number of equity financing projects and the financing amount; ranked first among all investment banks in Hong Kong in terms of the number of bonds issuance projects and the amount financed, and ranking the first among all financial institutions world-wide in terms of the number of amount of high-yield USD bonds issuance projects in Asia (excluding Japan). Haitong International Securities made a successful transformation in its comprehensive trading business, and its trading volume of stocks in the Hong Kong market doubled as compared with that in the same period of last year, which enables Haitong International Securities to become the only PRC broker among 14 major investment banks of group A in Hong Kong Stock Exchange. Its comprehensive asset management business area kept expanding with an amount of asset under management hitting a record high.

Haitong Bank was an important strategic reserve during the Company’s internationalization. In the first half of 2017, the Company continued to carry out the integration of Haitong Bank in strategic positioning, capital support, group management and business linkage. The risk tolerance of Haitong Bank was enhanced with a capital increase of EUR380 million through cash and converting loans from shareholders and subordinated bonds into equity. The Company further improved its business linkage and collaboration mechanism to fully exert the advantage of conglomeration. The Company also strengthened the group management and worked on deployment of personnel to promote management integration. After integrating Haitong Bank’s India business into Haitong International Securities, all business areas are moving in the right direction, with the first IPO underwritten project and M&A project completed during the first half of 2017, showing a good momentum of development.

In the first half of 2017, the Company’s offshore business achieved a total profit of RMB112 million, accounting for 1.9% of the Group’s total profit.

Section IV REPORT OF THE BOARD OF DIRECTORS



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

(1) Revenue and other income

In the first half of 2017, the revenue and other income realized by the Group amounted to RMB20,076 million, representing an increase of RMB153 million or 0.77% as compared with the corresponding period of last year, which was mainly due to the fragmentation of the A share market, tightening monetary policies, the historically higher level of market interest rate as well as the decrease in trading volume in the first half of 2017. Therefore, the Company's brokerage business were affected to a certain extent. The Company adheres to a sound operation, and achieved a significant increase in the revenue from direct investment business, asset management business and investment banking business as compared with that of the corresponding period of last year. The revenue from innovative businesses, such as margin financing and securities lending and stock pledge, accounted for 32% of the Group's total revenue, of which:

- Commission and fee income amounted to RMB5,869 million, accounting for 29.23% of total revenue and other income and representing a decrease of 5.65% as compared with the corresponding period of last year, mainly due to the decrease in transaction volume of the securities market in the first half of 2017. Fee income from brokerage business recorded a relative decrease as compared with the corresponding period of last year;
- Interest income amounted to RMB7,475 million, accounting for 37.24% of total revenue and other income and representing a decrease of 12.32% as compared with the corresponding period of last year. Although being affected by adverse market environment and its interest income suffered a slight decrease, the Group proactively expands its financing business, and improves the business scale of stock pledge, margin financing and securities lending;

Section IV REPORT OF THE BOARD OF DIRECTORS

- Net investment gains amounted to RMB4,353 million, accounting for 21.69% of total revenue and other income and representing an increase of 64.36% as compared with the corresponding period of last year, mainly due to exit from direct investment projects and sound income gained.

The composition of the Group's revenue and other income during the Reporting Period is as follows:

Unit: RMB'000

Item	January to June 2017		January to June 2016		Increase/Decrease	
	Amount	Composition	Amount	Composition	Amount	Percentage
Commission and fee income	5,868,623	29.23%	6,220,221	31.22%	-351,598	-5.65%
Interest income	7,475,356	37.24%	8,525,752	42.79%	-1,050,396	-12.32%
Net investment gains	4,353,418	21.69%	2,648,726	13.30%	1,704,692	64.36%
Other income and gains	2,378,201	11.84%	2,527,995	12.69%	-149,794	-5.93%
Total revenue and other income	20,075,598	100.00%	19,922,694	100.00%	152,904	0.77%

(2) Total expenses

In the first half of 2017, total expense of the Group amounted to RMB14,525 million, representing a decrease of 0.24% as compared with the corresponding period of last year, which was mainly due to the decrease in interest expenses, of which:

- The interest expenses amounted to RMB5,733 million, representing a decrease of 11.87% as compared with the corresponding period of last year, which was mainly because the Group timely decreased the size of bonds payable and the accounts payable to brokerage clients decreased in light of the changes of conditions due to the fluctuation of the securities market.

Section IV REPORT OF THE BOARD OF DIRECTORS

The components of total expenses of the Group in the first half of 2017 are shown as below:

Unit: RMB'000

Total Expenses	January to June 2017	January to June 2016	Increase/Decrease	
			Amount	Percentage
Staff costs	3,351,767	2,984,063	367,704	12.32%
Interest expenses	5,732,732	6,505,068	-772,336	-11.87%
Brokerage transaction fee and other services expenses	974,565	710,194	264,371	37.23%
Commission to account executives	309,563	366,128	-56,565	-15.45%
Depreciation and amortization	217,648	184,289	33,359	18.10%
Other expenses	3,938,975	3,810,286	128,689	3.38%
Total	14,525,250	14,560,028	-34,778	-0.24%

3 Public welfare contributions

In the first half of 2017, the Group contributed RMB7.986 million in total in public welfare areas like environmental protection, disaster relief donations, education subsidies and charity donations.

Breakdown of public welfare contributions from January to June 2017

Unit: RMB'000

Item	Amount during the period
Charity donations	7,986

Section IV REPORT OF THE BOARD OF DIRECTORS

4 Cash Flows

In the first half of 2017, the Group's cash and cash equivalents recorded a net increase of RMB699 million, in which:

- (1) The net cash used in operating activities was RMB149 million, which was mainly due to the effect of cash outflow of RMB7,164 million as a result of the movement in the working capital of the Group. The decrease in the working capital of the Group was mainly attributable to:
 - cash outflow of RMB21,189 million due to the net increase of the financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss;
 - cash inflow of RMB7,029 million due to increase in financial assets sold under repurchase agreements;
 - cash inflow of RMB6,286 million as a result of the decrease of the market trading volume and in advances to customers on margin financing.
- (2) Net cash from investing activities was RMB24,740 million, mainly due to the decrease in available-for-sale investments and receivable investments.
- (3) Net cash used in financing activities was RMB23,892 million mainly from paying the Group's borrowings and bonds and interest, etc. with net cash outflow of RMB23,763 million.

5 Others

- (1) Details of material changes in the composition or sources of the Company's profits

During the Reporting Period, there were no material changes in the composition or sources of the Company's profits; therefore, this provision is not applicable.

- (2) Explanations on progress of business plans

Under the background of transformation and the overall strategic guidance of the "One Body, Two Wings (一體兩翼)", the Company adheres to a sound operation, deepens the reform and transformation, and effectively enhances its market position in the brokerage, investment banking, asset management and other seller businesses. Meanwhile, the Company continues to consolidate its industry-leading position in the capital-based intermediary business, emphasizes on research, layout and investment in new businesses, such as domestic FICC and cross-border investment and financing, to further expand its business blueprint and cultivate new profit growth points, continues to improve its operating efficiency standardization level and management capabilities, in order to enhance

Section IV REPORT OF THE BOARD OF DIRECTORS

its comprehensive competitiveness and aim to become a first-class financial services group in China with globally influential brand recognition. In the first half of 2017, the seller business of the Company maintained a good development momentum. The Company increased the number of its brokerage customers, improved its Internet financial services and further expanded the customer base, especially for financial institution customers. The Company achieved good performance in its investment banking business with major business indicators ranking the forefront of the industry, for example, the Company ranked second in the market in terms of the number of IPO underwritten projects, ranked second in terms of the amount of enterprise bonds underwritten, and ranked third in terms of the amount of corporate bonds underwritten. The profitability of asset management business continued to enhance compared with the corresponding period of last year. The financing business ranked the forefront of the industry and the balance of stock pledge business ranked second in the industry. The Company further expanded its Treasury bond futures arbitrage, money market arbitrage, gold leasing arbitrage and other types of FICC arbitrage businesses and thus numerous innovative businesses have achieved leading positions in the market. Primary businesses of Haitong International Securities continues to rank the forefront of the industry, for example, it ranked first among PRC investment banks in Hong Kong in terms of both the number of equity financing projects and the financing amount, ranked first among all investment banks in Hong Kong in terms of the number of bonds issuance projects and the financing amount. The number of private investment projects the Company achieved exiting through IPO increased substantially and its investment yields steadily increased. The total assets of the Company's leasing subsidiaries hit a new record and they had stable sources of revenue as well as considerable rate of return. The Company's futures subsidiaries have maintained a good momentum of growth. The Company promoted the establishment of its supporting systems, such as research, IT, employees and risk management, in order to better support management work and thus lay a solid foundation for the Company's sustainable and healthy development.

Section IV REPORT OF THE BOARD OF DIRECTORS

(II) Analysis on principal components of consolidated statement of financial position

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

As at the end of June 2017, the total assets and the total liabilities of the Group amounted to RMB534,894 million and RMB410,773 million, representing a decrease of 4.63% and 6.41% compared with those at the beginning of the year, respectively. Among the Group's current assets, the bank balances and cash and clearing settlement funds represented 22.90% of its total assets, financial assets such as financial assets at fair value through profit or loss, derivative financial assets, available-for-sale investments and receivable investments in total represented 27.22% of its total assets, advances to customers on margin financing represented 10.63% of its total assets, financial assets held under resale agreements represented 12.07% of its total assets, while property and equipment represented 0.32% of its total assets only. The assets of the Group were in reasonable structure with strong liquidity.

Major items of the consolidated statement of financial position of the Group are as follows:

	30 June		31 December		Unit: RMB'000	
	2017	Composition	2016	Composition	Increase/Decrease Amount	Percentage
Non-current assets	103,202,791		119,564,897		-16,362,106	-13.68%
Of which: Finance lease receivables	19,941,234	3.73%	22,035,884	3.93%	-2,094,650	-9.51%
Available-for-sale investments	32,460,821	6.07%	45,269,933	8.07%	-12,809,112	-28.29%
Other loans and receivables	6,097,589	1.14%	5,684,365	1.01%	413,224	7.27%
Investments accounted for using equity method	10,396,938	1.94%	8,749,592	1.56%	1,647,346	18.83%
Financial assets held under resale agreement	17,722,619	3.31%	20,922,862	3.73%	-3,200,243	-15.30%
Property and equipment	1,693,844	0.32%	1,615,839	0.29%	78,005	4.83%
Loans and advances	4,470,623	0.84%	5,141,634	0.92%	-671,011	-13.05%
Deferred tax assets	2,732,276	0.51%	2,773,812	0.49%	-41,536	-1.50%
Goodwill	4,007,778	0.75%	4,118,734	0.73%	-110,956	-2.69%
Current assets	431,691,526		441,300,949		-9,609,423	-2.18%
Of which: Bank balances and cash	113,589,081	21.24%	119,217,791	21.26%	-5,628,710	-4.72%
Clearing settlement funds	8,864,545	1.66%	12,191,899	2.17%	-3,327,354	-27.29%
Financial assets at fair value through profit or loss	104,980,452	19.63%	92,347,494	16.47%	12,632,958	13.68%
Advances to customers on margin financing	56,854,889	10.63%	63,212,920	11.27%	-6,358,031	-10.06%
Accounts receivable	7,195,536	1.35%	6,929,537	1.24%	265,999	3.84%
Financial assets held under resale agreements	64,569,397	12.07%	63,600,363	11.34%	969,034	1.52%
Finance lease receivables	16,806,084	3.14%	14,519,336	2.59%	2,286,748	15.75%
Available-for-sale investments	15,953,853	2.98%	12,758,905	2.27%	3,194,948	25.04%
Deposits with exchanges	6,256,267	1.17%	7,359,343	1.31%	-1,103,076	-14.99%
Derivative financial assets	3,374,722	0.63%	3,935,071	0.70%	-560,349	-14.24%
Other loans and receivables	21,300,871	3.98%	32,787,054	5.85%	-11,486,183	-35.03%
Total assets	534,894,317		560,865,846		-25,971,529	-4.63%

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	30 June 2017		31 December 2016		Increase/Decrease	
	Amount	Composition	Amount	Composition	Amount	Percentage
Current liabilities	276,414,392		295,705,387		-19,290,995	-6.52%
Of which: Accounts payable to brokerage clients	95,371,425	23.22%	104,059,287	23.71%	-8,687,862	-8.35%
Financial assets sold under repurchase agreements	50,760,948	12.36%	43,638,525	9.94%	7,122,423	16.32%
Borrowings	40,830,116	9.94%	46,659,113	10.63%	-5,828,997	-12.49%
Placements from banks and other financial institutions	2,450,470	0.60%	3,210,521	0.73%	-760,051	-23.67%
Financial liabilities at fair value through profit or loss	29,277,003	7.13%	38,063,861	8.67%	-8,786,858	-23.08%
Derivative financial liabilities	2,787,066	0.68%	2,594,009	0.59%	193,057	7.44%
Other payables and accruals	20,282,238	4.94%	19,866,992	4.53%	415,246	2.09%
Short-term financing bills payables	18,195,608	4.43%	19,864,117	4.53%	-1,668,509	-8.40%
Bonds payable	10,426,643	2.54%	11,103,335	2.53%	-676,692	-6.09%
Net current assets	155,277,134		145,595,562		9,681,572	6.65%
Non-current liabilities	134,358,624		143,202,058		-8,843,434	-6.18%
Of which: Bonds payable	102,954,257	25.06%	117,191,857	26.70%	-14,237,600	-12.15%
Long-term borrowings	18,780,380	4.57%	14,489,442	3.30%	4,290,938	29.61%
Financial assets sold under repurchase agreements	-	-	93,202	0.02%	-93,202	-100.00%
Financial liabilities at fair value through profit or loss	113,218	0.03%	575,770	0.13%	-462,552	-80.34%
Placements from banks and other financial institutions	6,294,067	1.53%	5,598,941	1.28%	695,126	12.42%
Total liabilities	410,773,016		438,907,445		-28,134,429	-6.41%
Total equity	124,121,301		121,958,401		2,162,900	1.77%

* Percentages for assets and liabilities refer to the share of total assets and the share of total liabilities respectively

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Non-current assets

As at the end of June 2017, the non-current assets of the Group decreased by 13.68% to RMB103,203 million as compared with the beginning of the year, mainly due to the decrease in financial assets held by the Group such as long-term available-for-sale investments and financial assets held under resale agreement.

Current assets and liabilities

As at the end of June 2017, the net current assets of the Group were RMB155,277 million, representing an increase of RMB9,681 million or 6.65% as compared with RMB145,596 million at the beginning of this year mainly because the decrease in current assets was less than the decrease in current liabilities.

The decrease in current assets of the Group was mainly attributable to the facts that: i) in the first half of 2017, the Company' capital requirements increased due to payment of debts such as subordinated bonds, and its size of financial instruments for liquidity management decreased; ii) in the first half of 2017, the trading volume declined due to the volatility of the securities market and the funds flowed out of the stock market; the bank balances and cash, clearing settlement funds and margin financing decreased as compared with the end of last year.

The decrease in the current liabilities of the Group was mainly due to a decrease in accounts payable to brokerage clients as a result of the weak securities market in the first half of 2017 and a decrease in financial liabilities at fair value through profit or loss as a result of the change of consolidation scopes.

Non-current liabilities

The decrease in the non-current liabilities of the Group was mainly due to the decreasing amount of bonds issuance based on market conditions and interest rates.

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Borrowings and bond financing

As at 30 June 2017, the total borrowings and bond financing of the Group amounted to RMB191,187 million. Set out below is the breakdown of borrowings and bond financing of the Group as at the end of June 2017:

	30 June 2017	31 December 2016
		<i>Unit: RMB'000</i>
Bonds payable	113,380,900	128,295,192
Borrowings	59,610,496	61,148,555
Short-term financing bills payables	18,195,608	19,864,117
Total	191,187,004	209,307,864

For the information of interest rate and maturities of borrowings and bonds financing, please refer to notes 35, 36 and 40 set out in the appended financial report.

As at 30 June 2017, the Group's borrowings, short-term financing bills payables and bonds payable due within one year amounted to RMB69,452 million, and the Group's net current assets, net of liabilities such as bonds payable, borrowings and short-term financing bills payables due within one year, amounted to RMB155,277 million. Therefore, liquidity risk exposure of the Group was immaterial.

Except for the liabilities disclosed in this Report, as at 30 June 2017, the Group had no outstanding mortgage, charges, bonds payable, other debt capital, liabilities under acceptance or other similar indebtedness, lease purchase and finance lease commitment, guarantee or other material contingent liabilities.

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(III) Analysis on Investments

1. Overall analysis on external equity investments

As at the end of the Reporting Period, the Group's long-term equity investments amounted to RMB10,397 million, representing an increase of RMB1,647 million or 18.83% as compared with RMB8,750 million at the end of last year, which was mainly due to the increase of investments by the subsidiaries of Haitong International Holdings. Please refer to Note 17 to the financial report for details of the investments accounted for using equity method.

(1) Material equity investments

Unit: RMB'000

Name	Shareholding in the company	Carrying value as at the end of the period	Profit and loss during the Reporting Period	Changes in equity of owners during the Reporting Period
Fullgoal Fund Management Co., Ltd.	27.775%	685,299.29	94,712.75	502.73

Notes: 1. Profit and loss during the Reporting Period refers to the effects on consolidated net profit of the Company during the Reporting Period caused by this investment.

2. Changes in equity of owners during the Reporting Period do not include the effects of profit or loss during the Reporting Period.

(2) Material non-equity investments

The Group had no material non-equity investments during the Reporting Period.

(3) Financial assets at fair value

The financial assets at fair value of the Group mainly consist of financial assets at fair value through profit or loss of RMB104,980 million, available-for-sale investments of RMB44,148 million, and derivative financial instruments of RMB588 million.

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(IV) Analysis on principal subsidiaries and non-controlled companies

1. HFT Investment, with a registered capital of RMB300 million, is held by Haitong Securities as to 51% equity interest. As at 30 June 2017, HFT Investment had total assets of RMB1,453 million and net assets of RMB1,003 million; for the first half of 2017, its operating income was RMB332 million and net profit was RMB91 million.
2. Fullgoal Fund, with a registered capital of RMB300 million, is held by Haitong Securities as to 27.775% equity interest. As at 30 June 2017, Fullgoal Fund had total assets of RMB3,772 million and net assets of RMB2,464 million; for the first half of 2017, its operating income was RMB1,123 million and net profit was RMB341 million.
3. Haitong-Fortis PE, with a registered capital of RMB100 million, is held by Haitong Securities as to 67% equity interest. As at 30 June 2017, Haitong-Fortis PE had total assets of RMB220 million and net assets of RMB157 million; for the first half of 2017, its operating income was RMB75 million and net profit was RMB30 million.
4. Haitong Futures, with a registered capital of RMB1.3 billion, is held by Haitong Securities as to 66.667% equity interest. As at 30 June 2017, Haitong Futures had total assets of RMB20,362 million and net assets of RMB2,560 million; for the first half of 2017, its operating income was RMB2,132 million and net profit was RMB176 million.
5. Haitong International Holdings, with a registered capital of HKD8,850 million, is held by Haitong Securities as to 100% equity interest. As at 30 June 2017, Haitong International Holdings had total assets of HKD237,262 million and net assets attributable to parent company of HKD11,137 million; for the first half of 2017, its income was HKD6,398 million and net profit was HKD548 million.
6. Haitong Capital, with a registered capital of RMB10,650 million, is held by Haitong Securities as to 100% equity interest. As at 30 June 2017, Haitong Capital had total assets of RMB17,937 million and net assets attributable to parent company of RMB13,812 million; for the first half of 2017, its operating income was RMB1,398 million and net profit was RMB993 million.
7. Haitong Innovation Securities, with a registered capital of RMB3.5 billion, is held by Haitong Securities as to 100% equity interest. As at 30 June 2017, Haitong Innovation Securities had total assets of RMB6,802 million and net assets of RMB4,989 million; for the first half of 2017, its operating income was RMB237 million and net profit was RMB173 million.
8. Haitong Asset Management, with a registered capital of RMB2.2 billion, is held by Haitong Securities as to 100% equity interest. As at 30 June 2017, Haitong Asset Management had total assets of RMB5,202 million and net assets of RMB3,489 million; for the first half of 2017, its operating income was RMB336 million and net profit was RMB177 million.

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(V) Structured entities controlled by the Company

1. *Establishment of special purpose entities controlled by the Company during the Reporting Period*

During the Reporting Period, the Company did not establish new special purpose entities controlled by the Company.

2. *Structured entities or operating entities which were controlled through entrusted operations*

The Company has determined to include 18 structured entities (which are managed by the Company's subsidiaries) in its consolidated financial statements, considering the variable returns to which the companies in the consolidated financial statement are entitled and the risks to which they are exposed from such structured entities.

III. OTHER DISCLOSURES

(I) **Warnings of and statements for any projected accumulated net loss from the beginning of the year to the end of the next reporting period or substantial change in accumulated net profit as compared with the same period last year**

✓ Not Applicable

(II) **Potential Risks and Prevention Measures**

1. *Risks exposed to the operating activities of the Company*

The risks exposed to the Company's business operation activities mainly include: credit risk, market risk, operational risk, liquidity risk and reputation risk, etc., which are mainly represented in the following aspects:

(1) *Credit risk*

Credit risk refers to the potential loss suffered by the Company due to its financing customers, counterparties or issuers of securities held by it failing to perform their contractual obligations or the loss suffered by the Company due to the deterioration of the credit qualities of the third parties whose securities are held by the Company. Credit risk has certain correlation with market risk. The credit risk exposure of the Company on possession and trading of certain financial products also changes while the market fluctuates. As such, the Company has adopted necessary monitoring and preventive measures in respect of market fluctuations, so as to effectively manage credit risk.

Credit risk exposed to the Company mainly relates to the failure to perform duties by customers and counterparties in the course of business such as self-owned monetary funds deposited in other financial institutions, bank deposits and deposits from customers in trading of securities on behalf of customers, provision of margin financing and securities lending services and stock repo and stock pledged repo transaction services to customers, proprietary business such as bond investment and derivative transactions.

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The Company's monetary funds are mainly deposited in state-owned commercial banks or joint-stock commercial banks with good reputation, and the clearing settlement funds are deposited in the China Securities Depository and Clearing Corporation Limited, therefore, its cash and cash equivalents are facing a relatively low credit risk. In terms of securities brokerage business, trading is settled under gross margining for the sake of credit risk avoidance. In terms of margin financing and securities lending business, stock repo transaction and stock pledged repo business, credit risk involved in the business are controlled through the establishment and enforcement of various strict systems and measures in such areas as due diligence, credit assessment, credit approval, and mark-to-market and liquidation of positions. The Company emphasizes diversified investment in respect of credit type fixed income securities and existing investments are comprised mainly of high credit rating products, and kept a close track of the operating conditions and credit rating changes of investees. Therefore, credit risks associated with the investment subjects are well under control. In terms of over-the-counter derivatives business, the Company established a sound regulation system covering subject securities management, counterparty credit management and risk handling procedure; and conducted daily mark-to-market evaluation throughout the term of each over-the-counter derivative trade, and adopted robust pre-warning, stop-loss policy and other measures in order to manage credit risk. In addition, the subsidiaries are also exposed to credit risk when carrying out financing business, investment business, leasing business, over-the-counter derivatives and other businesses. The Company has been working to strengthen credit risk management at the group level, and driving forward the analysis of customer concentration at the group level, in order to control concentration risk at the group level.

(2) *Market risk*

Market risk mainly refers to the risk of loss of its self-owned funds investment due to adverse changes in market prices (stock prices, interest rates, exchange rates, etc.) in the Company's business activities.

- A. Stock price risk. Stock price risk mainly refers to the risk of changes in the market price of the equity securities invested which could bring loss to the Company. The businesses with such risk mainly include equity securities proprietary trading business, market-making business and over-the-counter derivatives business. With high uncertainties, stock price risk is one of the major market risks that the Company faced. The Company closely monitors the price fluctuation of the relevant asset and has adopted relevant preventive measures.

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During the first half of 2017, the PRC stock market generally fluctuated within a certain range, with divergence among different boards, and these value shares supported by business results performed relatively well. SSE Composite Index, for example, started from 3,105.31 at the beginning of 2017, and reached the high point of 3,295.19 and low point of 3,016.53, respectively. As of 30 June 2017, such index closed at 3,192.43, representing an increase of 2.86% as compared with the first half of 2017. For the same period, SSE 50 Index increased by 11.50%, SZSE SME Price Index increased by 7.33%, and SZSE ChiNext Price Index decreased by 7.34%. Market volatility generally abated for the first half of 2017 and started to rebound from May 2017. SSE iVIX, for example, started from 17.80% at the beginning of January 2017 and slumped to the low point of 7.95% in May 2017, then started to rebound. As of 30 June 2017, such index reached 14.40%, representing a decrease of 16.38% as compared with the beginning of the year.

The Company constantly tracks any variation in investment amount and value-at-risk (VaR) of securities positions to monitor the impact of relevant risks. By implementing diversified investment strategies, the Company properly controlled and timely adjusted total investment amounts of various securities and employed various arbitrage and hedging instruments, which has effectively controlled market risk.

- B. Interest rate risk. Interest rate risk refers to the risk resulting from changes in market interest rate, and company's assets exposed to interest rate risk mainly include monetary deposits, bond investment, financing business and debt issuance. During the first half of 2017, the ChinaBond Composite Full Price Index presented large magnitudes of fluctuations, went down till the second half of May, and then rebounded with tendency at 114.86 in the middle of the year, representing a decrease of 2.11% as compared with the end of last year. Yield to maturity of ChinaBond 5-year Treasury Bond increased by approximately 63.91 base points to 3.49%. Yield to maturity of ChinaBond 10-year Treasury Bond increased by approximately 55.68 base points to 3.56%. The Company managed interest rate risk by employing methods such as size control and investment portfolio re-balancing to achieve a reasonable allocation of assets, matching the maturities of liabilities and assets and by evaluating interest rate risk through regular measurement of indicators such as duration, convexity and DV01 of investment portfolios.

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- C. Exchange rate risk. Exchange rate risk refers to the risk resulting from changes in foreign exchange rates. With the international expansion of the Company, the exchange rate risk is becoming evident. Apart from the Company's overseas equity investments, the subsidiaries also issued foreign currency denominated bonds, resulting in an increase in the debts denominated in foreign currencies, which increased the size of foreign currencies of the Group as a whole and caused difficulties in management. The Company continued to monitor and study the latest developments in the foreign exchange market, while constantly optimizing the relevant regulations and internal management, so as to support the Company's offshore business development. Apart from hedging instruments, the Company also focused on the natural match between foreign currency assets and liabilities from the group level to reduce the foreign exchange risk exposure. In addition, the parent company is qualified to carry out overseas financing, which will help the Company to prevent and control the exchange rate risk. As of 30 June 2017, the Group's exchange rate risk had no material impact on the financial statements.

Save as the abovementioned risks, overseas investment businesses conducted by the Group are also exposed to relevant market risk. Fluctuations of each element of market risk around the world may affect the overall profit or loss of the Group. The Company has included overseas investment business into overall market risk management system. In respect of investments businesses conducted by the overseas subsidiaries of the Group, the respective subsidiaries formulated and implemented the corresponding risk limits and risk management policies as well as reported to the parent company on the implementation of risk limits on a regular basis.

(3) *Operational risk*

Operational risk refers to risks associated with losses arising from the defects or problems of the internal processes, human, system or external events. Operational risk usually includes the risks resulting from intra-company human-errors in operation, internal process defects, information system fault and other reasons, as well as the risks caused by fraudulent conducts outside the Company. Information technology risk is a main component of the present operational risks. Information technology is important for the business development and management of securities trading, settlement and service, etc. Unreliability of system, network technology defects and data error will all bring losses to the Company.

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The Company adheres to improving the internal control management mechanism, completing the operational processes, strengthening the inspection and audit, intensifying the accountability system, reducing the chance of occurring risk events relating to operational risks and actively and properly address the adverse effects brought by any such events. However, although the Company has formulated a relatively sound internal control system in accordance with the provisions of Guidelines for Internal Control of Securities Company issued by CSRC, there is no guarantee that the Company can completely avoid the economic loss, legal disputes and violation risks which may result from operation errors and human acts of omission. Besides, the securities industry which the Company belongs to is a knowledge-intensive industry, therefore, the staff moral hazard is more severe than that of other industries, and staff's illegal and criminal acts will cause loss to the Company's assets and damage the Company's reputation. The Company persists in the implementation of refined management, constantly improves the business process and strengthens professional integrity and professional ethics education of staff, and strives to manage and reduce operational risk exposure. During the Reporting Period, the Group continues to improve the construction of its operational risk management system and internal control structure; strengthens the information wall system to prevent information leakage among the brokerage business, proprietary business, asset management business, investment banking business and innovation business, to prevent insider trading, conflict of interests, transfer of benefits and other irregularities. The Company continued to step up efforts in developing information technology system, improved IT-related emergency response plans, and took multiple measures including monitoring and inspection to prevent information technology risk.

(4) *Liquidity risk*

Liquidity risk refers to the risk that a company is unable to gain sufficient funds with reasonable cost in a timely manner to pay its due debts, satisfy other payment obligations and meet the requirements for carrying out the normal business operations. As the proprietary trading business and financing business of the Company are large in size, it is susceptible to macro-economic policy, changes in market, operation conditions and client credit profile during its operation, and unmatched asset-liability structure might result in liquidity risk.

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During the Reporting Period, with the implementation of deleveraging policy by regulatory authorities, equity shares and bonds both sustained prolonged fluctuations. With the unclear picture in the development of propriety trading business, the Company entered into a period of rapid development of financing business, particularly the stock pledging business. In addition, after the first half of 2016, the Company went into a period of debt repayment, involving repayment or renewal of several kinds of debt including subordinated bonds and transfer of earning right. Changes in external market and the adjustment in balance sheet of the Company are intertwined with each other, which are the major sources of liquidity risk in the Reporting Period. Facing changes in market environment and internal need of funds, the Company actively formulated plans and through various ways further strengthened liquidity risk control and improved risk management by carrying out prior risk identification, existing risk mitigation, follow-up improvements and other measures.

In respect of daily liquidity risk management, the Company has always embraced the mindset of “proper and even conservative risk control” and successfully contained liquidity risk exposure within a reasonable range through reasonable monitoring mechanism and adjustment measures by adhering to its liquidity risk preferences and limit requirements of risk indicators. In order to deal with liabilities repayment rush the Company faced during the Reporting Period and improve the level of meticulous management on liquidity risk, the Company reserved sufficient quality liquidity in a timely manner and matched them with each liability in accordance with the maturity dates to effectively ensure smooth completion of relevant debt repayment by strictly complying with relevant internal management measures and requirements. Additionally, the Company continued to improve the management and control system for daily liquidity and risk indicators, and established a liquidity and risk analysis framework including risk outlook analysis on yearly basis, indicator assessment and forecast on monthly basis and indicator position follow-up on daily basis, which enriched tools of liquidity risk management over different periods of time, and deeply strengthened the Company’s scientific control and improved its efficiency of foreseeing liquidity risk.

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In respect of mid- and long-term liquidity risk management, the Company continued to optimize capital structure and improve the analysis of the development trend of assets and liabilities, to strengthen the management and control of liquidity risk from where it originates. On the one hand, the Company actively carries out asset and liability management works, adjusts and keeps liability term structure always within a reasonable range by analyzing business development trend and potential need for mid- and long-term funds in time; on the other hand, the Company makes timely improvement of debt planning, utilizing debt repayment cycle to further eliminate the Company's surplus liquidity, and makes replacements for some of the high-cost transfer of earning right, effectively reducing the cost of debt. During the Reporting Period, the Company kept good relationship with major commercial banks, maintained good practice in operation and good reputation, kept smooth financing channels, and adjusted debt structure through various means such as subordinated bonds issuance, which further reduced the impact of asset-liability mismatch to company's liquidity, while reserving sufficient capital for the Company's future asset business development.

During the Reporting Period, all of the Company's core liquidity risk indicators satisfied the forewarning requirements set by regulatory authorities, and liquidity exposure for each term structure has been kept within a reasonable range, which can sustain stable operation under pressure, and the overall liquidity risk is under control.

(5) *Reputation risk*

Reputation risk refers to the risk resulting from negative comments of the Company by a party of stakeholder with respect to the Company's operation, management or other activity, or due to external events. Unlike other financial risks, reputation risk is difficult to measure directly, to separate from other risks, or to manage independently. Sound reputation is an important resource gained by the Company in its development over the years, and is an important guarantee to maintain good relationship with investors and clients. Sound reputation risk management plays a vital role in the improvement of the Company's competitive advantage and profitability as well as achievement of its long-term strategic objective.

Reputation risk mainly caused by problems identified in the Company's operation which may affect the Company's image and client confidence, compliance risks resulting in regulatory measure or penalties, reputation damage resulting from untruthful or negative reports by media which may affect the Company's brand and business development, violation of relevant information disclosure regulation by employees in accepting media interviews without authorization in accordance with regulated procedure, and other emergent events with material adverse impact on the Company.

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The Company has taken necessary monitoring and preventive measures in order to effectively manage reputation risk. The Company has established reputation and publicity forewarning system to monitor public opinions and ensure emergent negative event is in first instance reported to the management. In case of severe incident with negative impact on reputation, the Company's General Manager's Office shall report to competent authority and regulatory bodies in accordance with the Implementation Measures for Responding to Incidents of Haitong Securities Co., Ltd. and Provisional Measures for Reporting Major Events of Haitong Securities Co., Ltd., and work with relevant departments in the preparation of communication strategy to unify publicity statement, then the spokesman of the Company would disclose information or make response to the event. After subsiding of the incident, relevant departments would take active publicity measures to restore reputation, analyze the process of handling the incident, make detailed written summary, and closely observe new issues and situations so as to prevent recurrence. Meanwhile, the Company would actively strengthen relationship and enhance communication with media, and restore the Company image by publicizing the Company's positive image in different ways. Employee of the Company shall attend media interview through the system in office, and shall obtain the approval from the Company and submit interview transcripts to General Manager's Office for record before accepting any interview by media, in accordance with Rules of Haitong Securities Co., Ltd. on Publicity Work.

