中信建投証券股份有限公司

CSC Financial Co., Ltd.

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

Stock Code: **6066**

2017 Interim Report

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DEFINITIONS

Unless the context otherwise requires, the following expressions have the following meanings in this interim report:

"Articles of Association" or "Articles"	the articles of association of CSC Financial Co., Ltd.
"AUM"	assets under management
"Board" or "Board of Directors"	the Board of Directors of our Company
"Central Huijin"	Central Huijin Investment Limited (中央匯金投資有限責任公司)
"China Securities Capital"	China Capital Management Limited (中信建投資本管理有限公司)
"China Securities Funds"	China Securities Funds Management Limited (中信建投基金管理有限公司)
"China Securities Futures"	China Futures Co., Ltd. (中信建投期貨有限公司)
"China Securities International"	China Securities (International) Finance Holding Company Limited (中信建投(國際)金融控股有限公司)
"CITIC Group"	CITIC Group Corporation Ltd. (中國中信集團有限公司)
"CITIC Limited"	CITIC Limited (中國中信股份有限公司)
"CITIC Securities"	CITIC Securities Co., Ltd. (中信証券股份有限公司)
"CSC" or "Company", "our Company"	CSC Financial Co., Ltd. (中信建投証券股份有限公司)
"CSRC"	the China Securities Regulatory Commission (中國證券監督管理委員會)
"CSRF"	China Structural Reform Fund Co., Ltd. (中國國有企業結構調整基金股份有限公司)
"Director(s)"	director(s) of our Company
"Domestic Shares"	ordinary shares issued by our Company in the share capital of our Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in Renminbi
"FICC"	Fixed income securities, currencies and commodities
"Glasslake Holdings"	Glasslake Holdings Limited (鏡湖控股有限公司)

"Group"	CSC Financial Co., Ltd. and its subsidiaries
"H Share(s)"	overseas listed foreign shares in the share capital of our Company with a nominal value of RMB1.00 each, listed on the Hong Kong Stock Exchange and traded in HK dollars
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules" or "Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"IPO"	initial public offering
"Listing Date"	the date, i.e., 9 December 2016, on which the H Shares of the Company are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
"NEEQ Company"	National Equities Exchange and Quotations Co., Ltd.
"PwC"	PricewaterhouseCoopers
"PwC ZhongTian"	PricewaterhouseCoopers Zhong Tian LLP
"QDII"	Qualified Domestic Institutional Investor (合格境內機構投資者)
"QFII"	Qualified Foreign Institutional Investor (合格境外機構投資者)
"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 (人民幣合格境外機構投資者), a pilot program launched in the PRC which allows Hong Kong subsidiaries of PRC securities and funds companies to facilitate investments of offshore Renminbi into PRC capital markets
"Shanghai and Shenzhen Stock Exchanges"	Shanghai Stock Exchange and Shenzhen Stock Exchange
"Shanghai Shangyan"	Shanghai Shangyan Investment Center (Limited Partnership) (上海商言投資中心(有限合夥))

DEFINITIONS

"Shannan Jinyuan"	Xizang Shannan Century Jinyuan Investment Management Limited (西藏山南世紀金源投資管理有限公司)
"Shareholder(s)"	holder(s) of the Share(s)
"Share(s)"	ordinary shares in the share capital of our Company with a nominal value of RMB1.00 each, comprising Domestic Shares and H Shares
"Supervisor(s)"	the supervisor(s) of the Company
"Supervisory Committee"	the supervisory committee of the Company
"the end of the Reporting Period"	30 June 2017
"US$, USD, US Dollar(s)"	United States dollars, the lawful currency of the United States
"Wind Info"	Wind Information Co., Ltd. (上海萬得信息技術股份有限公司), a joint-stock company with limited liability incorporated in the PRC and a service provider of financial data, information and software

1. The Company prepared this interim report in both English and Chinese. In the event of any discrepancies in interpretation between the English version and Chinese version of this interim report, the Chinese version shall prevail.

2. In this interim report, the discrepancies in the decimal place between the sum of the amount of each sub-item and the grand total are due to rounding to the nearest integer.

SECTION 1 COMPANY INFORMATION

I. PROFILE

Name in Chinese	中信建投証券股份有限公司
Abbreviation in Chinese	中信建投証券
Name in English	CSC Financial Co., Ltd.
Abbreviation in English	CSC
Chairman of the Board and Legal Representative	WANG Changqing
General Manager	QI Liang

II. BASIC INFORMATION

Registered Address	Unit 4, No. 66 Anli Road, Chaoyang District, Beijing
Postal Code of Registered Address	100101
Office Address	No. 188 Chaonei Avenue, Dongcheng District, Beijing
Postal Code of Office Address	100010
Place of Business in Hong Kong	18/F, Two Exchange Square, Central, Hong Kong
Website	www.csc108.com
Telephone	+8610-8513 0588
Facsimile	+8610-6518 6399
National Customer Service Hotline	95587/400 8888 108
Investor Relations Hotline	+8610-6560 8107
United Social Credibility Code	91110000781703453H
Websites for Information Disclosure	HKEXnews website of HKEx: www.hkexnews.hk Official website of CSC: www.csc108.com
Authorized Representatives of the Company	WANG Changqing, QI Liang
Joint Company Secretaries	WANG Guangxue, WONG Wai Ling

III. CONTACT PERSONS AND METHODS

Contact Person	WANG Guangxue
Contact Address	No. 188 Chaonei Avenue, Dongcheng District, Beijing
Telephone	+8610-8513 0852
Facsimile	+8610-6518 6399
Email	investorrelations@csc.com.cn

IV. PLACES WHERE INTERIM REPORTS OF THE COMPANY ARE AVAILABLE

No. 188 Chaonei Avenue, Dongcheng District, Beijing
18/F, Two Exchange Square, Central, Hong Kong

V. OTHER RELEVANT INFORMATION

Auditors	PricewaterhouseCoopers Zhong Tian LLP 11/F PricewaterhouseCoopers Center, 2 Corporate Avenue, 202 Hu Bin Road, Huangpu District, Shanghai
	PricewaterhouseCoopers 22/F, Prince's Building, Central, Hong Kong
H Share Registrar	Computershare Hong Kong Investor Services Limited 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

I. KEY ACCOUNTING DATA

Unit: RMB million

Items	**January to June 2017**	January to June 2016	Increase/decrease as compared to the same period last year *(%)*
Total revenue and other income	**7,253**	8,632	-15.98
Operating profit	**2,501**	3,744	-33.20
Profit before income tax	**2,498**	3,744	-33.28
Net profit attributable to equity holders of the Company	**1,855**	2,777	-33.20
Net cash flow from operating activities	**-11,200**	11,391	N/A

Unit: RMB million

Items	**30 June 2017**	31 December 2016	Increase/decrease as compared to the end of last year *(%)*
Total assets	**195,001**	181,695	7.32
Total liabilities	**152,681**	140,432	8.72
Equity attributable to equity holders of the Company	**42,089**	41,063	2.50
Total share capital	**7,246**	7,176	0.98

II. KEY FINANCIAL INDICATORS

Items	**January to June 2017**	January to June 2016	Increase/decrease as compared to the same period last year *(%)*
Basic earnings per Share *(RMB Yuan/Share)*	**0.26**	0.46	-43.48
Diluted earnings per Share *(RMB Yuan/Share)*	**0.26**	0.46	-43.48
Return on weighted average equity *(%)*	**4.98**	10.54	Decreased by 5.56 percentage points

Items	**30 June 2017**	31 December 2016	Increase/decrease as compared to the end of last year *(%)*
Net assets per Share attributable to equity holders of the Company *(RMB Yuan/Share)*	**5.81**	5.72	1.57
Gearing ratio *(%)*	**70.31**	66.98	Increased by 3.33 percentage points

Note: In calculating the gearing ratio for the reporting periods of the table above, accounts payable to brokerage clients have been excluded from the assets and the liabilities.

III. NET CAPITAL AND RELEVANT RISK CONTROL INDICATORS OF THE COMPANY

As at 30 June 2017, the net capital of the Company amounted to RMB35,682 million, representing a decrease of RMB516 million as compared to net capital of RMB36,198 million as at 31 December 2016, mainly due to the decrease of the Company's subordinated debt during the Reporting Period.

Items	**30 June 2017**	31 December 2016
Net capital *(RMB million)*	**35,682**	36,198
Net assets *(RMB million)*	**40,921**	40,068
Total risk capital reserves *(RMB million)*	**16,958**	15,778
Risk coverage ratio *(%)*	**210.41**	229.43
Capital leverage ratio *(%)*	**24.54**	27.83
Liquidity coverage ratio *(%)*	**170.49**	172.00
Net stable funding ratio *(%)*	**136.50**	154.52
Net capital/net assets *(%)*	**87.20**	90.34
Net capital/liabilities *(%)*	**41.00**	52.92
Net assets/liabilities *(%)*	**47.02**	58.58
Proprietary equity securities and securities derivatives/net capital *(%)*	**12.63**	14.02
Proprietary non-equity securities and securities derivatives/net capital *(%)*	**144.02**	127.56

Note: All risk control indicators including net capital of the Company comply with the relevant requirements of the Administrative Measures for Risk Control Indicators of Securities Companies (Revision in 2016) issued by the CSRC.

I. COMPETITION LANDSCAPE AND DEVELOPMENT TREND OF THE INDUSTRY

In the first half of 2017, sustained improvement has been observed in the world economy and steady recovery has picked up in developed economies. The Chinese economy continued to optimize and upgrade its structure amidst its steady growth, and the financial market operated in a sound manner in general. In the first half of 2017, a total of 225 enterprises were approved to launch their respective IPO by the CSRC, indicating that the issuance of IPO is normalizing. Meanwhile, CSRC issued new refinancing rules to curb excessive financing activities in the market. In the first half of 2017, the A Share securities market was less volatile, though still at the bottom of the market in general, which was mainly due to the further promotion of de-leveraging measures by China, a series of policies initiated by PRC regulatory authorities to crack down on speculation, and the acceleration of approval procedures for IPOs. On the other hand, opening up of the capital markets in China has been further improved, in particular, the inclusion of China A Shares by MSCI Emerging Markets Index in June 2017 will attract more investments in China's capital markets from investors. Though the overall commission rate received by Chinese securities brokers is still experiencing a decrease, the commission rate has relatively stabilized. There was limited leverage for margin financing and securities lending business and fluctuation in the total balance was steady. Although relevant regulatory authorities had issued tight policies and regulations in respect of channel businesses in the first half of 2017, the further development of the Chinese economy and the increasing demand for asset management and wealth management would still push forward the continuous growth of asset management business of securities brokers. Generally, it is expected that the general trend of the securities industry in China is to pursue steady progress in the second half of 2017.

II. ANALYSIS ON CORE COMPETITIVENESS

In the first half of 2017, the Company continued to adhere to the core value of "recognition for achievement, ability and status", as well as the concepts of "risk management as priority" and "healthy development" to strive for better service for existing customers and realize mutual growth with the enterprise. In the meantime, the Company penetrated the local market and moved towards the international market to explore potential quality customers. The Company aimed at taking the advantages of investment banking business as the starting point to steadily develop innovative business, becoming a large best-in-class full-service investment bank based in the PRC with global vision leveraging the development trends in the PRC and global capital market.

Investment banking business of the Company continued to stay at a leading position in the industry. In the first half of 2017, the number of equity financing projects underwritten by us as a lead underwriter and the amount of lead underwriting ranked second and third in the industry, respectively. The number of bond business underwritten by us as a lead underwriter ranked second and the amount of lead underwriting ranked third in the industry, among which both the number of projects underwritten by us as a lead underwriter and the amount of lead underwriting of corporate bonds ranked first. For merger and acquisition business, the number of MAR (material asset restructuring) projects ranked first in the industry, and the number of NEEQ quotations ranked fifth in the industry (Source: Wind Info, NEEQ Company, and statistics of the Company).

Wealth management business of the Company remained at the top of the market. In the first half of 2017, agency of stock and fund trading amount of the Company was RMB3.20 trillion and the market share was 3.01%, ranking ninth in the industry. The number of mutual fund products distributed was 2,907 and the coverage of products on agency sale was 66.75%, ranking first in the industry. As of 30 June 2017, the balance of the Company's margin financing and securities lending amounted to RMB36.938 billion, and the market share was 4.20%, ranking ninth in the industry (Sources: Shanghai and Shenzhen Stock Exchanges, China Securities Depositary and Clearing Corporation Limited (中國證券登記結算有限責任公司), The Securities Association of China (中國證券業協會) and statistics of the Company).

The performance of trading and institutional customer service business of the Company remained at a leading position. For fixed income, the sales size of corporate bonds ranked first in the industry, and the bond investment return on annual basis surpassed the major bond indices. For investment research, the research team of the Company ranked first on “14th New Fortune” in three industries, namely, fixed income, military industry and communications.

The asset management business of the Company has developed rapidly. As of 30 June 2017, the AUM of the Company reached approximately RMB734.3 billion, ranking fifth in the industry (Source: The Securities Association of China).

III. BUSINESS OVERVIEW

(I) Overview

As of 30 June 2017, the total assets of the Group were RMB195,001 million, representing an increase of 7.32% as compared to that on 31 December 2016. Equity attributable to equity holders of the Company was RMB42,089 million, representing an increase of 2.50% as compared to that on 31 December 2016. During the Reporting Period, total revenue and other income of the Group amounted to RMB7,253 million in aggregate, representing a year-on-year decrease of 15.98%. Total expenses amounted to RMB4,752 million in aggregate, representing a year-on-year decrease of 2.78%. Net profit attributable to equity holders of the Company amounted to RMB1,855 million, representing a year-on-year decrease of 33.20%.

(II) Analysis of Principal Businesses

The principal businesses of the Group comprise four segments: investment banking business, wealth management business, trading and institutional client services business and investment management business. During the Reporting Period, total revenue and other income of the investment banking segment amounted to RMB1,449 million in aggregate, representing a year-on-year decrease of 28.37%. Total revenue and other income of the wealth management segment amounted to RMB3,358 million in aggregate, representing a year-on-year decrease of 9.92%. Total revenue and other income of the trading and institutional client services segment amounted to RMB1,618 million in aggregate, representing a year-on-year decrease of 10.71%. Total revenue and other income of the investment management segment amounted to RMB658 million in aggregate, representing a year-on-year decrease of 18.77%.

1. Investment Banking Segment

The investment banking segment of the Group mainly comprises equity financing business, debt financing business and financial advisory business.

1.1 Equity Financing Business

In the first half of 2017, a relatively significant fluctuation was witnessed in the A Share primary market. With the normalization of IPO approval procedures, the number of IPO issuers was close to the total number of last year and the amount of proceeds raised reached RMB116,646 million. However, both the number and size of issuers who conducted refinancing in the A Share market witnessed a drastic decrease with the issuance of new regulations in relation to refinancing. In the first half of 2017, there were only 226 issuers conducing refinancing, representing a decrease of 40.21% as compared to the same period of last year; the amount of refinancing was RMB416,543 million, representing a decrease of 50.59% as compared to the same period of last year. A total of 463 equity financing deals were launched in the A Share market in the first half of the year, representing a year-on-year increase of 3.81%. Yet, due to the significant decrease in refinancing projects, the amount of equity financing was only RMB533,189 million, representing a significant decrease of 39.10% as compared to the same period of 2016 (source: Wind Info).

The Company's equity financing business also achieved solid progress, and maintained a leading position in the market in the first half of 2017. The Company completed 25 equity financing projects, ranking No. 2 in the industry; the amount of equity offerings underwritten by us as a lead underwriter was approximately RMB32,141 million, ranking No. 3 in the industry. In particular, the number of IPOs underwritten by us as a lead underwriter was 13, ranking No.4 in the industry; the amount of IPOs underwritten by us as a lead underwriter was approximately RMB8,151 million, ranking No. 2 in the industry. The number of refinancing projects underwritten by us as a lead underwriter was 12, ranking No. 3 in the industry; the amount of refinancing underwritten by us as a lead underwriter was approximately RMB23,990 million, ranking No. 5 in the industry. Particularly in terms of the number of equity financing, despite the overall declining scale in equity financing in the market, the number of projects which the Company completed in the first half of 2017 increased consecutively as compared with the corresponding periods of 2016 and 2015. The Company has abundant project reserve. As of the end of June 2017, we had 44 IPOs and 25 refinancing projects pending approval by regulatory authorities, ranking No. 2 and No.2 in the industry, respectively.

The equity financing business of the Company has achieved outstanding performance in consecutive years. With recognition obtained from clients and markets, the Company was named the "Best Local Investment Bank" by "New Fortune", a prominent industry publication, for five consecutive years. The Company was awarded the title of the "Best Local Investment Bank", the most valued among collective awards, in the "10th New Fortune Best Investment Bank Selection" published in March 2017. Meanwhile, the Company was also awarded a number of honors, including "Best Equity Underwriting Investment Bank", "Best Bond Underwriting Investment Bank", "Best Investment Bank of Finance and Real-Estate Industry", "Best Investment Bank of TMT Industry", "Best Investment Bank of NEEQ (Listing)" and "Best Asset Securitization Investment Bank".

Details of the Company's equity underwriting and sponsorship in the first half of 2017 are set out below:

	First half of 2017		First half of 2016	
Items	**Amount of lead underwriting *(RMB'00 million)***	**Number of offerings**	Amount of lead underwriting *(RMB'00 million)*	Number of offerings
IPO	**81.51**	**13**	33.30	4
Refinancing Issuance	**239.90**	**12**	294.07	20
Total	**321.41**	**25**	327.37	24

Source: Wind Info and statistics of the Company

For overseas business, in the first half of 2017, China Securities International completed two IPOs and one refinancing issuance in Hong Kong.

Outlook for the second half of 2017

In the second half of 2017, the Company will continue to leverage on its advantage in balanced investment banking product offerings and put more efforts in exploring large enterprises with significant industry position and medium and small-sized enterprises with growth potential to proactively seize the window of IPO and build a stronger deal pipeline of equity financing projects.

1.2 Debt Financing Business

In the first half of 2017, against the backdrop of financial de-leveraging, regulations were strengthened in the bond market. Following three times of upward adjustments to operation interest rate in the open market made by the People's Bank of China, the liquidity remained tightly balanced. The rate of return in bond market showed fluctuation with upward trend, while accumulated issue size represented a slight decrease year-on-year, among which decrease in credit bonds was notable. In respect of different types of bond products, increase and decease were witnessed in terms of the issue volume. The issue volume of asset-backed securities and non-policy related financial bonds attained steady growth in the first half of the year due to the encouragement from the government, while the issue volume of debt financing instruments in non-financial enterprises decreased by 38% as compared to the corresponding period of 2016. The issue volume of corporate bonds and enterprise bonds recorded significant decrease, falling short of 30% of the issue volume as compared to corresponding period of last year.

In the first half of 2017, the debt financing business of the Company maintained a promising development momentum amidst the environment of shrinking issue volume in the market, ranking the top three in the market stably. During the Reporting Period, the Company completed a total of 163 underwriting projects as a lead underwriter, comprising corporate bonds, enterprise bonds, convertible bonds, financial bonds, other debt financing instruments of non-financial enterprises and asset-backed securitization, with an aggregate total size of projects underwritten as a lead underwriter of RMB351,080 million. Among the above, the number of corporate bonds underwritten by the Company as a lead underwriter was 57, with the total size of projects underwritten as a lead underwriter of RMB87,820 million. The Company ranked No. 1 in the industry in terms of both the amount underwritten as a lead underwriter for corporate bonds and the number of corporate bond projects underwritten as a lead underwriter.

Details of debt financing underwritten by the Company in the first half of 2017:

Items	First half of 2017			First half of 2016		
	Amount of lead underwriting *(RMB'00 million)*	**Total project scale** *(RMB'00 million)*	**Number of offerings**	Amount of lead underwriting *(RMB'00 million)*	Total project scale *(RMB'00 million)*	Number of offerings
Corporate bonds	**483.58**	**878.20**	**57**	1,937.78	2,766.93	137
Enterprise bonds	**34.46**	**60.40**	**4**	110.00	116.00	9
Convertible bonds	**8.14**	**8.14**	**1**	11.11	11.11	1
Financial bonds	**204.40**	**1,129.60**	**17**	116.36	406.50	10
Others	**399.41**	**1,434.46**	**84**	163.51	336.80	46
Total	**1,129.99**	**3,510.80**	**163**	2,338.76	3,637.34	203

Source: Wind Info and statistics of the Company

Note: Others mainly consist of medium-term notes, short-term commercial papers, private placement notes, asset-backed securitization, government-backed agency bonds and exchangeable bonds.

For overseas business, in the first half of 2017, China Securities International completed 5 overseas bond issuance transactions in Hong Kong.

Outlook for the second half of 2017

In the second half of 2017, it is estimated that the liquidity of bond market will improve and the cost of financing is expected to rebound. Seizing the opportunity of business development in traditional bonds that the market size was declined drastically in the first half of the year for which our Company has already built competitive advantages such as corporate bonds and enterprise bonds, the Company will also continue to focus on debt financing business with greater market potential such as panda bonds, green bonds, exchangeable bonds, innovation and entrepreneurship corporate bonds and asset-backed securitization, so as to adapt to market changes with a widened bond product offering.

1.3 Financial Advisory Business

The Company's financial advisory business mainly comprises M&A of listed companies, as well as NEEQ quotation.

In September 2016, the CSRC revised the Administrative Measures for Significant Asset Restructuring to restrain "speculation in stocks with poor performance" and "speculation in stocks of shell companies", as well as the pursuit of market hot spots by way of cross-industry M&A, which had a certain impact on the M&A business. At the same time, there were obstacles for Chinese Concepts Stocks' return to the A Share market. The M&A activity in the first half of 2017 was sluggish. In the first half of the year, 115 companies in the A Share market completed M&A, representing a year-on-year decrease of 22.30% as compared to the first half of 2016.

Despite the sluggish market, during the Reporting Period, the M&A business of the Company still recorded satisfactory results and achieved rapid development. As a result, the structure of investment banking service of the Company was further balanced and the ability to manage the market risk was also further strengthened. In the first half of 2017, the Company acted as financial advisor in 12 significant asset restructuring projects, ranking No. 1 in the industry. The M&A transaction amount was RMB83,747 million, ranking No. 2 In the industry, representing a year-on-year increase of 562.08%.The Company has abundant M&A project reserve. As of the end of June 2017, we had a total of 12 M&A projects pending approval by regulatory authorities, ranking No. 1 in the industry.

In the first half of 2017, the NEEQ Company imposed more stringent requirements on the selection of quotation candidates, internal approval by chief agency brokers and other aspects. The NEEQ market witnessed a slowdown in company's quoting. In the first half of 2017, 1,311 companies were quoted on the NEEQ, representing a year-on-year decrease of 48.89% (Source: choice database). Given the number of NEEQ quoted companies has exceeded 11,000 in total, issues such as lack of liquidity, increasing difficulty in fundraising and divergence among different types of indices as well as other problems still remain. In June 2016, the NEEQ market implemented bifurcated management, under which quoted companies are categorized into three levels based on factors including corporate governance, operating revenue, market capitalization, etc. Companies which satisfy any one set of standards may enter into the innovation level. By the end of June 2017, there were 9,922 and 1,392 companies in the basic level and innovation level, respectively (source: NEEQ Company).

As a chief agency broker, the Company recommended 44 companies to be quoted on NEEQ in the first half of 2017, ranking No. 5 in the industry. As of the end of June 2017, the Company recommended 403 companies in aggregate to be quoted on the NEEQ, ranking No. 4 in the industry, and continuously oversaw 381 NEEQ enterprises, among which 79 enterprises were in the innovation level, ranking No.2 in the industry.

For overseas business, in the first half of 2017, China Securities International completed 2 financial advisory projects in Hong Kong.

Outlook for the second half of 2017

In the second half of 2017, it is expected that market-driven M&A and consolidation of state-owned enterprises will remain active. The Company will seize market opportunities to actively explore the financial advisory business and pursue opportunities in investment and financing business brought by M&A transactions to raise revenue from capital-based intermediary and other services. With respect to NEEQ business, in the second half of 2017, it is expected that there will be a rebound in the overall liquidity of NEEQ market and the Company will continue to focus on the quality of quoted companies, select high-quality enterprises to nourish their value growth and strive for excellent operating results and economic benefits.

2. Wealth Management Segment

The Company's wealth management segment mainly comprises brokerage and wealth management business, margin financing and securities lending business and repurchase business.

2.1 Brokerage and Wealth Management Business

The Company provides individual and corporate clients with brokerage of stocks, bonds, funds, derivatives and other tradable securities.

During the Reporting Period, despite slowdown in the fluctuation of secondary market, the overall valuation was still at a low level and the transaction amount was further decreased as compared to the corresponding period of 2016. In the first half of 2017, the bilateral trading volume of equity and funds in the market was RMB106.26 trillion, representing a year-on-year decrease of 18.73% (source: Shanghai and Shenzhen Stock Exchanges). The competition among securities firms was increasingly fierce on commission rate, business flow, service approach, service provided and expertise of employees. As the trading amount of stocks and funds decreased in general, the brokerage business encountered great challenges.

In the first half of 2017, the Company endeavored to establish an integrated client services platform and ecological chain to develop businesses covering financial products, margin financing and securities lending, the NEEQ, private equity, investment advisory services, futures, precious metals and IB business through resource integration. The Company, with customer-oriented culture, continued to strengthen the core competitiveness of brokerage business with clients as the focus through raising the standard of service and enhancing procedures, and strived to fulfill diversified wealth management, investment and financing needs of retail, high net worth, institutional, corporate and other clients at different levels.