2. Reflection of main risk factors in this Reporting Period

- (1) As of the end of June 2017, the average maintenance guarantee ratio of our customers in margin financing and securities lending business was 271.34%, and the average performance guarantee ratio of our customers in stock repo transaction and stock pledged repo business were 204.94% and 236.06%, respectively. The collaterals provided by the lenders are sufficient, and the overall credit risk of the financing business is under control. In respect of the Company's investment in credit fixed income securities, the ratio of high credit rating securities whose debts or issuers with ratings of AA or above was 98.69%. The Company's counter parties of OTC derivatives are mainly financial institutions like commercial banks, securities companies and asset management companies. The Company is faced with limited credit risk from counter parties since it strictly controls the business scale and adopts appropriate and practical risk alleviation measures during the operation of the aforesaid businesses.

In addition, as of the end of June 2017, the non-performing asset ratio of the consolidated interest-earning assets (including finance lease receivables, factoring receivables and entrusted loans) of Haitong UT Capital was 1.21%, with allowance coverage ratio of 279.06%.

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- (2) The ratio of VaR to net assets at the end of each month in the first half of 2017 remained below 0.2%, and the market risk was controllable and acceptable. However, the use of various financial instruments was still influenced by the regulatory environment, effectiveness of investment strategy and hedging strategy. The effectiveness of management methods was also restricted by the adverse changes of market liquidity.

In the first half of 2017, the scale of the Company's equity securities investment kept steady as a whole. Besides traditional momentum investment, the Company actively conducted innovative business models such as options market making and over-the-counter options. In conducting the above innovative businesses, the Company adhered to risk-neutral investment strategy, and effectively controlled the relevant risk exposures.

Based on the trends of and the Company's judgment of the bond market and liquidity management needs, the Company flexibly adjusted allocation of non-equity securities and the scale of overall investment of non-equity securities of the Company remained stable with certain increase in the first half of 2017. The whole portfolio duration was under control and remained relatively stable at the end of each month. The average investment duration at the end of the first half of 2017 was 1.97, representing a slight decrease as compared with 2.50 at the end of 2016. In the first half of 2017, the Company maintained an overall sound market risk control over its fixed income investments.

In addition, in order to maintain the stability of the stock market and play an active role as a securities firm, the Company entered into the Master Agreement for OTC Derivatives Trading in the China Securities Futures Market and the Confirmation of Return Swaps Trading with China Securities Finance Corporation Limited for investment of blue-chip shares ETF. As at 30 June 2017, the Company's investment cost for such special account amounted to RMB15 billion. The above contribution will be included in the annual quota of the Company's investment in proprietary equity securities and securities derivatives.

- (3) The Company adheres to standard operation procedures in general and does not have significant operational risk events. It continues to strengthen the building and operation of the information technology system and conducts regular and sporadic inspections and maintenance in strict accordance with operation management procedure, thus ensuring the reliable, stable and safe operation of system and avoiding any significant technology risk. The Company intensifies the executive force of various rules and regulations and focuses on improving every system and process, so there is no management risk with material adverse effect on the Company.

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- (4) At the end of the Reporting Period, the Company's repayment cycle of liabilities almost ends. The continuous development of financing businesses may become a major factor affecting the Company's liquidity risks in the future. In general, maintaining sufficient capital reserves reduced possibility of the occurrence of liquidity risks and ensured that the Company could maintain its capability of stable operation in a complex market environment. As of the end of June 2017, the Company's core liquidity supervising indicators are well above the regulatory requirements and early warning threshold. Facing an uncertain market environment in the future, the Company will continue to conduct assets and liabilities management actively and achieve higher capital utilization efficiency on the basis of safety and liquidity, so as to safeguard the sound operations of the Company.
- (5) During the Reporting Period, the public opinion environment is sound in general. The Company has effectively restrained the impact of a few pieces of negative news through adopting proper measures according to Rules of Haitong Securities Co., Ltd. on Publicity Work. Accordingly, no significant reputation risk incident has happened.

During the Reporting Period, the Company maintained sound operation of its various businesses, reasonable assets allocation and healthy financial situation, and various risk control indicators including the net capital kept in compliance with the regulatory requirements.

3. Countermeasures and measures taken (or proposed to be taken) by the Company

To address the above mentioned risks, the Company has taken or is taking a variety of directed measures to prevent and control related risks according to the situation of domestic and international markets:

- (1) Adhering to the strategy of international development, enhancing knowledge about the global financial markets, and increasing corporate competitiveness and overall risk management capability.
- (2) Insisting on improving corporate governance structure. The Company continues to regulate operation of the general meeting of shareholders, to ensure that all shareholders, especially minority shareholders enjoy equal rights; to protect interests of minority shareholders, to standardize and improve operation of the Board, to give full play to the role of each special committee of the Board and independent Directors, to give full play to the supervision role of the Supervisory Committee to the Board and manager-level officers to protect the legal interests of the Company and its shareholders. Meanwhile, the Company strengthens the functions of risk management and internal audit to give full play to its role in preventing, controlling and addressing risks, and also enhances the Group's risk management.

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- (3) Continuing to improve net capital monitoring system, strengthening the net capital oriented risk control indicator monitoring system, and optimizing allocation of net capital between various businesses, so as to prevent and resolve the liquidity risk. At the same time, the Company strengthens the application of sensitivity analysis and stress testing tools, providing risk assessment support for major business development and important decisions in a timely manner. The funds of the Company are mainly deposited in state-owned banks and reputable joint-stock banks, which ensures the safety of the funds. Under the premise of ensuring the safety of funds, the Company strives to improve efficient use of funds. Pursuant to the new measures on risk control indicators management, it continues to exercise the monitoring and management of risk control indicators, improves the group-level risk summary reporting system, and provides related trainings to promote the establishment of system.
- (4) Proactively implementing its capital replenishing plans and enhancing its capital strengths through measures such as equity financing and debt financing.
- (5) Strengthening risk management. The Company will continue to improve its risk management level. According to the requirements of Rules for Comprehensive Risk Management of Securities Firms (“new rules”) published by the Securities Association of China, the Company will actively improve and implement the Group’s effective risk management measures and risk prevention methods from aspects of institutional improvement, talent recruitment, system optimization, management on risks of subsidiaries and indicator system; incorporate subsidiaries into the Group’s uniform risk management system from aspects of staff, system, quota, report and evaluation based on the risk management requirements of new rules for subsidiaries, carrying out vertical management over subsidiaries; enhance the auditing and inspection of various businesses, so as to ensure the effective implementation of systems, flows and risk management measures; and enhance the risk awareness of all the staff and cultivate the enterprise risk culture featuring everyone being responsible for risk management and proactive risk management.
- (6) Improving risk response mechanisms. The Company devotes itself to establishing risk management systems and process towards various businesses, to having full acknowledge of operation patterns and valuation models of various businesses, basic assumption of risk management, various major risks and potential losses with such pressure, and to continually improving various risks management process including risk monitoring, risk response, risk report and risk disposals.

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- (7) Increasing investment in system building and strengthening the establishment of the IT governance. The Company has formulated technological development planning to clearly incorporate data governance and building of big data platform into the Company's entire development planning, to establish a comprehensive risk management system and conduct proactive risk management. Meanwhile, the Company has continued to promote the development and upgrading of various risk management information systems based on the current risk management system; to establish and optimize the risk management information system corresponding to business complexity and risk benchmark system; to introduce advanced risk measurement engines and management tools continuously, so as to achieve accurate identification, prudent evaluation, dynamic monitoring, timely handling and whole-process management of risks.
- (8) Adhering to optimizing internal control system. The Company is implementing the Basic Standards for Enterprise Internal Control and its supporting guidelines in full, and conducting regularly internal control self-evaluation. The Company will constantly improve its internal control system according to the requirements on internal management of State-owned Assets Supervision and Administration Commission.
- (9) Strengthening investor education and appropriateness management. The Company insists on conducting investor education and strengthening customer appropriateness management. The Company will establish, optimize and implement the rules of investor appropriateness management in accordance with Measures on Management of Appropriateness of Securities and Futures Investment. Beginning with knowing about customers, the Company properly undertakes basic works for investor education, works on customer and product management at different levels, reveals the risks to investors in a timely manner, intensifies customer service awareness, evaluates and classifies risks concerning products and services to provide proper products and services to proper investors. At the same time, the Company integrates customer resources and enhances customer data analysis and service capabilities.
- (10) Through robust research on the domestic and international macro-economic situations, industry economic conditions and listed companies, the Company has improved the effectiveness of market fluctuation forecasts. Based on careful judgments made about the market, real-time adjustments to proprietary trading size and asset allocation structure can be made. Moreover, the Company has standardized the investment decision-making process, strengthened the management of investment product candidates, strictly enforced the proprietary investment stop-profit and stop-loss system and successfully guarded against market risk and counterparty credit risk.

Section V SIGNIFICANT EVENTS

I. BRIEF INTRODUCTION TO GENERAL MEETINGS

Session of the meetings	Date of the meeting	Query index of the designated website of resolution disclosure	Date of disclosure of resolutions
Annual General Meeting of 2016	06 June 2017	http://www.hkexnews.hk	06 June 2017
The First A Shareholders' Class Meeting of 2017	06 June 2017	http://www.hkexnews.hk	06 June 2017
The First H Shareholders' Class Meeting of 2017	06 June 2017	http://www.hkexnews.hk	06 June 2017

Briefing of the general meeting

During the Reporting Period, the Company held the Annual General Meeting of 2016 in Pine City Hotel in Shanghai on 6 June 2017 and considered 14 ordinary resolutions and three special resolutions, in which the ordinary resolutions include: 1. the report of the Board of Directors of the Company for the year 2016; 2. the report of the Supervisory Committee of the Company for the year 2016; 3. the annual report of the Company for the year 2016; 4. the final accounts report of the Company for the year 2016; 5. the profit distribution proposal of the Company for the year 2016; 6. the renewal of engagement of A Share auditing firm and H Share auditing firm for the year 2017; 7. the proposal regarding investment asset allocation of equity and non-equity products of the Company; 8. the proposal regarding daily related party transactions of the Company for the year 2017; 9. the proposal regarding the compliance of the overseas listing of Haitong UniTrust International Leasing Corporation with the Circular on Issues in Relation to Regulating Offshore Listing of Subsidiaries of Domestic Listed Companies; 10. the proposal regarding the plan of the overseas listing of Haitong UniTrust International Leasing Corporation; 11. the proposal regarding the undertaking of the Company to maintain its independent listing status after listing of Haitong UniTrust International Leasing Corporation; 12. the proposal regarding the description of the sustainable profitability and prospects of the Company after listing of Haitong UniTrust International Leasing Corporation; 13. the proposal regarding the authorization granted to the Board and persons authorized by the Board to deal with the overseas listing matters of Haitong UniTrust International Leasing Corporation in their sole discretion; 14. the appointment of Mr. Wu Yuezhou as a non-executive director of the Company; and the special resolutions include: 1. the proposal regarding provision of assured entitlement only to the holders of H Shares of the Company for the spin-off and overseas listing of Haitong UniTrust International Leasing Corporation; 2. the proposal regarding proposed amendments to the articles of association, the rules of procedure for board meetings and the rules of procedure for the supervisory committee; 3. the grant of general mandate to authorize, allot or issue A shares and/or H shares. The resolutions above were all considered and passed. Relevant resolutions were published on the website of the Shanghai Stock Exchange (<http://www.sse.com.cn>), the website of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>) and the Company's own website (<http://www.htsec.com>) on the day of the meeting, and published on the China Securities Journal, Shanghai Securities News and Securities Times on 7 June 2017.

Section V SIGNIFICANT EVENTS

On 6 June 2017, the Company held its first A Shareholders' Class Meeting of 2017 and the first H Shareholders' Class Meeting of 2017 in Pine City Hotel in Shanghai. One special resolution was respectively considered, namely the proposal regarding the provision of assured entitlement only to the holders of H Shares of the Company for the spin-off and overseas listing of Haitong UniTrust International Leasing Corporation (the first special resolution passed and considered on the Annual General Meeting of 2016). The resolution above was considered and passed. Relevant resolution was published on the website of the Shanghai Stock Exchange (<http://www.sse.com.cn>), the website of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>) and the Company's own website (<http://www.htsec.com>) on the day of the relevant meetings, and published on the China Securities Journal, Shanghai Securities News and Securities Times on 7 June 2017.

II. PROPOSAL OF PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE FUNDS INTO CAPITAL

(I) Implementation or adjustment of profit distribution proposal during the Reporting Period

The Company's 2016 profit distribution proposal was reviewed and approved by its shareholders at the Annual General Meeting of 2016 held on 6 June 2017. It was resolved that a cash dividend of RMB0.22 per share (inclusive of tax) would be distributed to all shareholders on the basis of its total share capital of 11,501,700,000 shares (representing the distribution of cash dividends of RMB2.20 (inclusive of tax) for every 10 shares), totaling a cash dividend of RMB2,530,374,000.00 (inclusive of tax), of which A Share capital is 8,092,131,180 shares, totaling A Share cash dividend of RMB1,780,268,859.60; H Share capital is 3,409,568,820 shares, totaling H Share cash dividend of HKD855,874,056.68. The Company published announcements relating to the implementation of 2016 profit distribution in the China Securities Journal, the Shanghai Securities News, the Securities Times, and the respective websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company. On 27 July 2017, the Company's 2016 profit distribution proposal was fully implemented.

(II) Profit distribution proposal and proposal on transfer of capital reserve funds into capital for half year

The company had no profit distribution proposal or proposal on transfer of capital reserve funds into capital for the first half of 2017.

Section V SIGNIFICANT EVENTS

III. PERFORMANCE OF UNDERTAKINGS

During the Reporting Period, the Company had no relevant undertakings.

IV. APPOINTMENT AND DISMISSAL OF ACCOUNTING FIRMS

Explanation of appointment and dismissal of accounting firms

The Company convened the Annual General Meeting of 2016 held on 6 June 2017, a resolution regarding renewal of engagement of A share and H share auditing firms of the Company for the year 2017 was considered and approved at this meeting. Therefore, shareholders of the Company approved to reappoint BDO China Shu Lun Pan Certified Public Accountants LLP (Special General Partnership) (“BDO China”) as its external auditor for 2017, who will be responsible for provision of relevant domestic audit services in accordance with the PRC GAAP; and to reappoint Deloitte & Touche LLP (Deloitte Touche Tohmatsu (德勤•關黃陳方會計師行) and Deloitte Touche Tohmatsu Certified Public Accountants LLP (德勤華永會計事務所) (Special General Partnership)) (“Deloitte & Touche”) as the Company’s external auditor for 2017, who will be responsible for provision of relevant audit and review services in accordance with IFRS.

During the Reporting Period, the Company has re-appointed Deloitte & Touche as the Company’s external auditor for 2017 for a term of one year, who will be responsible for provision of relevant audit and review services in accordance with IFRS.

In respect of the domestic auditing matters of A Shares, BDO China received the “Notice Requiring BDO China Shu Lun Pan Certified Public Accountants LLP (Special General Partnership) to Suspend Acceptance of New Security Business and to Make Rectification within Prescribed Period” (Cai Kuai Bian [2017] No. 24) (the “Notice”) jointly issued by the Ministry of Finance of the People’s Republic of China (“MOF”) and CSRC. The matters mentioned in the Notice are in relation to BDO China’s work not related to the Company. According to the Notice, MOF and CSRC ordered BDO China to temporarily suspend acceptance of new security business from 23 May 2017. Therefore currently BDO China cannot extend its engagement with the Company or perform duty for provision of relevant domestic audit services in accordance with the PRC Generally Accepted Accounting Principle. The Company will, based on the laws and regulations, the articles of associations and the actual situation, pursuant to relevant procedures, facilitate the appointment of accounting firm (external auditor that provides relevant domestic audit services in accordance with the PRC GAAP) of domestic A Shares. For further information, please refer to the announcement on explanation of subsequent matters of relating to the renewal of engagement of auditing firms published on 23 June 2017.

Explanation of reappointment of accounting firms during the audit

✓ Not Applicable

Explanations of the Company on “non-standard opinion audit report” issued by the accounting firms

✓ Not Applicable

Explanations of the Company on “non-standard opinion audit report” issued by the certified public accountants regarding financial reports of the annual report of last year

✓ Not Applicable

Section V SIGNIFICANT EVENTS

V. BANKRUPTCY AND RESTRUCTURING RELATED MATTERS

The Company had no bankruptcy and restructuring related matters during the Reporting Period.

VI. MATERIAL LITIGATIONS AND ARBITRATIONS

The Company was not involved in any material litigation and arbitration and did not have matters commonly questioned by media during the Reporting Period.

VII. PUNISHMENT ON AND RECTIFICATION OF THE LISTED COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDERS, DE FACTO CONTROLLERS AND ACQUIRERS

As at the end of the Reporting Period, the Company did not have any shareholder who directly held more than 5% of shares or any de facto controllers. During the Reporting Period, none of the following circumstances happened to the Company, the Board, Directors, Supervisors or senior management being investigated by competent authorities, imposed coercive measures by a judiciary authority or disciplinary department, transferred to a judicial authority or held criminally liable, investigated or imposed administrative penalties by CSRC, banned from access to market, identified as an unsuitable person, punished by other administrative departments, or publicly condemned by a stock exchange. None of the Directors, Supervisors and senior management of the Company violated any rules or regulation with regard to trading of the shares of the Company.

On 23 May 2017, the Company received the Letter of Informing the Administrative Penalty in Advance (Chu Fa Zi [2017] No. 59) from CSRC. The CSRC intends to impose administrative penalties on the Company due to the Company's suspected misconduct of failure to execute business contracts with customers in accordance with relevant provisions or failure to contain necessary terms in business contracts with customers in accordance with relevant provisions in its margin financing and securities lending business. For further information, please refer to the Company's announcement published on 24 May 2017. The Company's employees involved in the event have proposed statements and defenses according to the procedures prescribed, and further judgment is pending.

VIII. CREDIT-WORTHINESS OF THE COMPANY, ITS CONTROLLING SHAREHOLDERS, AND DE FACTO CONTROLLERS DURING THE REPORTING PERIOD

✓ Not Applicable

Section V SIGNIFICANT EVENTS

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

During the Reporting Period, the Company did not implement equity incentive scheme.

At the 2014 Annual General Meeting of Haitong International Securities, a subsidiary of Haitong International Holdings, the Resolution on Establishing Share Option Scheme of Haitong International Securities Group Limited was considered and passed. At the extraordinary general meeting of Haitong International Securities held on 8 June 2015, the adoption of a new share option scheme was considered and approved, which is valid and effective for a period of 10 years commencing from the date of adoption. Under such a share option scheme, no more than 212,924,439 shares may be issued in total. (For further information, please refer to the 2017 Interim Report of Haitong International Securities)

Haitong International Securities adopted a share award scheme on 19 December 2014, which is valid for a period of 10 years commencing from the date of adoption. Under such plan, the total of award shares authorized to be granted shall not be more than 217,248,566. As of 30 June 2017, a total of 12,111,740 award shares were granted by Haitong International Securities under the share award scheme, of which, 2,457,261 award shares have vested, and 539,847 award shares have lapsed. (For further information, please refer to the 2017 Interim Report of Haitong International Securities)

Haitong UT Capital, a subsidiary of Haitong International Holdings, adopted a share option incentive scheme on 27 May 2014, which is valid for a period of five years commencing from the date of adoption. According to the scheme, the eligible participants include directors, senior management, key operational managerial personnel and key technical and business personnel of Haitong UT Capital and its subsidiaries as determined by the board of directors of Haitong UT Capital, the total number of which shall not exceed 50. No more than 97,321,500 share options shall be granted to the participants under the scheme. On 19 January 2015, the board of directors of Haitong UT Capital resolved to offer to allocate share options to 28 qualified participants (grantees) under such scheme, to subscribe for a total of up to 85,980,375 ordinary shares in the share capital of Haitong UT Capital according to the share option scheme.

Considering the requirements of applicable PRC laws and regulations, as well as, the strategic development and operation management needs of Haitong UniTrust, the board of the directors of Haitong UT Capital resolved to implement an exit arrangement on the share options under the share option scheme which have been granted to eligible participants but not exercised, pursuant to the authorization of the general meeting of Haitong Securities on 27 May 2014. In formulating the arrangement, due consideration was given to the terms of the share option incentive scheme and the contributions made by the relevant participants to Haitong UniTrust.

Section V SIGNIFICANT EVENTS

X. MATERIAL RELATED PARTY TRANSACTION

(I) Related party transactions relevant to daily operation

During the Reporting Period, the Company carried out daily related party transactions strictly according to the resolution on projected daily related party transactions of the Company for the year 2017 considered and passed at the 2016 Annual General Meeting, and relevant information on implementation was as follows:

1. Related party transactions with BNP Paribas Investment Partners BE Holding SA and its related companies

Category of Transactions	Contents of Transactions	Description of Transactions	Transaction Volume in the First Half of 2017 (Unit: RMB)	Proportion in Same Type of Business
Services for Securities and Financial Products	Fees and commission income	Mainly including income from consultation fee	5,719,976	0.21%
	Business and management fee	Mainly including investment consultation service fees, and fees for sales and maintenance of funds thus paid	355,300	0.01%
	Accounts receivable	Mainly representing accounts receivable from businesses such as investment consultation	4,378,487	0.06%
	Accounts payable	Mainly including accounts payable incurred for businesses such as maintenance of fund clients	268,861	0.00%
Trading in Securities and Financial Products	Fees and commission income	Mainly including fees and commission income from securities trading	321,888	0.01%
	Interest expenses	Mainly including interest expenses incurred for deposits from clients	1,135,267	0.02%
	Derivative financial liabilities	Mainly including derivative financial liabilities caused by trading such as interest swap	4,717,004	0.17%

2. Related party transaction with Shanghai Shengyuan Real Estate (Group) Co., Ltd.

Category of Transactions	Contents of Transactions	Description of Transactions	Transaction Volume in the First Half of 2017 (Unit: RMB)	Proportion in Same Type of Business
Trading in Securities and Financial Products	Accounts from securities agency trading	Mainly including assets such as margin deposits from clients	298,473.02	0.00%

Section V SIGNIFICANT EVENTS

3. *Related party transactions with companies (other than the Company and its subsidiaries), where the Company's directors, supervisors and senior management hold positions as directors or senior management, and other related corporate legal persons*

Category of Transactions	Contents of Transactions	Description of Transactions	Transaction Volume in the First Half of 2017 (Unit: RMB)	Proportion in Same Type of Business
Services for Securities and Financial Products	Fees and commission income	Mainly including income from agency sales of fund products, investment consultation service fees, asset management fees, income from securities underwriting	110,791,007	4.10%
Trading in Securities and Financial Products	Fees and commission income	Mainly including fees and commission income from securities trading	20,876,826	0.66%
	Interest income	Mainly including interest income from stock-pledged repurchase, resale or repurchase in the interbank market, return swap, and other businesses	80,320,878	1.07%
	Interest expenses	Mainly including interest expenses incurred for deposits from clients	60,606,008	1.06%
	Interest payables	Interest payables from Haitong UniTrust for long-term borrowings	2,133,330	0.08%
	Bonds transaction and others	Mainly representing bonds trading, pledged repurchase, outright repurchase, bonds lending, interest swap related to fixed income business	3,523,000,000	–
	Bank deposits	Mainly representing margin deposits, liquidity deposits, etc.	4,205,535,335	3.68%
	Short-term financing bills payables	Mainly representing short-term financing bills payables incurred for purchase of income receipts by related companies	611,013,000	3.36%
	Long-term borrowings	Mainly representing long-term liquidity loans of Haitong UniTrust	1,693,600,000	5.70%
	Accounts receivable	Mainly representing management fees receivable	48,000,000	0.67%
	Accounts from securities agency trading	Mainly including assets such as deposits from clients	18,217,308	0.02%

Section V SIGNIFICANT EVENTS

(II) Related party debts and liabilities

Unit: Yuan Currency: RMB

Related parties	Related relationship	Capital provided to related parties		Capital provided to the Company from related parties	
		Balance at the beginning of the period	Amount incurred	Balance at the end of the period	Amount incurred

Shanghai Lansheng Corporation	Others	-	-	-	403,956,000	207,057,000	611,013,000
Total		-	-	-	403,956,000	207,057,000	611,013,000

Reason for related party debts and liabilities Income receipts

Effect of related party debts and liabilities on operating results and financial conditions of the Company The related party debts and liabilities above have no adverse effect on operating results and financial conditions of the Company.

Section V SIGNIFICANT EVENTS

XI. MATERIAL CONTRACTS AND THEIR PERFORMANCE

1 Trust, contracting and leasing matters

During the Report Period, the Company was not involved in any material trust, contracting or leasing matters.

2 Guarantees

Unit: Yuan Currency: RMB

External guarantees provided by the Company (excluding the guarantees for subsidiaries)													
Guarantor	Relationship between guarantor and the listed company	Party Guaranteed	Amount of guarantee	Date of provision of guarantee (execution date of agreement)		Expiry date of guarantee	Guarantee type	Guarantee fulfilled or not	Guarantee overdue or not	Amount of guarantee over due	Whether counter-guarantee exists	Related parties guarantee or not	Related relationship
				Commencing date of guarantee	date of guarantee								
Total amount of guarantees incurred in 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 for its subsidiaries													
Total amount of guarantees provided for subsidiaries during the Reporting Period													2,227,360,000
Total guarantee balance provided for subsidiaries at the end of the Reporting Period (B)													31,397,913,306
Total amount of guarantees provided by the Company (including those for subsidiaries)													
Total amount of guarantees (A+B)													31,397,913,306
Percentage of total guarantee over the net assets of the Company													27.9%
Including:													
Amount of guarantees provided to shareholders, de facto controllers and their related parties (C)													0
Amount of debt guarantees directly or indirectly provided for the parties guaranteed with the gearing ratio exceeding 70% (D)													23,413,841,600
Amount of the portion of total guarantee exceeding 50% of net assets (E)													0
Total amount of the above three types of guarantees (C+D+E)													23,413,841,600
Explanations on outstanding guarantee which may undertake joint and several liability for repayment													

Explanations on guarantees

- On 27 April 2017, the Resolution on Provision of Joint and Several Guarantee for Offshore Debt Financing by Wholly-owned Offshore Subsidiary was considered and passed at 24th meeting of the sixth session of the Board. On 8 June 2017, the Company signed Loan Agreement as a guarantor and provided joint and several guarantee in respect of the syndicated loans of EUR200 million for Haitong International Holdings, its wholly-owned offshore subsidiary.

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2. On 29 August 2016, the Resolution on Providing Additional Guarantees for the Net Assets of HT Asset Management and Increasing Capital Contribution to HT Asset Management was considered and passed at the 18th meeting of the sixth session of the Board, in which, the Company was approved to provide additional guarantees of no more than RMB4,000 million for the net assets of HT Asset Management. The Company provided guarantees up to RMB4,000 million for the net assets of HT Asset Management and undertaken to provide cash within the abovementioned amount unconditionally to HT Asset Management when it needs cash to carry out business. The guarantees for the net assets are effective from the date of approval by the Board. HT Asset Management has, in respect of these guarantees, received the Letter on No-objection to the Issuance of Net Capital Guarantee Commitment Letter by Haitong Securities Co., Ltd. to Shanghai Haitong Securities Asset Management Co., Ltd. (Hu Zheng Jian Ji Gou Zi [2016] No. 325) from China Securities Regulatory Commission Shanghai Branch.
3. On 9 February 2015, at the first extraordinary general meeting for 2015 and the first A Shareholders'/H Shareholders' Class Meetings for 2015, the Company considered and passed the Resolution on Increase in Quota of External Guarantee, in which, the Company was approved to provide joint and several guarantee for the offshore wholly-owned subsidiary(ies) of the Company for the issue of offshore debt financing instruments on a one-off or multiple issuances or multi-tranche issuances basis, through public or non-public offerings, and the aggregate size of the offshore corporate debt financing instruments should not exceed 50% of the net assets of the Company as at the end of the latest period.

On 5 June 2015, the Company held the sixth meeting of the sixth session of the Board, considering and passing the Resolution on Provision of Joint and Several Guarantee for Issuance of EUR Bonds by Wholly-owned Offshore Subsidiary. Due to actual condition of such issuance, it has been completed in two tranches, and two Deeds of Guarantee were signed. The Company signed the first Deed of Guarantee on 18 May 2016, pursuant to which, the Company provided joint and several guarantee for the issue of EUR 100 million 1.6% bonds due 2021 by Haitong International Finance Holdings 2015 Limited (a wholly-owned offshore subsidiary of the Company).

The Company signed the second Deed of Guarantee on 26 May 2016, pursuant to which, the Company provided joint and several guarantee for the issue of EUR 120 million 1.6% bonds due 2021 by Haitong International Finance Holdings 2015 Limited (a wholly-owned offshore subsidiary of the Company).

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4. On 30 March 2016, the Company held the 15th meeting of the sixth session of the Board, considering and passing the proposal regarding authorization to the Board to determine provision of guarantees for subsidiaries of the Company. On 26 May 2016, the 2015 Annual General Meeting of the Company considered and passed the Resolution on Advising General Meeting of Shareholders to Approve Authorisation to the Board to Determine Provision of Guarantees for Subsidiaries of the Company, whereby the Company was approved to provide joint and several guarantees for its wholly-owned subsidiaries (including those with a gearing ratio of more than 70%) and controlling subsidiaries in respect of their issuance of onshore or offshore debt financing instruments (including but not limited to bonds, subordinated bonds, ultra short-term financing bills, short-term financing bills, medium-term notes, notes and establishment of note programmes) on a one-off or multiple issuance or multi-tranche issuance basis through public offerings or private placements, as well as domestic or overseas bank loans (including but not limited to bank credit, bank loans and syndicated loans), and the aggregate amount of the external guarantees and the individual amount of any guarantee provided by the Company shall not exceed 50% and 10% of the Company's audited net assets as at the end of the latest accounting period, respectively.

On 31 May 2016, the Company signed Guarantee Agreement and provided joint and several guarantee in respect of the syndicated loans of EUR 750 million for Haitong Investment Ireland Public Limited Company, its indirect wholly-owned offshore subsidiary ("this guarantee"). This new financing was made for the purpose of replacing the former Euro loan of EUR 750 million ("NB loan") provided by Novo Banco, S.A. ("NB") to Banco Espírito Santo de Investimento, S.A. (now renamed as Haitong Bank, S.A., "Haitong Bank"), the offshore subsidiary of the Company. The resolution determined that the principal amount of the guaranteed new financing shall not exceed EUR 800 million, with a guarantee term of no more than five years, and will repeal the former guarantee provided by the Company for NB loan.

Meanwhile, Haitong Bank signed bilateral loan agreement with the guaranteed party and repaid the former NB loan with the proceeds in advance according to the agreement entered into with NB, thus the former guarantee obligation of the Company as to NB loan was discharged. Such discharged guarantee was under a guarantee agreement signed by the Company on 7 September 2015 for the purpose of acquiring Haitong Bank, the Company was the guarantor, Banco Espírito Santo de Investimento, S.A. (now renamed as Haitong Bank, S.A.) was the guaranteed party and NB was the creditor, guarantee amount is EUR 750 million (including principal and interest) and the guarantee period is three years.

The financing agreement related to this guarantee was signed on 31 May 2016, according to the guarantee provisions of the agreement, the Company is the guarantor, Haitong Investment Ireland Public Limited Company is the guaranteed party, the London Branch of China Construction Bank Corporation is the lead bank and Frankfurt Branch of China Construction Bank Corporation is the agent bank, guarantee amount is EUR 750 million (including principal, interest, initiation fee and other fees to be borne by the borrower) and the guarantee period is five years.

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5. On 13 April 2015, the Company held the third meeting of the sixth session of the Board, considering and passing the Resolution on Provision of Joint and Several Guarantee for Issuance of U.S. Dollar Bonds by Wholly-owned Offshore Subsidiary. The Company provided joint and several guarantee for the issue of USD670 million 3.5% bonds due 2020 by Haitong International Finance Holdings 2015 Limited (a wholly-owned offshore subsidiary of the Company).
6. In October 2013, the Company issued the first tranche of offshore bonds (USD900 million) and the issuer is Haitong International Finance Holdings Limited, an indirect wholly-owned subsidiary of the Company. In order to enhance the repayment security of the first phase of offshore bonds and lower the coupon rate, according to the authorisation of the Company's first extraordinary general meeting in 2013, the authorised persons of the Company confirmed that guarantee would be provided for the first phase of offshore bonds by Bank of China Singapore Branch by way of opening standby letter of credit. Meanwhile, according to the resolution of the 21st meeting of the fifth session of the Board, the Company issued to Bank of China a letter of counter-guarantee regarding the standby letter of credit for the issuance of first phase of offshore bonds. The amount of counter-guarantee included the principal, interest and other relevant expenses of the issued first phase of offshore bonds. The guarantee is with joint and several liabilities and it ends on the date which is six months from the expiry of the standby letter of credit.
7. The Resolution on Providing Guarantee for the Net Assets of Shanghai Haitong Securities Asset Management Co., Ltd. was considered and passed at the 12th meeting of the fifth session of the Board, whereby the Company was approved by the Board to provide, at any time, guarantees of no more than RMB1,500 million for the net assets of HT Asset Management, to ensure that it maintains adequate net capital. On 9 June 2013, CSRC Shanghai Branch issued the Letter on No-objection to the Issuance of Net Capital Guarantee Commitment Letter by Haitong Securities Co., Ltd. to Shanghai Haitong Securities Asset Management Co., Ltd. (Hu Zheng Jian Ji Gou Zi [2013] No. 145), consenting the Company's providing guarantee commitment of RMB800 million to HT Asset Management. The Company has deducted net capital of RMB800 million and correspondingly increased net capital of HT Asset Management by RMB800 million.