In the first half of 2017, the net income from the securities brokerage business of the Company accounted for 3.18% of the market share, ranking No. 10 in the industry. Trading volume of the agency sales of equity funds amounted to RMB3.20 trillion with a market share of 3.01%, ranking No. 9 in the industry. The sale of standardized products amounted to RMB25,051 million, and the net income from the distribution of financial products had a market share of 3.95%, ranking No. 4 in the industry, which remained the same as that of the end of last year. The number of new shareholder accounts was 1,512,800, representing a year-on-year increase of 42.64% compared to that of last year; the total number of clients' capital accounts at the end of the Reporting Period was 6,939,600. The market value of securities under custody for the Company's clients accounts was RMB1.88 trillion with a market share of 4.98%, ranking No. 5 in the industry, which remained the same as that of last year; in which new client assets amounted to RMB122,043 million (sources: Shanghai and Shenzhen Stock Exchanges, China Securities Depositary and Clearing Corporation Limited, The Securities Association of China and statistics of the Company). As of the end of June 2017, the Group had 296 securities branches, of which 57% were located in the relatively affluent Five Provinces and Two Municipalities (Beijing, Shanghai, Guangdong, Fujian, Zhejiang, Jiangsu and Shandong), and among which 56 were located in Beijing. Being the securities company with the largest number of securities branches in Beijing, the Company has established a solid client base for its brokerage and wealth management businesses.

For the overseas business, China Securities International provides wealth management services to clients of the Company's securities brokerage business including institutional clients. As of the end of June 2017, the total asset value under custody for the Company's retail clients reached HK$11,500 million, representing an increase of 35% as compared to that of the end of 2016; and the total asset value under custody for the Company's institutional clients reached HK$16,800 million, representing a decrease of 33% as compared to that of the end of 2016.

Outlook for the second half of 2017

In the second half of 2017, under the circumstances that the overall valuation level in the secondary market is relatively low while expectations are stable, the brokerage business of the Company will continue to adhere to the basis of compliance and risk management, focus on the development of and services for three major types of clients, namely individual, institutional and corporate clients, pursuant to its internet strategy, in order to enhance the satisfaction of clients and employees. The Company will raise its core competitiveness with an aim to build the best investment advisory and transaction brand in the industry and establish the "Invincible Army of Wealth Management" for stable development with a long-term vision and steady pace, so as to achieve robust growth of the revenue from brokerage services. Meanwhile, the Company will maintain its leading position by expanding its network in Beijing and strategically expand its securities branches nationwide, so as to lay a solid foundation for the prosperous development of its brokerage business.

2.2 *Margin Financing and Securities Lending Business*

In the first half of 2017, affected by the downturn of the overall trading of A Shares in the secondary market, the margin financing and securities lending business remained at a relatively low level. As of the end of June 2017, the balance of margin financing and securities lending of the Shanghai and Shenzhen Stock Exchange was RMB879,862 million, which decreased by 6.32% as compared to that of the end of 2016 (source: Wind Info).

In the aforesaid market environment, benefiting from the development of high-end clients and the replenishment of capital base, the margin financing and securities lending business of the Company was able to develop continuously in the first half of 2017, and the interest income increased against the downward trend of the market. As of the end of June 2017, the closing balance of the Company's margin financing and securities lending business was RMB36,938 million; the market share was 4.20%, increased by 1.02 percentage points as compared to that of the end of last year, ranking No. 9 on a combined basis, up two places as compared to that of the end of last year. The number of margin financing and securities lending accounts was 129,611, representing an increase of 2.04% as compared to that at the end of 2016.

Outlook for the second half of 2017

In the second half of 2017, the Company will further enhance client service experience so as to provide more extensive and comprehensive services and further advance the compliance and risk control system of margin financing and securities lending business; and improve the core competitiveness of the business through product and service innovations.

2.3 *Repurchase Business*

In the first half of 2017, the collateralized stock repurchase business of the whole market maintained a momentum of growth. As of the end of June 2017, the scale of collateralized stock repurchase business of the whole market amounted to RMB1,510,840 million, representing an increase of 17.67% as compared to that at the end of 2016 (source: Shanghai and Shenzhen Stock Exchanges). The scale of collateralized stock repurchase business has surpassed the scale of margin financing and securities lending business.

During the Reporting Period, the collateralized stock repurchase business of the Company accomplished a steady growth. As of the end of June 2017, the balance of the collateralized stock repurchase business of the Company amounted to RMB43,351 million, representing an increase of 21.76% as compared to that at the end of 2016, ranking No. 9 in the industry, which was the same as compared to the end of last year. As of the end of June 2017, the balance of margin accounts of the contractual stock repurchase transaction business of the Company amounted to RMB261 million, representing a decrease of 29.46% as compared to that at the end of 2016.

Outlook for the second half of 2017

In the second half of 2017, the Company will keep abreast of the development of the regulatory policies and the secondary market, streamline the risk control system of the repurchase business, and strengthen customer relationship and product innovation striving to maintain a relatively rapid growth of the collateralized stock repurchase business.

3. Trading and Institutional Client Services Segment

The trading and institutional client services segment of the Group mainly comprises equity sales and trading business, fixed income sales and trading business, investment research business, prime brokerage business and the QFII business.

3.1 Equity Sales and Trading Business

The equity sales and trading business of the Company mainly provides trading, advisory and research services, and distributes equity securities underwritten by the Company to institutional clients. The Company also engages in proprietary trading and market-making activities of stocks, funds, and financial derivatives including stock index futures, commodity futures, options and total return swaps. It provides clients with customized options and swaps products linked to various types of assets to meet the hedging and investment demand of institutional clients.

With respect to the securities trading business, the Company guarded its bottom line for risk management by carefully studying macroeconomy conditions and closely tracking micro data. In the stock market, the Company put more effort into the deployment in the blue-chip segment and the cyclical segment, and obtained a stable investment income. In response to the market downturn and the reluctance for investors to transact, the Company carried out its NEEQ market-making business based on the fundamentals for companies to pursue a balance between value and growth. The Company became qualified to conduct NEEQ market-making business in July 2014 and provided market-making services to 94 listed companies as of 30 June 2017, representing an increase of 11.90% as compared to that of the end of last year. The on-floor trade amount ranked among the top 20% in the market with full score in the review of transaction management assessed by NEEQ Company. In the first half of 2017, the accumulated trading volume was RMB604 million, representing an increase of 23.27% as compared to the first half of 2016.

Along with the stable development of the existing business, the Company actively explored new business models in the derivatives trading business to enhance its investment strategies using its own funds to fulfill various business needs of clients. With respect to on-floor business, the Company constantly improved its traditional business such as quantitative investment and liquidity services while developing bulk commodities related business. With respect to over-the-counter ("OTC") business, the Company consistently enriched the business models of swap transactions and OTC options with new linked subjects and revenue structure to meet the personalized investment needs of clients.

With respect to the securities trading business, in line with the accelerating pace of IPO approval, the Company was able to actively improve the subscription experience of the investors, while at the same time ensure that the compliance requirements are met; whereas with respect to non-IPO projects, as risk appetite among investors is constantly changing because of the changes in the secondary market, the Company sought the most suitable investor by proactively analyzing investor preferences and project characteristics, and demonstrated strong sales capability.

Outlook for the second half of 2017

In the second half of 2017, the macro-economy and the capital market are expected to be stable. The Company will keep strengthening its tracking and research on stock index futures, stock options, commodity futures and other new products, allocate more resources to the commodities segment, and explore cross-border investments and business cooperation to provide clients with hedging and risk management services. Meanwhile, leveraging on its advantage in fundamental pricing and adhering to the concept of value investment, the Company will continue to boost the diversification of its investment products and strategies to achieve a stable income in line with the market environment.

3.2 Fixed Income Sales and Trading Business

In the first half of 2017, in view of the downsized bond offerings, weakened market demand and intensified market competition, the Company successfully built a blind spot free cross-region sales network according to its business development needs and the behest of the Shanghai Stock Exchange on the issuance of municipal bonds. Account managers maintain and provide professional service to satisfy the requirements of institutions in their respective responsible regions by such product categories. Whilst maintaining existing major clients, the Company focused on the development of investors including city commercial banks, rural commercial banks and private equity investment firms by province, and dug deep into the bond investments needs of various types of clients and strengthened the communication between issuers and investors to maintain a steady growth in sales performance. As of the end of June 2017, the scale of corporate bond sales ranked No. 1 in the industry and obtained leading positions in terms of sales of municipal bonds on the stock exchange.

With respect to the FICC business, the Company actively explored the FICC business segment for opportunities of investment in gold, foreign exchange and derivatives while investment transactions under traditional fixed income proprietary business maintained good performance, so as to bring the synergy of FICC related business into full play via the cooperation between the FICC business and traditional fixed income products. As of 30 June 2017, among the proprietary investment assets of the Company, the size of bond investments reached RMB31,371 million, representing an increase of 2.94% as compared to that of the end of last year. Bond investments accounted for 86.21% of the total size of proprietary investment. The average return of bond investments outperformed the market, while the risk of significant market adjustments was hedged against.

The investment advisory business of the Company kept market risks and credit risks well managed, and also kept abreast with the market pace by conducting directional trading business and the asset liability matching investment business with “fixed income plus bulk commodities” to seize trading opportunities, optimize asset structure and to utilize derivative instruments properly for risk hedging and arbitrage trading, and accomplished satisfactory investment results. In addition, the Company put more effort in the marketing, and product design of the investment advisory business, proactively reached out to extensive market participants, and established cooperation with interested and potential clients to enhance its market influence.

With respect to the asset-backed securitization business, in the first half of 2017, the Company steadily developed its asset-backed securitization business, of which both the total size and individual size of asset-backed securitization projects underwritten by us as lead underwriter ranked among the top in the market. The Company's professional underwriting capability, sales ability and project reserve capability were widely recognized by the market. According to the statistics from Wind Info, as of the end of June 2017, the ABS business underwritten by the Company as a lead underwriter ranked No. 4 in the market, three places up from the corresponding period of last year, among which the interbank asset securitization projects ranked No. 4 in the market by underwritten size.

Outlook for the second half of 2017

In the second half of 2017, with expected rebound of the fundamentals of the fixed income market, the Company will continue to develop the underwriting, issuance and sales business of bonds and asset-backed securitization products, enhance market analysis and seize market opportunities to enhance investment in fixed income products and proactively explore investment advisory business.

3.3 Investment Research Business

Specialized research capability is the foundation for institutional client services. The Company's research business is well recognized and highly influential in the industry, and highly trusted by institutional clients. The investment research business of the Company mainly provides institutional clients with research consultation services covering macro-economy, fixed income, strategy, industry, corporate, financial engineering and other aspects. Clients mainly include mutual funds, insurance companies, the National Social Security Fund, private equity funds, securities firms and other institutions. The research business of the Company provides clients with research reports and various kinds of tailored research consultation services. As of the end of June 2017, the Company had a research and sales team comprising 143 members, and published a total of 1,640 research reports of various types for the first half of the year. The Company's stock research covered 23 industries and 2,394 domestic listed companies.

In the "14th New Fortune Best Analyst" competition, the Company's research team ranked No. 10, No. 9 and No. 3 in the categories of "Best Domestic Research Team", "Most Influential Research Institution" and "Research Institution with Best Progress", respectively. The Company ranked No. 1 in three sectors, namely fixed income, military industry and communications sectors, and No. 2 in the sector of coal mining.

Outlook for the second half of 2017

In recent years, the competition for research talent in the market has been extremely intense. In the second half of 2017, the Company will continue to reinforce the establishment of the research team to improve its research capability, in order to win customers' trust and market reputation of all business lines of the trading and institutional businesses.

3.4 *Prime Brokerage Business*

The Company provides market-leading full-chain prime brokerage services to institutional investors, including trading service, account service, product design and agency sales, institutional investment and financing service, custody and outsourcing, research service, financing solution and value-added services. The Company steadily promoted the custody and outsourcing service business and in the first half of 2017, the number of new products under custody reached 290, with 1,187 products in total, ranking No. 6 in the industry according to the statistics provided by Wind Info; the number of new outsourced products was 270, with 932 products in total and product scale of RMB73,174 million. As of the end of June 2017, the total scale of custody and outsourcing services of the Company amounted to RMB134,681 million.

Outlook for the second half of 2017

Institutional clients will play a more important role in the capital market, and their demand for products and services will be more diversified and complicated. The Company will endeavor to develop prime brokerage business to provide institutional clients with a package agreement in investment and financing services.

3.5 *QFII Business*

The Company carries out QFII and RQFII brokerage agency business. Currently, the Company's QFII and RQFII businesses have developed a professional service brand featuring advanced transaction system and trading algorithm and extensive research information services. As of the end of June 2017, the institutional AUM of the Company's QFII and RQFII business reached RMB3,300 million.

Outlook for the second half of 2017

In the second half of 2017, the Company will continue to leverage and consolidate its domestic business as well as its overseas platform of China Securities International to increasingly explore the international market and proactively carry out QFII and RQFII businesses to provide its clients with high-level, all-round, diversified, differentiated and integrated financial services.

4. Investment Management Segment

The investment management segment of the Group mainly comprises asset management business, fund management business and private equity investment business.

4.1 Asset Management Business

The Group provides asset management services to maintain and increase the value of the financial assets of its clients. We have established a comprehensive product line covering currency, bonds, stocks, hybrid products, project investment, index-linked products, quantitative investment and asset-backed securitization. Our Company is qualified to conduct business related to insurance fund trust management and QDII, and our Company is a member of the Insurance Asset Management Association of China and the Asset Management Association of China, respectively. The Group manages its investment through three types of schemes, namely the collective asset management scheme, the targeted asset management scheme and the specialized asset management scheme.