Notes: During the Reporting Period, the external guarantees provided by the Company's subsidiary Haitong Bank (not including those guarantees for subsidiaries) amounted to EUR17,518,103.23. Based on the median exchange rate for Inter-bank Foreign Exchange Market on 30 June 2017 of EUR 1 to RMB7.7496, such amount is equivalent to RMB135,758,293. As at the end of the Reporting Period, the total balance of external guarantees (not including those guarantees for subsidiaries) was EUR185,997,547.86, equivalent to RMB1,441,406,597 based on the median exchange rate for Inter-bank Foreign Exchange Market on 30 June 2017 of EUR 1 to RMB7.7496.

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During the Reporting Period, the total balance of internal guarantees provided by Haitong International Securities (the Company's subsidiary) at the end of the Reporting Period amounted to HK\$14,779,880,000. Based on the median exchange rate published by the China Foreign Exchange Trading System on 30 June 2017 of HK\$1 to RMB0.86792, such amount is equivalent to RMB12,827,753,450.

3 Other material contracts

During the Reporting Period, the Company has disclosed all the material contracts that are required to be disclosed.

XII. POVERTY ALLEVIATION WORKS OF THE LISTED COMPANY

As the national strategy of poverty alleviation further deepens in 2017, the Company continues to implement the requirements of the Opinions of the China Securities Regulatory Commission on Serving the State's Strategy of Poverty Alleviation by the Functioning of Capital Market, fully performs our social responsibilities and spares no efforts in the work of poverty alleviation via poverty relief through "one company to one county" pair-up, comprehensive poverty relief through "urban areas to villages" pair-up, capital market industries supporting and poverty alleviation through social charity. Further progresses have been made based on the work of poverty alleviation through development at different levels in 2016.

1. Plans for targeted poverty alleviation

The keynote of poverty alleviation of the Company still focuses on the following three aspects since the founding of poverty alleviation leading group in 2016. Firstly, the Company builds all-round cooperative relationship with the local governments of state-level underprivileged counties by entering into framework agreements for poverty relief through "one company to one county" pair-up, promotes the sustainable development and stable growth of regional economies, and helps the underprivileged to relieve from poverty, striving to assist the local governments in completing local economy transformation within three years, thus achieving the goal of poverty alleviation. Secondly, taking advantage of its professional financial services and financial resources, the Company focuses on financial poverty alleviation to promote stable developments of local economy by using multi-level financing functions of the capital markets. Thirdly, during the process of facilitating urban and rural integration in Shanghai, the Company continues to carry out a new round of comprehensive rural poverty relief that lasts for five years, and actualizes the plan for building beautiful villages and ecology in Chongming. Fourthly, the Company offers help to rural Party organizations in pair-up underprivileged villages in the rural area of Shanghai to facilitate the development of local economy by taking various poverty alleviation measures.

Section V SIGNIFICANT EVENTS

2. Summary of targeted poverty alleviation during the Reporting Period

(1) *Implementing targeted poverty alleviation strategy and actively carrying out the activities of poverty relief through “one company to one county” pair-up*

Since the end of 2016, the Company has successively entered into framework agreements for poverty relief through “one company to one county” pair-up with Lixin County of Bozhou City, Anhui Province, Ningdu County of Ganzhou City, Jiangxi Province, and Shucheng County of Liu’an City, Anhui Province. Afterwards, the Company deepened cooperation with the local governments in fields like technical support, poverty alleviation funds, poverty alleviation by consumption and talent exchange, in an effort to build a long-term mechanism for poverty relief.

In the first half of 2017, the Company provided dedicated poverty alleviation funds of RMB1 million to each local government, part of which were used for establishment of “Haitong Securities Scholarship”. Moreover, the Company provided enterprises within the regions with all-round financial services as financial planning, bond issuance, listing, M&A and reorganization, so as to expand financing channels for the pair-up regions and seek the patterns for sustainable growth of local economy. In the first half of 2017, the Company held lectures relevant to financial knowledge and knowledge about capital market in three cities of two provinces. The business departments of the Company also carried out on-site investigations and promoted businesses including IPO plan of Lixin Rural Commercial Bank, debt financing plan at secondary capital of Shucheng Rural Commercial Bank, and private placement of NEEQ-listed enterprise Jiangxi Yongtong Technology Co., Ltd. (831705.OC). in Ningdu. The Company successfully introduced the featured products in three cities of two provinces and achieved poverty alleviation by industrial development. Meanwhile, the Company continued to promote communication with cadres in the underprivileged areas.

(2) *Improving the local economy with professional financial services of capital market and financial poverty alleviation*

The Company leveraged on its advantages of securities and futures sectors and actively explored the financial functions and mechanism of the capital market to carry out targeted poverty alleviation in areas of investment banking, bond financing, futures operation, capital investment and financial leasing. It supported the underprivileged areas to broaden financing channels, lower financing costs and avert market risks with business policies tending to the economic support for underprivileged areas so as to bring in a multi-channel and multi-level situation for poverty alleviation.

Section V SIGNIFICANT EVENTS

In the first half of 2017, the projects completed by the Company included the IPO of Ningxia Jiaze New Energy Co., Ltd. with an aggregate proceeds raised of RMB244.08 million, and the completion of debt-to-equity swap and cash financing of NEEQ-listed Guizhou Sange Garden and Ecology Co., Ltd. located at underprivileged areas with RMB30 million raised. Furthermore, Haitong Futures signed a memorandum of “one company to one county” pair-up for targeted poverty relief with Ju County of Henan Province and Yanchang County of Shanxi Province successively, and protected agricultural products from price decline through professional services such as futures insurance.

(3) *Focusing on the construction of key self-reliance projects in Chongming and solidly pushing forward the activities for building beautiful villages*

The year of 2017 is the last year since the Company and Chongming District government entered into a framework agreement for comprehensive poverty relief. The Company has conducted comprehensive poverty relief in Chongming District for five years with poverty alleviation funds of RMB5 million provided each year. This year, the Company continually focused on the key self-reliance projects and made investments in projects in line with the construction planning for Chongming Ecologic Island.

The Company continues conducting poverty relief in Langxia Village of Jinshan District and Guangming Village in Xuanqiao County of Pudong District in Shanghai through urban and rural Party organizations pair-up activities, visits the local underprivileged on a regular basis, holds various art and cultural activities, provides education on finance to the local investors and further promote those pair-up activities.

(4) *Striving to carry out poverty alleviation and social charity and actively fulfilling corporate social responsibilities*

While creating economic benefits, the Company also committed to fulfilling corporate social responsibilities through donations to education, poverty alleviation and other public welfare activities. The public welfare brand of volunteer public welfare activities of the Youth League Committee of the Company – “In Haitong We Love” gradually filtering into people’s minds, and the employees in various departments and branches also vigorously devoted themselves into public welfare activities. The Company raised donations through pedestrianism, charity sale and other methods, and contributed such donations to projects such as scholarship and cultural development in rural areas. Public welfare activities have become a consensus among employees of the Company and blended in its culture.

Section V SIGNIFICANT EVENTS

3. Table of targeted poverty alleviation works of the listed company during the Reporting Period

Unit: RMB10'000

Indicators	Quantity and status
I. Summary	
Including: 1. capital input	798.6
2. in-kind input	-
3. number of reduction in registered underprivileged population through help and support	-
II. Itemized Input	
1. Poverty alleviation through education	
Including: 1.1 amount of subsidies granted to underprivileged students	0.4
2. Poverty alleviation through ecological conservation	
Including: 2.1 project names	<ul style="list-style-type: none"> <input checked="" type="checkbox"/> development of ecological conservation and construction <input type="checkbox"/> establishment of compensation mechanism for ecological conservation <input type="checkbox"/> creation of public welfare jobs for ecological conservation <input type="checkbox"/> others
2.2 amount of contribution	590
3. Poverty alleviation through social participation	
Including: 3.1 amount contributed to targeted poverty alleviation	200
3.2 poverty relief fund	8
4. other projects	
Including: 4.1. number of projects	1
4.2. amount of contribution	0.2

4. Further plans for targeted poverty alleviation

In the second half of 2017, the Company will take targeted poverty alleviation as its unshirkable social responsibility, and, with an aim to provide services in respect of the transition and development of underprivileged areas and pull the underprivileged out of poverty, leverage on its own advantages to make achievements in terms of poverty alleviation through "one company to one county" pair-up, the new round of comprehensive poverty relief in rural areas of Shanghai, capital market industries supporting and poverty alleviation through social charity, specifically the following four aspects: 1. actively implementing poverty alleviation through "one company to one county" pair-up; 2. pushing forward the activities for building beautiful villages in Chongming Island, Shanghai; 3. intensifying poverty alleviation through financial and industrial development; and 4. giving substantial support to public welfare undertakings.

Section V SIGNIFICANT EVENTS

XIII. CONVERTIBLE CORPORATE BONDS

During the Reporting Period, the Company and the Company's subsidiaries did not issue any convertible bonds.

XIV. ENVIRONMENTAL PERFORMANCE OF COMPANIES AND THEIR SUBSIDIARIES LISTED BY ENVIRONMENT PROTECTION AUTHORITY AS MAJOR POLLUTANT DISCHARGE ENTITY

✓ Not Applicable

XV. CORPORATE GOVERNANCE

During the Reporting Period, the Company's operation and management are standardized and in order and in compliance with the Code of Corporate Governance for Listed Companies, the Rules for Governance of Securities Companies, the Regulatory Rules for Securities Companies, and laws and regulations of CSRC. In the meantime, during the Reporting Period and as of the date of this Report, the Company has strictly complied with all code provisions under the Code, if applicable, and followed most of the requirements of recommended best practices set out therein.

During the Reporting Period, the Company convened a total of 18 meetings, including one annual general meeting, one A shareholders' class meeting, one H shareholders' class meeting, four Board meetings, two Supervisory Committee meetings, three meetings of the Audit Committee, two meetings of independent non-executive Directors on annual report, two meetings of the Nomination, Remuneration and Assessment Committee, one meeting of the Development Strategy and Investment Management Committee, and one meeting of the Compliance and Risk Management Committee.

During the Reporting Period, the Company scrutinized its corporate governance documents based on relevant provisions by CSRC, Shanghai Stock Exchange, Hong Kong Stock Exchange and other regulatory bodies and the Company's actual condition. On the Company's Annual General Meeting of 2016 held on 6 June 2017, the proposal regarding proposed amendments to the Articles of Association, the rules of procedure for board meetings and the rules of procedure for the supervisory committee was considered and passed. For details of the amendments, please refer to the circular of the Annual General Meeting and H Shareholders' Class Meeting dated 16 May 2017. According to Regulations on the Supervision and Administration of Securities Companies, amendments to important provisions in Article of Association shall be approved by securities sector supervision and administration bodies. As the rules of procedure for board meetings and the rules of procedure for the Supervisory Committee are amended simultaneously and therefore shall become effective at the same time with the amended Articles of Association. The Company has received the Letter of Approval for Haitong Securities Co., Ltd. to Change Important Provisions of the Articles of Association (Hu Zheng Jian Xu Ke [2017] No. 66), and the amended Articles of Association, the rules of procedure for board meetings and the rules of procedure for the Supervisory Committee have become effective. For details, please refer to the overseas regulatory announcement published by the Company on 26 July 2017.

Section V SIGNIFICANT EVENTS

(I) Shareholders and General Meeting

The Company convenes general meetings in accordance with the requirements under the Articles of Association and rules of procedure for shareholders' general meetings, to ensure that all shareholders are treated equally and are able to fully exercise their rights.

(II) Directors and the Board

The Company adheres to the Articles of Association in engaging or changing Directors, and the constitution of the Board and the qualifications of Directors are in line with relevant provisions of laws and regulations. As of 30 June 2017, the Board comprised 12 Directors, including two executive Directors, five non-executive Directors, and five independent non-executive Directors. All Directors are able to perform their duties in due diligence and protect the interests of the Company and all shareholders. The Board has established development strategy and investment management committee, audit committee, compliance and risk management committee, and nomination, remuneration and assessment committee. Each committee has specific work allocations and clear accountabilities and operates in high efficiency. Except for the development strategy and investment management committee, which is chaired by the Chairman of the Board, each of the other three committees is chaired by an independent non-executive Director.

The audit committee was established under the Board, which is in line with the provisions of CSRC, Shanghai Stock Exchange and those in Chapter 3 of Hong Kong Listing Rules. The audit committee comprises seven members, including Mr. Zhang Ming (chairman of committee), Mr. Liu Cheeming, Mr. Li Guangrong (resigned on 6 April 2017), Dr. Lam Lee G. (took office on 6 April 2017), Mr. Feng Lun, Mr. Xu Jianguo, Mr. Wang Hongxiang (resigned on 12 May 2017), Mr. Wu Yuezhou (took office on 29 August 2017) and Ms. Zhang Xinmei. The Audit Committee is mainly responsible for communication, supervision and reviewing works for the Company's internal and external audit, and provides specialist advices to the Board. The Audit Committee has reviewed and confirmed the Company's interim results and interim report for the six months ended 30 June 2017 without objection on accounting policies and practices adopted by the Company.

(III) Supervisors and Supervisory Committee

As of 30 June 2017, the Supervisory Committee comprised 11 Supervisors, including five employee representative Supervisors and six non-employee representative Supervisors. The qualification and composition of Supervisors are in compliance with applicable laws and regulations. All Supervisors, holding themselves accountable to the shareholders, are able to perform their obligations in due diligence, monitor the legality and compliance of the performance of duties by the Company's finance department, Board members and senior management and provide recommendations and suggestions to the Board and senior management regarding relevant matters.

Section V SIGNIFICANT EVENTS

(IV) Senior Management

Procedures for the appointment of the Company's senior management are in compliance with the PRC Company Law and the Articles of Association. The Company's senior management can operate the business in compliance with laws and regulations and authorisations from the Board, with a view towards maximizing shareholders' value and social benefits.

(V) Stakeholders

The Company fully respects and defends legal rights of stakeholders, and engages them in the common goal for promoting the Company's sustainable and healthy development.

(VI) Information Disclosure and Investor Relationship Management

During the Reporting Period, the Company was able to disclose relevant information in a manner that is true, accurate, complete, timely and fair and in strict accordance with the applicable laws, regulations and regulatory documents in the PRC and Hong Kong where its shares are listed. The Company can strictly comply with relevant provisions of Corporate Insider Registration System, strengthen the management of the Company's inside information and well organize the insider registration. The Company managed its investor relations in a manner of integrity and professionalism. The Company's senior management participated in investors services in person and the Company has designated a dedicated investor relations service team. In addition, the Company utilized various forms of communication, including setting up a hotline for investors, holding online interactions, e-mails, telephone conferences, on-site receptions, results briefing, investor presentation, road shows, E-interactive platform launched by Shanghai Stock Exchange etc., to strengthen its communication with its domestic and foreign investors, thereby further enhancing the Company's transparency. Upon the publication of its 2016 annual report, the Company convened a seminar for global analysts and investors, with nearly 100 institutes as well as the Chairman, general manager and other senior management of the Company attended the seminar. Mr. Zhou Jie, Chairman of the Company, led 2016 annual report road show for Hong Kong and Singapore institute investors and visited 29 institutes, having an in-depth exchange of views with institute investors with respect to the Company's development strategy and operation status. In the first half of 2017, the Company received 21 surveys from investors, and received over 70 investors. In addition, the Company exchanged views with investors promptly in various ways such as hotlines for investors, E-interactive platform launched by Shanghai Stock Exchange and E-mail, which efficiently enhanced the Company's transparency and improved the experience of investors.

Section V SIGNIFICANT EVENTS

(VII) Building of Compliance System

During the Reporting Period, the Company strictly complied with the requirements of CSRC and taking into account its actual situation, continuously improved its compliance management system. The Company's general compliance officer strictly performed compliance management duties according to applicable laws. The Company's shareholders, Directors and senior management had neither violated the stipulated duties and procedures, nor given direct instructions to the general compliance officer or interfered with his work. The Company provided human resource, material resource, financial resource and technical support to its general compliance officer to fully carry out his duties to ensure effective compliance management. During the Reporting Period, the Company continued to implement internal control standardization, strengthen its internal control system building, and strictly carry out compliance management concerning all of its business lines. It reinforced prior review, monitoring and inspection in the course of compliance issue and assessment after the issue, and strived to intensify the execution of various systems, internal control procedures and risk management measures, strengthened compliance training of its staff, emphasized and created a corporate compliance culture that, led by the example of its senior management, encourages full and active compliance by all of its employees and compliance creates value. It enhanced staff's compliance awareness and risk management capacity in order to establish a corporate culture that values compliance operation in accordance with the law.

XVI. DESCRIPTION OF OTHER SIGNIFICANT EVENTS

(I) Circumstances, Causes and the Influences of Changes to Accounting Policies, Accounting Estimates and Accounting Methods as Compared to the Last Accounting Period

✓ Not Applicable

(II) Major Accounting Errors Requiring Retrospection and Restatement, Amount Corrected, Causes and the Influences during the Reporting Period

✓ Not Applicable

Section V SIGNIFICANT EVENTS

(III) Others

1. *Capital Increase of Subsidiaries*

(1) *Capital Increase in Haitong Bank*

In accordance with the Proposal on Increasing the Capital in Haitong Bank considered and passed by the 23rd meeting of the sixth session of the Board on 29 March 2017, the Haitong International Holdings increased the capital of Haitong Bank by EUR418.5 million or in currencies of the equivalent amount in lump sum or multiple times within one year after fulfilling necessary approval or filing procedures, upon the completion of which, the registered capital of Haitong Bank would increase to EUR844.5 million. As of 30 June 2017, the Company increased the capital in Haitong Bank by EUR200 million in cash in two times successively via its wholly-owned subsidiary, Haitong International Holdings; meanwhile, it also executed other capital increase measures including EUR100 million shareholder loan-to-equity swap and EUR80 million subordinated-bond-to-equity swap. Haitong Bank currently has a registered capital of EUR806 million.

(2) *Completion of Capital Increase in HFT Investment and its Wholly-owned Subsidiaries*

In accordance with the Proposal on Increasing the Capital in HFT Investment Management Co., Ltd. approved by the 19th meeting of the sixth session of the Board on 28 October 2016, the capital in the controlled subsidiary, HFT Investment, was increased by RMB150 million by turning retained earning into registered capital. After increasing the capital, HFT Investment had a registered capital of RMB300 million, which is still held by Haitong Securities as to 51% equity interest. The above capital increase has been completed in June 2017.

In accordance with the Proposal for Haifutong to Increase the Capital in Shanghai Fucheng Haifutong Asset Management Co., Ltd. approved during the 19th meeting of the sixth session of the Board on 28 October 2016, HFT Investment made an accrued capital contribution of RMB40 million in cash to its wholly-owned subsidiary, Shanghai Fucheng Haifutong Asset Management Co., Ltd. (hereinafter "Fucheng Haifutong") in the first half of 2017. As of 30 June 2017, Fucheng Haifutong had a registered capital of RMB140 million, which is held by HFT Investment had as to 100% equity interest.

(3) *Completion of Capital Increase in the Hong Kong Subsidiary of Haitong Futures*

In accordance with the Proposal for Haitong Futures Co., Ltd. to Increase the Capital in Haitong Futures Hong Kong Limited considered and passed during the 22nd meeting of the sixth session of the Board on 24 February 2017, Haitong Futures is allowed to increase the registered capital in its controlling subsidiary, Haitong Futures Hong Kong Limited from HKD30 million to HKD70 million. After the capital increase, Haitong Futures will remain to have 100% equity interest. In May 2017, the Declaration of Share Issuance was submitted to Hong Kong Companies Registry by Haitong Futures Hong Kong Limited and was accepted.

Section V SIGNIFICANT EVENTS

(4) *Completion of Capital Increase in Haitong UniTrust Shanghai*

In accordance with Proposal on Increasing the Capital in Haitong UniTrust considered and passed by the 19th meeting of the sixth session of the Board on 28 October 2016, Haitong UniTrust may increase the capital in its subsidiary as needed. In November 2016, Haitong UT Capital and Haitong UniTrust made separate contributions of RMB90 million and RMB510 million respectively to Haitong UniTrust Shanghai. After the capital increase, the registered capital of Haitong UniTrust Shanghai increased from RMB0.6 billion to RMB1.2 billion. Haitong UT Capital made a total contribution of RMB300 million, accounting for 25%; Haitong UniTrust made a total contribution of RMB900 million, accounting for 75%. On 9 January 2017, Haitong UniTrust Shanghai obtained a renewed business license.

In May 2017, Haitong UniTrust Shanghai held the seventh meeting of the first session of the Board, considering and passing the Resolution on Profit Distribution of Haitong UniTrust Shanghai for 2016, pursuant to which, Haitong UniTrust Shanghai transferred its retained profits of RMB160 million at the end of 2016 to its share capital, with dividends of Haitong UniTrust converted to its share capital amounting to RMB120 million; therefore, the capital contribution upon conversion increased to RMB1,020 million, accounting for 75% of the total amount; and dividends of Haitong UT Capital converted to increased capital amounting to RMB40 million; therefore, the capital contribution upon conversion increased to RMB340 million, accounting for 25% of the total amount. After the retained profits were converted to the share capital, Haitong UniTrust Shanghai's registered capital increased from RMB1.2 billion to RMB1.36 billion.

2. ***Acquisition of, New Incorporation of and Changes in Subsidiaries***

(1) *Overseas acquisition by Haitong International Securities*

Haitong International Securities acquired G. K. GOH FINANCIAL SERVICES (S) PTE. LTD (now named as HAITONG INTERNATIONAL FINANCIAL SERVICES (SINGAPORE) PTE. LTD.) via its wholly-owned subsidiary.

The agreement for HAITONG INTERNATIONAL SECURITIES GROUP (SINGAPORE) PTE. LTD., a wholly-owned subsidiary of Haitong International Securities, a subsidiary of the Company, to purchase 100% equity interest in G. K. GOH FINANCIAL SERVICES (S) PTE. LTD. from G. K. GOH HOLDINGS LIMITED has been finalized on 28 February 2017, and such acquisition has been completed.

G.K. GOH FINANCIAL SERVICES (S) PTE. LTD. was renamed as HAITONG INTERNATIONAL FINANCIAL SERVICES (SINGAPORE) PTE. LTD. on 1 March 2017.

Section V SIGNIFICANT EVENTS

(2) *Establishment of Subsidiaries by Haitong UniTrust*

In accordance with the Proposal for Asset Restructuring and Transformation in Haitong UniTrust International Leasing Corporation considered and passed by the 23rd meeting of the sixth session of the Board on 29 March 2017, Haitong UniTrust incorporated Haitong UT Leasing HK in Hong Kong as its wholly-owned subsidiary with registered capital of USD1 million in April 2017, in order to conduct overseas business and aircraft lease business.

In June 2017, Haitong UT Capital incorporated Haitong UT Holding Limited in Hong Kong as its wholly-owned subsidiary with registered capital of USD1 million, in order to push forward the restructuring of Haitong UniTrust.

In June 2017, Haitong UT Leasing HK established Haitong UT Leasing Irish Holding Corporation Limited as its wholly-owned subsidiary in Ireland with registered capital of USD1, to substantiate aircraft SPV in Ireland, and reduce tax risk of aircraft lease business.

(3) *Conversion of Haitong UniTrust into a Joint Stock Limited Company*

In accordance with the Proposal on Increasing the Capital in Haitong UniTrust considered and passed by the 19th meeting of the sixth session of the Board on 28 October 2016, Haitong UniTrust International Leasing Corporation was converted into "Haitong UniTrust International Leasing Co., Ltd.", a joint stock limited company, on 27 May 2017. Upon the conversion, its registered share capital was RMB7.0 billion, with no changes to the stakes of shareholders, of which, Haitong UT Capital still holds 65.1% equity interest and Haitong Capital holds the remaining 34.9% equity interest.

3. Other Matters of Subsidiaries

(1) *Spin-off and listing matters of Haitong UniTrust*

With the strong support of the Company, the spin-off and separate listing on the Main Board of the Hong Kong Stock Exchange of Haitong UniTrust is progressing steadily. In the first half of 2017, Haitong UniTrust has completed several important listing works, including conversion into a joint stock limited company, obtaining the acceptance of application for administrative permission from CSRC and the approval of application under Practice Note 15 of the Hong Kong Listing Rules from Hong Kong Stock Exchange, and submitting the listing application to the Hong Kong Stock Exchange.

Section V SIGNIFICANT EVENTS

(2) *Bond Issuance of Haitong UniTrust*

Haitong UniTrust successfully launched the first tranche of short-term financing bonds in March 2017, with an amount of RMB1 billion and a term of one year.

Haitong UniTrust successfully issued overseas USD private placement bonds in May 2017, with an amount of USD100 million and a term of 363 days.

Haitong UniTrust successfully launched the first tranche of corporate bonds in June 2017, with an amount of RMB1.5 billion and a term of three years.

(3) *Medium-term Notes Issuance of Haitong International Securities*

Haitong International Securities issued medium-term notes successfully in March 2017, with an issue size of RMB200 million and a term of one year.

(4) *Bond Issuance of Haitong Bank Brazil*

Haitong Bank Brazil issued local bonds of R\$1 million (private placement) on 9 January 2017, with a term of two years.

Haitong Bank Brazil issued local bonds of R\$1 million (private placement) on 2 February 2017, with a term of two years.

Haitong Bank Brazil issued local bonds of R\$2 million (private placement) on 13 March 2017, with a term of two years.

Haitong Bank Brazil issued local bonds of R\$2 million (private placement) on 14 March 2017, with a term of two years.

Haitong Bank Brazil issued local bonds of R\$3.5 million (private placement) on 4 May 2017, with a term of two years.

Haitong Bank Brazil issued local bonds of R\$0.8 million (private placement) on 11 May 2017, with a term of two years.

Haitong Bank Brazil issued local bonds of R\$1.3 million (private placement) on 12 May 2017, with a term of two years.

Haitong Bank Brazil issued local bonds of R\$1 million (private placement) on 23 May 2017, with a term of two years.

Haitong Bank Brazil issued local bonds of R\$2.25 million (private placement) on 5 June 2017, with a term of two years.

Section V SIGNIFICANT EVENTS

(5) *Equity Interest Transfer of Subsidiaries of Haitong UT Capital*

According to the Resolution on Transfer of Equity Interest of Subsidiaries considered and passed by the 15th meeting of the third session of the Board of Haitong UniTrust held on 3 May 2017, Haitong UT Capital transferred its 100% equity interest in Haitong Unitrust No.1 Limited (“No.1 Limited”) to Haitong UT Leasing HK with a consideration of USD667,773.57. After such transfer, Haitong UT Leasing HK held 100% equity interest in No.1 Limited.

Section VI CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS

I. CHANGES IN SHARE CAPITAL

(I) Table of changes in shares

1. *Table of changes in shares*

There were no changes in total shares or share capital structure of the Company during the Reporting Period.

2. *Particulars about changes in shares*

Nil

3. *Effect of changes in shares on financial indicators such as earnings per share and net assets per share during the period from the end of the Reporting Period to the date of disclosure of the interim report (if any)*

During the period from the end of the Reporting Period to the date of disclosure of the interim report, there was no change in shares of the Company.

4. *Other disclosure deemed necessary by the Company or required by securities regulatory authorities*

Nil

(II) Changes in restricted shares

All shares of the Company are circulating shares not subject to trading moratorium.

II. PARTICULARS ABOUT SHAREHOLDERS

(I) Total number of shareholders:

Total number of holders of ordinary shares as at the end of the Reporting Period (accounts)	246,720 (of which 246,274 were holders of A Shares and 446 were holders of H Shares)
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Section VI CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS

(II) The table below sets out the shareholdings of the top ten shareholders, the top ten shareholders of circulating shares (or shareholders not subject to trading moratorium) as at the end of the Reporting Period

Unit: Share

Name of shareholders (Full name)	Shareholdings of the top ten shareholders				Particulars of shares pledged or frozen		
	Changes in the number of shares 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	Particulars of shares	Number of shares	Nature of shareholders
Hong Kong Securities Clearing Company Nominees Limited ("HKSCC Nominees Limited")	634,000	3,409,020,763	29.64	0	Nil	0	Foreign legal person
China Securities Finance Corporation Limited	215,732,899	573,764,770	4.99	0	Nil	0	Others
Bright Food (Group) Co., Ltd.	0	402,150,000	3.50	0	Nil	0	State-owned legal person
Shanghai Haiyan Investment Management Company Limited	0	400,709,623	3.48	0	Nil	0	State-owned legal person
Shenergy Group Company Limited	0	322,162,086	2.80	0	Nil	0	State-owned legal person
Shanghai Electric (Group) Corporation	-1,436,800	317,649,993	2.76	0	Nil	0	State
Shanghai Jiushi (Group) Co., Ltd.	0	235,247,280	2.05	0	Nil	0	State-owned legal person
Shanghai Bailian Group Co., Ltd.	0	214,471,652	1.86	0	Nil	0	Domestic non state-owned legal person
Qilu Securities Asset Management – ICBC – Qilu Bichen No. 10 Collective Asset Management Scheme	0	193,402,041	1.68	0	Nil	0	Others
Anxin Trust Co., Ltd.	173,931,233	173,931,233	1.51	0	Nil	0	Domestic non state-owned legal person

Section VI CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS

Shareholdings of the top ten shareholders not subject to trading moratorium

Name of shareholders	Number of circulating shares held not subject to trading moratorium	Type	Type and number of shares	
				Number
HKSCC Nominees Limited	3,409,020,763	Foreign shares listed overseas		3,409,020,763
China Securities Finance Corporation Limited	573,764,770	RMB denominated ordinary shares		573,764,770
Bright Food (Group) Co., Ltd.	402,150,000	RMB denominated ordinary shares		402,150,000
Shanghai Haiyan Investment Management Company Limited	400,709,623	RMB denominated ordinary shares		400,709,623
Shenergy Group Company Limited	322,162,086	RMB denominated ordinary shares		322,162,086
Shanghai Electric (Group) Corporation	317,649,993	RMB denominated ordinary shares		317,649,993
Shanghai Jiushi (Group) Co., Ltd.	235,247,280	RMB denominated ordinary shares		235,247,280
Shanghai Bailian Group Co., Ltd.	214,471,652	RMB denominated ordinary shares		214,471,652
Qilu Securities Asset Management – ICBC – Qilu Bichen No. 10 Collective Asset Management Scheme	193,402,041	RMB denominated ordinary shares		193,402,041
Anxin Trust Co., Ltd.	173,931,233	RMB denominated ordinary shares		173,931,233

- Notes: 1. Among the H Shareholders of the Company, HKSCC Nominees Limited held the H Shares on behalf of the non-registered shareholders.
2. In the above table, the shares held by HKSCC Nominees Limited are foreign shares listed overseas (H Shares) and the shares held by other shareholders are RMB denominated ordinary A Shares.
3. The nature of shareholders of A Shares represents that of accounts registered by such shareholders in Shanghai Branch of China Securities Depository and Clearing Corporation Limited.
4. As the shares of the Company are subject of margin financing and securities lending, the number of shares held by a shareholder is calculated based on the aggregated number of shares and interests held by such shareholder through ordinary securities accounts and credit securities accounts.

Number of shares held by the top ten shareholders subject to trading moratorium and trading moratorium

✓ Not Applicable

Section VI CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS

(III) Substantial shareholders and other persons' interests and short positions in the shares and underlying shares

As of 30 June 2017, so far as the Directors, having made all reasonable enquiries, are aware, the following parties (other than the Directors, Supervisors and chief executive of the Company) had an interest or short position in the shares or underlying shares, which is required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and has been entered in the register kept by the Company according to section 336 of the SFO:

No.	Name of substantial shareholders	Type of share	Nature of interests	Number of shares held (shares)	Percentage of total issued shares of the Company (%)	Percentage of total issued A Shares/ H Shares of the Company (%)	Long position (Note 2)/short position (Note 3)/ interests in lending pool
1.	Maunakai Capital Partners (Hong Kong) Limited	H Share	Investment manager	283,894,000	2.46	8.32	Long position
2.	BSA Strategic Fund I	H Share	Beneficial owners	283,844,000	2.46	8.32	Long position
3.	Insight Capital Management (Hong Kong) Limited	H Share	Investment manager	223,415,200	1.94	6.55	Long position
4.	Insight Phoenix Fund	H Share	Investment manager	223,415,200	1.94	6.55	Long position
5.	Shi Jing	H Share	Founder of discretionary trust	268,000,000	2.33	7.86	Long position
6.	Wickhams Cay Trust Company Limited	H Share	Trustee (Note 1)	268,000,000	2.33	7.86	Long position
7.	Abhaya Limited	H Share	Interests in controlled corporation (Note 1)	268,000,000	2.33	7.86	Long position
8.	Vogel Holding Group Limited	H Share	Beneficial owners (Note 1)	248,000,000	2.15	7.27	Long position

Section VI CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS

Note 1: Vogel Holding Group Limited holds 248,000,000 H Shares of the Company. Abhaya Limited holds 248,000,000 H shares and 20,000,000 H shares in the Company respectively through Vogel Holding Group Limited and Union Sky Holding Group Limited, its wholly-owned companies, and it holds 268,000,000 H Shares of the Company in aggregate. Abhaya Limited is wholly owned by Wickhams Cay Trust Company Limited. Shi Yuzhu is a director of Abhaya Limited and other directors in Abhaya Limited are used to taking orders from Shi Yuzhu. Therefore, Both Wickhams Cay Trust Company Limited and Shi Yuzhu are deemed to have interests in the 268,000,000 H Shares held by Abhaya Limited.