As of 30 June 2017, the Company's AUM reached approximately RMB734.3 billion, ranking No. 5 in the industry, representing a decrease of 9.50% as compared to that of the end of last year. Since 2017, regulatory authorities have enacted several measures to control the scale of channel business, and requested securities companies to return to the origins of the business. The Company has proactively responded to the regulatory requirements, taking initiatives to control the development size of the passive management business and has strengthened business development of active management, gradually transforming towards active management business. As of the end of June 2017, the AUM of actively managed wealth management products of the Company amounted to approximately RMB162,500 million, representing an increase of 6.07% as compared to that at the end of 2016.

The scale of the Company's asset management business is as follows:

Unit: RMB'00 million

	AUM	
	30 June 2017	31 December 2016
Collective asset management business	**231.58**	224.90
Targeted asset management business	**6,959.34**	7,808.45
Specialized asset management business	**152.60**	80.96
Total	**7,343.52**	8,114.31

Source: the Securities Association of China and statistics of the Company

For the overseas business, China Securities International provides consultation and asset management services via various investment instruments. As of the end of June 2017, its AUM reached US$578 million.

Outlook for the second half of 2017

In the second half of 2017, the Company will continue to strengthen the development of traditional asset management business, expand existing product lines and focus on promoting the launch of collective products online. In the meantime, the Company will continue to expand its business and closely monitor the changes of customer demands to enhance its sales ability and client service capabilities. Moreover, the Company will overall improve the product performance on top of the implementation of stringent risk management and establish asset management team.

4.2 Fund Management Business

The Group established a fund management subsidiary, China Securities Funds, in September 2013 and has strived to develop it into an advanced fund management platform with robust and prudent investment style. China Securities Funds has a highly diversified client base covering commercial banks, securities firms, trust companies, financial companies, private equity funds and other clients. As of the end of June 2017, the AUM of the fund was RMB186,808 million, representing a decrease of 12.07% as compared to that at the end of 2016. Among which, the AUM of mutual fund was RMB8,468 million, representing a decrease of 10.40% as compared to that at the end of 2016, and segregated fund products (including that of Yuandaxin Capital Management (Beijing) Company Limited* (元達信資本管理(北京)有限公司)) was RMB178,340 million, representing a decrease of 12.15% as compared to that at the end of 2016. The fund management business of China Securities Funds has survived the challenge of significant fluctuation in the bond market in 2016. As of the end of June 2017, China Securities Funds reported steady results from its investments, among which 14 out of 16 mutual fund products recorded accumulated profits.

Outlook for the second half of 2017

In the second half of 2017, China Securities Funds will continuously improve the risk control and compliance system, further consolidate the foundation and make steady progress. In the meantime, China Securities Funds will further strengthen the sales capability, expand sales channels, enhance the investment and research strength, increase the cooperation with large institutional customers and optimize the customer structure to build a fund company with core competitiveness.

4.3 *Private Equity Investment Business*

In 2017, in view of a further optimized economic structure driven by the economic structure transformation in China, state-owned capital, private capital and direct investment companies established by securities firms competed for supremacy by utilizing their respective advantages, which have brought new opportunities, new landscape and new challenges to investments in the primary market. By giving full play to internal and external resources of the Company, China Securities Capital explored projects with potential and strive to enlarge existing funds and develop new funds while broadening its mind and vigorously expanding new businesses, eventually achieving the healthy operation and steady growth of the Company.

As of the end of June 2017, China Securities Capital managed a total of 16 funds, including 7 integrated funds, 2 industrial funds and 7 designated funds, with the fund management scale of RMB4,869 million, representing an increase of 15.08% as compared to that at end of 2016. As of the end of June 2017, China Securities Capital completed over 82 investment projects, including 8 main board listings, 20 NEEQ quotations, and 10 exit projects, with average investment yield of 347%.

Outlook for the second half of 2017

In the second half of 2017, China Securities Capital will continue to enhance its presence in the industry by improving channel construction to acquire more high-quality projects with higher expected return. China Securities Capital will further expand the scale by way of designated funds and parent funds to raise its ranking and progressively build an integrated brand of private equity investment fund.

Ⅳ. BUSINESS PLAN FOR AND POTENTIAL RISKS IN THE SECOND HALF OF 2017

In the second half of 2017, we will implement a multi-faceted plan which will further build upon our industry-leading value creation capabilities. We will focus on enlarging client base and improving client services. We will raise the professional expertise of our team to even higher levels based on our talent strategy. We will also boost capital strength to make a better and healthier balance sheet. There will also be focus on continuous development of our information technologies while adhering to the compliance and risk protocols which ensure healthy growth. We will also strengthen management and operating capability to enhance efficiency and returns.

For the investment banking business, the Company will capture the opportunities of booming direct financing business and maintain its leading edge in the sector. For brokerage business, the Company will strive to develop business through the internet to build a wealth management brand. For the asset management business, the Company will seize the business opportunities in the general asset management space and continue to promote the scale and competitiveness of the asset management business, and in turn enhance the investment and management capabilities of the Company. For overseas business, leveraging on its H Shares listing, the Company will pay more efforts on developing overseas business to promote the balanced development of the domestic and overseas business. For compliance and risk control, we will strictly comply with the regulatory benchmarks and endeavor to enhance risk control and compliance management.

In the second half of 2017, the economic growth of China is still under great downside pressure. Risks associated with the economic and financial systems are non-negligible though the macro-control policies have been advancing steadily. Risks that the Company may be exposed to include: (i) credit risk. The economy is at the bottom of the economic cycle and with the arrival of maturity peak of bonds, events of default occur more frequently, thus increasing the credit risk of distressed industries and areas; (ii) bond market risk. The stable and neutral monetary policy against a backdrop of reducing leverage to prevent the formation of an asset bubble, combined with the hike in the interest rate raise in the US, may lead to fluctuation of interest rate and yield which brings uncertainties to valuation of the bond market; and (iii) money supply is forecasted to be further tightened overall, resulting in liquidity risk due to periodic occasions of a tightened money supply and the surge of the lending rate. In addition, the Company is subject to strategic risk, operational risk, compliance risk, legal risk, technical risk, reputational risk, etc. In general, due to the intertwined risks mentioned above, the Company will face certain challenges in its operation.

V. FINANCIAL STATEMENT ANALYSIS

(I) Profitability Analysis

In the first half of 2017, the Group recognized total revenue and other income of RMB7,253 million, representing a year-on-year decrease of 15.98%. The changes of key items are as follows:

- fee and commission income amounted to RMB3,701 million, representing a year-on-year decrease of 27.81%, which was mainly due to the year-on-year decrease in fee and commission income from brokerage business and investment banking business;

- interest income amounted to RMB2,421 million, representing a year-on-year increase of 6.89%, which was mainly due to the increase in interest income from margin financing and securities lending business and collateralized stock business;

- investment gains amounted to RMB1,143 million, representing a year-on-year decrease of 1.89%, which was mainly due to the decrease in net gains from financial instruments held for trading and derivative financial instruments.

In the first half of 2017, the total expenses of the Group amounted to RMB4,752 million, representing a year-on-year decrease of 2.78%. The changes of key items are as follows:

- fee and commission expenses amounted to RMB467 million, representing a year-on-year decrease of 25.76%, which was mainly due to the decrease in fee and commission expenses from brokerage and investment banking business in the first half of 2017;

- interest expenses amounted to RMB1,651 million, representing a year-on-year increase of 13.86%, which was mainly due to the increase in interest expenses of financial assets sold under repurchase agreements and placements from banks and other financial institutions;

- staff costs amounted to RMB1,857 million, representing a year-on-year decrease of 2.88%, which was mainly due to the decrease in performance-based remuneration.

In the first half of 2017, net profit attributable to equity holders of the Company amounted to RMB1,855 million, representing a year-on-year decrease of 33.20%; basic earnings per Share amounted RMB0.26, representing a year-on-year decrease of 43.48% while the return on weighted average net assets was 4.98%, representing a year-on-year decrease of 5.56 percentage points, which was mainly due to the issuance of new shares and the decrease of net profit.

(II) Asset Structure and Asset Quality

Total assets and total liabilities increased at different magnitudes. In the first half of 2017, the Group completed the listing of over-allotment shares of H Shares and the issuance of RMB-denominated corporate bonds, enabling the Group to supplement its working capital and maintain good liquidity. During the Reporting Period, due to market fluctuations, the Group made corresponding allowances for impairment losses in respect of assets which had indication of impairment, enabling the Group to maintain more prudent operations and high asset quality.

As of 30 June 2017, the Group's total assets amounted to RMB195,001 million, representing an increase of RMB13,306 million, or 7.32% as compared to that at the end of last year. Excluding accounts payable to brokerage clients, the Group's total assets amounted to RMB142,534 million, representing an increase of RMB17,575 million, or 14.06% as compared to that at the end of last year. As of 30 June 2017, the Group's total liabilities amounted to RMB152,681 million, representing an increase of RMB12,249 million, or 8.72% as compared to that at the end of last year. Excluding accounts payable to brokerage clients, the Group's total liabilities amounted to RMB100,215 million, representing an increase of RMB16,519 million, or 19.74% as compared to that at the end of last year. As of 30 June 2017, the Group's equity attributable to owners of the Company amounted to RMB42,089 million, representing an increase of RMB1,026 million, or 2.50% as compared to that at the end of last year.

A stable asset and liability structure was maintained. As of 30 June 2017, excluding accounts payable to brokerage clients, the Group's total assets amounted to RMB142,534 million, among which investments, including investments in associates and investments in financial assets, accounted for 48.38% of the total assets; margin accounts and financial assets held under resale agreements accounted for 37.09% of the total assets; cash and bank balances accounted for 10.44% of the total assets; and other assets in aggregate accounted for 4.09% of the total assets.

As of 30 June 2017, excluding accounts payable to brokerage clients, the Group's total liabilities amounted to RMB100,215 million with a high proportion of short-term liabilities, among which the amount from financial assets sold under repurchase agreements accounted for 32.75% of the total liabilities; short-term borrowings, placements from banks and other financial institutions, short-term financing instruments payable and non-current liabilities due within one year accounted for 33.93% of the total liabilities; bonds issued accounted for 16.04% of the total liabilities; financial liabilities held for trading, financial liabilities designated as at fair value through profit or loss and derivative financial liabilities accounted for 0.28% of the total liabilities; and other liabilities accounted for 17.00% of the total liabilities.

The gearing ratio of the Group slightly increased. As of 30 June 2017, excluding accounts payable to brokerage clients, the gearing ratio of the Group was 70.31%, representing an increase of 3.33 percentage points as compared to that at the end of last year.

(III) Cash flow status

In the first half of 2017, excluding accounts payable to brokerage clients, the Group's net decrease in cash and cash equivalents was RMB2,557 million, which was mainly due to the significant increase in cash outflow from operating activities year-on-year, exceeding the cash inflow from financing activities year-on-year.

Net cash outflow from operating activities in the first half of 2017 was RMB11,200 million, representing a year-on-year increase of outflow of RMB22,591 million as compared to a net cash inflow of RMB11,391 million in the same period of 2016, which was mainly attributable to the increase in cash outflows from margin accounts and financial assets held under resale agreements.

Net cash outflow from investing activities in the first half of 2017 was RMB2,355 million, representing a year-on-year decrease of outflow of RMB6,666 million as compared to a net cash outflow of RMB9,021 million in the same period of 2016, which was mainly attributable to the decrease in net cash outflow from purchase of available-for-sale financial assets.

Net cash inflow from financing activities in the first half of 2017 was RMB10,997 million, representing a year-on-year increase of inflow of RMB15,614 million as compared to a net cash outflow of RMB4,616 million in the same period of 2016, which was mainly attributable to the increase in net cash inflow from bond issuances by the Group during the Reporting Period.

VI. ANALYSIS OF PRINCIPAL SUBSIDIARIES AND NON-CONTROLLING COMPANIES

As of the end of the Reporting Period, the Company has four subsidiaries, a summary of which is set out below:

Name	Shareholding of the Company	Date of establishment	Registered capital	Place of business	Registered address	Contact number
China Securities Futures	100%	16 March 1993	RMB700 million	11-B (Parallel to Ground Level)/11-A, 8-B4, 9-B & C (Nominal Level), Shangzhan Building, 107 Zhongshan Third Road, Yuzhong District, Chongqing (重慶市渝中區中山三路107號上站大樓平街11-B，名義層11-A，8-B4，9-B、C)	11-B (Parallel to Ground Level)/11-A, 8-B4, 9-B & C (Nominal Level), Shangzhan Building, 107 Zhongshan Third Road, Yuzhong District, Chongqing (重慶市渝中區中山三路107號上站大樓平街11-B， 名義層11-A，8-B4，9-B、C)	+8623-8676 9602
China Securities Capital	100%	31 July 2009	RMB650 million	12/F, Block B, Kaiheng Center Building, Dongcheng District, Beijing (北京市東城區凱恒中心大廈B座12層)	Room 2, East Side, 6/F, 188 Chaoyangmennei Avenue, Dongcheng District, Beijing (北京市東城區朝陽門內大街188號6層東側2間)	+8610-8513 0648
China Securities International	100%	12 July 2012	Share capital of HK$1,000 million	18/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong	18/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong	+852-3465 5600
China Securities Funds	55%	9 September 2013	RMB300 million	17 & 19/F, Block B, Kaiheng Center Building, Dongcheng District, Beijing (北京市東城區凱恒中心大廈B座17、19層)	Unit 1, Building No. 3, Balongqiao Yayuan, Qiaozi Town, Huairou District, Beijing (北京市懷柔區橋梓鎮八龍橋雅苑3號樓1室)	+8610-5910 0211

In addition, the associate of the Company also includes:

Name	Shareholding of the Company	Date of establishment	Registered capital
Zhongguancun Equity Exchange Services Group Limited	10%	28 January 2013	RMB500 million

General information about the subsidiaries of the Company is as follows:

China Securities Futures is a wholly owned subsidiary of the Company with registered capital of RMB700 million. As of 30 June 2017, total assets and net assets of China Securities Futures amounted to RMB6,463.18 million and RMB1,062.68 million, respectively. In the first half of 2017, China Securities Futures realized total revenue and other income amounting to RMB195.69 million in aggregate, profit before income tax amounting to RMB98.77 million and net profit amounting to RMB83.83 million (unaudited).