Note 2: A shareholder has a “long position” if such shareholder has an interest in shares, including interests through holding, selling or issuing financial instruments (including derivatives) under which: (i) such shareholder has a right to purchase the underlying shares; (ii) such shareholder is under an obligation to purchase the underlying shares; (iii) such shareholder has a right to receive money if the price of the underlying shares increases; or (iv) such shareholder has a right to avoid or reduce loss if the price of the underlying shares increases.

Note 3: A shareholder has a “short position” if such shareholder borrows shares under a securities borrowing and lending agreement, or holds, sells or issues financial instruments (including derivatives) under which: (i) such shareholder has a right to require another person to subscribe the underlying shares; (ii) such shareholder is under an obligation to deliver the underlying shares; (iii) such shareholder has a right to receive money if the price of the underlying shares declines; or (iv) such shareholder has a right to avoid or reduce loss if the price of the underlying shares declines.

Save as disclosed above, as at 30 June 2017, the Company was not aware of any other person (other than the Directors, Supervisors and chief executive of the Company) having any interests or short positions in the shares or underlying shares of the Company which are required to be recorded in the register pursuant to Section 336 of the SFO.

Section VI CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS

(IV) Directors, Supervisors and chief executive's interests and short positions in the shares, underlying shares or debentures of the Company and its associated corporations

As at 30 June 2017, according to the information obtained by the Company and so far as the Directors are aware, the following Director(s), Supervisor(s) and chief executive of the Company had the interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO), which shall be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which are taken or deemed to have under such provisions of the SFO) or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or would be required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange:

No.	Name of directors	Type of share	Nature of interests	Number of shares held (share)	Percentage of total issued shares of the Company (%)	Percentage of total issued A Shares/ H Shares of the Company (%)	Long position (Note 1)/short position (Note 2)/ interests in lending pool
1.	Liu Cheeming	H Shares	Beneficial owner	1,000,000	0.01	0.03	Long position

Note 1: A shareholder has a "long position" if such shareholder has an interest in shares, including interests through holding, selling or issuing financial instruments (including derivatives) under which: (i) such shareholder has a right to purchase the underlying shares; (ii) such shareholder is under an obligation to purchase the underlying shares; (iii) such shareholder has a right to receive money if the price of the underlying shares increases; or (iv) such shareholder has a right to avoid or reduce loss if the price of the underlying shares increases.

Note 2: A shareholder has a "short position" if such shareholder borrows shares under a securities borrowing and lending agreement, or holds, sells or issues financial instruments (including derivatives) under which: (i) such shareholder has a right to require another person to subscribe the underlying shares; (ii) such shareholder is under an obligation to deliver the underlying shares; (iii) such shareholder has a right to receive money if the price of the underlying shares declines; or (iv) such shareholder has a right to avoid or reduce loss if the price of the underlying shares declines.

(V) Strategic investors or general legal person having become one of the top ten shareholders as a result of placing of new shares

During the Reporting Period, no strategic investor or general legal person became one of the top ten shareholders as a result of placing of new shares.

III. CHANGES OF CONTROLLING SHAREHOLDERS OR DE FACTO CONTROLLERS

Due to the diverse shareholding of the Company, no shareholder directly held more than 5% of the shares of the Company (excluding HKSCC Nominees Limited). HKSCC Nominees Limited held shares on behalf of the non-registered H shareholders.

IV. REPURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY AND ITS SUBSIDIARIES

During the Reporting Period, neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any listed securities of the Company or its subsidiaries (other than trading of the securities by the Company or its subsidiaries on behalf of the clients).

Section VII PREFERRED SHARES

During the Reporting Period, the Company did not have anything to report regarding preferred shares.

Section VIII PARTICULARS ABOUT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

I. CHANGES IN SHAREHOLDING

(I) Changes in Shareholding of Current and Resigned Directors, Supervisors and Senior Management during the Reporting Period

✓ Not Applicable

(II) Equity Incentives Granted to Directors, Supervisors and Senior Management during the Reporting Period

During the Reporting Period, no equity incentives were granted to the Directors, Supervisors and senior management.

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

Name	Position	Particulars of changes
Li Guangrong	Independent non-executive Director	Resignation
Wang Hongxiang	Non-executive Director	Resignation
Lam Lee G.	Independent non-executive Director	Election
Wu Yuezhou	Non-executive Director	Election
Shou Weiguang	Chairman of the Supervisory Committee	Resignation
Huang Zhenghong	Secretary to the Board, joint company secretary, joint authorized representative (for the purpose of Rule 3.05 of the Hong Kong Listing Rules), and the authorized person who receives the password of the e-Submission System of the Hong Kong Stock Exchange and for subsequent registration matters	Resignation
Jiang Chengjun	Assistant to general manager, secretary to the Board, joint company secretary, joint authorized representative (for the purpose of Rule 3.05 of the Hong Kong Listing Rules), and the authorized person who receives the password of the e-Submission System of the Hong Kong Stock Exchange and for subsequent registration matters	Appointment
Du Hongbo	Chief Risk Officer	Appointment
Pan Guangtao	Assistant to general manager	Appointment

Section VIII PARTICULARS ABOUT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Description of changes in directors, supervisors and senior management of the company

1. *Changes in Directors*

On 31 August 2016, the Company published the announcement on resignation of independent non-executive Director. Mr. Li Guangrong tendered his resignation from the office of the independent non-executive Director of the sixth session of the Board, the Chairman of the nomination, remuneration and assessment committee, the member of the development strategy and investment management committee and the audit committee due to career development. After resignation, he would no longer hold any other position in the Company. His resignation took effect upon the appointment of a new independent non-executive Director being approved at the general meeting of the Company, the qualifications of such independent non-executive Director approved by securities regulatory authorities, and the new independent non-executive Director took his office (i.e. on 6 April 2017 when independent non-executive Director Dr. Lam Lee G. took his office).

On 23 September 2016, the resolution on the appointment of Dr. Lam Lee G. as an independent non-executive director of the Company was considered and approved at the first extraordinary general meeting of 2016. Dr. Lam Lee G. was approved to act as independent non-executive Director of the Company, and his term of office will be the same as the sixth session of the Board. His qualification as independent non-executive Director took effect upon the approval of regulatory authorities. On 28 October 2016, the resolution on the election of Mr. Zhou Jie as the Chairman of the development strategy and investment management committee of the sixth session of the board and the adjustment of members and the resolution on the adjustment of members of the audit committee was considered and passed at the 19th meeting of the sixth session of the Board, pursuant to which, the Company adjusted members of the development strategy and investment management committee and the audit committee of the board and appointed Dr. Lam Lee G. to take the office of Mr. Li Guangrong as a member. At the same meeting, the resolution on the election of Mr. Liu Cheeming as the Chairman of the nomination, remuneration and assessment committee of the sixth session of the board and the adjustment of members was considered and passed, pursuant to which, the Company appointed Mr. Liu Cheeming, independent non-executive Director, to take the office of Mr. Li Guangrong as the Chairman of the nomination, remuneration and assessment committee and elected Dr. Lam Lee G. as a new member of this committee. The above-mentioned election took effect upon the approval of the qualification of Dr. Lam Lee G. as independent non-executive Director by regulatory authorities. On 6 April 2017, the Company published the update announcement on appointment of independent non-executive Director and the qualification of Dr. Lam Lee G. as independent non-executive Director has been approved. Dr. Lam Lee G. started to perform the duties as independent non-executive Director, member of the development strategy and investment management committee, the audit committee and the nomination, remuneration and assessment committee on 6 April 2017.

Section VIII PARTICULARS ABOUT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

On 12 May 2017, the Company published the announcement on resignation of non-executive Director. Mr. Wang Hongxiang tendered his resignation from the office of the Director of the sixth session of the Board, the member of the nomination, remuneration and assessment committee and the audit committee due to reason of age. After resignation, he would no longer hold any other position in the Company. His resignation took effect from 12 May 2017.

On 6 June 2017, the resolution on the appointment of Mr. Wu Yuezhou as a non-executive director of the Company was considered and approved at the Annual General Meeting of 2016. Mr. Wu Yuezhou was approved to act as non-executive Director, and his term of office will be the same as the sixth session of the Board. His appointment as non-executive Director is subject to the approval of regulatory authorities. On 18 August 2017, the Company published the update announcement on appointment of non-executive Director. The appointment of Mr. Wu Yuezhou as a Director has been approved, and Mr. Wu Yuezhou started to perform his duty as non-executive Director from 18 August 2017. On 29 August 2017, the resolution on the election of Mr. Wu Yuezhou as a member of the nomination, remuneration and assessment committee and a member of the audit committee of the sixth session of the Board was considered and passed on the 25th meeting of the sixth session of the Board. Therefore, Mr. Wu Yuezhou took his office as a member of the nomination, remuneration and assessment committee and a member of the audit committee from 29 August 2017.

2. Changes in Supervisors

On 12 April 2017, the Company published the announcement on resignation of the Chairman of the Supervisory Committee. Mr. Shou Weiguang tendered his resignation from the office of the supervisor of the sixth session of the Supervisory Committee and the chairman of the Supervisory Committee due to work arrangements. After resignation, he would no longer hold any other position in the Company. His resignation took effect from 12 April 2017.

3. Changes in Senior Management

On 29 March 2017, the resolution on appointment of secretary to the Board and joint company secretary and the resolution on appointment of senior management were considered and passed at the 23rd meeting of the sixth session of the Board. Mr. Huang Zhenghong tendered his resignation from the office of Secretary to the Board, joint company secretary, joint authorized representative of the company (for the purpose of Rule 3.05 of Hong Kong Listing Rules) and authorized person who receives the password of the e-Submission system of the Hong Kong Stock Exchange and for subsequent registration matters due to personal career development. The Board appointed Mr. Jiang Chengjun to act as assistant to general manager of the Company, secretary to the Board of the Company, joint company secretary, joint authorized representative of the Company (for the purpose of Rule 3.05 of Hong Kong Listing Rules) and authorized person who receives the password of the e-Submission system of the Hong Kong Stock Exchange and for subsequent registration matters. Mr. Jiang Chengjun started to perform duties as assistant to general manager, secretary to the Board, joint authorized representative of the Company (in respect of Rule 3.05 of Hong Kong Listing Rules) and authorized person who receives the password of the e-Submission system of the Hong Kong Stock Exchange and for subsequent registration matters on 29 March 2017 and as joint company secretary on 5 April 2017.

Section VIII PARTICULARS ABOUT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

On 29 March 2017, the resolution on appointment of senior management was considered and passed at the 23rd meeting of the sixth session of the Board to appoint Mr. Du Hongbo as Chief Risk Officer of the Company and Mr. Pan Guangtao as assistant to general manager of the Company. Mr. Wang Jianye would no longer hold the position as Chief Risk Officer. The abovementioned appointment take effect after qualifications of Mr. Du Hongbo and Mr. Pan Guangtao as senior management of the securities company being approved by securities regulatory authorities. On 12 May 2017, the Company published overseas regulatory announcement on performance of Mr. Du Hongbo and Mr. Pan Guangtao, in which the qualifications of Mr. Du Hongbo and Mr. Pan Guangtao as senior management of the securities company were approved, and they started to perform duties as senior management of the Company on 12 May 2017.

III. OTHER INFORMATION

(I) Dealings in Securities by Directors, Supervisors and Relevant Employees

The Company has adopted the standards as set out in the Model Code as the code of conduct of the Company regarding securities transactions by the Directors, Supervisors and relevant employees. The Company, having made enquiries to all Directors and Supervisors, confirmed that they had been in compliance with the requirements of the Model Code, during the period from 1 January 2017 to 30 June 2017. The Company has not found any relevant employee violating the said guidelines.

(II) Material Changes in Relevant Information of Directors and Supervisors

Mr. Zhang Ming, an independent non-executive Director, ceased to serve as independent director of Shang Gong Group Co., Ltd. (listed on Shanghai Stock Exchange with stock code of 600843) since May 2017;

Ms. Yu Liping, a non-executive Director, ceased to serve as chairwoman of the supervisory committee of Shanghai YiMin Foods Group since June 2017;

Mr. Chen Bin, a non-executive Director, has served as director of Huahuan International Tobacco Co., Ltd. since July 2017;

Dr. Lam Lee G., an independent non-executive Director, has served as independent director of Asia-Pacific Strategic Investments Limited (listed on Singapore Exchange Limited with stock code of SGX 5RA) since June 2017 and as director of Hong Kong Casin Holdings Ltd. since July 2017;

Zheng Xiaoyun, a Supervisor, has served as director of Shanghai Bailian Group Co., Ltd. (listed on Shanghai Stock Exchange with stock code of 600827) since June 2017;

Cheng Feng, a Supervisor, has served as chairman of board of directors of Shanghai Dongfang Newspaper Co., Ltd. since March 2017;

Section VIII PARTICULARS ABOUT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Song Shihao, a Supervisor, ceased to serve as general manager of the compliance and risk management headquarters of the Company and has served as general manager of securities and finance department of the Company since March 2017.

According to Rule 13.51B of the Hong Kong Listing Rules, save as disclosed above, no other material changes in relevant information of the Directors and Supervisors occurred during the Reporting Period.

(III) Particulars about Service Contracts with Directors and Supervisors

Pursuant to Rules 19A.54 and 19A.55 of the Hong Kong Listing Rules, the Company has entered into a contract with each of the Directors and Supervisors in respect of, among other things, compliance with the relevant laws and regulations and the Articles of Association and provisions on arbitration. Save as disclosed above, the Company has not entered into, and does not propose to enter into any service contract with any of the Directors or Supervisors in their respective capacity as a Director or Supervisor (other than contracts expiring or terminable by the employer within one year without the payment of compensation (other than statutory compensation)).

(IV) Employees and Remuneration Policy

As of the end of the Reporting Period, the Group had 9,821 employees, of whom 5,653 were from the Company, and 4,168 were from subsidiaries.

The Company emphasizes talent attraction, motivation, training and retention, and focuses on the external competitiveness of its remuneration level and the internal fairness of its remuneration system. The Company implements a remuneration system under which remunerations are determined based on the market levels and the individual performance appraisal results. The remuneration package of the Company comprises basic salary, performance bonus and benefits. Under the applicable laws and regulations in the PRC, the Company enters into a labor contract and establishes employment relationship with each of its employees. A labor contract contains the provisions relating to contract term, working hours, rest and vacation, labor remuneration and insurance benefits, labor protection and conditions, as well as modification and termination of the contract.

Under the applicable laws and regulations of the PRC, the Company purchased various social insurance policies (pension insurance, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance) and established housing funds for its employees, and made abovementioned social insurance and housing fund contributions in full in accordance with applicable regulations. Meanwhile, the Company also established a corporate annuity system, providing supplemental pension protection with its employees in accordance with applicable regulations.

Section VIII PARTICULARS ABOUT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(V) Employee Training

In the first half of 2017, the functions and content construction of the Haitong Wealth Management Academy (海通財富管理學院) has been further improved, and the training and assessment and incentive mechanism have been further strengthened. Special training on overseas business, reserve cadres training, dandelion plan and other key training programs have effectively supported the Company's strategic implementation and business development.

SECTION IX CORPORATE BONDS

I. BASIC INFORMATION OF CORPORATE BONDS

On 26 March 2013, the Resolution on Issuance of Corporate Bonds and the Resolution on the General Mandate to Issue Corporate Bonds were considered and passed at the 16th meeting of the fifth session of the Board. The resolutions were considered and passed at the 2012 Annual General Meeting of the Company held on 27 May 2013, and the Chairman and general manager of the Company were authorized to jointly or individually deal with all related matters regarding the issuance of corporate bonds. Relevant resolutions were published on China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily and the website of Shanghai Stock Exchange (<http://www.sse.com.cn>) on 27 March 2013 and 28 May 2013, respectively. According to the approval issued by CSRC (Zheng Jian Xu Ke [2013] No.1220) on 25 September 2013, the Company was approved to publicly issue corporate bonds with an aggregate nominal amount not exceeding RMB23.0 billion, based on the resolutions and regulatory approvals, the Company publicly issued two tranches of corporate bonds.

Unit: 100 million Currency: RMB

Name of Bond	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 (Tranche 1) of Haitong Securities Co., Ltd.	13 Haitong 02	122281	25 November 2013	25 November 2018	23.5	6.15%	Simple annualised interest rate	Shanghai Stock Exchange
2013 Corporate Bonds (Tranche 1) of Haitong Securities Co., Ltd.	13 Haitong 03	122282	25 November 2013	25 November 2023	23.9	6.18%	Simple annualised interest rate	Shanghai Stock Exchange
2013 Corporate Bonds (Tranche 2) of Haitong Securities Co., Ltd.	13 Haitong 04	122311	14 July 2014	14 July 2017	56.5	5.25%	Simple annualised interest rate	Shanghai Stock Exchange
2013 Corporate Bonds (Tranche 2) of Haitong Securities Co., Ltd.	13 Haitong 05	122312	14 July 2014	14 July 2019	45.5	5.45%	Simple annualised interest rate	Shanghai Stock Exchange
2013 Corporate Bonds (Tranche 2) of Haitong Securities Co., Ltd.	13 Haitong 06	122313	14 July 2014	14 July 2024	8	5.85%	Simple annualised interest rate	Shanghai Stock Exchange

As of 30 June 2017, the total balance of outstanding corporate bonds issued publicly is RMB15.74 billion.

SECTION IX CORPORATE BONDS

Payment of Interest and Repayment of Principal of Corporate Bonds

The two tranches of corporate bonds issued publicly carry interest payable annually in arrears, and the interest payable for the last period will be paid in arrears together with principal upon maturity; no additional interest will be accrued upon payment date of interest for each period and upon repayment date of principal. The repayment of principal and payment of interest of the bonds shall be handled via the registration institutions and relevant institutions.

1. 2013 Corporate Bonds (Tranche 1)

During the Reporting Period, without repayment of principal and payment of interest, the balance of this tranche of bonds was RMB4.74 billion. Interest of 13 Haitong 02 and 13 Haitong 03 for the year 2017 will be paid on 25 November 2017.

2. 2013 Corporate Bonds (Tranche 2)

During the Reporting Period, without repayment of principal and payment of interest, the balance of this tranche of bonds was RMB11.0 billion, among which 13 Haitong 04 was repaid principal and interest and was delisted on maturity date of 14 July 2017 (Announcement No. Lin 2017-033) and interest of 13 Haitong 05 and 13 Haitong 06 for the year 2017 was paid on the same day (Announcement No. Lin 2017-034).

Further Description of Corporate Bonds

The Resolution on the General Mandate to Issue Onshore Debt Financing Instruments was considered and passed at the 15th meeting of the sixth session of the Board on 30 March 2016 and shareholders' meeting of 2015 on 26 May 2016. It was resolved that the Company may issue debt financing instruments on a one-off or multiple issuances or multi-tranche issuances domestically through public or non-public offerings, including but not limited to short-term financing bills of securities companies, corporate bonds, short-term corporate bonds, asset backed securities (term notes), income certificate, subordinated bonds, subordinated debt and other onshore debt financing instruments (excluding the inter-bank lending and bond repurchase for daily liquidity operating) that the Company may issue in accordance with the examination and approval or recording of CSRC, Securities Association of China and other related departments with relevant rules.

SECTION IX CORPORATE BONDS

The Company's existing or issuing other bonds and debt financing instruments during the Reporting Period are represented in the following table:

1. Subordinated Bonds

Unit: 100 Million Currency: RMB

Name of bonds	Abbreviation	Code	Term	Date of issuance	Maturity date	Balance of bonds	Interest rate	Method to repay principal and pay interest	Venue of trading
2015 subordinated bonds (Tranche 1)	15 Haitong C1	123212	5 years (3+2)	2015/04/08	Option of redemption	150	5.50%	Simple annualised interest rate	Shanghai Stock Exchange
2015 subordinated bonds (Tranche 2)	15 Haitong C3	125993	5 years (3+2)	2015/06/12	Option of redemption	50	5.38%	Simple annualised interest rate	Shanghai Stock Exchange
2016 subordinated bonds (Tranche 1)	16 Haitong C1	145179	3 years	2016/11/17	2019/11/17	40	3.30%	Simple annualised interest rate	Shanghai Stock Exchange
2016 subordinated bonds (Tranche 1)	16 Haitong C2	145179	5 years	2016/11/17	2021/11/17	20	3.40%	Simple annualised interest rate	Shanghai Stock Exchange
2017 subordinated bonds (Tranche 1)	17 Haitong C1	145411	3 years	2017/03/16	2020/03/16	45	4.80%	Simple annualised interest rate	Shanghai Stock Exchange

At the end of the Reporting Period, the sum of balance of outstanding subordinated bonds was RMB30.5 billion, decreased by RMB10.5 billion as compared to the end of year 2016.

SECTION IX CORPORATE BONDS

- (1) Redemption. 15 Haitong C2 of 2015 subordinated bonds (Tranche 2) was issued on 12 June 2015, with an amount of RMB15 billion, interest rate of 5.3% and right of redemption at the end of the second year. The issuer chose to exercise the “right of redemption” and the subordinated bonds was fully redeemed on 12 June 2017. The notes to the exercise of right of redemption and the results of repayment were published on the website of the Shanghai Stock Exchange (No. Lin 2017-015, No. Lin 2017-025, No. Lin 2017-026 and No. Lin 2017-030).
- (2) Issuance. In accordance with the No Objection Letter to Haitong Securities Co., Ltd. on the Listing and Transfer of 2016 Subordinated Bonds (Shang Zheng Han [2016] No.2080) from Shanghai Stock Exchange (please refer to Announcement No. Lin 2016-048 of the Company), the Company issued 2017 Subordinated Bonds (Tranche 1) on 16 March 2017. For the result of the issuance, please refer to the announcement (No. Lin 2017-005) published on the website of the Shanghai Stock Exchange.

2. Non-public issuance of corporate bonds

Unit: RMB100 million Currency: RMB

Name of bonds	Abbreviation	Code	Term	Date of issuance	Maturity date	Balance of bonds	Interest rate	Method to repay principal and pay interest	Venue of trading
2016 non-public issuance of corporate bonds (Tranche 1)	16 Haitong 01	135484	4 years (3+1)	2016/05/18	Option of redemption	150	3.60%	Simple annualised interest rate	Shanghai Stock Exchange
2016 non-public issuance of corporate bonds (Tranche 1)	16 Haitong 02	135485	5 years	2016/05/18	2021/05/18	50	3.80%	Simple annualised interest rate	Shanghai Stock Exchange

As of the end of the Reporting Period, the balance of outstanding non-public issuance of corporate bonds was RMB20.0 billion.

SECTION IX CORPORATE BONDS

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

13 Haitong 02	Bond trustee	Name	CITIC Securities Company Limited
13 Haitong 03		Office address	22nd Floor, CITIC Securities Tower, No.48 Liangmaqiao Road, Chaoyang District, Beijing
13 Haitong 04			
13 Haitong 05		Contact persons	Song Yilan, Chang Wei, Fang Jia, Chen Ya'nan
13 Haitong 06		Tel	010-60836999
15 Haitong C1	Credit-rating agency	Name	China Chengxin Securities Ratings Co., Ltd. (中誠信證券評估有限公司)
15 Haitong C3		Office address	8th Floor, No. 760 Xizang South Road, Shanghai
16 Haitong 01	Bond trustee	Name	Shanghai AllBright Law Offices
16 Haitong 02		Office address	12th Floor, Shanghai Tower, No.501 Yincheng Middle Road, Pudong New Area, Shanghai
16 Haitong C1			
16 Haitong C2		Contact persons	Pei Zhenyu, Lv Xijing
		Tel	021-20511217
17 Haitong C1	Credit-rating agency	Name	China Chengxin Securities Ratings Co., Ltd. (中誠信證券評估有限公司)
		Office address	8th Floor, No.760 Xizang South Road, Shanghai

III. USE OF PROCEEDS FROM ISSUANCE OF CORPORATE BONDS

As of 30 June 2017, the said proceeds from issuance of corporate bonds of the Company were fully used to replenish the working capital of the Company or pay its due debts to meet the Company's needs for business operations, which were consistent with the committed use, the usage plan and other agreements as described in the prospectus. The ending balance of the said proceeds from issuance of corporate bonds was zero.

Operation of special accounts for proceeds: all special accounts for proceeds opened for the said bonds have been used up and cancelled except that of 17 Haitong C1. Given that the bonds issued in tranches within the validity period of the same approval document can use the same special account for proceeds, the special account for 17 Haitong C1 will be cancelled upon invalidation of the approval document for corresponding subordinated bonds thereof.

IV. INFORMATION ON THE RATING OF CORPORATE BONDS

The credit-rating agency of corporate bonds is China Chengxin Securities Ratings Co., Ltd. (中誠信證券評估有限公司) (hereinafter referred to as "CCXR") which is a wholly-owned subsidiary of China Chengxin Credit Management Co., Ltd., established in August 1997 with its place of incorporation in Shanghai. CCXR was licensed by CSRC and the People's Bank of China to principally carry out stock market credit rating and lending market credit rating businesses.

SECTION IX CORPORATE BONDS

Business qualifications of CCXR include, Application of Carrying out Stock Market Credit Rating Business (Zheng Jian Ji Gou Zi [2007] No. 223) was approved by CSRC in September 2007; Stock Market Credit Rating Business License (ZPJ001) issued by CSRC in January 2012; Announcement on Recognition of Seven Credit Rating Institutions (Bao Jian Announcement [2013] No. 9) by the China Insurance Regulatory Commission in October 2013. CCXR is one of the members of first batch of credit rating institutions in the Securities Association of China, one of council units of Securities Association of China, and ranked first in the domestic corporate bond rating market in terms of market share.

On 27 April 2017, the Company announced CCXR's periodical follow-up ratings on two tranches of corporate bonds (Tranches 1 and 2) in 2013 (Xin Ping Wei Han Zi [2017] Gen Zong No. 059 and No. 060) (Announcement No. Lin 2017-017) on the website of the Shanghai Stock Exchange. According to the report, the credit ratings of Haitong's two tranches of corporate bonds (Tranches 1 and 2) in 2013 were maintained at AAA and the corporate rating of subject of debt issuance remained at AAA.

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

There were no credit enhancement mechanisms and no change in repayment plan and other repayment supporting measures.

1. Repayment plan

The Company will perform the obligation of annual payment of interest and repayment of principal and payment of interest on maturity for each tranche of corporate bonds in a timely manner. The Company has a sound repayment capability, and repayment capital will be mainly derived from daily accumulation of profits, cash flow from operation activities, further liabilities and share capital financing activities. Revenue streams and accumulation of profits of the Company assured of the ability of principal repayment and interest payment on time to a large extent.

2. Other relevant information

During the Reporting Period, the Company further enhanced its assets and liabilities management, liquidity management and management of use of proceeds from issuance according to its debt structure, assured funds shall be dispatched as scheduled and prepared funds to use for interest payments and payment of principal upon maturity timely and adequately, in order to fully protect investors' interests. The Company maintained sound revenue streams, accumulation of profits and external facilities as well as current assets which can easily be realized. All these factors that served as a strong guarantee for the Company's timely repayment of principal and payment of interest remained unchanged, which were consistent with the descriptions in the prospectus.

As for the implementation of other repayment supporting measures, the Company, in strict compliance with the relevant rules of procedure for the bondholders' meeting, organized bondholders to exercise their powers through bondholders' meetings, engaged CITIC Securities and Shanghai AllBright Law Offices as the bond trustees for corresponding bonds respectively, to safeguard bondholders' interests in accordance with the Bond Trustee Agreement entered into with it, and strictly complied with relevant fund management plans and information disclosure requirements. All these measures remained unchanged and were consistent with the descriptions in the prospectus.

SECTION IX CORPORATE BONDS

VI. MEETINGS CONVENED FOR HOLDERS OF CORPORATE BONDS

During the Reporting Period, no bondholders' meetings were convened by the Company.

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

As the Bond Trustee of the Company and partial subordinated bonds, CITIC Securities Company Limited had no conflict of interest in the course of performing its duties, conducted an ongoing track and supervision of the performance of the obligations agreed in the prospectus in connection with the issuance and agreements by the Company and focused on the credit status, inside and outside credit enhancement mechanisms and implementation of repayment supporting measures of the Company on an ongoing basis. The report of entrusted managers for 2016 in respect of two tranches of 2013 Corporate Bonds of the Company was issued on 27 April 2017. In response to the advance notice of administrative penalty from CSRC, an interim report of entrusted management affairs was issued on 14 June 2017. The report of entrusted management affairs for 2016 in respect of 2015 Subordinated Bonds (Tranche 2) of the Company was issued on 30 June 2017. The abovementioned reports were all disclosed by the Company on the website of Shanghai Stock Exchange.

As the bond trustee of the issuance of non-public corporate bonds and partial subordinated bonds, Shanghai AllBright Law Offices had no conflict of interest in the course of performing its duties, conducted an ongoing track and supervision of the performance of the obligations agreed in the prospectus in connection with the issuance and agreements by the Company and focused on the credit status, inside and outside credit enhancement mechanisms and implementation of repayment supporting measures of the Company on an ongoing basis. In response to the advance notice of administrative penalty from CSRC, an interim report of entrusted management affairs was issued on 14 June 2017. The report of entrusted management affairs for 2016 in respect of 2016 Non-public Corporate Bonds (Tranche 1) and 2016 Subordinated Bonds (Tranche 1) of the Company was issued on 29 June 2017. The abovementioned reports were all disclosed by the Company on the website of Shanghai Stock Exchange.

SECTION IX CORPORATE BONDS

VIII. ACCOUNTING DATA AND FINANCIAL INDICATORS AT THE END OF THE REPORTING PERIOD AND AT THE END OF LAST YEAR (OR DURING THE REPORTING PERIOD AND LAST CORRESPONDING PERIOD)

Unit: Yuan Currency: RMB

Key indicators	As at	As at	Movement at	Reasons
	the end of	the end of	the end of	
	this Reporting	last year	the Reporting	for changes
	Period		Period as	
			compared with	
			the end of	
			the last year (%)	
Liquidity ratio	1.84	1.67	10.18	–
Quick ratio	1.84	1.67	10.18	–
Gearing ratio	71.76%	73.30%	-2.1	–
Loan repayment ratio	100%	100%	–	–

Key indicators	During	During	Movement for	Reasons
	the Reporting	the last	the Reporting	
	Period	corresponding	Period compared	for changes
	(January to	period	with last	
	June)		corresponding	
			period (%)	
EBITDA interest coverage multiple	2.03	1.93	5.18	–
Interest payment ratio	100%	100%	–	–

Note: Liquidity ratio = (Bank and cash balance + Clearing settlement funds + Placement to banks and other financial institutions + Margin loan + Financial assets at fair value through profit or loss + Derivative financial assets + Financial assets held under resale agreements + Accounts receivables + Interest receivable – Account payable to brokerage clients – Funds payable to securities issuers + Other receivables + Dividend receivable + Underwriting fees to be transferred)/(Short-term borrowings + Deposit taken from other financial institutions + Financial liabilities at fair value through profit or loss + Derivative financial liabilities + Financial assets sold under repurchase agreements + Payroll payable + Taxes payable + Interest payables + Short-term financing bills payables + Accounts payable)

Quick ratio = (Bank and cash balance + Clearing settlement funds + Placement to banks and other financial institutions + Margin loan + Financial assets at fair value through profit or loss + Derivative financial assets + Financial assets held under resale agreements + Accounts receivables + Interest receivable – Account payable to brokerage clients – Funds payable to securities issuers + Other receivables + Dividend receivable + Underwriting fees to be transferred)/(Short-term borrowings + Deposit taken from other financial institutions + Financial liabilities at fair value through profit or loss + Derivative financial liabilities + Financial assets sold under repurchase agreements + Payroll payable + Taxes payable + Interest payables + Short-term financing bills payables + Accounts payable)

The above financial indicators are based on calculation in accordance with the PRC GAAP.

SECTION IX CORPORATE BONDS

IX. OVERDUE DEBTS

✓ Not Applicable

X. PAYMENT OF INTEREST AND REPAYMENT OF PRINCIPAL OF OTHER BONDS AND DEBT FINANCING INSTRUMENTS OF THE COMPANY

1. Subordinated bonds

During the Reporting Period, the Company paid the interest of its 2015 Subordinated Bonds (Tranches 1 and 2) in a timely manner. Please refer to announcement on the website of the Shanghai Stock Exchange for details (Announcement No.: Lin 2017-010, Lin 2017-027). 15 Haitong C2 in 2015 Subordinated Bonds (Tranche 2) was redeemed and delisted by exercising redemption right (Announcement No.: Lin 2017-026, Lin 2017-030).

2. Non-public Issuance of corporate bonds

During the Reporting Period, the Company paid the interest of its 2016 Non-public Issuance of Corporate Bonds (Tranche 1) in a timely manner. Please refer to announcement on the website of the Shanghai Stock Exchange for details (Announcement No.: Lin 2017-018, Lin 2017-019).

XI. BANKING FACILITIES OF THE COMPANY DURING THE REPORTING PERIOD

During the Reporting Period, the Company obtained aggregate external credit facilities of more than RMB500 billion from a total of nearly 100 banks. At the end of the Reporting Period, the unutilized credit facilities was more than RMB300 billion.