The principal business of China Securities Futures includes commodities futures brokerage, financial futures brokerage, futures investment advisory, asset management and fund sale.

China Securities Capital is a wholly owned subsidiary of the Company with registered capital of RMB650 million. As of 30 June 2017, total assets and net assets of China Securities Capital amounted to RMB1,770.74 million and RMB943.31 million, respectively. In the first half of 2017, China Securities Capital realized total revenue and other income amounting to RMB34.80 million in aggregate, profit before income tax amounting to RMB13.43 million and net profit amounting to RMB9.88 million (unaudited).

The principal business of China Securities Capital includes project investment, investment management, asset management and financial advisory (excluding intermediary services).

China Securities International is a wholly owned subsidiary of the Company with share capital of HK$1 billion. As of 30 June 2017, total assets and net assets of China Securities International amounted to RMB5,690.62 million and RMB926.38 million, respectively. In the first half of 2017, China Securities International realized total revenue and other income amounting to RMB187.39 million in aggregate, profit before income tax amounting to RMB35.90 million and net profit amounting to RMB24.62 million (unaudited).

The principal business of China Securities International includes investment holding. Its subsidiaries engage in the business of securities brokerage, asset management, investment banking, pledge and financing, dealing in futures and proprietary investment.

China Securities Funds is a controlling subsidiary of the Company with registered capital of RMB300 million. As of 30 June 2017, total assets and net assets of China Securities Funds amounted to RMB520.57 million and RMB458.86 million, respectively. In the first half of 2017, China Securities Funds realized total revenue and other income amounting to RMB165.55 million in aggregate, profit before income tax amounting to RMB90.39 million and net profit amounting to RMB61.86 million (unaudited).

The principal business of China Securities Funds includes fundraising, fund sale, asset management for specific clients, asset management and other business as approved by the CSRC.

General information of an associate is as follows:

Zhongguancun Equity Exchange Services Group Limited is an associate of the Company with registered capital of RMB500 million. As of 30 June 2017, total assets and net assets of Zhongguancun Equity Exchange Services Group Limited amounted to RMB1,315.19 million and RMB1,227.13 million, respectively. In the first half of 2017, Zhongguancun Equity Exchange Services Group Limited realized total revenue and other income amounting to RMB21.66 million in aggregate, total profit amounting to RMB-7.67 million and net profit amounting to RMB-7.69 million (unaudited).

The principal business of Zhongguancun Equity Exchange Services Group Limited includes provision of trading venues and services for registration, custody, trading, settlement, investment and financing of shares of non-listing joint stock companies, equity interests of limited companies, bonds and other various types of equity interests or creditor's right; provision of service for innovation and trading of financial products. (Projects subject to approval as required by laws shall be carried out in accordance with the approved scope after obtaining the approval from relevant authorities.)

VII. INFORMATION OF BRANCHES

The general information of branches is as follows:

No.	Branch	Registered address	Date of establishment	Contact number
1	Hubei Branch	3/F, Block A, Longyuan Building, 24 Zhongbei Road, Wuchang District, Wuhan City	6 February 2012	+8627-8789 0238
2	Shanghai Branch	Room 1605, 1606 and 1607, 518 Kunming Road, Yangpu District, Shanghai City	6 February 2012	+8621-5513 8027
3	Shenyang Branch	No. 1, 12/F, 61 Beizhan Road, Shenhe District, Shenyang City	7 February 2012	+8624-2485 0032
4	Jiangsu Branch	2/F, Huanghe Building, 58 Longyuan West Road, Gulou District, Nanjing City	13 February 2012	+8625-8315 6599
5	Hunan Branch	No. 9, Furong Middle Road Section 2, Furong District, Changsha City	1 March 2013	+86731-8222 1988
6	Fujian Branch	3/F, Wuyi Center, 33 East Street, Gulou District, Fuzhou City	16 April 2013	+86591-8750 7275
7	Zhejiang Branch	Room 604, 6/F, 225 Qing Chun Road, Shangcheng District, Hangzhou City	18 April 2013	+86571-8706 6526
8	Northwest Branch	56 Nanda Street, Beilin District, Xi'an City	19 April 2013	+8629–8728 4370
9	Guangdong Branch	Room 5102 and 5105, 30 Zhujiang East Road, Tianhe District, Guangzhou City	24 April 2013	+8620–3838 1166
10	Chongqing Branch	2–2, Block 2, Yijing Fenghao, 195 Longshan Road, Longshan Avenue, Yubei District, Chongqing City	14 April 2014	+8623-6533 3789
11	Shenzhen Branch	22/F, Block B, Rongchao Business Center, 6003 Yitian Road, Futian District, Shenzhen City	21 April 2014	+86755-2395 3870
12	Sichuan Branch	25, South Third Section, First Ring Road, Wuhou District, Chengdu City	25 April 2014	+8628-8558 2171
13	Shandong Branch	11/F, Block 4, 8 Long'ao North Road, Lixia District, Jinan City	23 May 2014	+86531-8690 8939

No.	Branch	Registered address	Date of establishment	Contact number
14	Jiangxi Branch	Unit 5, 30/F, Block 2#, Heping International Hotel, 69 Yanjiang North Avenue, Donghu District, Nanchang City	28 May 2014	+86791-8669 1228
15	Henan Branch	1–2/F, Zhonghua Mansion, 3 Shangwu Outer Ring Road, Zhengdong New District, Zhengzhou City	3 June 2014	+86371-8751 9966
16	Shanghai Free Trade Zone Branch	Room 2206, North Building, 528 South Pudong Road, China (Shanghai) Free Trade Zone	26 September 2014	+8621-6882 1628
17	Tianjin Branch	Room 201, International Communication Center South Building, Tianjin University of Technology, 26 Yuliang Road, Nankai District, Tianjin City	10 November 2014	+8622-2300 9666

Note: "Date of establishment" refers to the date of obtaining a business license of the securities institution.

VIII. EXPLANATION OF CHANGES IN SCOPE OF STATEMENT CONSOLIDATION

During the Reporting Period, there was no change in the number of primary entities included in the consolidated financial statement of the Company.

IX. NO CHANGE IN THE INCOME TAX POLICY OF THE COMPANY DURING THE REPORTING PERIOD

From 1 January 2008, the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) and the Regulations on the Implementation of Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) became effective for the Company and other subsidiaries (except China Securities Futures and China Securities International). Income tax computation and payment are governed by the Announcement of the State Administration of Taxation on Printing and Distributing the Administrative Measures for Collection of Consolidated Payments of Enterprise Income Tax by the Enterprises with Trans-regional Operations (《國家稅務總局關於印發〈跨地區經營匯總納稅企業所得稅徵收管理辦法〉的公告》) (Public Notice of the State Administration of Taxation [2012] No. 57). The income tax rate applicable to the Company is 25%.

In accordance with Explanation on Implementation of Tax Preferential Treatments concerning Western China Development Strategy (《關於執行國家西部大開發所得稅優惠政策的説明》) issued by the local taxation bureau in Yuzhong District, Chongqing City, the applicable income tax rate for China Securities Futures was 15%.

The applicable income tax rate for China Securities International was 16.5%.

X. ANALYSIS TO AND EXPLANATION OF THE REASONS OF CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES OR ACCOUNTING METHODS BY THE BOARD

During the Reporting Period, there were no material changes in principal accounting policies and significant accounting estimates of the Company, and there was no correction of accounting errors by the Company.

XI. FINANCING OF THE COMPANY

During the Reporting Period, significant financing activities of the Company are as follows:

(I) Use of proceeds from previous period

According to the Capital Verification Report (PricewaterhouseCoopers Zhong Tian Beijing Yan Zi [2017] No. 037) (《驗資報告》(普華永道中天北京驗字[2017]第037號)) issued by PricewaterhouseCoopers Zhong Tian LLP, the proceeds from the public issuance of H Shares of the Company in 2016 was HK$7,330.76 million in total, equivalent to RMB6,518.73 million. On 5 January 2017, the Company exercised partial over-allotment option and the net proceeds raised amounted to HK$464.18 million, equivalent to RMB414.86 million.

During the Reporting Period, proceeds of RMB1,578.95 million was used for the expansion of capital-based intermediary businesses such as margin financing and securities lending; RMB12.16 million was used for the expansion of investment scale of FICC; RMB673.26 million was used for the supplementation of working capital and general corporate purposes and RMB1,000.00 million was used to enhance the Company's cross-board capabilities.

(II) Significant Financing

1. Bond financing

During the Reporting Period, the Company issued two tranches of RMB-denominated corporate bonds with a total issuance amount of RMB7.0 billion, all of which was used for replenishing working capital of the Company; three tranches of securities company short-term corporate bonds with a total issuance amount of RMB9.0 billion; and 238 tranches of structured notes with a total issuance amount of approximately RMB18.6 billion, all of which was used to replenish liquidity of the Company.

As of 30 June 2017, the balance of outstanding corporate bonds of the Company amounted to RMB19.3 billion, with the balances of perpetual subordinated bonds, US Dollar bonds, short-term corporate bonds for securities firms, and other bonds amounting to RMB5.0 billion, USD0.2 billion (equivalent to approximately RMB1.3 billion), RMB9.0 billion and approximately RMB34.6 billion, respectively. In addition, at the end of the Reporting Period, the balance of structured notes issued by the Company was approximately RMB10.2 billion. The above utilization of proceeds was in line with the disclosure provided in the prospectus/offering documents. In the second half of 2017, the Company will continue to utilize the proceeds in accordance with the Company's operation and development strategies with reference to capital market conditions.

In the second half of 2017, the Company will consider issuing corporate bonds in accordance with the Company's capital needs with reference to the market conditions.

2. Updates on the progress of A Share issuance and financing

On 8 June 2017, the Company held the 2016 Annual General Meeting, the 2017 First Domestic Share class meeting and the 2017 First H Share class meeting, at which the A Share offering plan and other relevant resolutions were considered and approved, and the Company was approved to issue no more than 400,000,000 A Shares on the Shanghai Stock Exchange. Proceeds raised from the A Share offering would, after deduction of the issuance expenses, be entirely used for strengthening the capital base, replenishing the working capital of the Company and promoting development of domestic and overseas securities-related business. The A Share offering plan will be valid for 12 months starting from the date on which the resolution was approved at the general meeting and Shareholders' class meetings. Application materials including the prospectus have been submitted by the Company and accepted by CSRC. The prospectus was published on the CSRC website on 30 June 2017, and posted on the HKEXnews website at the same time.

At present, the Company is actively preparing for the issuance of A Shares.

XII. MATERIAL ASSET ACQUISITION, DISPOSAL, EXTERNAL GUARANTEE, MORTGAGE, PLEDGE AND MATERIAL CONTINGENT LIABILITIES OF THE COMPANY

During the Reporting Period, the Company did not undertake any material asset acquisition, disposal or swap, or merger and acquisition. During the Reporting Period, there was no off-balance sheet item or contingent liability which may have a material impact on the financial condition and operating results of the Company, such as material external guarantee, mortgage and pledge.

XIII. RISK MANAGEMENT

(I) Description of Risk Management of the Company

1. Overview

The Company attaches great importance to the formation of a risk management system. Adopting the risk management concept of "risk management by all, risk management as priority", the Company regards alignment with the general operating strategic goal of the Company and maintaining risks at a tolerable level as the foundation of risk management and seeks to ensure that risks associated with various businesses of the Company are measurable, controllable and commensurate with returns. The Company continues to enhance its risk management system in accordance with the needs arising from its business development and the regulatory requirements, so as to ensure the progressive enhancement and effective operation of a comprehensive risk management mechanism.

2. Structure of Risk Management

The Board of Directors is the Company's ultimate decision-making body for risk management. The executive management is the executive body, while different units are responsible for directly managing the risks in their business or operational activities. The Company has three dedicated risk control departments, namely the Risk Management Department, the Legal and Compliance Department and the Internal Audit Department, which independently monitor and manage risks before the event, during the event and after the event, according to their respective roles and responsibilities.

The Board of Directors makes decisions with respect to the Company's risk management strategies and policies, internal control arrangements, as well as the resolution of significant risk events. The Supervisory Committee carries out supervision on the performance of risk management duties of the Board of Directors, Executive Committee and senior management in accordance with laws, regulations and the Articles of Association.

The Risk Management Committee under the Board of Directors is responsible for supervising the overall risk management of the Company in general and ensuring the risks are adequately managed so that risk management activities may be effectively carried out on risks associated with the Company's business and operating activities. The Risk Management Committee considers and advises the overall objectives and basic policies of compliance management and risk management, confirms the specific constitution of risk management strategies and risk management resources so that they are aligned with the internal risk management policies; formulates tolerance level for major risks; and supervises and reviews the risk management policies and makes recommendations to the Board.

The Company's Executive Committee makes overall decisions with respect to the prevention, control, mitigation, or acceptance of risks in the Company's business and operating activities and makes decisions on efforts to improve the internal control rules and procedures and control measures in accordance with the risk management policies adopted by the Board.

The Risk Management Committee under the Executive Committee is responsible for reviewing, determining and submitting to the Company for decision-making the Company's risk appetite, risk tolerance level and major risk limits; approving risk limits and risk control standards specific to each business line; formulating and promoting the implementation of the Company's risk management rules and procedures; reviewing and approving new businesses and products; reviewing and approving the Company's risk reports; conducting research on risk control strategies and action plans for major business matters.

The Chief Risk Officer of the Company, serving also as the chairman of the Company Risk Management Committee, is responsible for leading professional risk management activities across the Company, including organizing the formulation of relevant risk management rules and procedures, improving the Company's risk management practices, and guiding the Risk Management Department in the identification, evaluation, monitoring and reporting of various risks.

Each and every department and branch/subsidiary of the Company, within their respective roles and responsibilities, is responsible for following the decisions, rules and procedures, and risk control polices, and implementing risk-control measures and engaging in direct risk control efforts in their business activities. Every staff of the Company has the responsibility to comply with the Company's relevant rules and procedures and contribute to daily risk control efforts as part of their own job responsibilities.

The Risk Management Department is responsible for risk management of the Company, the Legal and Compliance Department is responsible for legal affairs and compliance management, and the Internal Audit Department is responsible for the Company's internal audit activities. The aforementioned three independent risk management departments establish their own rules and procedures and operate independently to promote risk management of the Company. Specifically, the Risk Management Department is responsible for risk management before and during the event through risk monitoring and assessment, the Legal and Compliance Department is responsible for managing the overall legal and compliance risks of the Company, and the Internal Audit Department is responsible for conducting audits to identify material defects in key rules and procedures and processes, as well as internal control weakness, and supervising corrections and rectifications.

3. Risk Management Mechanism

The Risk Management Department works with business and management departments to identify major risks during the course of different business and management activities, issue the Risk Catalogue and Key Control List, and continue to update the same in light of business changes and monitoring findings.

The Risk Management Department formulates the risk monitoring processes and indicators for key business and management lines. In particular, risk monitoring indicators for brokerage business, proprietary business, securities financing business, and asset management business as well as risk control indicators including net capital are monitored through the monitoring system, while the risk monitoring for other business or management lines primarily relies on regular and ad hoc monitoring by means of on-site monitoring, risk information reporting, information access and regular meetings.

The Risk Management Department also formulates operational process for risk assessment, and determines main assessment methods and qualitative and quantitative risk rating criteria for various types of risks. It assesses and rates the risk matters on an ongoing basis, evaluates the control of major business risks on a regular basis, and conducts comprehensive year-end assessments of the risk control process, risk exposures and positions, and risk incidents of the departments, branches and subsidiaries as a key component of their performance assessment.

The Risk Management Department is responsible for building mechanisms for communicating and reporting risk information and significant risk warnings. The Company has established a risk information management system for communicating and managing risk information and providing significant risk warnings. The Risk Management Department is responsible for formulating operational procedures for communicating and reporting risk information and issuing risk warnings, and the departments and branches and subsidiaries report risk information or issue warnings on potential risks identified by themselves to the Risk Management Department. The Risk Management Department then manages the risk information, performs comprehensive analyses on various risk information to identify risk control weaknesses and loopholes and propose recommendations on improving risk control, reports significant risks to the Chief Risk Officer and executive management or a Risk Management Committee, and at the same time, communicates risk information to relevant departments, while tracking any follow-up activities. The Risk Management Department prepares risk reports and risk control recommendation reports according to the results on risk identification, monitoring and assessment, and reports the findings to involved parties and the executive management of the Company. The Risk Management Department continuously monitors risks and the risk control status by following up on the implementation of risk control recommendations by relevant parties in managing risks identified in the risk reports.

The Legal and Compliance Department manages legal and compliance risks through compliance consultation, compliance review, compliance inspection, compliance supervision, compliance reporting, complaints reporting and handling, compliance accountability, information segregation wall, anti-money laundering and a series of compliance management methods as well as contracts, litigation management and other before- and during-the-event management for business lines.

The Internal Audit Department detects material defects in key rules and procedures and processes or internal control weaknesses through audits, reports these issues to the Supervisory Committee, the Audit Committee, management, the Legal and Compliance Department and the Risk Management Department, and drives any follow-up corrections and rectifications.

(II) Details of the Primary Risks Associated with the Operation of the Company

The risks in the daily operating activities of the Company primarily include strategic risk, credit risk, liquidity risk, market risk, operational risk, information technology risk, legal risk and compliance risk and reputation risk. The Company has established specific policies and procedures to identify and address these risks, set out appropriate risk limits and internal control processes to manage these risks, and built a sound control mechanism and information technology systems to continuously monitor and control these risks. In particular, these mainly include the following aspects:

1. Strategic Risk Management

The Company established rational organizational structure of strategic management, including the Board of Directors and the Development Strategy Committee, the Executive Committee and the Executive Office (leading organizational department for strategic planning) under the Board of Directors, as well as each department, each branch and subsidiary.

The Company has clearly formulated the procedures and methods of strategic planning, established assessment mechanism for strategic risk, including analysis on potential risk factors when formulating strategic plans, as well as regular review and discussion performed by the Board of Directors and the Executive Committee during the process of strategic planning. The Company will, based on the assessment on the implementation of strategic planning, make adjustment to the strategic plans or adopt targeted measures to control the strategic risk when necessary.

2. Credit Risk Management

Credit risk arising from securities financing business primarily includes fraudulent credit information from customers, clients' failure to repay debts in full in a timely manner, clients' breach of contract with respect to the size and structures of trading positions, clients' violation of regulatory requirements in their trading actions, decline in value or liquidity of collateral provided by clients, and involvement of collateral in legal disputes. Methods for managing credit risk arising from such business primarily include client risk education, credit investigation and verification on clients, credit management, setting proper limits, daily marking to market, client risk warnings, forced close-out, and rights of recourse.

Credit risk arising from bond investments is primarily due to counterparty defaults, credit issuer defaults or decline in the creditworthiness of issuers, among others. The Company establishes ratings and credit lines for counterparties and maintains black lists to manage its counterparty credit risk, and sets a number of credit limits to control risks on credit facilities, including minimum ratings for credit products and maximum credit exposure of a single borrower.

The Company controls credit risk arising from over-the-counter derivative transactions through setting counterparty ratings and credit lines, and setting limits on the sizes of transactions and credit risk exposures before transactions take place. The Company conducts a daily check and measurement of the credit risk exposures of counterparties. The Company has also adopted mark-to-market practices to monitor the contracts of derivative transactions and for valuation of collateral, and established forced position squaring procedures to control its credit risk exposures within established limits.

In order to manage the credit risk arising from the brokerage business, securities brokerage transactions in Mainland China are all settled on a fully pledged basis, which enables settlement risks associated with brokerage business to be well under control. The Company strictly complies with relevant trading and settlement rules and procedures to eliminate non-compliant financing operations for clients. With regard to clients' credit risk, the Company has adopted safeguarding measures to prevent overdraft or negative balance of equivalent securities for repurchase financing clients, including minimum ratio of equivalent securities retained and maximum leverage ratio, and established various rules and practices to manage the credit risk of option trading clients, including margin management, position limits, and forced close-out.

Furthermore, the Company's Risk Management Department monitors the credit risk on an ongoing basis, including tracking the credit qualification status of counterparties and bond issuers, as well as using stress testing and sensitivity analysis, among others, to measure the credit risk of major business lines.

3. Liquidity Risk Management

The Company has established clear decision-making levels, along with authority delegation, specialized management and risk control rules and procedures, and has clearly defined the roles, responsibilities and authorities of the Board of Directors, as well as executive management and business departments in liquidity risk management. The Company has established strict rules and procedures for managing its proprietary funds and requires strict compliance with these rules and procedures in incurring debts, providing guarantees and making investments. The Company also sets liquidity risk limits and conducts daily position analyses and monthly liquidity position analyses to manage liquidity movements. For effective management of market liquidity risk of its securities portfolios, the Company has implemented securities centralisation management for securities investment and financing activities, and adopted bond credit rating criteria for fixed-income securities investments. The Company calculates liquidity coverage ratios and net stable funds ratios as per regulatory requirements and all indicators fall within the safety zone.

The Asset and Liability Management Committee is responsible for organizing and managing the asset and liability allocation plan of the Company, reviewing and approving the internal valuation interest rate of capital and emergency plans for liquidity risk. The Company established the Treasury Operations Department to manage the liquidity of its proprietary funds, including developing mid- and long-term stable funding channels, improving asset allocation among business lines, and steadily optimising its assets and liabilities structure. The Company continues to improve its daily practices for liquidity risk management with the assistance of classified liquidity reserves, liquidity contingency planning, and stress testing. In addition, after the assessment of financing capability and cost of the Company, the Company would carry out issuance of shares and bonds to improve the liquidity.

Since 2016, the Company has commenced the trial run of an internal funds transfer pricing (FTP) system, which controls the liquidity risk of the Company by promoting reasonable asset-liability planning in every business line through an internal market-oriented mechanism.

4. Market Risk Management

For market risks, the Company has established an integrated risk management organizational structure, implemented stage-by-stage authorization, provided clear structure of duties and authorities of the Board of Directors, management and business department in market risk control and built risk management processes that enable coverage of activities before, during and after making investments, with an overall risk limits application. The Company annually reviews and approves risk limits for the entire Company as well as each proprietary business line, including: exposure limits, stop-loss limits, value-at-risk (“VaR”) limits and stress testing limits, with the Risk Management Department monitoring and supervising their implementation and compliance. The Company has adopted daily mark-to-market practices, and implemented stop-loss procedures commensurate with its trading strategies. On a regular basis, the Company assesses the risk tolerance of its proprietary business lines and the effectiveness of risk control, and includes the assessment results in the performance evaluation of these business lines. The Company makes ongoing efforts to improve its proprietary business management system, to steadily realize automated controls over relevant limit indicators.

The Company utilizes VaR as a tool to measure the market risk of its entire securities investment portfolio comprising different types of financial instruments. The Company makes use of sensitivity analysis to be an important tool for assessing the interest risk, performs daily and specific pressure test to assess the impact on the risk control indicator of net capital and profit or loss of proprietary portfolio from extreme adverse changes of risk factors, and proposes emergency plans in accordance with relevant recommendations and measures addressed in the assessment.

With regard to foreign exchange rate risk management, as the proportion of assets denominated in foreign currencies held by our Company is insignificant, and represents a small portion of the income structure, the Company is of the view that the impact of foreign exchange rate risk on the Company’s current operation has increased, but remains insignificant in general. The Company manages its foreign exchange rate risk by limiting the size of assets and liabilities denominated in foreign currencies, assigning stop-loss limits for investments in overseas companies and risk hedging with foreign exchange derivatives.

5. Operational Risk

Concerning the potential operational risks in each business and management activity of the Company, the Company carries out the segregation of various businesses with three lines of defense comprising a system of checks and balances between its front, middle and back offices. A business authority delegation and accountability system, as well as a management system, procedures and risk control measures for each business has been established and reinforced. Within the scope of authority of the Company, operational risks are transferred or mitigated by personnel and operation outsourcing and, where necessary, insurance is purchased to the extent authorized. Mechanisms for information exchange, reporting of major events and information feedback have also been set up.

The independent Risk Management Department of the Company monitors and assesses the operational risks of various businesses including the brokerage business, and also implements regular risk control evaluation. It examines the key risks of various business and management lines, and establishes and implements key control measures in practical business procedures. The business departments are organized to conduct self-evaluation of risk and control to identify new material risks and take appropriate risk control measures. Statistical analysis on various types of operational risk events is performed at least on an annual basis to calculate the frequency of their occurrence and the level of losses, as well as to assess the changing trend of risk and risk allocations.

6. Information Technology Risk Management

The Information Technology Department of the Company is responsible for the management of planning, establishment and operation maintenance of the information technology system. The Company carries out centralized management and backup of the data in transaction system, implementation of mutual separation of development, testing and operation maintenance of information technology system, as well as mutual separation of data management and application system, and implements strict control of access authority and track record, controls the choice of relevant software, hardware and external suppliers of information technology system, performs real-time and automatic monitoring of the connection of important communication network and operation of the significant business system. In addition, the emergency management of business continuity of the Company is centrally led by the Risk Management Department, and the Information Technology Department is responsible for the technical support work.