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

There were no agreements or commitments described in the prospectus in connection with the issuance of corporate bonds.

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

The Company received an Advance Notice of Administrative Penalty from CSRC (Chu Fa Zi [2017] No. 059) on 23 May 2017, and made a full-text announcement on Shanghai Stock Exchange (Announcement No. Lin 2017-024) on 25 May 2017. For that matter, the bond trustees of the Company all issued interim reports of entrusted management affairs, and made responsive disclosure. The Company will make an announcement in time in the event of any new developments on this matter. This administrative penalty decision has no material impact on the financial position of the Company for the year of 2017 and onwards and the operations and solvency of the Company is normal.

Section X FINANCIAL REPORT

- I. The 2017 Interim Report has been reviewed by Deloitte Touche Tohmatsu with the auditor's review report attached hereto.
- II. The Interim Financial Report (attached).

Section XI DOCUMENTS AVAILABLE FOR INSPECTION

- I. The text of this Report with signature of the legal representative of the Company.
- II. The text of the interim financial report with signatures and seals of the legal representative of the Company and the chief financial officer and the person responsible for the accounting affairs.
- III. The text of the auditor's review report from Deloitte Touche Tohmatsu.
- IV. Original copies of all documents and notices disclosed on newspapers designated by CSRC during the Reporting Period.
- V. Other relevant materials.

Section XII INFORMATION DISCLOSURE OF SECURITIES COMPANY

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

(I) Administrative Licensing of Business Departments during the Reporting Period

New business departments	Relocation of branches	Relocation of business departments
0	2	8

1. Administrative licensing of relocation of branches during the Reporting Period

No.	Name of branch before relocation	Name of branch after relocation	New address	License obtained on
1	Haitong Securities Co., Ltd. Heilongjiang Branch	Haitong Securities Co., Ltd. Heilongjiang Branch	10F, Qilu International Hotel, No. 111, Zhongshan Road, Nangang District, Harbin	13 March 2017
2	Haitong Securities Co., Ltd. Shandong Branch	Haitong Securities Co., Ltd. Shandong Branch	2F, Building D, Shunhua Garden, No. 28, Shungeng Road, Shizhong District, Jinan, Shandong Province	30 March 2017

2. Administrative licensing of relocation of business departments during the Reporting Period

No.	Name of business department before relocation	Name of business department after relocation	New address	License obtained on
1	Business Department of Haitong Securities Co., Ltd. in Park Central Road, Pingxiang	Business Department of Haitong Securities Co., Ltd. in Chuping East Road, Pingxiang	1F and 27F, No. 98 Comprehensive Buildings, Chu Ping East Road, An Yuan District, Pingxiang City, Jiangxi Province	4 January 2017
2	Business Department of Haitong Securities Co., Ltd. in Renmin Road, Panjin	Business Department of Haitong Securities Co., Ltd. in Shuangxing Road, Panjin	No. 177, Shuangxing South Road, Xinglongtai District, Panjin City, Liaoning Province	5 January 2017
3	Business Department of Haitong Securities Co., Ltd. in Shennan Road, Shenzhen	Business Department of Haitong Securities Co., Ltd. in Shennan Road, Shenzhen	Room 2912-2915, Block A, Century Holiday Plaza, No. 9030, Shennan Road, Nanshan District, Shenzhen	11 January 2017
4	Business Department of Haitong Securities Co., Ltd. in Gogol Street, Harbin	Business Department of Haitong Securities Co., Ltd. in Gogol Street, Harbin	3F-4F, No.278, Gogol Street, Nangang District, Harbin	13 February 2017
5	Business Department of Haitong Securities Co., Ltd. in Wanghai Road, Shenzhen	Business Department of Haitong Securities Co., Ltd. in Meilin Road, Shenzhen	Room 1209, Building A, Phase II, Excellence Merlin Center Square South Area, Meilin Road, Meilin Street, Futian District, Shenzhen	3 March 2017
6	Business Department of Haitong Securities Co., Ltd. in East Street, Cheng County	Business Department of Haitong Securities Co., Ltd. in East Binhe Central Road, Cheng County	Room 21, 3F, Unit 3, Guanshui Lijing Commercial and Residential Building, East Binhe Central Road, Cheng County, Longnan City, Gansu Province	26 April 2017

Section XII INFORMATION DISCLOSURE OF SECURITIES COMPANY

No.	Name of business department before relocation	Name of business department after relocation	New address	License obtained on
7	Business Department of Haitong Securities Co., Ltd. in Ranweng Road, Mile City	Business Department of Haitong Securities Co., Ltd. in Ranweng Road, Mile City	Yixin Community Shop, Ranweng West Road, Mile City, Honghe Prefecture, Yunnan Province	5 May 2017
8	Business Department of Haitong Securities Co., Ltd. in Guilin Road, Shanghai	Business Department of Haitong Securities Co., Ltd. in Liuzhou Road, Xuhui District, Shanghai	Rooms 109, 703-2, 704, No. 138, Liuzhou Road, Xuhui District, Shanghai	16 May 2017

(II) Inaugural administrative licensing matters of Directors, Supervisors and senior management

No.	Date	Contents
1	March 2017	Shanghai Securities Regulatory Bureau of CSRC issued the Reply of Approval on Qualification of Lam Lee G. as Independent Director of Securities Company (Hu Zheng Jian Xu Ke [2017] No. 30) to the Company, approving qualification of Dr. Lam Lee G. as independent director of securities company.
2	March 2017	Shanghai Securities Regulatory Bureau of CSRC issued the Reply of Approval on Qualification of Jiang Chengjun as Manager-level Senior Management of Securities Company (Hu Zheng Jian Xu Ke [2017] No. 33) to the Company, approving qualification of Jiang Chengjun as manager-level senior management of securities company.
3	May 2017	Shanghai Securities Regulatory Bureau of CSRC issued the Reply of Approval on Qualification of Du Hongbo as Manager-level Senior Management of Securities Company (Hu Zheng Jian Xu Ke [2017] No. 41) to the Company, approving qualification of Du Hongbo as manager-level senior management of securities company.
4	May 2017	Shanghai Securities Regulatory Bureau of CSRC issued the Reply of Approval on Qualification of Pan Guangtao as Manager-level Senior Management of Securities Company (Hu Zheng Jian Xu Ke [2017] No. 42) to the Company, approving qualification of Pan Guangtao as manager-level senior management of securities company.
5	August 2017	Shanghai Securities Regulatory Bureau of CSRC issued the Reply of Approval on Qualification of Wu Yuezhou as Director of Securities Company (Hu Zheng Jian Xu Ke [2017] No. 73) to the Company, approving qualification of Wu Yuezhou as director of securities company.

Section XII INFORMATION DISCLOSURE OF SECURITIES COMPANY

(III) Other administrative permissions

Date	Business qualification	Approval organization	Title of approval document	No. of approval
1 January 2017	Permission for Printing Publication of Internal Information	Shanghai Press and Publication Bureau	Permission Number: (K) 0772	Nil
25 May 2017	Radio Station License	Shanghai Radio Administration Bureau	License Number: 310020020183/E0001 Network Number: AM-844-006	Nil

II. RESULT OF CLASSIFICATION BY REGULATORY AUTHORITY

In 2017, The Company was rated as a “Grade A, Category AA” company.

Shanghai, the PRC
29 August 2017

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF
HAITONG SECURITIES CO., LTD.

(Incorporated in the People's Republic of China with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Haitong Securities Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 101 to 180, which comprise the condensed consolidated statement of financial position as of 30 June 2017 and the related condensed consolidated statement of profit or loss, condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-months period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

29 August 2017

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

	NOTES	Six months ended 30 June	
		2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Revenue			
Commission and fee income	5	5,868,623	6,220,221
Interest income	6	7,475,356	8,525,752
Net investment gains	7	4,353,418	2,648,726
		17,697,397	17,394,699
Other income and gains	8	2,378,201	2,527,995
Total revenue, gains and other income		20,075,598	19,922,694
Depreciation and amortisation	9	(217,648)	(184,289)
Staff costs		(3,351,767)	(2,984,063)
Commission to account executives		(309,563)	(366,128)
Brokerage transaction fees and other services expenses	10	(974,565)	(710,194)
Interest expenses	11	(5,732,732)	(6,505,068)
Other expenses		(3,938,975)	(3,810,286)
Total expenses		(14,525,250)	(14,560,028)
Share of results of associates and joint ventures		260,055	132,150
Profit before income tax	12	5,810,403	5,494,816
Income tax expense	13	(1,293,469)	(829,107)
Profit for the period		4,516,934	4,665,709
Attributable to:			
Owners of the Company		4,023,478	4,264,300
Non-controlling interests		493,456	401,409
Including: Perpetual bonds		19,951	12,014
		4,516,934	4,665,709
Earnings per share (Expressed in RMB per share)			
– Basic	14	0.35	0.37
– Diluted	14	0.35	0.37

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017 <i>RMB'000</i> (unaudited)	2016 <i>RMB'000</i> (unaudited)
Profit for the period	4,516,934	4,665,709
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss:		
Available-for-sale investments		
Net fair value changes during the period	2,424,274	(1,778,262)
Reclassification adjustment to profit or loss on disposal	(1,524,973)	(555,919)
Reclassification adjustment to profit or loss upon impairment	78,826	29,037
Income tax relating to components of other comprehensive income	(323,849)	527,405
Share of revaluation gains of associates	(14,891)	(26,967)
Subtotal	639,387	(1,804,706)
Exchange differences arising on translation of foreign operations	(260,714)	188,699
Other comprehensive income/(loss) for the period (net of tax)	378,673	(1,616,007)
Total comprehensive income for the period	4,895,607	3,049,702
Attributable to:		
Owners of the Company	4,867,150	2,591,713
Non-controlling interests	28,457	457,989
Including: Perpetual bonds	19,951	12,014
	4,895,607	3,049,702

The accompanying notes presented on pages 109 to 180 form part of these unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	NOTES	30.6.2017 RMB'000 (unaudited)	31.12.2016 RMB'000 (audited)
Non-current assets			
Property and equipment	15	1,693,844	1,615,839
Investment properties		17,462	18,059
Goodwill	16	4,007,778	4,118,734
Other intangible assets		1,281,548	467,750
Investments accounted for using equity method	17	10,396,938	8,749,592
Finance lease receivables	18	19,941,234	22,035,884
Available-for-sale investments	19	32,460,821	45,269,933
Loans and advances	22	4,470,623	5,141,634
Held-to-maturity investments	21	–	83,509
Deferred tax assets	46	2,732,276	2,773,812
Other loans and receivables	20	6,097,589	5,684,365
Financial assets held under resale agreements	23	17,722,619	20,922,862
Deposits with exchanges	25	1,485,209	1,592,688
Restricted bank balances and cash	26	629,197	771,029
Other assets	28	265,653	319,207
Total non-current assets		103,202,791	119,564,897
Current assets			
Advances to customers on margin financing	29	56,854,889	63,212,920
Accounts receivable	30	7,195,536	6,929,537
Finance lease receivables	18	16,806,084	14,519,336
Other receivables and prepayments	31	9,387,620	10,228,802
Available-for-sale investments	19	15,953,853	12,758,905
Loans and advances	22	934,001	470,655
Held-to-maturity investments	21	81,586	–
Other loans and receivables	20	21,300,871	32,787,054
Financial assets held under resale agreements	23	64,569,397	63,600,363
Placements to banks and other financial institutions	32	726,376	705,848
Financial assets at fair value through profit or loss	24	104,980,452	92,347,494
Derivative financial assets	44	3,374,722	3,935,071
Deposits with exchanges	25	6,256,267	7,359,343
Clearing settlement funds	33	8,864,545	12,191,899
Deposits with central banks	34	467,325	274,303
Deposits with other banks	34	348,921	761,628
Bank balances and cash	26	113,589,081	119,217,791
Total current assets		431,691,526	441,300,949
Total assets		534,894,317	560,865,846

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	<i>NOTES</i>	30.6.2017 <i>RMB'000</i> (unaudited)	31.12.2016 <i>RMB'000</i> (audited)
Current liabilities			
Borrowings	35	40,830,116	46,659,113
Deposits from other banks		2,918	14,586
Short-term financing bills payables	36	18,195,608	19,864,117
Placements from banks and other financial institutions	37	2,450,470	3,210,521
Accounts payable to brokerage clients	38	95,371,425	104,059,287
Customer accounts	39	4,662,012	4,757,573
Bonds payable	40	10,426,643	11,103,335
Other payables and accruals	41	20,282,238	19,866,992
Provisions	42	246,183	124,622
Tax liabilities		1,121,762	1,748,846
Financial liabilities at fair value through profit or loss	43	29,277,003	38,063,861
Derivative financial liabilities	44	2,787,066	2,594,009
Financial assets sold under repurchase agreements	45	50,760,948	43,638,525
Total current liabilities		276,414,392	295,705,387
Net current assets		155,277,134	145,595,562
Total assets less current liabilities		258,479,925	265,160,459

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	NOTES	30.6.2017 RMB'000 (unaudited)	31.12.2016 RMB'000 (audited)
Equity			
Share capital	48	11,501,700	11,501,700
Capital reserve		56,337,241	56,338,470
Investment revaluation reserve		1,543,442	784,436
Translation reserve		(591,032)	(675,699)
General reserves		15,858,859	15,849,581
Retained profits		27,815,465	26,331,639
Equity attributable to owners of the Company		112,465,675	110,130,127
Non-controlling interests		11,655,626	11,828,274
Including: Perpetual bonds		1,239,300	1,256,726
Total equity		124,121,301	121,958,401
Non-current liabilities			
Deferred tax liabilities	46	692,302	557,472
Bonds payable	40	102,954,257	117,191,857
Long-term borrowings	35	18,780,380	14,489,442
Long-term payables	47	4,086,620	3,539,521
Financial assets sold under repurchase agreements	45	–	93,202
Financial liabilities at fair value through profit or loss	43	113,218	575,770
Deposits from central banks		464,976	438,408
Placements from banks and other financial institutions	37	6,294,067	5,598,941
Other payables and accruals	41	972,804	717,445
Total non-current liabilities		134,358,624	143,202,058
Total equity and non-current liabilities		258,479,925	265,160,459

This unaudited condensed consolidated financial statements on pages 101 to 180 was approved for issue by the Board of Directors on 29 August 2017 and signed on its behalf by:

Mr. Zhou Jie
Chairman of Board

Mr. Qu Qiuping
Executive Director and
General Manager

Mr. Li Chuqian
Chief Financial Officer

The accompanying notes presented on pages 109 to 180 form part of these unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the Company						Non-controlling interests			Total equity RMB'000	
	Share capital RMB'000	Capital reserve RMB'000 (Note a)	Investment revaluation reserve RMB'000	Translation reserve RMB'000	General reserves RMB'000	Retained profits RMB'000	Total RMB'000	Share of net assets of subsidiaries RMB'000	Share option reserve of subsidiaries RMB'000		Total RMB'000
Unaudited											
At 1 January 2017 (audited)	11,501,700	56,338,470	784,435	(675,698)	15,849,581	26,331,639	110,130,127	11,766,474	61,800	11,828,274	121,958,401
Profit for the period	-	-	-	-	-	4,023,478	4,023,478	493,456	-	493,456	4,516,934
Other comprehensive income for the period	-	-	759,007	84,666	-	-	843,673	(465,000)	-	(465,000)	378,673
Total comprehensive income for the period	-	-	759,007	84,666	-	4,023,478	4,867,151	28,456	-	28,456	4,895,607
Contribution from non-controlling interests (Note b)	-	-	-	-	-	-	-	8,104	-	8,104	8,104
Changes of equity interest of subsidiaries	-	(1,229)	-	-	-	-	(1,229)	(1,673)	-	(1,673)	(2,902)
Transfer to general reserve	-	-	-	-	9,278	(9,278)	-	-	-	-	-
Cash dividend recognised as distribution (note 51)	-	-	-	-	-	(2,530,374)	(2,530,374)	-	-	-	(2,530,374)
Cash dividend distribution to non-controlling interests	-	-	-	-	-	-	-	(192,035)	-	(192,035)	(192,035)
Share options granted by a subsidiary	-	-	-	-	-	-	-	-	(15,500)	(15,500)	(15,500)
At 30 June 2017	11,501,700	56,337,241	1,543,442	(591,032)	15,858,859	27,815,465	112,465,675	11,609,326	46,300	11,655,626	124,121,301
Unaudited											
At 1 January 2016 (audited)	11,501,700	56,375,749	1,054,746	(551,301)	13,993,667	25,319,984	107,694,545	9,208,309	24,817	9,233,126	116,927,671
Profit for the period	-	-	-	-	-	4,264,300	4,264,300	401,409	-	401,409	4,665,709
Other comprehensive income for the period	-	-	(1,692,181)	19,594	-	-	(1,672,587)	56,580	-	56,580	(1,616,007)
Total comprehensive income for the period	-	-	(1,692,181)	19,594	-	4,264,300	2,591,713	457,989	-	457,989	3,049,702
Contribution from non-controlling interests	-	-	-	-	-	-	-	88,581	-	88,581	88,581
Other equity instrument issued by a subsidiary	-	-	-	-	-	-	-	1,209,506	-	1,209,506	1,209,506
Transfer to general reserve	-	-	-	-	6,343	(6,343)	-	-	-	-	-
Cash dividend recognised as distribution (note 51)	-	-	-	-	-	(5,175,765)	(5,175,765)	-	-	-	(5,175,765)
Cash dividend distribution to non-controlling interests (note 51)	-	-	-	-	-	-	-	(144,083)	-	(144,083)	(144,083)
Share options granted by a subsidiary	-	-	-	-	-	-	-	-	18,062	18,062	18,062
Acquisition of non-controlling interests of a subsidiary	-	(23,646)	-	-	-	-	(23,646)	(1,528)	-	(1,528)	(25,174)
At 30 June 2016	11,501,700	56,352,103	(637,435)	(531,707)	14,000,010	24,402,176	105,086,847	10,818,774	42,879	10,861,653	115,948,500

Notes:

- Capital reserve of the Group represents primarily (i) the share premium arisen from the issuance of the Company's shares and (ii) the difference between the considerations paid or received over the proportionate share of net assets attributable to the changes of the Group's equity interest in subsidiaries without loss of control.
- Contribution from non-controlling interests comprise the contribution under rights issued by a listed subsidiary, the conversion of convertible bonds issued by a listed subsidiary and the exercise of share options issued by a listed subsidiary.

The accompanying notes presented on pages 109 to 180 form part of these unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
OPERATING ACTIVITIES		
Profit before income tax	5,810,403	5,494,816
Adjustments for		
Interest expenses	5,732,732	6,505,068
Share of results of associates and joint ventures	(260,055)	(132,150)
Depreciation and amortisation	217,648	184,289
Provision for impairment loss in respect of receivables	627,868	353,181
Gain on other bond investments and held-to-maturity investments	(603,893)	(659,489)
Losses on disposal of property and equipment and other intangible assets	1,217	1,000
Share-based payment of a subsidiary	(8,926)	18,062
Losses/(gain) on partial disposal of an associate	268	(3,647)
Foreign exchange losses, net	243,678	148,522
Net gains arising from available-for-sale investments	(1,763,047)	(1,219,238)
Impairment losses in respect of available-for-sale investments	78,826	29,037
Operating cash flows before movements in working capital	10,076,719	10,719,451
Decrease/(increase) in deposits with exchanges	1,210,556	(1,345,488)
Decrease in loans and advances	65,315	138,013
(Decrease)/increase in customer accounts	(95,561)	1,636,099
(Increase)/decrease in deposit from other banks	(178,122)	756,451
Decrease in advances to customers	6,286,219	11,565,913
Increase in accounts and other receivables and prepayments	(2,545,365)	(3,803,984)
Decrease/(increase) in financial assets held under resale agreements	2,115,186	(5,093,880)
Increase in placements to banks and other financial institutions	(20,572)	(201,952)
(Increase)/decrease in financial assets at fair value through profit or loss	(11,939,942)	18,251,493
Decrease in restricted bank deposits	419,655	241,455
Decrease in cash held on behalf of clients	9,534,439	22,960,529
Increase in finance lease receivables	(396,756)	(4,098,804)
Decrease in accounts payable to brokerage clients and other payables and accruals	(9,446,307)	(17,657,024)
(Decrease)/increase in financial liabilities at fair value through profit or loss	(9,249,410)	8,213,950
Increase/(decrease) in financial assets sold under repurchase agreements	7,029,221	(52,073,589)
(Decrease)/increase in placements from banks and other financial institutions	(64,925)	1,890,455
Increase/(decrease) in provisions	112,153	(12,220)
Cash from/(used) in operations	2,912,503	(7,913,132)
Income taxes paid	(2,068,036)	(3,468,856)
Interest paid	(993,554)	(2,745,763)
NET CASH USED IN OPERATING ACTIVITIES	(149,087)	(14,127,751)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	NOTES	Six months ended 30 June	
		2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
INVESTING ACTIVITIES			
Dividends received from associates and other investments		55,656	260,242
Purchases of property and equipment and other intangible assets		(235,989)	(249,985)
Proceeds on disposal of property and equipment		7,916	13,294
Purchase of investments accounted for using equity method		(1,894,014)	(1,887,450)
Proceeds from partial disposal of an associate		216,686	11,603
Net (decrease)/increase in available-for-sale investments		13,143,698	(7,912,885)
Net cash flows from acquisition of subsidiaries	55, 56	(746,965)	–
Proceeds/(payment) for other loan and receivables and held to maturity		14,113,330	(521,884)
Other cash received from investing activities		80,086	7,469
NET CASH FROM/(USED) IN INVESTING ACTIVITIES		24,740,404	(10,279,596)
FINANCING ACTIVITIES			
Dividends paid		(137,410)	(107,348)
Purchase of additional interests in subsidiaries		–	(25,174)
Proceeds from shares issued of a subsidiary		–	75,243
Proceeds from short term bonds, non-convertible bonds and others		44,500,825	54,191,526
Proceeds from perpetual bonds		–	1,200,000
Borrowings raised		34,779,194	19,294,440
Interest paid for borrowings and bonds		(5,601,598)	(4,699,583)
Interest paid for perpetual bonds		(38,583)	–
Proceeds from share issued upon exercise of share options of a subsidiary		8,104	–
Repayment of borrowings, short-term financing bills payables, non-convertible bonds and others		(97,344,111)	(50,082,313)
Issuance cost paid for short-term bonds, non-convertible bonds and others		(56,768)	–
Other expenses for perpetual bonds		(1,673)	–
Issuance cost paid for perpetual bonds		–	(2,508)
NET CASH (USED)/FROM FINANCING ACTIVITIES		(23,892,020)	19,844,283
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS		699,297	(4,563,064)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD			
		34,330,647	51,744,586
Effect of foreign exchange rate changes		(255,806)	174,702
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	27	34,774,138	47,356,224
Total interest paid		(6,633,733)	(7,445,346)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. GENERAL INFORMATION

The Company (Haitong Securities Co., Ltd.) was transformed from Shanghai Haitong Securities Company (上海海通證券公司), which was established in 1988, to a limited liability company upon the authorisation by the People's Bank of China in September 1994 and had changed its name to 海通證券有限公司. In December 2001, the Company was further transformed to a joint-stock company upon the approval from China Securities Regulatory Commission (the "CSRC"). In January 2002, the Company changed its name from 海通證券有限公司 to Haitong Securities Co., Ltd. (海通證券股份有限公司). In June 2007, the Company's merger with former Shanghai Urban Agro-Business Co., Ltd. (上海市都市農商社股份有限公司) was approved by the CSRC, and was listed on the Shanghai Stock Exchange in July in the same year, with its listing reference name changed to "Haitong Securities". On 27 April 2012, the Company issued H shares which were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

The address of the Company's registered office is Haitong Securities Building, No. 689 Guangdong Road, Shanghai, the People's Republic of China ("PRC"). The principal place of business of the Company is Haitong Securities Building, No.689 Guangdong Road, Shanghai, the PRC.

The Company and its subsidiaries (the "Group") are principally engaged in securities and futures contracts dealing and broking, proprietary trading, margin and other financing, underwriting, assets management, direct equity investments, finance lease business, banking services, corporate finance business, individual finance business, fund business and provision of investment advisory and consultancy services.

The condensed consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The unaudited condensed consolidated financial statements of the Group should be read in conjunction with its 2016 annual financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value.

Application of amendments to International Financial Reporting Standards (“IFRSs”)

In the current interim period, the Group has applied, for the first time, the following amendments to IFRSs issued by the IASB, which are mandatorily effective for the current interim period.

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRSs 2014-2016 Cycle

The application of the above amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

Amendments to IAS 7 will result in more disclosure on the reconciliation of liabilities rising from financing activities in the Group’s annual consolidated financial statements.

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to the financial assets and financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Except for the new amendments to IFRSs and new policy applied above, the significant accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the 2016 Annual Financial Statements.

Hedging accounting

The Group designates certain bank loans for hedges of net investments in foreign operations.

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged items attributable to the hedged risk.

Hedges of net investments in foreign operations

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated under the heading of translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the ‘other gains or losses’ line item.

Gains or losses on the hedging instrument relating to the effective portion of hedge accumulated in the translation reserve are reclassified to profit or loss on disposal of foreign operation.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

4. KEY SOURCES AND CRITICAL ACCOUNTING JUDGEMENT

The preparation of condensed consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies of the Group. The key sources of estimation uncertainty used in the condensed consolidated financial statement for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

5. COMMISSION AND FEE INCOME

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Commission on securities dealing and broking and handling fee income	2,346,717	3,513,674
Commission on futures and options contracts dealing and broking and handling fee income	819,443	425,703
Financial advisory and consultancy fee income	600,896	655,780
Underwriting and sponsor's fees	1,164,723	975,178
Asset management fee income (including fund management income)	912,747	631,804
Commission on bullion contracts dealing	152	373
Others	23,945	17,709
	5,868,623	6,220,221

6. INTEREST INCOME

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Bank interest income	1,529,436	1,775,603
Interest income from loans and advances	469,851	218,817
Interest income from finance leases	1,311,028	1,086,131
Interest income from advances to customers on margin financing	2,128,228	2,951,712
Interest income from financial assets held under resale agreements (Note)	1,999,320	2,458,215
Other interest income	37,493	35,274
	7,475,356	8,525,752

Note: In the current period, interest income from financial assets held under resale agreements includes the interest income from securities repo under "Circular on Promulgating the Measures on the Trading, Registration and Settlement of Agreed Repurchase Securities" issued by Shanghai Stock Exchange, which amounted to RMB32,249,000 (2016: RMB33,859,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

7. NET INVESTMENT GAINS

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Net gains arising from available-for-sale investments	1,763,047	1,219,238
Net gains arising from financial assets/liabilities at fair value through profit or loss	2,246,302	523,242
Fair value change of financial instruments at fair value through profit or loss	(259,555)	220,299
Net gains arising from other loan and receivables and others	603,624	685,947
	4,353,418	2,648,726

8. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Non-recurring government grants (Note)	492,106	385,296
Rental income from investment properties	6,181	5,484
Rental income from operating lease	21,598	–
Foreign exchange losses	(243,678)	(148,522)
Income arising from commodity trading and others	2,101,994	2,285,737
	2,378,201	2,527,995

Note: The non-recurring government grants were received unconditionally by the Company and its subsidiaries from their respective local governments where they reside. The main purpose is to subsidise the operation of these entities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

9. DEPRECIATION AND AMORTISATION

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Depreciation for property and equipment	152,204	136,958
Depreciation for investment properties	597	597
Amortisation of other intangible assets	64,595	46,482
Amortisation of prepaid lease payments	252	252
	217,648	184,289

10. BROKERAGE TRANSACTION FEES AND OTHER SERVICES EXPENSES

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Securities and futures dealing and broking expenses	929,612	662,786
Services expenses for underwriting, sponsorship, financial advisory and others	44,953	47,408
	974,565	710,194

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

11. INTEREST EXPENSES

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Bank loans and overdrafts	1,507,337	1,457,654
Placement from banks and other financial institutions	163,404	70,621
Financial assets sold under repurchase agreements (Note)	866,927	1,782,323
Accounts payable to brokerage clients	115,356	153,817
Placement from China Securities Finance Corporation Ltd.	18,869	3,007
Bond payables	2,932,046	2,929,505
Others	128,793	108,141
	5,732,732	6,505,068

Note: In the current period, interest expenses from financial assets sold under repurchase agreements includes the interest expenses from bond-pledged repo in Shanghai stock exchange and Shenzhen stock exchange, amounting to RMB1,651,000 (2016: RMB2,924,000).

12. PROFIT BEFORE INCOME TAX

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
The Group's profit before income tax is arrived at after charging (crediting):		
Impairment loss in respect of available-for-sale investments included in other expenses	78,826	29,037
Impairment loss in respect of loans and advances included in other expenses	142,351	40,143
Impairment loss in respect of finance lease receivables included in other expenses	204,658	199,375
Impairment loss in respect of advances to customers on margin financing included in other expenses	71,812	42,496
Impairment loss in respect of financial assets held under resale agreements included in other expenses	116,023	55,803
Impairment loss in respect of receivables and others included in other expenses	83,571	15,364
Losses on disposal of property and equipment and other intangible assets	1,217	1,000
Operating lease rentals in respect of rented premises	225,827	193,987

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

13. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Current tax:		
PRC Enterprise Income Tax and other jurisdictions	1,133,329	461,011
Hong Kong Profits Tax	226,853	143,628
	1,360,182	604,639
Adjustments to current income tax in relation to prior years:		
PRC Enterprise Income Tax and other jurisdictions	17,046	(12,067)
	17,046	(12,067)
Deferred tax	(83,759)	236,535
	1,293,469	829,107

Under the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate is 25%.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

14. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to owners of the Company is as follows:

	Six months ended 30 June	
	2017 <i>RMB'000</i> (unaudited)	2016 <i>RMB'000</i> (unaudited)
Earnings for the purpose of basic earnings per share:		
Profit for the year attributable to owners of the Company	4,023,478	4,264,300
Effect of dilutive potential ordinary shares:		
Interest expense on convertible bonds (Note i)	15,099	1,015
Adjustment to the share of profit of subsidiaries based on dilution of its earnings per share (Note i, ii, iii)	(58,474)	(5,467)
Earnings for the purpose of diluted earnings per share	3,980,103	4,259,848
Number of shares for basic and diluted earnings per share:		
Weighted average number of shares in issue (in thousand)	11,501,700	11,501,700
Basic earnings per share (Expressed in RMB per share)	0.35	0.37
Diluted earnings per share (Expressed in RMB per share)	0.35	0.37

Notes:

- (i) On 18 July 2013, 10 October 2013, 4 November 2014 and 25 October 2016, a listed subsidiary of the Group, issued convertible bonds of HKD776 million, HKD232 million, HKD1,164 million and HKD3,880 million respectively (Details are set out in Note 40). These convertible bonds created a potential dilutive effect to the basic earnings per share. In the calculation of the diluted earnings per share, the convertible bonds are assumed to have been converted into ordinary shares of the subsidiary.
- (ii) On 16 January 2015, the management of a subsidiary were granted 85,980,375 of share options on the shares of the subsidiary. As at 30 June 2017, there is an exit arrangement applied to these stock options granted but have not been executed yet, in consideration of the needs of the strategic development and management of the subsidiary, as well as the requirements of the existing laws and regulations of the PRC. In the calculation of the diluted earnings per share, the Group have taken it into consideration.
- (iii) On 23 August 2002, 19 December 2014 and 8 June 2015, a listed subsidiary of the Group adopted share option schemes and share award scheme. These share option schemes and share award scheme created a potential dilutive effect to the basic earnings per share. The computation of diluted earnings per share assumed the exercise of a listed subsidiary's outstanding share options with the exercise price lower than the average market price during the period ended 30 June 2017 and with the adjustment for the share options lapsed or exercised during the period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

15. PROPERTY AND EQUIPMENT

	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Operating lease assets RMB'000	Construction in progress RMB'000	Total RMB'000
Unaudited								
COST								
As at 1 January 2017	1,107,723	837,242	1,053,021	176,511	192,538	278,867	32,817	3,678,719
Arising from acquisition of a subsidiary	–	10	102	–	18	–	–	130
Additions during the period	97,556	19,078	76,814	5,416	5,940	–	37,269	242,073
Disposals during the period	–	(388)	(29,169)	(8,801)	(7,738)	–	(2,177)	(48,273)
Transfer during the period	–	11,101	16,686	–	577	–	(28,364)	–
Exchange difference	142	6,037	7,126	(60)	4,653	(6,536)	108	11,470
As at 30 June 2017	1,205,421	873,080	1,124,580	173,066	195,988	272,331	39,653	3,884,119
ACCUMULATED DEPRECIATION								
As at 1 January 2017	392,003	674,977	719,594	120,305	124,721	898	–	2,032,498
Provided for the period	16,845	32,458	79,515	7,527	10,531	5,328	–	152,204
Eliminated on disposals	–	(187)	(27,552)	(8,392)	(5,814)	–	–	(41,945)
Exchange difference	42	5,823	6,849	107	4,403	(88)	–	17,136
As at 30 June 2017	408,890	713,071	778,406	119,547	133,841	6,138	–	2,159,893
ALLOWANCE FOR IMPAIRMENT LOSSES								
As at 1 January 2017 & 30 June 2017	30,382	–	–	–	–	–	–	30,382
CARRYING VALUES								
As at 30 June 2017	766,149	160,009	346,174	53,519	62,147	266,193	39,653	1,693,844