7. Legal Risk and Compliance Risk Management

The Company has designated the Legal and Compliance Department as the department responsible for compliance management under the guidance of the Chief Compliance Officer to carry out independent compliance management of the Company. The main responsibilities of compliance management of the Legal and Compliance Department are daily tracking, analysis, issue of laws and regulatory rules currently in effect and timely identifying, evaluating and managing relevant compliance risk in business operation and business innovation of the Company through various means and methods of compliance inspection, compliance review, compliance checking, compliance supervision. Specific or part-time compliance management officers are engaged in all functional departments, business lines and securities branches of the Company, and are responsible for daily compliance issues in their own departments. The compliance management of the Company has permeated all divisions of the Company, such as decision-making, implementation, supervision and feedback, which have been included in the whole process of executive management of the Company. The Company proactively cultivates a culture of compliance and improves the self-restraint mechanisms in order to ensure compliant operations and standardized development.

8. Reputation Risk Management

The Company strictly upholds the compliance operation concept in accordance with laws, treasuring and proactively maintaining its reputation. The Executive Office of the Company, the leading management department for management of significant emergency issues and public opinions, is responsible for comprehending the emergency issues and other issues which may have impact on the reputation of the Company through timely obtaining the relevant information reported by the media to monitor the reputation risk.

XIV. EMPLOYEES

(I) Number of Employees and Composition

As of 30 June 2017, the Group had 9,622 employees in total (excluding brokers and dispatched employees), among which the Company had 8,792 employees (excluding brokers and dispatched employees). The composition is as follows:

		The Group		Company	
	Item	**Number of employees**	**Percentage**	**Number of employees**	**Percentage**
			(%)		*(%)*
Professional structure	Brokerage business	6,815	70.83%	6,583	74.87%
	Investment banking	832	8.65%	780	8.87%
	Information technology	462	4.80%	403	4.58%
	Financial planning	327	3.40%	283	3.22%
	Administration	53	0.55%	20	0.23%
	Research	163	1.69%	134	1.52%
	Fixed income business	143	1.49%	128	1.46%
	Asset management business	217	2.26%	109	1.24%
	Margin financing and securities lending businesses	37	0.38%	35	0.40%
	Security investment	71	0.74%	55	0.63%
	Settlement	65	0.68%	43	0.49%
	Legal and compliance/audit	83	0.86%	60	0.68%
	Risk management	58	0.60%	41	0.47%
	Others	296	3.08%	118	1.34%
	Total	9,622	100.00%	8,792	100.00%

Our Company believes that excellent and active talented teams are the basis of sustainable development. The Company has devoted enormous resources to the development of human resources. Our Company engaged and nurtured leading professionals through a series of human resources management techniques or practices such as stringent hiring and selection processes, a competitive remuneration structure, effective performance assessment systems and long-term employee development plans.

(II) Relevant Information of Securities Brokers

As of 30 June 2017, a total of 177 securities branches of the Company implemented the system of securities brokers. There were a total of 2,515 brokers who obtained professional brokerage qualifications as reviewed and approved by the Securities Association of China, of which 200 were newly qualified as securities brokers in 2017.

(III) Employee Remuneration

The Company established a sound human resources management system in compliance with the requirements of the PRC's laws in relation to labor contracts and labor protections, formulated various rules and policies in relation to remuneration, position and grade, performance assessments, benefits and holidays, etc., and stringently implemented such policies. The Company effectively protected the staff's interest in various aspects such as labor protection, working environment, payment of wages, social insurance, healthcare and vacation. The Company carried through the principle of marketization to determine the remuneration standard. Remuneration for employees includes fixed salary, performance-related bonuses and insurance benefits. Fixed salary is determined according to the position and grade, and the standard of position and grade integrates the factors of qualification, capability, professional knowledge and experience of employees, while performance-related bonuses are associated with the completion of results and assessment results in the corresponding year. The total amount of annual bonuses is deducted from total amount of profit in accordance with the ratio determined by the Board. The Company established a comprehensive benefit protection system, and the statutory benefits are paid in accordance with the rules and standards as stipulated by the PRC government. Benefits of the Company covered various aspects, including replenishment of medical insurance, enterprise annuity, paid leave and medical examination.

(IV) Training Program

The Company continues to promote and implement staff training programs with comprehensive layout, overall planning, implementation by levels and clear purposes and constantly strengthens the development of a team with talents. The Company proactively improves its multi-level training system which focuses on the "ladder of training for the growth of employees" against different career development paths of employees of its headquarters and branches. Utilizing E-learning systems and mobile learning APP as carriers for learning resources and face-to-face teaching as the major training medium, the Company creates room for learning and growth for employees and comprehensively improves the professional skills and professionalism of the employees through multi-channel, multi-way and multi-means training which broadens the scope and depth of training.

1. The Company enhanced the training of senior employees on leadership and management skills, broadened their innovative idea and international perspective, improved their reform management capability, strategic analysis capability, executive management capability, business synergy capability, risk prevention capability and integrated humanity quality, and nurtured quality leaders for enterprise operation and management.

2. The Company strengthened the training of mid-level staff on implementation, competence and professional skills, and strived to improve their professional knowledge, project implementation capability, business development and innovation capability as well as team management capability.

3. The Company popularized vocational training and common skills training for employees at the basic level, strengthened the education of its corporate culture, professional compliance, business operation, workflow, regulations and system, and enhanced their communication and presentation capability, customer service capability, team coordination capability and office operation capability.

4. The Company attached high importance to recruitment at university campuses, and commenced a series of enrollment and trainee cultivation program to recruit outstanding graduates and students with working and placement opportunities. As of 30 June 2017, the headquarters of the Company provided 790 placement positions for students on campus, and hired 143 new graduates. The headquarters of the Company produced a 62-hour online induction lectures for new staff members of headquarters and branches, and will organize closed-end and concentrated training for new entrants.

(V) Relationship With Employees

During the Reporting Period and up to the Latest Practicable Date, our Company has not experienced any strike actions by staff members or other material labor disputes affecting the Company's operation. Our Company has maintained a good relationship with employees.

SECTION 4 OTHER SIGNIFICANT EVENTS

I. INTERIM DIVIDEND

The Board of Directors did not present the proposal in relation to the distribution of any interim dividends for the six months ended 30 June 2017.

II. INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

To the best knowledge of all Directors, as of 30 June 2017, no Directors, Supervisors or senior management of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of the Company's associated corporations (as defined in Part XV of the Securities and Futures Ordinance), which were required, pursuant to Section 352 of the Securities and Futures Ordinance, to be entered into the register referred to therein, or required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under Appendix 10 to the Hong Kong Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange.

As of 30 June 2017, no Directors and Supervisors or any of their spouses or children under 18 years of age had been granted the rights to purchase Shares or debentures of the Company for the benefit or exercise any aforesaid rights by themselves, nor have any Directors and Supervisors or any of their spouses or children under 18 years of age been granted the aforesaid rights from any other corporate body due to the arrangement made by the Company or any its subsidiaries.

III. RIGHTS OF DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

During the Reporting Period and as of the end of the Reporting Period, there was no arrangement of which one of the parties is the Company, the subsidiaries of the Company, or the subsidiaries of the controlling companies of the Company, while the purpose or one of the purposes of such arrangement is to enable any Directors, Supervisors or any of their spouses or children under 18 years of age to gain benefits through purchasing Shares or debentures of the Company or any other legal entities.

IV. INTERESTS AND SHORT POSITIONS TO BE DISCLOSED BY THE SHAREHOLDERS PURSUANT TO THE SECURITIES AND FUTURES ORDINANCE

To the best knowledge of the Directors, as at 30 June 2017, the following Shareholders (except Directors, Supervisors and senior management) had interests or short positions in any Shares and underlying Shares of the Company required to be recorded in the register to be kept by the Company under Section 336 of the SFO:

	Name	Capacity	Number of Shares Directly or Indirectly Held	Class of Shares	Nature of Interest	Approximate Percentage of Shareholding in the Total Issued Ordinary Share Capital	Approximate Percentage of Shareholding in the Relevant Class of Shares
1.	Beijing State-owned Capital Operation and Management Center (北京國管中心)	Beneficial owner	2,684,309,017	Domestic Shares	Long positions	37.04%	44.85%
2.	Central Huijin Investment Limited (中央匯金)	Beneficial owner	2,386,052,459	Domestic Shares	Long positions	32.93%	39.86%
3.	CITIC Securities Co., Ltd. (中信証券) *(Note 1)*	Beneficial owner	427,000,000	Domestic Shares	Long positions	5.89%	7.13%
		Interest of Controlled Corporation	150,624,815	Domestic Shares	Long positions	2.08%	2.52%
			577,624,815	Domestic Shares	Long positions	7.97%	9.65%
4.	Xizang Shannan Century Jinyuan Investment Management Limited (山南金源) *(Note 2)*	Beneficial owner	300,000,000	Domestic Shares	Long positions	4.14%	5.01%
5.	Xizang Jingyuan Investment Management Ltd. (西藏景源投資管理有限公司) *(Note 2)*	Interest of Controlled Corporation	300,000,000	Domestic Shares	Long positions	4.14%	5.01%
6.	Huang Tao (黃濤) *(Note 2)*	Interest of Controlled Corporation	300,000,000	Domestic Shares	Long positions	4.14%	5.01%
7.	Huang Shiying (黃世熒) *(Note 2)*	Interest of Controlled Corporation	300,000,000	Domestic Shares	Long positions	4.14%	5.01%
8.	Glasslake Holdings Limited (鏡湖控股) *(Note 3)*	Beneficial owner	351,647,000	H Shares	Long positions	4.85%	27.89%
9.	Affluent East Investments Limited (東滿投資有限公司) *(Note 3)*	Interest of Controlled Corporation	351,647,000	H Shares	Long positions	4.85%	27.89%
10.	CITIC Limited (中信股份) *(Note 3)*	Interest of Controlled Corporation	351,647,000	H Shares	Long positions	4.85%	27.89%
11.	CITIC Group Corporation Ltd. (中信集團) *(Note 3)*	Interest of Controlled Corporation	351,647,000	H Shares	Long positions	4.85%	27.89%
12.	CSRF *(Note 4)*	Beneficial owner	112,740,500	H Shares	Long positions	1.56%	8.94%
13.	CCB (Beijing) Investment Fund Management Co., Ltd. (建信(北京)投資基金管理有限責任公司) *(Note 4)*	Interest of Controlled Corporation	112,740,500	H Shares	Long positions	1.56%	8.94%

Notes:

(1) Shanghai Panxin Equity Investment Management Co., Ltd. (上海磐信股權投資管理有限公司) ("Panxin") is the general partner of Shanghai Shangyan. Panxin is wholly-owned by CITIC Private Equity Funds Management Co., Ltd. (中信產業投資基金管理有限公司) ("CITIC PE"), which is owned by CITIC Securities as to 35%. Therefore, each of Panxin, CITIC PE and CITIC Securities is deemed to be interested in the Domestic Shares held by Shanghai Shangyan under the SFO.

(2) Shannan Jinyuan is a wholly-owned subsidiary of Xizang Jingyuan Investment Management Ltd. (西藏景源投資管理有限公司), which is in turn owned by Mr. HUANG Tao and Mr. HUANG Shiying, as to 60% and 40% Shares respectively. Therefore, each of Xizang Jingyuan Investment Management Ltd. (西藏景源投資管理有限公司), Mr. HUANG Tao and Mr. HUANG Shiying is deemed to be interested in the Domestic Shares held by Shannan Jinyuan under the SFO.

(3) Glasslake Holdings is a wholly-owned subsidiary of Affluent East Investments Limited (東滿投資有限公司) ("Affluent East"), which is in turn wholly-owned by CITIC Limited. CITIC Group indirectly holds a majority of equity interest in CITIC Limited. Therefore, each of Affluent East, CITIC Limited and CITIC Group is deemed to be interested in the H Shares held by Glasslake Holdings under the SFO.

(4) CSRF is held as to 38.2% by CCB (Beijing) Principal Asset Management Co., Ltd. (建信(北京)投資基金管理有限責任公司) ("CCB"), which is in turn held as to 38.2% by China Investment Corporation (中國投資有限責任公司) ("CIC"). Therefore, each of CCB and CIC is deemed to be interested in the H Shares held by CSRF under the SFO.

Save as disclosed above, as of 30 June 2017, to the knowledge of the Directors, no other person (except Directors, Supervisors and senior management) had interests or short positions in the Shares, underlying Shares and debentures of the Company required to be recorded in the register to be kept by the Company under Section 336 of the SFO.

As at 30 June 2017, Directors did not hold any positions as directors or employees in companies which had interests or short positions in the Company that needed to be notified to the Company under division 2 and 3 of Part XV of the SFO.

VI. REPURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

During the Reporting Period, apart from the partial exercise of the over-allotment option as detailed in the announcement dated 3 January 2017 in relation to the partial exercise of the over-allotment option, stabilization actions and end of stabilization period, there was no repurchase, sale or redemption of securities of the Company made by the Company or any of its subsidiaries.

VII. COMPLYING WITH THE CORPORATE GOVERNANCE CODE

During the Reporting Period, the Company strictly complied with the Corporate Governance Code, followed all code provisions and met the requirements of part of the recommended best practices set out in the Corporate Governance Code.

VIII. DEALING IN SECURITIES BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Hong Kong Listing Rules (the "Model Code") in respect of the securities transactions entered into by its Directors and Supervisors. The Company has made specific inquiries to all Directors and Supervisors on any incompliance with the Model Code. All the Directors and Supervisors have confirmed that they have completely complied with the provisions and standards of the Model Code during the period from the Listing Date up to the date of publication of the interim results of the Company.