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

15. PROPERTY AND EQUIPMENT (continued)

	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Operating lease assets RMB'000	Construction in progress RMB'000	Total RMB'000
Audited								
COST								
As at 1 January 2016	1,102,905	769,008	944,170	173,747	176,198	-	25,364	3,191,392
Additions during the year	4,378	45,049	177,033	20,341	26,398	278,867	52,923	604,989
Disposals during the year	(4,692)	(1,250)	(91,040)	(8,654)	(17,626)	-	(4,986)	(128,248)
Transfer during the year	466	20,160	15,793	-	903	-	(37,322)	-
Exchange difference	4,666	4,275	7,065	(8,923)	6,665	-	(3,162)	10,586
As at 31 December 2016	1,107,723	837,242	1,053,021	176,511	192,538	278,867	32,817	3,678,719
ACCUMULATED DEPRECIATION								
As at 1 January 2016	359,925	610,319	651,948	111,233	110,407	-	-	1,843,832
Provided for the year	32,050	63,633	146,138	16,491	21,538	898	-	280,748
Eliminated on disposals	(83)	(1,096)	(84,331)	(7,602)	(14,085)	-	-	(107,197)
Exchange difference	111	2,121	5,839	183	6,861	-	-	15,115
As at 31 December 2016	392,003	674,977	719,594	120,305	124,721	898	-	2,032,498
ALLOWANCE FOR IMPAIRMENT LOSSES								
As at 1 January 2016	-	-	-	-	-	-	-	-
& 31 December 2016	30,382	-	-	-	-	-	-	30,382
CARRYING VALUES								
As at 31 December 2016	685,338	162,265	333,427	56,206	67,817	277,969	32,817	1,615,839

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

16. GOODWILL

Cost and carrying values

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
At beginning of the period/year	4,118,734	3,757,597
Additional amount in respect of business combination (Note 55)	4,893	95,568
Exchange adjustments	(115,849)	265,569
At end of the period/year	4,007,778	4,118,734

17. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Joint ventures:		
Cost of unlisted investments in joint ventures	5,553,145	4,132,921
Share of post-acquisition loss and other comprehensive loss, net of dividends received	(7,135)	(178,198)
Associates:		
Cost of unlisted investments in associates	4,181,553	4,028,231
Share of post-acquisition profits and other comprehensive income, net of dividends received	669,375	766,638
	10,396,938	8,749,592

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

17. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (continued)

Details of material investments accounted for using equity method:

Name of entity	Place of establishment	Principal activities	Proportion of ownership interest	
			2017/6/30	2016/12/31
Joint ventures				
Haitong Multi-Tranche Investment Fund II S.P.	Cayman Islands	Investment holding	93.83%	60.20%
Haitong Freedom Multi-Tranche Bond Fund	Cayman Islands	Investment holding	23.56%	28.65%
貴安恒信融貴租賃(上海)有限公司	PRC	Finance lease	40%	–
Associates				
富國基金管理有限公司 Fullgoal Fund Management Co. Ltd.*	PRC	Provision of fund trading distribution services	27.78%	27.78%
吉林省現代農業和新興產業投資基金有限公司 Jilin Modern Agricultural and Emerging Markets Investment Fund Limited*	PRC	Investing in securities	35.71%	37.51%
西安航天新能源產業基金投資有限公司 Xi'an Aerospace and New Energy Industry Fund*	PRC	Investing in securities	37.00%	37.00%
上海文化產業股權投資基金合夥企業(有限合夥) Shanghai Cultural Industries Investment Fund (Limited Partnership)*	PRC	Investing in securities	42.83%	42.83%
上海併購股權投資基金合夥企業(有限合夥) Shanghai Equity Investment Fund Limited Partnership*	PRC	Investing in securities	33.68%	33.68%
海通(吉林)現代服務業創業投資基金合夥企業(有限合夥) Haitong (Jilin) Modern Service Industry Investment Fund Limited Partnership*	PRC	Investing in securities	34.71%	34.71%
西安海創之星創業投資有限合夥企業 Xi'an Hai Chuang Zhi Xing Venture Investment Limited Partnership*	PRC	Investing in securities	30.19%	37.90%

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

17. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (continued)

Name of entity	Place of establishment	Principal activities	Proportion of ownership interest	
			2017/6/30	2016/12/31
Associates (continued)				
海通齊東(威海)股權投資基金 (有限合夥) Haitong Qidong (Weihai) Equity Investment Fund Limited Partnership*	PRC	Investing in equity; Investment management services	33.96%	33.96%
海通興泰(安徽)新興產業投資基金 (有限合夥) Haitong Xingtai (Anhui) Emerging Industry Investment Fund Limited Partnership*	PRC	Investing in equity	28.16%	28.67%
Salgar Investments	Portugal	Manufacturing	25%	25%
Fundo Espírito Santo IBERIA I	Portugal	Private equity funds	46%	46%
MCO2 – Sociedade gestora de Fundos de Investimento Mobiliário, S.A.	Portugal	Asset management; Investment Funds	25%	25%
Haitong International Investment Fund SPC – Fund I S.P.	Cayman Islands	Investment holding	20.18%	68.05%
廣東南方媒體融合發展投資基金 (有限合夥) Guangdong South Media Integration Fund Limited Partnership*	PRC	Investing in equity; Investment management services	27.76%	27.76%
海通(吉林)股權投資基金合夥企業 (有限合夥) Haitong (Jilin) Equity Investment Fund Limited Partnership*	PRC	Private equity funds investment	27.02%	27.02%
上海彤關投資管理合夥企業(有限合夥) Shanghai Tong Guan Investment Management Limited Partnership*	PRC	Investing in equity; Investment management services	50.00%	50.00%
西安軍融電子衛星基金投資有限公司 Xi'an Civil-Military Integration Satellite Investment Fund Co., Ltd*	PRC	Investment management services	35.72%	35.72%

* The English translated name is for identification only.

All of these joint ventures and associates are unlisted entities without quoted market price available.

All of these associates and joint ventures are accounted for using the equity method in these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

18. FINANCE LEASE RECEIVABLES

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Minimum lease payments to be received	41,945,912	42,203,603
Less: unrealized finance income	(3,811,903)	(4,336,323)
Balance of finance lease receivables	38,134,009	37,867,280
Less: Allowance for impairment	(1,386,691)	(1,312,060)
Finance lease receivables, net	36,747,318	36,555,220
Analysis by statement purpose :		
Current assets	16,806,084	14,519,336
Non-current assets	19,941,234	22,035,884
	36,747,318	36,555,220

Minimum lease payments to be received and the corresponding present value are as follows :

	2017/6/30 (unaudited)		2016/12/31 (audited)	
	Minimum lease payments RMB'000	Present Value RMB'000	Minimum lease payments RMB'000	Present Value RMB'000
Within 1 year	19,184,104	17,440,717	16,758,152	15,036,290
1~5 years	22,738,190	20,671,821	25,433,806	22,820,541
Over 5 years	23,618	21,471	11,645	10,449
Total	41,945,912	38,134,009	42,203,603	37,867,280
Unrealized finance income	(3,811,903)	N/A	(4,336,323)	N/A
Balance of finance lease receivables	38,134,009	38,134,009	37,867,280	37,867,280
Allowance for impairment	(1,386,691)	(1,386,691)	(1,312,060)	(1,312,060)
Finance lease receivables, net	36,747,318	36,747,318	36,555,220	36,555,220

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

18. FINANCE LEASE RECEIVABLES (continued)

Analysis by industries

	2017/6/30 (unaudited)		2016/12/31 (audited)	
	Carrying amount RMB'000	Percentage (%)	Carrying amount RMB'000	Percentage (%)
Infrastructure	8,931,475	23.42	9,783,717	25.84
Transportation & logistics	11,168,262	29.29	8,211,752	21.69
Industrial	6,327,805	16.59	5,937,409	15.68
Education	3,147,808	8.25	4,477,153	11.82
Healthcare	2,778,379	7.29	3,443,781	9.09
Real estate & building construction	1,494,036	3.92	1,240,515	3.28
Chemical	1,517,484	3.98	1,819,747	4.81
Others	2,768,760	7.26	2,953,206	7.79
Total	38,134,009	100.00	37,867,280	100.00
Allowance for impairment	(1,386,691)		(1,312,060)	
Finance lease receivables, net	36,747,318		36,555,220	

Allowance for impairment:

	2017/6/30 (unaudited)			2016/12/31 (audited)		
	Individual assessment RMB'000	Collective assessment RMB'000	Total RMB'000	Individual assessment RMB'000	Collective assessment RMB'000	Total RMB'000
As at the beginning of the period/year	338,375	973,685	1,312,060	125,571	682,011	807,582
Addition during the period/year	194,177	10,481	204,658	224,213	291,674	515,887
Recoveries of amount written-off in previous period/year	8,165	–	8,165	–	–	–
Written off during the period/year	(138,192)	–	(138,192)	(11,409)	–	(11,409)
As at the end of the period/year	402,525	984,166	1,386,691	338,375	973,685	1,312,060

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

19. AVAILABLE-FOR-SALE INVESTMENTS

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Debt securities	8,089,778	12,563,689
Equity securities	9,655,837	11,639,952
Funds	7,605,470	7,339,981
Others (Note iii)	23,063,589	26,485,216
	48,414,674	58,028,838
Analysed as:		
Listed in Hong Kong	623,015	770,025
Listed outside Hong Kong	6,254,066	10,831,690
Unlisted	41,537,593	46,427,123
	48,414,674	58,028,838
Analysed as:		
Listed equity securities (Note ii)	3,858,269	5,277,291
Unlisted equity securities (Note i)	5,797,568	6,362,661
	9,655,837	11,639,952
Analysed for reporting purpose as:		
Current assets	15,953,853	12,758,905
Non-current assets	32,460,821	45,269,933
	48,414,674	58,028,838

Notes:

- (i) The equity interest in unlisted securities held by the Group are issued by private companies (including companies in banking, manufacturing, real estate and public utilities). The directors of the Company are of the opinion that equity securities which fair value cannot be measure reliably, are measured at cost less impairment at the reporting date. Other equity securities are measured at fair value.
- (ii) Included in the Group's listed equity securities are amounts of approximately RMB2,286,680,000 and RMB1,646,561,000 as at 30 June 2017 and 31 December 2016, respectively, which are restricted shares with a legally enforceable restriction on these securities that prevents the Group to dispose of within the specified period. The fair values of these securities have taken into account the relevant features including the restrictions.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

19. AVAILABLE-FOR-SALE INVESTMENTS (continued)

Notes: (continued)

- (iii) Except for the investment described below, others comprise of structured products and trust products where funds are mainly invested in listed securities or open-ended funds and the Group's return of investment is tied to the result of such investments.

The Group entered into a subscription agreement to acquire an HKD500,000,000 fixed rate bond bearing interest at 26% per annum and preference shares with subscription price of HKD500,000,000 issued by a third party company (the "Company A") in 2014. The preference shares is non-interest bearing and the holder of preference shareholder is entitled to the dividend distribution by Company A. Pursuant to the Shareholder Deed of Company A dated 5 December 2014, the ordinary shareholder who is also a third-party to the Group, agrees to buy, all the preference shares held by the Group, on the Maturity Date. The sale price of the preference share held by the Group shall be equivalent to the subscription price of HKD500,000,000 of all the preference shares. Taking into account the economic substance reflected by contract terms related to the dividend distribution entitlement of preference shares of Company A together with the sales back arrangement being considered protective in nature, the Group accounts for the preference share together with the fixed rate bond to be presented as available-for-sale debt investments.

Others also include the investment into a fund managed by China Securities Finance Corporation Limited (the "CSFCL"). As of 30 June 2017, the cost of the investment was RMB15 billion, and the company determined the fair value on the basis of the report provided by the CSFCL. CSFCL executes unified operation and investment management, while all the investors including the Company share investment risks as well as potential income in proportion to their contributions.

In the opinion of the directors of the Company, non-current available-for-sale investments are expected to be realised or restricted for sale over one year from the end of the respective reporting periods.

As of 30 June 2017 and 31 December 2016, the Company has entered into securities lending arrangement with clients that resulted in the transfer of available-for-sale investments with total fair value of RMB1,564,000 and RMB4,165,000 to external clients. Since the arrangement will be settled by the securities with the same quantity lent, the economic risks and benefits of those securities are not transferred and it does not result in derecognition of the financial assets.

RMB6,247,523,000 and RMB6,179,196,000 cash collateral was received from clients for securities lending arrangement and margin financing activities carried out in the PRC, and reported under accounts payable to brokerage clients (Note 38).

As of 30 June 2017, the impairment allowance of available-for-sale equity instruments was RMB625,665,000 (31 December 2016: RMB564,914,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

20. OTHER LOANS AND RECEIVABLES

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Trust products	346,443	876,743
Asset management products	10,625,248	25,552,523
Debt investment	9,139,274	7,269,300
Factoring receivable	6,150,491	3,873,072
Entrusted loan	1,137,004	899,781
	27,398,460	38,471,419
Analysed for reporting purpose as:		
Current assets	21,300,871	32,787,054
Non-current assets	6,097,589	5,684,365
	27,398,460	38,471,419

As of 30 June 2017, the impairment allowance of other loans and receivables was RMB325,915,000 (31 December 2016: RMB286,571,000).

21. HELD-TO-MATURITY INVESTMENTS

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Debt securities listed in Hong Kong	81,586	83,509
Analysed for reporting purpose as:		
Current assets	81,586	–
Non-current assets	–	83,509
	81,586	83,509

As of 30 June 2017, the fair value of the held-to-maturity investments was approximately RMB81,391,000 (2016: RMB82,697,000). The related interest rates on such bonds for the year ended 30 June 2017 is 4.1% per annum (2016: 4.1% per annum).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

22. LOANS AND ADVANCES

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Customer loans and advances	7,114,112	7,475,938
Less: Loans with impairment losses calculated on a collective basis	(17,556)	(21,194)
Less: Loans with impairment losses calculated on an individual basis	(1,691,932)	(1,842,455)
	5,404,624	5,612,289
Analysed for reporting purpose as:		
Current assets	934,001	470,655
Non-current assets	4,470,623	5,141,634
	5,404,624	5,612,289

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

23. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Analysed by collateral type:		
Stock (Note)	62,448,076	54,215,365
Bonds	16,989,630	13,303,923
Fund	478	580
Structured products	3,150,000	17,183,460
Less: Allowance for doubtful debts	(296,168)	(180,103)
	82,292,016	84,523,225
Analysed by market:		
Stock Exchange	68,990,621	55,630,973
Inter-bank	10,447,563	11,888,895
Over the counter ("OTC")	3,150,000	17,183,460
Less: Allowance for doubtful debts	(296,168)	(180,103)
	82,292,016	84,523,225
Analysed for reporting purpose as:		
Current	64,569,397	63,600,363
Non-current	17,722,619	20,922,862
	82,292,016	84,523,225

Note: The financial assets (pledged by stock) held under resale agreements are those resale agreements which qualified investors entered into with the Group with a commitment to purchase the specified securities at a future date with an agreed price.

As of 30 June 2017, the fair value of the collateral was RMB184,918,626,000 (2016: RMB200,968,044,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Debt securities	69,067,493	53,332,885
Equity securities	14,210,320	14,537,635
Funds	13,322,390	17,054,943
Others	8,380,249	7,422,031
	104,980,452	92,347,494
Analysed as:		
Listed in Hong Kong	4,350,962	5,309,887
Listed outside Hong Kong	43,028,262	42,743,537
Unlisted (Notes i, ii)	57,601,228	44,294,070
	104,980,452	92,347,494
Analysed for reporting purpose as:		
Current assets	104,980,452	92,347,494

Notes:

- (i) Unlisted financial assets at fair value through profit or loss of the Group include unlisted bond, funds and structured products. The underlying investments of unlisted funds and structured products mainly consist of publicly traded equities and bonds listed in Hong Kong and in mainland China.
- (ii) Unlisted financial assets at fair value through profit or loss include financial assets designated at fair value acquired by the Group, part of which are driven by the issued structured products and become its underlying investments and hedging items for the risk of economic exposure on these issued structured products as set out in Note 43.

These financial assets are designated at fair value as such instruments, as well as the financial instruments which they are hedging, are risk managed on a fair value basis as part of the Group's trading portfolio and the risk is reported to key management personnel on this basis.

As at 30 June 2017, the Group has entered into securities lending arrangement with clients that resulted in the transfer of financial assets at fair value through profit or loss with a total fair value of RMB12,391,000 (2016: RMB13,939,000) to external clients. Since the arrangement will be settled by the securities with the same quantity lent, the economic risks and benefits of those securities are not transferred and it does not result in derecognition of the financial assets.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

25. DEPOSITS WITH EXCHANGES

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Deposits with stock exchanges		
– Shanghai Stock Exchange	496,550	437,579
– Shenzhen Stock Exchange	73,950	85,285
– National Equities Exchange and Quotations	4,970	2,662
– Stock Exchange of Hong Kong Limited	1,302	1,342
Subtotal	576,772	526,868
Deposits with futures, other derivatives and commodity exchanges		
– Shanghai Futures Exchange	2,143,058	2,166,039
– Dalian Commodity Exchange	1,201,374	808,344
– Zhengzhou Commodity Exchange	379,201	259,596
– China Financial Futures Exchange	1,808,072	3,340,775
– Shanghai Gold Exchange	21,157	7,665
– HKFE Clearing Corporation Limited	9,237	6,087
– The Chinese Gold & Silver Exchange Society	595	614
– Collateral deposits placed with overseas stock exchange and brokers	1,405,899	1,527,605
Subtotal	6,968,593	8,116,725
Other deposits		
– Guarantee fund paid to Shanghai Stock Exchange	22,781	23,864
– Guarantee fund paid to Shenzhen Stock Exchange	21,991	30,528
– Deposit with China Securities Finance Corporation Ltd.	61,842	121,761
– Deposit with Shanghai Clearing House	21,322	21,126
– Guarantee fund paid to the SEHK Options Clearing House Ltd.	255	5,914
– Guarantee fund paid to Hong Kong Securities Clearing Company Ltd.	66,074	49,189
– Guarantee fund paid to Securities and Futures Commission	304	313
– Others	1,542	55,743
Subtotal	196,111	308,438
Total	7,741,476	8,952,031
Analysed for reporting purpose as:		
Current assets	6,256,267	7,359,343
Non-current assets	1,485,209	1,592,688
	7,741,476	8,952,031

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

26. BANK BALANCES AND CASH

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
General accounts	34,188,451	32,492,200
Cash held on behalf of clients (Note i)	80,029,827	87,496,620
	114,218,278	119,988,820
Less: non-current restricted bank deposits (Note ii)	(629,197)	(771,029)
	113,589,081	119,217,791

Bank balances and cash comprise of cash on hand and demand deposits which bear interest at the prevailing market rates.

Notes:

- (i) The Group received and held money deposited by clients in the course of the conduct of the regulated activities. The Group has recognised the corresponding amount in accounts payable to brokerage clients (Note 38). The Group currently does not have a legally enforceable right to offset these payables with deposit placed.
- (ii) The non-current restricted bank deposits are restricted for fund management risk reserve purpose, pledged bank deposit and margin deposits over one year.

27. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of the following:

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Bank balances and cash – general account	34,188,451	32,492,200
Less: Restricted bank deposits (Note)	(1,369,533)	(1,789,188)
Deposits with other banks	348,921	761,628
Clearing settlement funds – the Group	1,606,299	2,866,007
	34,774,138	34,330,647

Note: The liquidity restrictive deposits are margin deposits of notes receivable, margin deposits of borrowings and other pledge of bank deposits within one year.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

28. OTHER ASSETS

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Foreclosed assets	46,045	51,993
Prepaid lease payments	14,249	14,501
Others	205,359	252,713
	265,653	319,207

29. ADVANCES TO CUSTOMERS ON MARGIN FINANCING

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Loans to margin clients (Note)	57,121,586	63,410,640
Less: Allowance for doubtful debts (Note)	(266,697)	(197,720)
	56,854,889	63,212,920
Analysed for reporting purpose as:		
Current	56,854,889	63,212,920
	56,854,889	63,212,920

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

29. ADVANCES TO CUSTOMERS ON MARGIN FINANCING (continued)

Movements in the allowance for doubtful debts are as follows:

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
At beginning of the period/year	197,720	134,482
Provision of impairment allowance, net	71,812	62,843
Exchange adjustments	(2,835)	395
At end of the period/year	266,697	197,720

Note:

The credit facility limits to margin clients are determined by the discounted market value of the collateral securities accepted by the Group.

The majority of the loans to margin clients which are secured by the underlying pledged securities are interest bearing. The Group maintains a list of approved stocks for margin lending at a specified loan to collateral ratio. Any excess in the lending ratio will trigger a margin call which the customers have to make up the shortfall.

Loans to margin clients as at 30 June 2017 and 31 December 2016 were secured by the customers' securities to the Group as collateral with undiscounted market value of approximately RMB197,018,397 thousand and RMB222,238,904 thousand, respectively.

As at 30 June 2017 and 31 December 2016, included in the Group's accounts payable to brokerage clients were approximately RMB6,247,523 thousand and RMB6,179,196 thousand cash collateral received from clients for securities lending and margin financing arrangement.

The Group determines the allowance for impaired debts based on the evaluation of collectability and aging analysis of accounts and on management's judgment including the assessment of change in credit quality, collateral and the past collection history of each client. The concentration of credit risk is limited due to the customer base being large and unrelated.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

30. ACCOUNTS RECEIVABLE

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Accounts receivable from:		
– Cash clients	607,246	324,699
– Brokers, dealers and clearing house	5,302,570	5,512,817
– Advisory and financial planning	17,174	3,375
– Asset and fund management	675,201	621,846
– Clients for subscription of new shares in IPO	18,920	–
– Others	650,154	482,631
	7,271,265	6,945,368
Less: allowance for doubtful debts on accounts receivable	(75,729)	(15,831)
	7,195,536	6,929,537

Movements in the allowance for doubtful debts are as follows:

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
At beginning of the period/year	15,831	7,067
Addition during the period/year	1,525	(1,376)
Recoveries of other receivables previously written off	58,373	10,140
At end of the period/year	75,729	15,831

Aging analysis of accounts receivable from the trade date is as follows:

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Between 0 and 3 months	6,643,724	5,776,157
Between 4 and 6 months	62,932	51,333
Between 7 and 12 months	295,318	670,895
Over 1 year	193,562	431,152
	7,195,536	6,929,537

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

31. OTHER RECEIVABLES AND PREPAYMENTS

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Interest receivable	6,177,682	7,422,060
Dividend receivable	109,633	21
Expenses for underwriting business to be settled by clients	3,552	–
Other receivables and prepayments (Note ii)	3,560,829	3,268,530
	9,851,696	10,690,611
Less: allowance for doubtful debts on other receivables (Note i)	(464,076)	(461,809)
	9,387,620	10,228,802

Movements in the allowance for doubtful debts are as follows:

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
At beginning of the period/year	461,809	483,187
Addition/(reversal) of impairment allowance, net	2,267	(21,668)
Recoveries of other receivables previously written off	–	300
Amounts written off during the period/year	–	(10)
At end of the period/year	464,076	461,809

Notes:

- (i) Included in the allowance for doubtful debts of the Group mainly represents a gross receivable of RMB440,894,000 from an independent third party. In the opinion of the directors of the Company, the recoverability of the receivable is remote and a full provision was made in prior year. As of 30 June 2017, accumulated amounts of RMB109,106,000 (2016: RMB109,106,000) of the above receivable has been recovered. In 2017, none (2016: RMB22,018,000) of the above receivable were recovered.
- (ii) The other receivables and prepayments mainly represent short-term rental deposits placed with landlords under operating leases, other prepaid expenses for daily operation and other receivable and prepayments items such as prepaid taxes.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

32. PLACEMENTS TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Oversea bank and other financial institutions	726,376	705,848

33. CLEARING SETTLEMENT FUNDS

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Clearing settlement funds held with clearing houses for:		
Own	1,606,299	2,866,007
Customers	7,258,246	9,325,892
	8,864,545	12,191,899

These clearing settlement funds are held by the clearing houses for the Group and can be withdrawn by the Group at will. These balances carry interest at prevailing market interest rates.

34. DEPOSITS WITH CENTRAL BANK AND OTHER BANKS

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Deposits with central banks other than legal reserve	442,937	260,201
Legal reserve	24,388	14,102
Deposits with other banks	467,325	274,303
	348,921	761,628
	816,246	1,035,931

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

35. BORROWINGS

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Secured borrowings:		
Short-term borrowings (Note)	4,031,317	9,957,771
Long-term borrowings (Note)	21,498,971	20,650,430
Unsecured borrowings:		
Short-term borrowings	25,889,528	28,606,996
Long-term borrowings	8,190,680	1,933,358
	59,610,496	61,148,555
Current liabilities:		
Short-term borrowings	29,920,845	38,564,767
Long-term borrowings due within one year	10,909,271	8,094,346
	40,830,116	46,659,113
Non-current liabilities:		
Long-term borrowings	18,780,380	14,489,442
	59,610,496	61,148,555

Note:

Bank loans of approximately to RMB677 million (31 December 2016: 694 million) are secured by bonds with fair value of approximately to RMB795 million.

Bank loans of approximately to RMB201 million (31 December 2016: 201 million) are secured by loans and other receivables of RMB200 million and margin deposit of RMB0.02 million.

Bank loans of approximately to RMB503 million (31 December 2016: 518 million) are secured by fixed term deposit of RMB550 million.

Bank loans of HKD1,130 million equivalent to RMB981 million (31 December 2016: approximately to RMB4,498 million) are secured by the listed shares (held by the Group as security for advances to customers in margin financing with the customers' consents) with fair value of approximately to RMB9,689 million (31 December 2016: approximately to RMB16,255 million) and the remaining amount of HKD421 million equivalent to RMB365 million is secured by the debt investments with fair value of RMB1,346 million (31 December 2016: 1,838 million) held by the Group and presented in "financial assets at fair value through profit or loss" to the consolidated statement of financial position.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

35. BORROWINGS (continued)

Note: (continued)

Bank loans of RMB1,562 million (31 December 2016: RMB1,610 million) are secured by the investment fund of RMB1,992 million at fair value (31 December 2016: RMB1,964 million) which is the dealing price of that fund derived from the net asset values of that fund with reference to observable quoted price of underlying investment portfolio in active markets.

Bank loans of non-current portion approximately to RMB4,678 million (31 December 2016: RMB1,938 million) are secured by the shares of Haitong UT Capital and Haitong Bank respectively.

Non-current portion bank loan of RMB12,799 million (31 December 2016: RMB8,254 million) and current portion bank loan of RMB1,123 million (31 December 2016: RMB8,719 million) are secured by the finance lease receivables of RMB22,598 million (31 December 2016: RMB26,283 million).

Non-current portion bank loan of RMB2,127 million (31 December 2016: RMB1,526 million) is secured by debt securities with fair value of approximately RMB2,097 million (31 December 2016: RMB1,387 million).

Bank loans of RMB515 million (31 December 2016: Nil) are secured by the shares and land-use right of Shanghai Weitai Property Management Co., Ltd.

The rates of short-term borrowing range from 1.26% to 5.00%. The rates of long-term borrowings range from 1M Hibor + 80 bps to 6.00%.

36. SHORT-TERM FINANCING BILLS PAYABLES

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Short-term financing bills and Income Certificates (Note)	18,195,608	19,864,117
	18,195,608	19,864,117

Note: According to SAC's letter on approving the pilot of OTC income certificate business (SAC [2014]285), the Group was authorized to conduct income certificate business. The coupon rate of the outstanding products were normally between 3.2% and 5.3%.

On 7 March 2017, the Group's wholly owned subsidiary Haitong Unitrust Finance & Leasing Corporation issued short-term financing bills in principal amount of RMB1 billion at par. Those bonds carry fixed interest rate at 4.63% per annum with maturity terms of 1 year, respectively.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

37. PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Placements from banks	7,244,537	7,509,462
Placements from China Securities Finance Corporation Ltd.	1,500,000	1,300,000
	8,744,537	8,809,462
Analysed for reporting purpose as:		
Current liabilities	2,450,470	3,210,521
Non-current liabilities	6,294,067	5,598,941
	8,744,537	8,809,462

38. ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

The majority of the accounts payable balance is repayable on demand except where certain accounts payable to brokerage clients represent margin deposits received from clients for their trading activities under normal course of business. Only the excess amounts over the required margin deposits stipulated are repayable on demand.

No ageing analysis is disclosed as in the opinion of the directors of the Company, the ageing analysis does not give additional value in view of the nature of these businesses.

Accounts payable mainly include money held on behalf of clients at the banks and at the clearing houses by the Group.

As at 30 June 2017 and 31 December 2016, included in the Group's accounts payable to brokerage clients were approximately RMB6,247,523 thousand and RMB6,179,196 thousand cash collateral received from clients for securities lending and margin financing arrangement.

Accounts payable to brokerage clients is interest bearing at the prevailing interest rate.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

39. CUSTOMER ACCOUNTS

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Demand deposits – corporate	195,337	134,728
Time deposits – corporate	3,866,099	4,376,874
Demand deposits – individual	5,999	1,896
Time deposits – individual	594,577	244,075
	4,662,012	4,757,573
Analysed for reporting purpose as:		
Current liabilities	4,662,012	4,757,573

40. BONDS PAYABLE

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Convertible bonds (Note i)	3,328,809	3,401,402
Non-convertible bonds (Notes ii, iii, iv)	69,830,048	69,445,196
Subordinated notes (Notes v)	31,837,840	41,875,847
Asset backed securities (Notes vi)	2,817,681	3,008,084
Others (Notes vii)	5,566,522	10,564,663
	113,380,900	128,295,192
Analysed for reporting purpose as:		
Current	10,426,643	11,103,335
Non-current	102,954,257	117,191,857
	113,380,900	128,295,192

Note:

- (i) The Group's wholly owned subsidiary Haitong International Securities Group Limited ("HISGL") has issued convertible bonds in principal amount of HKD1,008 million (equivalent to RMB875 million), HKD1,164 million (equivalent to RMB1,010 million) and HKD3,880 million (equivalent to RMB2,934 million) in 2013, 2014 and 2016 respectively and these convertible bonds bear interest at a fixed rate with a maturity period of 5 years.

As at 30 June 2017, the conversion prices of convertible bonds issued by HISGL in 2013, 2014 and 2016 are HKD2.87 per share (equivalent to RMB2.49 per share), HK\$4.80 per share (equivalent to RMB4.17 per share) and HKD6.81 per share (equivalent to RMB5.91 per share) respectively.

During six months ended 30 June 2017, no convertible bonds issued by HISGL in 2013, 2014 and 2016 were converted into ordinary shares of HISGL.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

40. BONDS PAYABLE (continued)

Note: (continued)

- (ii) On 11 September 2014, the Group's wholly owned subsidiary 2014 Haitong International Finance Limited issued guaranteed bonds in principal amount of USD600 million (equivalent to RMB4,065 million). Please refer to the related announcements made by HISGL on 4 and 11 September 2014 as well as 2014 audited consolidated financial statements for details of the bond.

On 29 January 2015, the Group's wholly owned subsidiary 2015 Haitong International Finance Limited issued guaranteed bonds in principal amount of USD700 million (equivalent to RMB4,742 million). Please refer to the announcements made by HISGL on 22, 23 and 29 January 2015 for details of the bond.

On 29 October 2013, the Group's subsidiary Haitong International Finance Holdings Limited issued corporate bonds in principal amount of USD900 million (equivalent to RMB6,097 million), which is listed on the Hong Kong Exchanges and Clearing Limited. The bond carries a fixed annual interest rate with a maturity period of 5 years. The par value will be fully redeemed till maturity date.

The Company entered into a keepwell deed for the above bonds. The Company will undertake to cause Haitong International Finance Holdings Limited to remain solvent at all times and to have sufficient liquidity to ensure timely payment by Haitong International Finance Holdings Limited of any amounts payable in respect of the notes in accordance with the terms and conditions of the notes any payments due under the keepwell deed.

On 21 April 2015, the Group's wholly owned subsidiary 2015 Haitong International Finance Holdings Limited issued guaranteed bonds in principal amount of USD670 million (equivalent to RMB4,539 million) which is guaranteed by the Company and the bond is listed on the Hong Kong Exchanges and Clearing Limited. The bond carries a fixed annual interest rate with a maturity period of 5 years.

On 18 May 2016, the Group's wholly owned subsidiary 2015 Haitong International Finance Holdings Limited issued guaranteed bonds in principal amount of EUR 100 million (equivalent to RMB775 million). The bond carries a fixed annual interest rate of 1.6% with a maturity period of 5 years. The bond is guaranteed by the company.

On 26 May 2016, the Group's wholly owned subsidiary 2015 Haitong International Finance Holdings Limited issued guaranteed bonds in principal amount of EUR 120 million (equivalent to RMB930 million). The bond carries a fixed annual interest rate of 1.6% with a maturity period of 5 years. The bond is guaranteed by the company.

On 15 May 2015, the Group's wholly owned subsidiary Haitong Capital Investment Co., Ltd. (海通開元投資有限公司) issued private placement note in principal amount of RMB200 million at par which carries a fixed annual interest rate of 5.9% with a maturity period of 3 years.

On 3 December 2015, Haitong Capital Investment Co., Ltd issued unguaranteed bonds in principal amount of RMB2,000 million. Among which, notes amounting to RMB1,400 million carries a fixed interest rate of 4.25% per annum with a maturity period of five years and notes amounting to RMB600 million carries a fixed interest rate of 3.9% per annum with a maturity period of three years.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

40. BONDS PAYABLE (continued)

Note: (continued)

(iii) On 25 November 2013, the Company issued non-convertible bonds in principal amount of RMB12 billion at par. Those bonds carry fixed interest rate with maturity terms of three years, five years and ten years, respectively. The principle amounts are RMB7.26 billion, which have been repaid, RMB2.35 billion and RMB2.39 billion and bear interest rate at 6.05% per annum, 6.15% per annum and 6.18% per annum, respectively.

On 14 July 2014, the Company issued non-convertible bonds in principal amount of RMB11 billion at par. Those bonds carry fixed interest rate with maturity terms of three years, five years and ten years, respectively. The principal amounts are RMB5.65 billion, RMB4.55 billion and RMB0.8 billion and bear interest rate at 5.25% per annum, 5.45% per annum and 5.85% per annum, respectively.

On 18 May 2016, the Company issued non-convertible bonds in principal amount of RMB20 billion at par. Those bonds carry fixed interest rate with maturity terms of four years and five years, respectively. The principal amounts are RMB15 billion and RMB5 billion and bear interest rate at 3.6% per annum and 3.8% per annum, respectively. The Company has an option to redeem all or some of the four-year bonds at the end of third year.

On 21 June 2017, the Group's wholly owned subsidiary Haitong Unitrust Finance & Leasing Corporation issued non-convertible bonds in principal amount of RMB1.50 billion at par. Those bonds carry fixed interest rate at 4.95% per annum with maturity terms of 3 years, respectively.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

40. BONDS PAYABLE (continued)

Note: (continued)

- (iv) During the current period ended 30 June 2017, the Group's wholly owned subsidiary Haitong International Finance Holdings has issued a medium term note under the Medium Term Note Programme (the "MTN Programme") in principal amount totalling HK\$230 million (equivalent to RMB200 million) with a maturity period of 1 year and repaid several medium term notes of principal amount totalling HKD1,133 million (equivalent to RMB981 million). As at 30 June 2017, the outstanding amount of medium term notes of the Group is HKD1,720 million (equivalent to RMB1,493 million).

During the current period ended 30 June 2017, the balance of debt securities issued by Haitong Bank Group is amounting to EUR 297 million (equivalent to RMB2,302 million).

On 30 May 2014 and 18 September 2014, the Group's wholly owned subsidiary Unican Limited issued guaranteed medium-term note in principal amount of RMB500 million and RMB1,600 million at par respectively. These notes carries a fixed annual interest rate with a maturity period of 3 years.

On 18 November 2014, the Group's wholly owned subsidiary Haitong Unitrust Finance & Leasing Corporation issued medium term note in principal amount of RMB400 million at par with a maturity period of 3 years.

On 2 July 2015, the Group's wholly owned subsidiary Unican Limited issued medium term note in principal amount of RMB1,000 million which carries a fixed annual interest with a maturity period of 3 years.

On 19 January 2016, the Group's wholly owned subsidiary Haitong Unitrust Finance & Leasing Corporation issued medium term note in principal amount of RMB400 million which carries a fixed annual interest rate of 3.6% with a maturity period of 3 years.

On 3 June 2016, the Group's wholly owned subsidiary Haitong Unitrust Finance & Leasing Corporation issued medium term note in principal amount of RMB600 million which carries a fixed annual interest rate of 4.07% with a maturity period of 5 years. The issuer has an option to adjust the interest rate and the investors have an option to sale the notes back to the issuer at the end of the third year.

On 15 July 2016, the Group's wholly owned subsidiary Haitong Unitrust Finance & Leasing Corporation issued medium term note in principal amount of RMB600 million which carries a fixed annual interest rate of 3.7% with a maturity period of 5 years. The issuer has an option to adjust the interest rate and the investors have an option to sale the notes back to the issuer at the end of the third year.

On 28 September 2016, the Group's wholly owned subsidiary Unican Limited issued medium term note in principal amount of USD64 million (equivalent to RMB434 million) with a maturity period of 35 months. Note in amount of USD24 million (equivalent to RMB163 million) carries a fixed annual interest rate of 2.90%, and note in amount of USD40 million (equivalent to RMB271 million) carries a fixed annual interest rate of 3.00%.

On 26 May 2017, the Group's wholly owned subsidiary Unican Limited issued medium term note in principal amount of USD100 million (equivalent to RMB677 million) with a maturity period of 12 months. Note in amount of EUR 100 million carries a fixed annual interest rate of 3.20%.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

40. BONDS PAYABLE (continued)

Note: (continued)

- (v) On 8 April 2015, the Company issued subordinated notes in principal amount of RMB15 billion at par. The note carries a fixed interest rate of 5.5% per annum with a maturity period of 5 years, the Company has an option to redeem all or some of these notes at the face value on 8 April 2018.

On 12 June 2015, the Company issued subordinated notes in principal amount of RMB20 billion at par. Among which, notes amounting to RMB15 billion carries a fixed interest rate of 5.30% per annum with a maturity period of three years have been repaid and notes amounting to RMB5 billion carries a fixed interest rate of 5.38% per annum with a maturity period of five years. The Company has an option to redeem all or some of notes at the face value on 12 June 2018, respectively.

On 17 November 2016, the Company issued subordinated notes in principal amount of RMB6 billion at par. Among which, notes amounting to RMB4 billion carries a fixed interest rate of 3.30% per annum with a maturity period of three years and notes amounting to RMB2 billion carries a fixed interest rate of 3.40% per annum with a maturity period of five years.

On 15 December 2015, Haitong Futures Co., Ltd issued subordinated note in principal amount of RMB500 million at par which carries a fixed annual interest rate of 4.94% with a maturity period of 6 years, Haitong Futures Co., Ltd has an option to redeem all or some of these notes at the face value on 15 December 2018.

On 9 November 2015, Shanghai Haitong Securities Asset Management Company Limited, the subsidiary of the Group issued subordinated note in principal amount of RMB1 billion at par which carries a fixed annual interest rate of 4.95% with a maturity period of 5 years.

On 16 March 2017, the Company issued subordinated note in principal amount of RMB4.5 billion at par which carries a fixed annual interest rate of 4.80% with a maturity period of 3 years.

- (vi) On 7 May 2015, Haitong Unitrust Finance & Leasing Corporation issued asset-backed note in principal amount of RMB1,362 million under the Measures for the Administration of the Filing of Asset-Backed Special Programs. As at 30 June 2017, asset-backed note of RMB14 million was held by Haitong Unitrust Finance & Leasing Corporation and the asset-backed note have not been derecognised.

On 22 April 2016, Haitong Unitrust Finance & Leasing Corporation issued asset-backed note in principal amount of RMB1,200 million under the Measures for the Administration of the Filing of Asset-Backed Special Programs. As at 30 June 2017, asset-backed note of RMB60 million with a portion of 5% was held by Haitong Unitrust Finance & Leasing Corporation.

On 15 November 2016, Haitong Unitrust Finance & Leasing Corporation issued asset-backed note in principal amount of RMB1,500 million under the Measures for the Administration of the Filing of Asset-Backed Special Programs. As at 30 June 2017, asset-backed note of RMB75 million was held by Haitong Unitrust Finance & Leasing Corporation.

- (vii) According to SAC's letter on approving the pilot of OTC income certificate business (SAC [2014]285), the Group was authorized to conduct income certificate business. The group issued several income certificates with the maturity over 1 year during this period. The income certificates issued by the company with maturities ranged from 1 month to 24 months. The coupon rate of the outstanding products were between 3.6% and 5.15%. Those products which will be settled within one year from year end are classified as the current portion of bonds payable.

The income certificates issued by Haitong Innovation Security Investment Co., Ltd (“海通創新證券投資有限公司”), the subsidiary of the Group, with maturities of 12 months in 2016. The coupon rate of the outstanding products were between 4.2% and 4.5%.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

41. OTHER PAYABLES AND ACCRUALS

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Accrued staff cost (Note i)	4,197,559	4,722,531
Other tax payable	509,284	642,793
Dividends payable	2,573,156	7,536
Risk reserve	361,120	294,505
Client settlement payables	3,093,266	4,028,155
Pending payable to clearing house	1,489,062	181,450
Commission and fee payables	23,622	18,917
Finance lease guarantee deposits	666,480	534,989
Deferred revenue	53,582	50,192
Payable for leasing equipment	205,591	–
Interest payables	2,705,815	3,568,230
Amounts due to brokers	1,260,896	666,737
Notes payable	2,490,881	3,376,787
Acting underwriting securities	–	1,054,351
Cash securities	17,570	–
Others (Note ii)	1,607,158	1,437,264
	21,255,042	20,584,437
Analysed for reporting purpose as:		
Current liabilities	20,282,238	19,866,992
Non-current liabilities (Note i)	972,804	717,445
	21,255,042	20,584,437

Notes:

- (i) During the year 2017, the Group set up a detail plan for the payment of employees' bonus accrued based on the performance of current year. Amounting to RMB405,871,000 (31 December 2016: RMB395,439,000) of the Group is planned to be settled after one year and classified as non-current liabilities.
- (ii) Others represent primarily accrued which are non-interest bearing and are repayable within one year.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

42. PROVISIONS

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
At beginning of the period/year	124,622	60,611
Addition during the period/year	121,561	124,622
Carry down during the period/year	–	(60,611)
Provision	246,183	124,622

43. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Financial liabilities held for trading	7,234,687	8,492,151
Designated as financial liabilities at fair value through profit or loss (FVTPL) – Consolidation of structured entities	1,980,573	12,655,009
Designated as financial liabilities at fair value through profit or loss (FVTPL) – Structured products (Note i)	15,108,956	13,058,951
Designated as financial liabilities at FVTPL – Gold lending (Note ii)	5,066,005	4,433,520
	29,390,221	38,639,631
Analysed for reporting purpose as:		
Current	29,277,003	38,063,861
Non-current	113,218	575,770
	29,390,221	38,639,631

Notes:

- (i) As at 30 June 2017, included in the Group's financial liabilities designated at fair value through profit or loss are the issued structured notes by subsidiaries of the Group which arise from selling structured products generally in the form of notes or certificates with the underlying investments related to listed equity investments in active markets and unlisted equity or partnership investments.

The risk of economic exposure on these structured products is primarily hedged using financial instruments classified as financial assets designated as fair value through profit or loss. These structured products are designated as fair value through profit or loss as the risks to which the Group is a contractual party are managed on a fair value basis as part of the Group's trading portfolio and the risk is reported to key management personnel on this basis.

- (ii) As at 30 June 2017, included in the Group's financial liabilities designated at fair value through profit or loss are gold lending contracts with counterparties.

The risk of economic exposure on these contracts is primarily hedged using forward contracts.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

44. DERIVATIVE INSTRUMENTS

	2017/6/30 (unaudited)		2016/12/31 (audited)	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Stock index futures contracts (Notes i)	–	–	–	–
Treasury futures contracts (Note ii)	–	–	–	–
Commodity futures contracts (Note iii)	–	–	–	–
Interest rate swap contracts (Note iv)	2,398,958	1,784,474	2,717,683	1,827,642
Equity swap (Note v)	50,075	272,996	22,927	227,880
Equity linked note	18,476	–	–	–
Forward contracts	74,355	316,083	125,627	263,974
Options (Note vi)	167,067	119,181	433,534	104,224
Embedded equity instruments	–	270,663	–	73,045
Debts linked note	571,888	–	526,978	–
Foreign exchange swap	58,298	3,507	41,788	52,558
Credit default swap	35,605	20,162	66,534	44,686
Total	3,374,722	2,787,066	3,935,071	2,594,009

Notes:

(i) *Stock index futures*

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in stock index futures ("SIF") were settled daily and the corresponding payments or receipts were included in "clearing settlement funds" as at 30 June 2017 and 31 December 2016. Accordingly, the net position of the SIF contracts in derivative instruments was nil at the end of reporting period. The contract value of the outstanding stock index futures contracts that the Group held for the market risk of the securities lent or to be lent to clients not using hedge accounting is RMB564,517,000 (2016: RMB34,059,000) with fair value loss RMB10,531,000 (2016: fair value loss RMB806,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

44. DERIVATIVE INSTRUMENTS (continued)

Notes: (continued)

(ii) Treasury futures contracts

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in treasury futures ("TF") were settled daily and the corresponding payments or receipts were included in "clearing settlement funds" as at 30 June 2017 and 31 December 2016. Accordingly, the net position of the TF contracts in derivative instruments was nil at the end of reporting period.

Contract	2017/6/30 (unaudited)	
	Contract value RMB'000	Fair value RMB'000
T1709 (sale)	141,908	167
TF1709 (sale)	3,272,031	(12,778)
T1709 (sale)	495,248	(412)
T1709 (purchase)	647,632	(1,612)
Total	4,556,819	(14,635)
Plus: settlement		14,635
Net position of TF contracts		–

Contract	2016/12/31 (audited)	
	Contract value RMB'000	Fair value RMB'000
TF1703	178,839	215
TF1703	1,023,357	16,963
TF1706	4,927	(55)
Total	1,207,123	17,123
Plus: settlement		(17,123)
Net position of TF contracts		–

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

44. DERIVATIVE INSTRUMENTS (continued)

Notes: (continued)

(iii) Commodity futures contracts

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in commodity futures were settled daily and the corresponding payments or receipts were included in "clearing settlement funds" as at 30 June 2017 and 31 December 2016. Accordingly, the net position of the commodity futures contracts in derivative instruments was nil at the end of reporting period.

Contract	2017/6/30 (unaudited)	
	Contract value RMB'000	Fair value RMB'000
AU1712	154,672	1,122
Total	154,672	1,122
Plus: settlement		(1,122)
Net position of commodity contracts		–

(iv) Interest rate swap contracts

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in interest rate swap ("IRS") were settled daily in mainland China market and the corresponding payments or receipts were included in "clearing settlement funds" as at 30 June 2017. Accordingly, the net position of the IRS contracts in derivative instruments was nil at the end of reporting period. As at 30 June 2017, under the daily mark-to-market and settlement arrangement, the contract values of the Group's IRS contracts are approximately RMB15,455,000,000. (2016: RMB24,547,000,000).

For IRS contracts in mainland China and Hong Kong market not under the daily mark-to-market and settlement arrangement are presented gross at the end of reporting period. As at 30 June 2017, for IRS contracts not under the daily mark-to-market and settlement arrangement, the contract values of those IRS contracts of the Group are approximately RMB40,949,181,000. (2016: RMB46,210,884,000).

	2017/6/30 (unaudited)		
	Contract value RMB'000	Assets RMB'000	Liabilities RMB'000
IRS – settle in Shanghai Clearing House	15,455,000	–	(17,198)
IRS – non-centralized settlement	40,949,181	2,398,958	(1,784,474)
Total	56,404,181	2,398,958	(1,801,672)
Plus: settlement		–	17,198
Net position of IRS contracts		2,398,958	(1,784,474)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

44. DERIVATIVE INSTRUMENTS (continued)

Notes: (continued)

(iv) Interest rate swap contracts (continued)

	Contract value RMB'000	2016/12/31 (audited)	
		Assets RMB'000	Liabilities RMB'000
IRS – settle in Shanghai Clearing House	24,547,000	–	(9,536)
IRS – non-centralized settlement	46,210,884	2,717,683	(1,827,642)
Total	70,757,884	2,717,683	(1,837,178)
Plus: settlement		–	9,536
Net position of IRS contracts		2,717,683	(1,827,642)

(v) Equity swap

At 30 June 2017, The Group held notional principal approximately in amount of RMB1,258,597,000 (2016: RMB1,137,820,000).

(vi) Options

As at 30 June 2017, the group held no option in mainland China. (The notional principal amounts of the Group's options held in 2016: RMB4,327,000 with fair value of RMB103,000). The notional principal amounts of the Group's options issued in mainland China are approximately RMB333,951,120,000 with fair value of RMB82,526,000 (2016: RMB438,385,092,000 with fair value of RMB45,898,000). The notional principal amounts of the listed options in Hong Kong and overseas held by the Group are approximately RMB3,278,903,000 with fair value of RMB167,067,000 (2016: RMB33,952,076,000 with fair value of RMB433,431,000). The notional principal amounts of the listed options in Hong Kong and overseas issued by the Group are approximately RMB798,296,000 with fair value of RMB36,655,000 (2016: RMB33,894,615,000 with fair value of RMB58,326,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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45. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Analysed as collateral type:		
Bonds	39,704,948	32,995,727
Loans and advances to customers and finance lease receivables	11,056,000	10,736,000
	50,760,948	43,731,727
Analysed by market:		
Stock Exchange	18,215,833	8,876,743
Inter-bank market	8,432,133	24,118,984
OTC	24,112,982	10,736,000
	50,760,948	43,731,727
Analysed for reporting purpose as:		
Current	50,760,948	43,638,525
Non-current	–	93,202
	50,760,948	43,731,727

As of 30 June 2017, the above financial assets sold under repurchase agreements include those bond repurchase agreements entered into with qualified investors, which amounted to RMB167,244,000 (31 December 2016: RMB290,193,000) for the Group, which amounted to RMB167,244,000 (31 December 2016: RMB290,193,000) matured within 3 months.

Sales and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Group is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities are not derecognised from the financial statements but regarded as “collateral” for the liabilities because the Group retains substantially all the risks and rewards of these securities. In addition, it recognises a financial liability.

As at 30 June 2017 and 31 December 2016, the Group enters into repurchase agreements with certain counterparties. The proceeds from selling such securities are presented as financial assets sold under repurchase agreements. Because the Group sells the contractual rights to the cash flows of the securities, it does not have the ability to use the transferred securities during the term of the arrangement.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

45. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS (continued)

The following tables provide a summary of carrying amounts and fair values related to transferred financial assets of the group that are not derecognised in their entirety and the associated liabilities:

As at 30 June 2017

	Financial assets at fair value through profit or loss RMB'000	Available-for-sale investments RMB'000	Advances to customers on margin financing RMB'000	Financial assets held under resale agreements RMB'000	Others RMB'000	Total RMB'000
Carrying amount of transferred assets	29,977,958	1,228,599	11,021,400	844,388	13,397,744	56,470,089
Carrying amount of associated liabilities	26,658,825	969,459	10,294,454	794,546	12,043,664	50,760,948
Net position	3,319,133	259,140	726,946	49,842	1,354,080	5,709,141

As at 31 December 2016

	Financial assets at fair value through profit or loss RMB'000	Available-for-sale investments RMB'000	Advances to customers on margin financing RMB'000	Financial assets held under resale agreements RMB'000	Others RMB'000	Total RMB'000
Carrying amount of transferred assets	29,246,049	1,427,026	5,609,655	6,366,163	3,999,542	46,648,435
Carrying amount of associated liabilities	28,079,631	1,151,866	5,520,000	5,377,050	3,603,180	43,731,727
Net position	1,166,418	275,160	89,655	989,113	396,362	2,916,708

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

46. DEFERRED TAXATION

For the purpose of presentation in the Group's statements of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Deferred tax assets	2,732,276	2,773,812
Deferred tax liabilities	(692,302)	(557,472)
	2,039,974	2,216,340

The following are the major deferred tax assets (liabilities) recognised and movements thereon:

	Financial assets at fair value through profit or loss RMB'000	Accelerated depreciation RMB'000	Derivative assets RMB'000	Accrued but not paid expenses RMB'000	Available- for-sale investments RMB'000	Derivative liabilities RMB'000	Provision of Loans and receivables RMB'000	Others RMB'000	Total RMB'000
At 1 January 2016	(213,577)	(17,233)	67,555	1,016,320	(256,750)	139,860	996,628	117,431	1,850,234
Credit (charge) to profit or loss	182,965	1,834	(124,381)	(62,431)	3,130	(102,121)	80,507	180,314	159,817
Credit to other comprehensive income	-	-	-	-	123,540	-	-	-	123,540
Effects of exchange rate	297	(1,161)	4,599	4,434	4,417	-	62,013	8,150	82,749
At 31 December 2016	(30,315)	(16,560)	(52,227)	958,323	(125,663)	37,739	1,139,148	305,895	2,216,340
Credit (charge) to profit or loss	(104,260)	268	22,167	(130,334)	22,500	54,534	169,381	49,503	83,759
Credit to other comprehensive income	-	-	-	-	(323,849)	-	-	-	(323,849)
Effects of exchange rate	(33)	490	1,381	(2,148)	(14,352)	-	58,968	19,418	63,724
At 30 June 2017	(134,608)	(15,802)	(28,679)	825,841	(441,364)	92,273	1,367,497	374,816	2,039,974

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For the six months ended 30 June 2017

47. LONG-TERM PAYABLES

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Deposits from lessees	3,395,894	3,000,514
Deferred revenue	347,003	320,732
Others	343,723	218,275
	4,086,620	3,539,521

Long-term payables are mainly due to the guaranteed fund received by the Group through finance leasing business. These amounts will expire beyond one year upon contract agreement and are classified as non-current liabilities.

48. SHARE CAPITAL

	Listed A shares		Listed H shares		Total	
	Number of shares '000	Amount RMB'000	Number of shares '000	Amount RMB'000	Number of shares '000	Amount RMB'000
Registered, issued and fully paid at RMB1.0 per share:						
At 31 December 2016 and at 1 January 2017 (audited)	8,092,131	8,092,131	3,409,569	3,409,569	11,501,700	11,501,700
At 30 June 2017 (unaudited)	8,092,131	8,092,131	3,409,569	3,409,569	11,501,700	11,501,700

As approved by the shareholders at the 2015 First Extraordinary General Meeting, 2015 First A Share General Meeting, 2015 First H Share General Meeting and obtained the China Securities Regulatory Commission ("CSRC") approval at Zheng Jian Xu Ke No. [2015]811, *Approval on Issuing Additional Oversea Listing Shares of Haitong Securities Co., Ltd.*, the Company has made non-public offering on H shares during this period.

On 15 May 2015 and 29 May 2015, the Company issued 1,048,141,000 and 868,838,000 H shares with nominal value of RMB1 per share at issuing price of HKD17.18 per share, respectively. The respective net proceed from the fund-raising after deducting the expenses in connection with the issue was RMB equivalent 25,875,204,000, of which RMB1,916,979,000 was recorded in "Share Capital" and RMB24,071,378,000 was recorded in "Capital Reserve".

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For the six months ended 30 June 2017

49. OPERATING LEASE ARRANGEMENTS

The Group as lessee

Leases for the properties are negotiated for an average term of three years and rentals are fixed for an average term of three years.

At 30 June 2017 and 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases in respect of rented premises falling due as follows:

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Within one year	422,341	227,851
In the second to fifth year, inclusive	680,319	309,846
Over five years	117,961	20,000
	1,220,621	557,697

The Group as lessor

The lease terms are negotiated for an average term of two years and rental are fixed accordingly.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Within one year	13,806	12,007
In the second to fifth year, inclusive	24,796	25,009
Over five years	3,622	4,921
	42,224	41,937

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50. CAPITAL COMMITMENT

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Capital expenditure in respect of acquisition of property and equipment:		
– Contracted but not provided	64,130	79,173
Investment commitments		
– Contracted but not recognised	–	600,000
	64,130	679,173

51. DIVIDENDS

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Dividends recognised as distribution	2,530,374	5,175,765

Pursuant to the resolution of annual general meeting 2017 and 2016, the Company declared 2016 and 2015 final dividend of RMB0.22 (taxes inclusive) and RMB0.45 (taxes inclusive) per share respectively, RMB2,530,374 thousand (taxes inclusive) and RMB5,175,765 thousand (taxes inclusive) in total respectively, satisfied by cash.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

52. RELATED PARTY TRANSACTIONS

In addition to the joints and associates of the Group set out in note 17 above, the name and the relationship of other related parties are set out as below:

Name of the related party	Relationship of the related party
BNP Paribas Investment Partners BE Holding SA	Holds more than 10% of the shares of HFT Investment Management Co., Ltd.
BNP Paribas (China) Limited	Note A
BNP Paribas Investment Partners Japan Ltd	Note A
BNP Paribas Investment Partners Singapore Ltd	Note A
BNP Paribas Wealth Management Bank	Note A
BNP Paribas Investment Partners Switzerland Ltd	Note A
BNP Paribas SA	Note A
BNP Paribas Investment Partners Hong Kong Ltd	Note A
Shinhan BNP Paribas Asset Management (Hong Kong) Co., Ltd	Note A
BNP Paribas Investment Ltd (Asia)	Note A
BNP Paribas International Financial Business Branch	Note A
Shanghai Shengyuan Real-Estate (Group) Co., Ltd	Holds more than 10% of the shares of Haitong Futures Co., Ltd.
China-Belgium Direct Equity Investment Fund	A fund managed by Haitong-Fortis Private Equity Fund Management Co., Ltd.

Note A: The subsidiary of BNP Paribas Investment Partners BE Holding SA which holds more than 10% of the shares of the Group's subsidiary.

The Group had the following material transactions with the related parties for the year ended 30 June 2017 and 30 June 2016:

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Commission and fee income:		
– Jilin Modern Agricultural and Emerging Markets Investment Fund Limited	10,505	10,500
– Xi'an Aerospace and New Energy Industry Fund	10,037	9,659
– Shanghai Equity Investment Fund Limited Partnership	30,230	30,034
– Haitong (Jilin) Modern Service Industry Investment Fund Limited Partnership	2,943	2,940
– China-Belgium Direct Equity Investment Fund	70,408	40,448
– Fullgoal Fund Management Co. Ltd.	29,422	32,887
– Shanghai Cultural Industries Investment Fund (Limited Partnership)	15,973	53
– Haitong (Jilin) Equity Investment Fund Limited Partnership	1,200	–
– Entities related to BNP Paribas (Note A)	6,042	11,445
– Others (Note B)	4,146	19

Note A: Entities related to BNP Paribas include BNP Paribas Investment Partners BE Holding SA, BNP Paribas (China) Limited, BNP Paribas Investment Partners Japan Ltd, BNP Paribas Investment Partners Singapore Ltd, BNP Paribas Wealth Management Bank, BNP Paribas Investment Partners Switzerland Ltd, BNP Paribas, BNP Paribas Investment Partners Hong Kong Ltd, Shinhan BNP Paribas Asset Management Co., Ltd., BNP Paribas Investment Ltd (Asia), and BNP Paribas International Financial Business Branch.

Note B: Others include Haitong Xingtai (Anhui) Emerging Industry Investment Fund Limited Partnership and Guangdong South Media Integration Fund Limited Partnership.

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For the six months ended 30 June 2017

52. RELATED PARTY TRANSACTIONS (continued)

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Investment income:		
– Shanghai Equity Investment Fund Limited Partnership	517	–
Interest expense:		
– Fullgoal Fund Management Co. Ltd.	–	(9)
– Haitong Xingtai (Anhui) Emerging Industry Investment Fund Limited Partnership	–	(521)
– Shanghai Cultural Industries Investment Fund (Limited Partnership)	–	(311)
– Entities related to BNP Paribas	(1,135)	–
Administration expense:		
– Entities related to BNP Paribas	(355)	(615)

The Group had the following material balances with the related parties as at 30 June 2017 and 31 December 2016:

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
	Accounts receivable from:	
– China-Belgium Direct Equity Investment Fund	48,000	112,200
– Entities related to BNP Paribas	4,378	3,734
Derivative instruments:		
– Entities related to BNP Paribas	(4,717)	–
Accounts payable to:		
– Entities related to BNP Paribas	(269)	(268)
Other payables and accruals:		
– Shanghai Equity Investment Fund Limited Partnership	(29,774)	–
Accounts payable to brokerage clients:		
– Fullgoal Fund Management Co. Ltd.	(206)	(30,868)
– Shanghai Cultural Industries Investment Fund (Limited Partnership)	(425)	(10)
– Xi'an Aerospace and New Energy Industry Fund	(1,094)	(15)
– China-Belgium Direct Equity Investment Fund	(5,192)	–
– Jilin Modern Agricultural and Emerging Markets Investment Fund Limited	(8,772)	(68)
– Shanghai Shengyuan real estate (Group) Co., Ltd.	(298)	(3)
– Haitong Xingtai (Anhui) Emerging Industry Investment Fund Limited Partnership	–	(20,000)
– Others (Note A)	(180)	(72)

Note A: Others include Haitong (Jilin) Modern Service Industry Investment Fund Limited Partnership, Xi'an Hai Chuang Zhi Xing Venture Investment, Shanghai Equity Investment Fund Limited Partnership and Guangdong South Media Integration Fund Limited Partnership.

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For the six months ended 30 June 2017

52. RELATED PARTY TRANSACTIONS (continued)

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
Short-term financing bills payables:		
– Shanghai Equity Investment Fund Limited Partnership	(803,880)	(670,000)
– Haitong Xingtai (Anhui) Emerging Industry Investment Fund Limited Partnership	(14,000)	(14,000)
– Xi'an Hai Chuang Zhi Xing Venture Investment	–	(15,050)
– Xi'an Jun Rong Satellite Fund Investment Limited	–	(49,000)
– Shanghai Cultural Industries Investment Fund (Limited Partnership)	(31,268)	–

The remuneration of the key management personnel of the Group was as follows:

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Short-term benefits:		
– Fees, salaries, commission and bonuses	22,065	29,132
Post-employment benefits:		
– Employer's contribution to pension schemes/annuity plans	2,144	1,516
Total	24,209	30,648

53. SEGMENT REPORTING

Information reported to the chief operating decision maker (the "CODM"), being the board of directors of the Company, for the purposes of resource allocation and assessment of segment performance focuses on the nature of products sold and services provided by the Group, which is also consistent with the Group's basis of organization, whereby the businesses are organized and managed separately as individual strategic business units that offers different products and serves different markets. Segment information is measured in accordance with the accounting policies and measurement criteria adopted by each segment when reporting to management, which are consistent with the accounting and measurement criteria in the preparation of the consolidated financial statements.

Specifically, the Group's reportable and operating segments are as follows:

- (a) the brokerage segment engages in the trading of equities, bonds, funds, and warrants, as well as futures on behalf of the customers, and also providing margin financing and securities lending services (the "Securities and futures brokerage" segment);
- (b) the assets management segment mainly offers traditional asset management products and services, private equity asset management business (the "Asset management business" segment) through the Company and qualified subsidiaries in mainland China;

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

53. SEGMENT REPORTING (continued)

- (c) the proprietary trading segment engages in trading of equities, bonds, funds, derivative and other financial products (the "Proprietary trading" segment) through the Company and qualified subsidiaries in mainland China;
- (d) the investment banking segment provides corporate finance services, including equity underwriting, debt underwriting and financial advisory services to institutional clients (the "Investment banking" segment);
- (e) the direct investment segment makes direct equity investments in private companies and earns capital gains by exiting from these private equity investments through IPOs or share sales, or receives dividends from these portfolio companies. In addition, the Group invests in private equity funds (the "Direct investment" segment);
- (f) the headquarters and others segment mainly represents head office operations, investment holding as well as interest income and interest expense incurred for general working capital purpose (the "Headquarters and others" segment);
- (g) The finance lease segment mainly represents the finance lease operation in mainland China through Haitong UT Capital, which is a wholly owned subsidiary of the Group (the "Finance lease" segment); and
- (h) the overseas operations segment mainly represents the business operation of overseas subsidiaries of the Company, which mainly engage in broking, margin financing, corporate advisory, placing and underwriting, trading and investment and financial planning and advisory services and banking services (the "Overseas operations" segment).

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 years ended 2016 and 30 June 2017.

Segment profit/loss represents the profit earned by/loss measured by each segment without allocation of income tax expenses. This is the measure reported to CODM for the purposes of resource allocation and performance assessment. The CODM adjust the resource allocation and performance evaluation method according to the internal and external situation.

Share of result of associates and joint ventures are allocated to segment profit/loss.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

53. SEGMENT REPORTING (continued)

The segment information provided to the chief operating decision maker for the six months ended 30 June 2017 and the six months ended 30 June 2016 are as follows:

For the six months ended 30 June 2017 (unaudited)

	Securities and futures brokerage RMB'000	Asset management RMB'000	Proprietary trading RMB'000	Investment banking RMB'000	Direct investment RMB'000	Headquarters and others RMB'000	Finance lease RMB'000	Overseas operations RMB'000	Segment total RMB'000	Eliminations RMB'000	Consolidated total RMB'000
Segment revenue and results											
Revenue and net investment gain											
– External	6,138,816	1,041,340	1,484,393	1,060,567	1,085,313	1,648,476	1,535,793	3,702,699	17,697,397	–	17,697,397
– Inter-segment	564,606	3	–	5,994	36,512	3,087,818	–	129,577	3,824,510	(3,824,510)	–
Other income and gains	55,064	38,885	1,671,074	160	178	385,339	477,376	(249,875)	2,378,201	–	2,378,201
Segment revenue	6,758,486	1,080,228	3,155,467	1,066,721	1,122,003	5,121,633	2,013,169	3,582,401	23,900,108	(3,824,510)	20,075,598
Segment expenses	(4,768,757)	(469,693)	(2,367,537)	(347,461)	(142,170)	(4,396,009)	(1,188,655)	(3,617,452)	(17,297,734)	2,772,484	(14,525,250)
Segment results	1,989,729	610,535	787,930	719,260	979,833	725,624	824,514	(35,051)	6,602,374	(1,052,026)	5,550,348
Share of results of associates	–	–	–	–	217,303	94,713	–	147,259	459,275	(199,220)	260,055
Profit before income tax	1,989,729	610,535	787,930	719,260	1,197,136	820,337	824,514	112,208	7,061,649	(1,251,246)	5,810,403

For the six months ended 30 June 2016 (unaudited)

	Securities and futures brokerage RMB'000	Asset management RMB'000	Proprietary trading RMB'000	Investment banking RMB'000	Direct investment RMB'000	Headquarters and others RMB'000	Finance lease RMB'000	Overseas operations RMB'000	Segment total RMB'000	Eliminations RMB'000	Consolidated total RMB'000
Segment revenue and results											
Revenue and net investment gains											
– External	7,516,515	476,782	1,412,341	851,479	496,943	2,071,050	1,174,010	3,395,579	17,394,699	–	17,394,699
– Inter-segment	714,347	141,959	53,411	47,910	33,612	1,125,315	–	–	2,116,554	(2,116,554)	–
Other income and gains	(57,417)	5,837	1,776,791	(48)	–	323,077	403,044	76,711	2,527,995	–	2,527,995
Segment revenue	8,173,445	624,578	3,242,543	899,341	530,555	3,519,442	1,577,054	3,472,290	22,039,248	(2,116,554)	19,922,694
Segment expenses	(5,361,736)	(423,002)	(2,402,247)	(310,568)	(43,086)	(3,918,643)	(1,011,598)	(3,081,217)	(16,552,097)	1,992,069	(14,560,028)
Segment results	2,811,709	201,576	840,296	588,773	487,469	(399,201)	565,456	391,073	5,487,151	(124,485)	5,362,666
Share of results of associates	–	–	–	–	9,326	91,380	–	31,444	132,150	–	132,150
Profit before income tax	2,811,709	201,576	840,296	588,773	496,795	(307,821)	565,456	422,517	5,619,301	(124,485)	5,494,816

The Group operates mainly in three principal geographical areas, the mainland China (excluding Hong Kong), Hong Kong (representing the location of majority of the income from external customers and non-current assets of the Group) and Europe (the operation area of Group's subsidiary). No single customers contribute more than 10% of income to the Group's income for six months ended 30 June 2017 and 2016.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

54. FINANCIAL RISK MANAGEMENT

The Group's major financial instruments include equity and debt investments, loans and advances, advances to customers on margin financing, accounts receivable, other loan and receivables, held-to-maturity investments, finance lease receivables, derivatives financial assets, placements to banks and other financial institutions, other receivables and prepayments, financial assets held under resale agreements, deposit with exchange, clearing settlement funds, bank balances and cash, restricted bank deposits, borrowings, financial assets sold under repurchase agreements, accounts payable to brokerage clients and other payables and accruals. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (price risk, currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due.

Credit exposures arise principally from investments in debt securities, loans and advances to customers on margin financing, accounts receivable, financial assets held under resale agreements, placements to banks and other financial institutions, finance lease receivables, clearing settlement funds and bank balances which are included in the Group's asset portfolios.

Credit exposure arising from investments in debt securities and other interest-bearing assets include downgrading of credit rating of the debt securities and/or of its underlying issuers and default of payments by the issuers. The Group has implemented a policy mainly to invest in debt securities with ratings not below A-3 (short-term) and BBB (mid and long term). Management also closely monitors the credit ratings of respective debt securities on a regular basis and the financial soundness of the underlying issuers.

The Group provides clients with margin financing for securities transactions and securities lending to clients, which are secured by clients' securities or deposits held as collateral. Management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Each client has a maximum credit limit based on the quality of collateral held and the financial background of the client. In addition, the Group reviews the recoverable amount of each client regularly to ensure that adequate impairment losses are made for irrecoverable amounts. Margin calls are made when the trades of margin clients exceed their respective limits. Any such excess is required to be made good within the next trading day. Failure to meet margin calls may result in the liquidation of the client's positions. The Group seeks to maintain strict control over its outstanding receivables.

As at 30 June 2017, credit limits are set for borrowers. Apart from collateral monitoring, the Group seeks to maintain tight control over its loans and advances in order to minimise credit risk by reviewing the borrowers' or guarantors' financial positions.

The Group seeks to maintain tight control over its outstanding accounts receivable in order to minimise credit risk. Overdue balances are regularly monitored by management. Accounts receivable from cash clients who are neither past due nor impaired represent unsettled client trades on various securities exchanges transacted on the last two business days prior to the respective reporting date. Accounts receivable from cash clients which are past due but not impaired represent client trades on various securities exchanges which are unsettled beyond the settlement date. When the cash clients failed to settle on settlement date, the Group has a right to force-sell the collateral underlying the securities transactions. The outstanding accounts receivable from cash clients as at 30 June 2017 and 31 December 2016 have been considered to be impaired after taking into consideration the recoverability from collateral. Collateral held against such receivables are publicly traded securities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

54. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

The credit risk of the Group regarding finance lease receivables is that lessee fail to fulfil contractual obligations. The Group established standard policies and operational procedures and controls over finance lease activities, which include project due diligence and application, project review and approval, disbursement, post-lending monitoring and management of non-performing finance lease receivables etc. Through implementation of these standard policies and procedures, effective use of business information system and continuous optimising the portfolio of finance lease receivables, the Group is able to identify, monitor and manage its credit risk in its portfolio. Changes in economic environment or a particular industry may result in losses to the Group. The finance lease business activities are carried out in different regions of Mainland China with their unique economic characteristics. As a result, the management of Haitong UT Capital, a wholly-owned subsidiary of the Group, which mainly engages in finance leases business, monitors credit risk closely. Haitong UT Capital's business department, credit department, operation department, legal department and risk management department are responsible for monitoring credit risk and reporting to the Group's management periodically. The Group sets credit limit for each borrower and monitors the credit limit by regular review.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Credit exposure arising from bank products is considered to be limited as the Group only invest in low-risk bank products issued by state-owned banks and large commercial banks.

Credit risk of banking business is essentially present in traditional banking products – loans, guarantees granted and contingent liabilities – and in trading products – swaps, forwards and options (counterparty risk).

Credit portfolio management is an ongoing process that requires the interaction between the various teams responsible for the risk management during the consecutive stages of the credit process. This approach is complemented by the continuous introduction of improvements in the methodologies, in the risk assessment and control tools.

The Haitong Bank's risk profile is periodically monitored, especially in what concerns the evolution of credit exposure and credit lines. Which are equally subject to daily analysis the observance of approved credit limits and the correct functioning of the mechanisms associated to credit approval.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities. Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from the market in the capacity of a financial institution, and the ability to close out market positions. As part of the measures to safeguard liquidity, the Group has maintained substantial long-term and other stand-by banking facilities, diversifying the funding sources and spacing out the maturity dates.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

54. FINANCIAL RISK MANAGEMENT (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in economic environment. Market risk comprises three types of risks: price risk, currency risk and interest rate risk.

The Group's exposures to market risk include price risk, interest rate risk and currency risk.

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting equity instruments traded in the market.

The Group is exposed to price risk arising from individual equity investment classified as financial assets held for trading and available-for-sale investments. The directors of the Company manage the exposure by closely monitoring the portfolio of investments.

The Group have utilised the effect of stock price variation on net profit and revaluation reserve within the period to manage and analyse the price risk. When reporting internally to the key management on risk, the management estimates that reasonable possible change in price is 10%. If the prices of the respective equity instruments had been 10% higher/lower, and held other variables constant, the impacts to the profit for the period and investment revaluation reserve are as follows:

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Profit for the period		
Increase by 10%	849,112	621,065
Decrease by 10%	(849,112)	(621,065)
Investment revaluation reserve		
Increase by 10%	123,669	218,237
Decrease by 10%	(123,669)	(218,237)

In the above analysis, management also considers the case of an available-for-sale equity investment that a reasonably possible downward fall in the equity price would lead the investment to be impaired, the effect of loss would be shown as affecting profit or loss and the cumulative loss previously recognised in investment revaluation reserve would be reclassified to profit or loss, but an equivalent upward shift in the equity price would be shown as affecting investment revaluation reserve.

In management's opinion, the sensitivity analysis does not represent that the inherent price for the period will expose during the period.

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For the six months ended 30 June 2017

54. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

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's exposure to interest rate risk relates primarily to the Group's bank balances and cash, restricted bank balance and cash, advances to customers on margin financing, clearing settlement funds, deposits with exchanges, debt securities, placements to banks and other financial institutions and finance lease receivables. Management actively monitors the Group's net interest rate exposure through setting limits on the level of mismatch of interest rate repricing and duration gap and aims at maintaining an interest rate spread, such that the Group is always in a net interest-bearing asset position and derive net interest income.

Fluctuations of prevailing rate quoted by the People's Bank of China and Hong Kong Inter-bank Offered Rate are the major sources of the Group's cash flow interest rate risk.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable rate financial assets and liabilities. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the period. When reporting to the management on the interest rate risk, the Group will adopt a 50 basis points increase or decrease for sensitivity analysis, while considering the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's:

- Profit for the period would decrease/increase for the period ended 30 June 2017 and 30 June 2016 by RMB109,529,000 and RMB109,622,000, respectively. This is mainly attributable to the Group's exposure to interest rates on its bank balances, held for trading fixed-rate securities investments, accounts payable to brokerage clients and bonds payables; and
- Investment revaluation reserve for the period ended 30 June 2017 and 30 June 2016 would decrease/increase by RMB4,346,000 and RMB17,246,000, respectively, mainly as a result of the changes in the fair value of available-for-sale debt investments.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

54. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

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. With the internationalization of the Group, the currency risk is increasing as the foreign currency assets and liabilities associated with overseas business, FTA business and leasing business gradually increase. According to the Group's request, the subsidiaries and operating departments should recognize, manage and avoid the foreign currency risk when deal with the relative business. With regards to the currency risk exposure, the Group is actively trying to hedge and mitigate the risk by a series of means, such as foreign forward contracts, renewing the foreign debt and matching the foreign assets with liabilities, aiming to mitigate the currency risk and make it under control. As of 30 June 2017, the group's currency risk is under management's control.

If RMB strengthened/weakened against non-functional currency by 5% with all other variables held constant, the Group's profit for the year ended 30 June 2017 and 2016 would increase by RMB445,776,000 and RMB381,165,000 respectively.

Fair value of financial assets and liabilities

Some of the Group's financial assets and liabilities are measured at fair value for financial reporting purposes. The board of directors of the Group has set up certain process to determine the appropriate valuation techniques and inputs for fair value measurements. The appropriateness of the process and the determination of fair value are reviewed by the board of directors periodically.

The fair value of financial assets and financial liabilities are determined as follows:

- * Level 1 fair value measurements are quoted prices (unadjusted) in active market for identical assets or liabilities;
- * Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- * Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

54. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial assets and liabilities (continued)

Financial instruments not measured at fair value

The table below summarises the carrying amounts and expected fair values with obvious variances of those financial assets and liabilities not presented on the Group's consolidated statement of financial position at their fair values.

	As at 30 June 2017		As at 31 December 2016	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Financial assets				
Held-to-maturity financial assets	81,586	81,391	83,509	82,679
Financial liabilities				
Bonds payable				
Non-convertible bonds payable	107,944,967	107,534,738	122,597,884	124,500,824
Convertible bonds				
Liability portion	3,154,758	N/A	3,401,402	N/A
Equity portion	174,051	N/A	179,383	N/A
Total of convertible bonds	3,328,809	3,539,606	3,580,785	4,761,153
Total of bonds Payable	111,273,776	111,074,344	126,178,669	129,261,977

Fair value hierarchy of financial instruments not measured at fair value

As at 30 June 2017

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets				
Held-to-maturity financial assets	–	81,391	–	81,391
Financial liabilities				
Bonds payable	–	111,074,344	–	111,074,344

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

54. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial assets and liabilities (continued)

Fair value hierarchy of financial instruments not measured at fair value (continued)

As at 31 December 2016

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets				
Held-to-maturity financial assets	–	82,679	–	82,679
Financial liabilities				
Bonds payable	–	129,261,977	–	129,261,977

The fair values of the financial assets and financial liabilities included in the level 2 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

Except for the above, the directors of the Group consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Group's statements of financial position approximate their fair values.

Financial instruments measured at fair value on a recurring basis

The Group uses valuation techniques to determine the fair value of financial instruments when it is unable to obtain the open market quotation in active markets.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3.

The main parameters used in valuation techniques for financial instruments held by the Group include bond prices, interest rates, foreign exchange rates, equity and stocks prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are all observable and obtainable from open market.

Instruments which have been valued using unobservable inputs have been classified by the Group as level 3. Management determines the fair value of the Group's level 3 financial instruments using a variety of techniques, including examining correlations of these fair values with macro-economic factors, engaging external appraisers, and using valuation models that incorporate unobservable inputs such as loss coverage ratios. The fair value measurement of these instruments will not change significantly if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

54. FINANCIAL RISK MANAGEMENT (continued)

*Fair value of financial assets and liabilities (continued)**Financial instruments measured at fair value on a recurring basis (continued)*

Financial assets/ Financial liabilities	Classified as	Fair value	Fair value	Fair value hierarchy	Basis of fair value measurement/ Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
		as at 30 June 2017 In RMB '000	as at 31 December 2016 In RMB '000				
1) Listed options	Derivative instruments	137,036 (Assets) 48,506 (Liabilities)	385,103 (Assets) 47,497 (Liabilities)	Level 1	The fair value of listed option was determined by quoted bid prices in an active market.	N/A	N/A
2) Unlisted options	Derivative instruments	30,031 (Assets) 70,675 (Liabilities)	48,431 (Assets) 56,727 (Liabilities)	Level 2	Fair value was determined based on option pricing model with market observable inputs, such as quoted market price, dividend yield, volatilities, as key parameters.	N/A	N/A
	Financial assets at fair value through profit or loss	3,406	–				
	Financial liabilities designated as FVTPL	741	1,043				
3) Equity linked notes and Debt linked notes	Derivative instruments	590,364 (Assets)	526,978 (Assets)	Level 2	The fair value of the equity linked notes and debt linked notes were determined with reference to the quoted price of the underlying equity and debt instruments.	N/A	N/A
4) Forward contracts	Derivative instruments	74,355 (Assets) 316,083 (Liabilities)	125,627 (Assets) 263,974 (Liabilities)	Level 2	Discounted cash flows. Future cash flows are estimated based on observable forward exchange rates and contracted exchange rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
5) Interest rate, foreign exchange and credit default swap contracts	Derivative instruments	2,492,861 (Assets) 1,808,143 (Liabilities)	2,826,005 (Assets) 1,924,886 (Liabilities)	Level 2	Discounted cash flows. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
6) Embedded equity instruments	Derivative instruments	270,663 (Liabilities)	73,045 (Liabilities)	Level 2	The fair value of embedded equity instruments are estimated based on option pricing model, in consideration of contract term, share price, interest rate, etc.	N/A	N/A
7) Equity swap contracts	Derivative instruments	50,075 (Assets) 272,996 (Liabilities)	22,927 (Assets) 227,880 (Liabilities)	Level 2	Discounted cash flows. Future cash flows are estimated with reference to the market or recent transaction prices of underlying assets, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

54. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial assets and liabilities (continued)

Financial instruments measured at fair value on a recurring basis (continued)

Financial assets/ Financial liabilities	Classified as	Fair value	Fair value	Fair value hierarchy	Basis of fair value measurement/ Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
		as at 30 June 2017 In RMB '000	as at 31 December 2016 In RMB '000				
8) Listed equity investments (non-restricted shares), funds investments and debt investments	Financial assets at fair value through profit or loss	24,074,373	21,657,821	Level 1	Quoted bid prices in an active market.	N/A	N/A
		23,304,851	25,308,593	Level 2	The fair value of equity investments was based on the recent transaction price of the investments.		
	Financial liabilities held for trading	818,994	323,126	Level 1	Quoted bid prices in an active market for listed equity investments.		
		4,822,480	41,547	Level 2	The fair value was based on the recent transaction price of the investments for listed preferred stock and listed debt.		
	Financial liabilities designated as FVTPL	23,852	2,147	Level 1	Quoted bid prices in an active market.		
Available-for-sale investments		4,590,401	6,272,789		Quoted bid prices in an active market.		
		-	3,682,365	Level 2	The fair value was based on the recent transaction price of the investments.		

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

54. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial assets and liabilities (continued)

Financial instruments measured at fair value on a recurring basis (continued)

Financial assets/ Financial liabilities	Classified as	Fair value	Fair value	Fair value hierarchy	Basis of fair value measurement/ Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
		as at 30 June 2017 In RMB '000	as at 31 December 2016 In RMB '000				
9) Unlisted equity investments (non-restricted shares)	Financial assets at fair value through profit or loss	1,752,136	962,956	Level 2	The fair value was based on the recent transaction price of the investments or net value of the underlying assets. The net asset value of the products was calculated by observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
		260,977	269,313	Level 3	The fair value is determined with reference to the net asset value of the unlisted equity and partnership investments which are the deemed resale price of the investments provided by the external counter-parties.	Net asset value	The higher the net asset value, the higher the fair value
		3,396,125	3,166,124		The fair value is derived from the net asset value of such unlisted direct equity investment that is mostly attributable from its underlying listed equity investment which is a restricted share with its fair value is determined with reference to the quoted market prices of the shares with an adjustment of discount for lack of marketability.	Discount for lack of market-ability with reference to the quoted market prices of the shares.	The higher the discount, the lower the fair value.
	Available-for-sale investments	1,429,599	1,607,954	Level 2	The fair value was based on the recent transaction price of the investments or net value of the underlying assets. The net asset value of the products was calculated by observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
		17,313	44,284	Level 3	The fair value is determined with reference to the net asset value of the unlisted equity and partnership investments which are the deemed resale price of the investments provided by the external counter-parties.	Net asset value	The higher the net asset value, the higher the fair value

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

54. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial assets and liabilities (continued)

Financial instruments measured at fair value on a recurring basis (continued)

Financial assets/ Financial liabilities	Classified as	Fair value	Fair value	Fair value hierarchy	Basis of fair value measurement/ Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
		as at 30 June 2017 In RMB '000	as at 31 December 2016 In RMB '000				
10) Unlisted debt investments	Financial assets at fair value through profit or loss	1,055,613	1,013,346	Level 2	The fair value was based on the recent transaction price of the investments.	N/A	N/A
		34,581,401	18,662,260		Discounted cash flows. Future cash flows are estimated based on the yield curves of the various bonds.		
	257,289	198,946	Level 3	Discounted future cash flows based on expected cash flows discounted at rate taking into account of the credit risk of the issuer.	Credit risk spread (loss given default)	The higher the loss given default, the higher the discount and the lower the fair value.	
	Financial liabilities held for trading	1,593,213	8,127,478	Level 2	Discounted cash flows. Future cash flows are estimated based on the yield curves of the various bonds.	N/A	N/A
	Available-for-sale investments	-	958,456		The fair value was based on the recent transaction price of the investments.		
	2,754,382	4,877,194		Discounted cash flows. Future cash flows are estimated based on the yield curves of the various bonds.			
	-	195,462	Level 3	Fair value of the investments consist on the use of internal valuation models or quotations provided by third parties	Quotations provided by third parties	The higher quotations provided by third parties, the higher the fair value	
	2,393,908	303,700		Fair value determined based on discounted cash flow. Future cash flows are estimated based on expected cash flows discounted at rate taking into account of the credit risk of the issuer.	Credit risk spread (loss given default)	The higher the loss given default, the higher the discount and the lower the fair value.	

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

54. FINANCIAL RISK MANAGEMENT (continued)

*Fair value of financial assets and liabilities (continued)**Financial instruments measured at fair value on a recurring basis (continued)*

Financial assets/ Financial liabilities	Classified as	Fair value	Fair value	Fair value hierarchy	Basis of fair value measurement/ Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
		as at 30 June 2017 In RMB '000	as at 31 December 2016 In RMB '000				
11) Unlisted fund investments	Financial assets at fair value through profit or loss	10,395,205	13,686,104	Level 2	The fair value was based on the recent transaction price of the investments or the net asset value of the underlying assets. The net asset values were determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
	Available-for-sale investments	7,331,221	7,067,004		The fair value was based on the recent transaction price of the investments or the net asset value of the underlying assets. The net asset values were determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.		
		196,925	177,430	Level 3	The fair value is determined with reference to the net asset value of the underlying investments which are the deemed resale price of the investments provided by the external counter-parties.	Net asset value	The higher the net asset value, the higher the fair value
12) Investments in structure products, trust and other products (investing in equity or debt other than unlisted private equity)	Financial assets at fair value through profit or loss	5,899,076	7,422,031	Level 2	The fair value was determined with reference to the recent transaction prices of underlying assets or the percentage of net asset value, the net asset value was based on the observable market value of the investment portfolio with an adjustments of related expenses.	N/A	N/A
	Available-for-sale investments	21,261,912	23,835,084				
		199,232	994,601		Discounted cash flow. The fair value is determined with reference to the matured contract value and the discount rate was based on the observable market yield curve.		

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

54. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial assets and liabilities (continued)

Financial instruments measured at fair value on a recurring basis (continued)

Financial assets/ Financial liabilities	Classified as	Fair value	Fair value	Fair value hierarchy	Basis of fair value measurement/ Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
		as at 30 June 2017 In RMB '000	as at 31 December 2016 In RMB '000				
13) Restricted shares and funds	Available-for-sale investments	83,787	–	Level 2	The fair value was determined with reference to the recent transaction price of the investments.	N/A	N/A
		2,286,680	1,646,561	Level 3	The fair value is determined with reference to the quoted market prices with an adjustment of discount for lack of marketability.	Reference to the quoted market prices of listed shares with an adjustment of discount for lack of marketability.	The higher the discount, the lower the fair value.
14) Financial liabilities arising from consolidation of structured entities	Financial liabilities designated as FVTPL	1,980,573	12,655,010	Level 2	Based on the net asset values of the structured entities, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
15) Structured notes issued	Financial liabilities designated as FVTPL	12,392,270	10,958,382	Level 2	The fair value was based on the recent transaction price of the investments or the net asset value.	N/A	N/A
		516,004	182,360		The fair value of the investment was determined with reference to dealing price of the underlying unlisted debt investment which is based on discounted cash flow that the future cash flows are estimated based on applying the interest yield curves of different types of bonds as the key parameter		
		–	5,472		The fair value of unlisted options are estimated based on option pricing model, in consideration of contract term, share price, interest rate, etc.		
		64,486	–	Level 3	The fair value is determined with reference to the net asset value of the underlying unlisted equity and partnership investments which are the deemed resale price of the investments provided by the external counter-parties.	Net asset value	The higher the net asset value, the higher the fair value
		2,111,603	1,909,546		The fair value is derived from the net asset value of such unlisted direct equity investment that is mostly attributable from its underlying listed equity investment which is a restricted share with its fair value is determined with reference to the quoted market prices of the shares with an adjustment of discount for lack of marketability.	Discount for lack of marketability with reference to the quoted market prices of the shares.	The higher the discount, the lower the fair value.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

54. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial assets and liabilities (continued)

Financial instruments measured at fair value on a recurring basis (continued)

Financial assets/ Financial liabilities	Classified as	Fair value	Fair value	Fair value hierarchy	Basis of fair value measurement/ Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
		as at 30 June 2017 In RMB '000	as at 31 December 2016 In RMB '000				
16) Gold lending business	Financial liabilities designated as FVTPL	5,066,005	4,433,520	Level 1	The fair value is determined with quoted price of the underlying gold.	N/A	N/A
17) Investments in structure products	Available-for-sale investments	1,602,445	1,655,531	Level 3	Fair value determined based on discounted cash flow. Future cash flows are estimated based on expected cash flows discounted at rate taking into account of the credit risk of the issuer.	Credit risk spread (loss given default)	The higher the loss given default, the higher the discount and the lower the fair value.

The following table represents the changes in Level 3 financial instruments for the 6 months ended 30 June 2017.

Available-for-sale investments

	Restricted Equity Securities							Total RMB'000
	Manufacturing RMB'000	Information transmission RMB'000	Financial industry RMB'000	Other industries RMB'000	Fund RMB'000	Debt securities RMB'000	Others RMB'000	
As at 1 January 2017	355,891	1,046,042	82	288,830	177,430	499,162	1,655,531	4,022,968
Purchase	187,762	-	-	-	24,148	2,190,473	103,350	2,505,733
Transfer into Level 1 (Note i)	(23,855)	-	-	(108,456)	-	-	-	(132,311)
Transfer into Level 2 (Note ii)	-	-	-	(77,844)	-	-	-	(77,844)
Derecognition due to deconsolidation of structured entity (Note iii)	-	-	-	-	-	(294,672)	-	(294,672)
Disposed	(116,837)	(90,079)	-	(19,718)	-	(14,874)	-	(241,508)
Total gains or losses								
- in other comprehensive income (Note iv)	653,681	297,844	(48)	4,420	(4,653)	(64,225)	(156,436)	730,583
- in profit or loss	13,668	(95,199)	-	(12,191)	-	78,044	-	(15,678)
As at 30 June 2017	1,070,310	1,158,608	34	75,041	196,925	2,393,908	1,602,445	6,497,271

The following table represents the changes in Level 3 available-for-sale investments for the year ended 31 December 2016.

Available-for-sale investments

	Restricted Equity Securities							Total RMB'000
	Manufacturing RMB'000	Information transmission RMB'000	Financial industry RMB'000	Other industries RMB'000	Fund RMB'000	Debt securities RMB'000	Others RMB'000	
As at 1 January 2016	1,588,914	57,290	1,579,456	53,188	147,724	528,269	2,309,195	6,264,036
Purchase	150,671	587,211	-	134,940	-	304,548	6,480	1,183,850
Transfer out	(1,161,314)	(55,677)	(637,994)	(17,666)	-	(250,960)	(899,376)	(3,022,987)
Total gains or losses								
- in other comprehensive income	(222,380)	457,218	(941,380)	118,368	29,706	(82,695)	239,232	(401,931)
As at 31 December 2016	355,891	1,046,042	82	288,830	177,430	499,162	1,655,531	4,022,968

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

54. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial assets and liabilities (continued)

Financial instruments measured at fair value on a recurring basis (continued)

Financial assets at fair value through profit or loss

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
As at the beginning of the period/year	3,634,383	4,780,120
Purchase	157,195	199,846
Transfer in from Level 2	–	292,172
Disposal	(88,227)	–
Total gains (losses) – in profit or loss (Note v)	211,040	(1,637,755)
As at the end of the period/year	3,914,391	3,634,383

Financial liabilities at fair value through profit or loss

	2017/6/30 RMB'000 (unaudited)	2016/12/31 RMB'000 (audited)
As at the beginning of the period/year	1,909,546	3,540,206
Transfer in from Level 2	–	73,095
Total gains (losses) – in profit or loss (Note v)	266,543	(1,703,755)
As at the end of the period/year	2,176,089	1,909,546

Note:

- (i) Available-for-sale investments classified as Level 3 investments as at 31 December 2016 included a listed equity investment held by the Group amounted to RMB132,311,000 whose restricted period was ended before 30 June 2017. For listed equity investment, the fair value as at 30 June 2017 is based on quoted bid prices in an active market. Thus, the instrument was transferred from Level 3 to Level 1 category.
- (ii) Available-for-sale investments classified as Level 3 investments as at 31 December 2016 included an unlisted equity investment held by the Group amounted to RMB77,844,000 where the fair value is measured based on quoted price with adjustment on liquidity discount. For unlisted equity investment, the fair value as at 30 June 2017 is based on recent transaction price. Thus, the instrument was transferred from Level 3 to Level 2 category.
- (iii) Available-for-sale investments classified as Level 3 investments as at 31 December 2016 included an unlisted debt security amounted to HKD339,515,000 held by a consolidated structured entity.

During the current 6-month period, the Group de-consolidated the structured entity as the Group redeemed non-participating shares of the Fund. Therefore such unlisted debt security was no longer held by the Group at the date of redemption and derecognized as Level 3 investment.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

54. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial assets and liabilities (continued)

Financial instruments measured at fair value on a recurring basis (continued)

- (iv) For the period ended 30 June 2017, include in the total gain in the other comprehensive income is an amount of RMB730,583,000 gain relating to the available-for-sell investments classified as Level 3 investments held at the end of the current reporting period and is reported as changes of investment revaluation reserve.
- (v) Of the total gains or losses for the period included in profit or loss, gain of RMB212,843,000 relates to financial assets at fair value through profit or loss and gain of RMB266,543,000 relates to financial liabilities designated at fair value through profit or loss held as at 30 June 2017. Fair value gains on financial assets/liabilities at fair value through profit or loss are included in "Fair value change of financial instruments at fair value through profit or loss".

Capital management

The Group's objectives when managing capital are:

1. 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;
2. To support the Group's stability and growth;
3. To maintain a strong capital base to support the development of its business; and
4. To comply with the capital requirements under jurisdiction's local regulations.

In accordance with *Decision of the China Securities Regulatory Commission on the Revision of the Administrative Measures for the Risk Control Indicators of Securities Companies (Order of the CSRC No. 125)*, *Provisions on the Calculation Standard for Risk Control Indicators of Securities Companies (Announcement of the CSRC [2016] No.10)* issued by the China Securities Regulatory Commission (CSRC) and *Notice on the issue that security firms provide counter-guarantee for overseas wholly-owned subsidiaries* issued by Shanghai Securities Regulatory Bureau's 18 March 2014, the comparative figures have been restated in accordance with the related regulations, the Company is required to meet the following standards for risk control indicators on a continual basis:

1. The ratio between its net capital and the sum of its various risk capital provisions shall be no less than 100% ("Ratio 1");
2. The ratio between its net capital and its net assets shall be no less than 20% ("Ratio 2");
3. The ratio between its net capital and its liabilities shall be no less than 8% ("Ratio 3");
4. The ratio between its net assets and its liabilities shall be no less than 10% ("Ratio 4");
5. The ratio between the value of equity securities and equity related derivatives held and its net capital shall not exceed 100% ("Ratio 5");
6. The ratio between the value of non-equity securities held, non-equity related derivatives and net capital shall not exceed 500% ("Ratio 6");
7. The ratio between its core net capital and total assets of in-balance-sheet and off-balance-sheet shall be no less than 8% ("Ratio 7");
8. The ratio between its high quality liquid assets and net cash outflow in 30 days shall be no less than 100% ("Ratio 8"); and
9. The ratio between its available stable funding and stable funding needed shall be no less than 100% ("Ratio 9").

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

54. FINANCIAL RISK MANAGEMENT (continued)

Capital management (continued)

Net capital refers to net assets minimises risk adjustments on certain types of assets as defined in the Administrative Measures.

As at 30 June 2017 and 31 December 2016, the Company has maintained the above ratios as follows:

	30.6.2017	31.12.2016
Net capital (RMB'000)	72,634,267	78,663,534
Ratio 1	235.01%	258.90%
Ratio 2	70.33%	77.70%
Ratio 3	49.46%	52.56%
Ratio 4	70.33%	67.65%
Ratio 5	28.46%	29.66%
Ratio 6	87.52%	80.98%
Ratio 7	26.52%	27.64%
Ratio 8	191.18%	155.23%
Ratio 9	129.16%	131.65%

The above ratios are calculated based on the underlying financial information prepared in accordance with the PRC accounting rules and financial regulations applicable to enterprises in the People's Republic of China regulated by the China Securities Regulatory Commission.

Certain subsidiaries of the Group are also subject to capital requirements under relevant regulations in PRC, Hong Kong and other jurisdictions. The capital of the Group mainly comprises its total equity.

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55. ACQUISITION OF SUBSIDIARIES

On 12 December 2016, Haitong International Securities Group (Singapore) Pte. Ltd. ("Haitong Singapore", an indirectly wholly owned subsidiary of the Company) entered into a sale and purchase agreement with an independent third party seller, pursuant to which the independent third seller disposes its interest in all issued shares of a financial intermediary to Haitong Singapore. This financial intermediary was subsequently renamed as Haitong International Financial Services (Singapore) Pte. Ltd. ("Haitong Financial Services"). The cash consideration paid in respect of this acquisition is primarily based on the fair value of net tangible assets of Haitong Financial Services as at 30 September 2016 and a cash consideration of approximately RMB60.21 million was paid by Haitong Singapore. The transaction was completed on 28 February 2017.

Haitong Financial Services was incorporated in Singapore in 1998. The principal activity of Haitong Financial Services is the provision of financial services in relation to exchange traded futures and options, over-the-counter leveraged foreign exchange, precious metals and outright, and Haitong Financial Services is licensed with the Monetary Authority of Singapore and the International Enterprise Singapore to carry out its business activities.

As a result of this acquisition, the Group is expected to expand its existing business activities in Singapore (through a number of Singapore incorporated subsidiaries) into dealings in future contracts and leveraged foreign exchange, and transforming the Group's Singapore operations into a full-licensed financial services provider.

Net assets acquired in this combination amounted to approximately RMB55.32 million, with cash and cash equivalents of approximately RMB169.36 million and accounts payable of approximately RMB261.13 million being the largest asset item acquired and the largest liability assumed respectively. In addition, the directors of the company considered the carrying value of each of the assets and liabilities acquired or assumed by the Group approximate their respective fair values.

Goodwill amounted to approximately RMB4.89 million, which represents excess of consideration transferred and net assets acquired as a result of the acquisition, are recognised in the condensed consolidated statement of financial position. This disclosure presented is on a provisional basis as the initial accounting of the business combination, including the determination of the fair value of identifiable assets and liabilities acquired and measurement of goodwill or a gain from a bargain purchase are in the assessment process by the management of the Group.

Net cash inflow arising from this acquisition is disclosed in the condensed consolidated statement of cash flows.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

56. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES

During the six months end 30 June 2017, the Group completed the acquisition of the entire equity interest of Shanghai Weitai Property Management Co., Ltd. for a cash consideration of RMB857,982,000 (the "Weitai Property"). This transaction does not meet the definition of a business combination. The assets acquired and liabilities assumed do not constitute a business. The transaction was accounted for as an acquisition of land use right in the ordinary course of the Group.

The net assets acquired in the Weitai Acquisition are as follow:

	<i>RMB'000</i>
Bank balance and cash	1,866
Intangible assets – Land use right	832,441
Construction in process	23,675
Shareholder's loan	(101,916)
	756,066
Assignment of shareholder's loan	101,916
Total consideration satisfied by:	
Cash paid	857,982
Net cash outflow arising on acquisition:	
Cash consideration paid	(857,982)
Bank balance and cash	1,866
	(856,116)

57. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform to the current year's presentation.