IX. OPERATION OF THE BOARD OF DIRECTORS AND THE BOARD COMMITTEE

Composition of the Board of Directors

The Board of the Company is currently comprised of 14 Directors, two of which are executive Directors (Mr. WANG Changqing and Mr. QI Liang), seven are non-executive Directors (Mr. YU Zhongfu, Ms. HU Donghui, Mr. WANG Chenyang, Mr. WANG Shouye, Mr. LIU Dingping, Ms. WANG Shumin and Mr. XU Gang) and five are independent non-executive Directors (Mr. FENG Genfu, Ms. ZHU Shengqin, Mr. DAI Deming, Mr. BAI Jianjun and Mr. LIU Qiao). Mr. WANG Changqing is the Chairman of the Board and Mr. QI Liang is the general manager. None of the Directors, Supervisors and members of the senior management is related to other Directors, Supervisors and members of the senior management of the Company.

Board Committees under the Board

In accordance with the relevant PRC laws and regulations, the Articles of Association and the corporate governance practices prescribed in the Hong Kong Listing Rules, the Company has established four Board committees, namely: the Development Strategy Committee, the Risk Management Committee, the Audit Committee and the Remuneration and Nomination Committee, to which certain responsibilities are delegated, so as to assist the Board to perform its duties in various aspects. The composition of each Board Committee is listed as follows:

Name of Committee	Members of Committee
Development Strategy Committee	WANG Changqing (Chairman), YU Zhongfu, HU Donghui, QI Liang, WANG Shouye, WANG Shumin, Xu Gang [Note], FENG Genfu
Risk Management Committee	HU Donghui (Chairwoman), QI Liang, WANG Chenyang, LIU Dingping, Xu Gang [Note], BAI Jianjun, LIU Qiao
Audit Committee	DAI Deming (Chairman), WANG Chenyang, WANG Shumin, FENG Genfu, ZHU Shengqin
Remuneration and Nomination Committee	BAI Jianjun (Chairman), WANG Changqing, YU Zhongfu, LIU Dingping, ZHU Shengqin, DAI Deming, LIU Qiao

Note: On 30 August 2017, the Company agreed to add Mr. Xu Gang to act as a member of the Development Strategy Committee of the Board and the Risk Management Committee of the Board of the Company after consideration and approval by the Board with a term until the expiry of the term of the first session of the Board.

During the Reporting Period, all Directors faithfully and diligently performed their duties entitled by laws and regulations, and have protected the overall interests of the Company and its Shareholders, especially the legitimate interests of small and medium Shareholders.

In particular, the Audit Committee and the management have reviewed the accounting policies adopted by the Company, discussed matters including the risk management, internal control and financial statements of the Company, and reviewed the consolidated interim financial information of the Company for the six months ended 30 June 2017. The external auditor of the Company has reviewed the interim financial information in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

The financial information set out in this interim report is unaudited.

X. OPERATION OF THE SUPERVISORY COMMITTEE

The Company strictly complied with the Articles of Association and the relevant rules in respect of the appointment of Supervisors. The Company's Supervisory Committee currently comprises of 6 Supervisors, including 2 employee representative Supervisors (Ms. LU Ya and Mr. WU Lili) and the remaining 4 Shareholder representative Supervisors (Mr. LI Shihua, Ms. WANG Jing, Ms. AI Bo and Mr. LIU Hui).

Pursuant to relevant requirements of the Company Law, the Securities Law, relevant laws and regulations in the PRC and the Articles of Association, the Supervisors stringently performed their responsibilities, supervised the regulatory operation of the Company, and protected the statutory rights of the Company and its Shareholders.

XI. MATERIAL LITIGATION AND ARBITRATION

During the Reporting Period, material litigation and arbitration cases of the Company and its branches were as follows:

In September 2012, Yu Xiaofeng entered into a Margin Financing and Securities Lending Business Contract with us and opened a credit account to engage in margin financing and securities lending business. On 9 June 2017, Yu Xiaofeng filed an arbitration to Beijing Arbitration Commission (the "Arbitration Commission") regarding her disputes with the Company during the course of margin financing and securities lending business, alleging that she suffered from economic loss as the Company breached the contract by mandatorily liquidating her credit account, and therefore, she demanded a compensation amounting to approximately RMB38.16 million from the Company for the economic loss caused by its mandatory liquidation, as well as the interests thereof. The Arbitration Commission accepted the arbitration application filed by Yu Xiaofeng on 15 June 2017, and the case number is (2017) Jing Zhong An Zi No. 1385. The case is still under arbitration procedures.

The Company has instructed a PRC counsel in respect of such Arbitration Application. The Company believes that the Arbitration Application will not have a material impact on its financial position.

XII. ISSUANCE OF SHARES OR CHANGES IN REGISTERED CAPITAL OF THE COMPANY OR ITS SUBSIDIARIES

On 30 December 2016, the over-allotment option described in the prospectus of the Company's H Share global offering was partially exercised by the joint representatives, on behalf of the international underwriters, in respect of an aggregate of 73,411,000 H Shares (including 69,915,238 H Shares newly issued by the Company and 3,495,762 H Shares converted from Domestic Shares and offered for sale by the selling Shareholders). Listing of and dealings in such over-allotment Share commenced on the Main Board of the Hong Kong Stock Exchange on 5 January 2017. During the Reporting Period, saved as disclosed above, the Company has not issued any new Shares.

The addition in registered capital of the subsidiaries is as follows:

1. Upon passing the resolution of the Board on 17 March 2017, the Company agreed to contribute HK$1 billion to China Securities International, and the registered capital upon capital contribution amounted to HK$2 billion. The Company has submitted the "Application Report Regarding the Registered Capital Contribution from CSC Financial Co., Ltd. to China Securities (International) Finance Holding Company Limited" (Zhong Jian Zheng Fa [2017] No. 553) to the CSRC, which is currently subject to the "Non-objection Letter" issued by the CSRC.

2. Upon passing the resolution of the Board on 2 June 2017, the Company agreed to contribute RMB1 billion to China Securities Capital, after which the registered capital upon capital contribution amounted to RMB1.65 billion.

XIII. RATING CLASSIFICATION OF THE COMPANY BY SECURITIES REGULATORS

In 2017, under the classification base on securities firms by the CSRC, the Company was rated "Class A Grade AA" for eight consecutive years. The Company is one of only three PRC securities firms in the industry which received such a rating for eight consecutive years during 2010 and 2017 with such a rating being the highest rank granted by the CSRC. In addition, China Securities Futures, our wholly-owned subsidiary, was rated Class A Grade AA for two consecutive years in the futures enterprises announced by the China Futures Association in 2017, being the highest rating granted by the CSRC.

XIV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

On 17 March 2017, Mr. QIU Jianyang resigned from his position as a non-executive Director, a member of the Development Strategy Committee of the Board of Directors and a member of the Risk Management Committee of the Board of Directors of the Company due to personal work arrangements. On the same date, Mr. XU Gang was nominated by the Board as a candidate for a non-executive director of the Company.

Mr. XU was appointed as a non-executive director at the general meeting of the Company dated 8 June 2017 and his directorship qualification was approved by China securities regulatory institutions. His term of office commenced on 8 June 2017 and will expire on the date on which the term of the first session of the Board expires. In addition, on 30 August 2017, the Company agreed to add Mr. XU Gang to act as a member of the Development Strategy Committee of the Board and the Risk Management Committee of the Board of the Company after consideration and approval by the Board until the expiry of the term of the first session of the Board.

For details, please refer to the announcements published by the Company on 17 March 2017, 9 June 2017 and 30 August 2017 and the circular published by the Company on 20 April 2017.

In February 2017, Mr. ZOU Yingguang resigned from his position as a committee member of the Executive Committee of the Company due to personal work arrangements.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Board of Directors of CSC Financial Co., Ltd.
(Incorporated in the People's Republic of China with Limited Liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 50 to 112, which comprises the condensed consolidated interim statement of financial position of CSC Financial Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2017 and the related condensed consolidated interim income statement, condensed consolidated interim statement of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes (the "Interim Financial Information"). 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". The directors of the Company are responsible for the preparation and presentation of this Interim Financial Information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this Interim Financial Information 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". A review of interim financial information 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 Interim Financial Information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 August 2017

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2017

(In RMB thousands, unless otherwise stated)

	Note	**Six months ended 30 June** **2017** **(Unaudited)**	 2016 (Audited)
Revenue			
Fee and commission income	6	**3,700,670**	5,127,416
Interest income	7	**2,421,025**	2,265,424
Net investment gains	8	**1,142,579**	1,164,747
		7,264,274	8,557,587
Other (losses)/income	9	**(11,393)**	73,914
Total revenue and other income		**7,252,881**	8,631,501
Fee and commission expenses	10	**(467,284)**	(628,722)
Interest expenses	10	**(1,650,644)**	(1,450,487)
Staff costs	10	**(1,856,686)**	(1,912,027)
Tax and surcharges		**(39,651)**	(298,713)
Other operating expenses and costs	10	**(709,745)**	(611,351)
Impairment (losses)/reversal	11	**(27,764)**	13,787
Total expenses		**(4,751,774)**	(4,887,513)
Operating profit		**2,501,107**	3,743,988
Share of profits and losses of associates		**(2,628)**	–
Profit before income tax		**2,498,479**	3,743,988
Income tax expense	12	**(612,613)**	(938,878)
Profit for the period		**1,885,866**	2,805,110
Attributable to:			
Equity holders of the Company		**1,855,140**	2,777,219
Non-controlling interests		**30,726**	27,891
		1,885,866	2,805,110
Earnings per share attributable to ordinary equity holders of the Company (expressed in RMB yuan per share)			
– Basic and diluted	14	**0.26**	0.46

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

(In RMB thousands, unless otherwise stated)

	Six months ended 30 June	
	2017 (Unaudited)	2016 (Audited)
Profit for the period	**1,885,866**	2,805,110
Other comprehensive income		
Items that may be reclassified to profit or loss in subsequent periods		
Available-for-sale financial assets:		
Changes in fair value	**125,969**	(289,133)
Income tax effect on changes in fair value	**(30,369)**	71,714
Gains reclassified to the consolidated income statements	**(8,190)**	(75,056)
	87,410	(292,475)
Share of other comprehensive income of associates	**222**	–
Foreign currency translation differences	**(27,037)**	17,049
Other comprehensive income/(losses) for the period, net of tax	**60,595**	(275,426)
Total comprehensive income for the period	**1,946,461**	2,529,684
Attributable to:		
Equity holders of the Company	**1,915,703**	2,501,779
Non-controlling interests	**30,758**	27,905
	1,946,461	2,529,684

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

(In RMB thousands, unless otherwise stated)

	Note	**30 June 2017 (Unaudited)**	31 December 2016 (Audited)
Non-current assets			
Property, plant and equipment	15	**502,677**	523,317
Investment properties		**55,238**	56,282
Intangible assets	16	**137,701**	144,420
Investment in associates		**169,758**	172,163
Available-for-sale financial assets	17	**5,462,842**	6,112,058
Held-to-maturity investments	18	**589,838**	277,480
Financial assets held under resale agreements	19	**4,297,885**	625,444
Refundable deposits	20	**2,183,618**	3,460,337
Deferred tax assets	21	**735,656**	811,153
Other non-current assets	22	**168,516**	192,303
Total non-current assets		**14,303,729**	12,374,957
Current assets			
Margin accounts	23	**37,284,832**	31,006,673
Accounts receivable	24	**1,152,712**	378,468
Financial assets held for trading	25	**30,371,081**	27,227,912
Financial assets designated as at fair value through profit or loss	26	**132,412**	325,211
Available-for-sale financial assets	17	**32,012,793**	28,482,732
Held-to-maturity investments	18	**196,021**	376,828
Derivative financial assets	27	**25,645**	49,108
Financial assets held under resale agreements	19	**11,286,442**	7,079,669
Cash held on behalf of clients	28	**50,777,253**	55,082,662
Cash and bank balances	29	**14,873,851**	17,525,589
Other current assets	30	**2,583,812**	1,785,231
Total current assets		**180,696,854**	169,320,083
Total assets		**195,000,583**	181,695,040

AS AT 30 JUNE 2017

(In RMB thousands, unless otherwise stated)

	Note	**30 June 2017 (Unaudited)**	31 December 2016 (Audited)
Current liabilities			
Accounts payable to brokerage clients	31	**52,466,237**	56,736,034
Derivative financial liabilities	27	**132,719**	132,576
Financial liabilities held for trading	32	**137,083**	2,972,738
Financial assets sold under repurchase agreements	33	**32,823,277**	24,531,442
Placements from banks and other financial institutions	34	**9,000,000**	9,360,000
Taxes payable	35	**749,808**	755,982
Short-term borrowings	36	**1,334,108**	1,781,481
Short-term financing instruments payable	37	**17,664,789**	7,757,199
Other current liabilities	38	**22,202,520**	22,184,460
Total current liabilities		**136,510,541**	126,211,912
Net current assets		**44,186,313**	43,108,171
Total assets less current liabilities		**58,490,042**	55,483,128
Non-current liabilities			
Financial liabilities designated as at fair value through profit or loss		**9,913**	9,938
Financial assets sold under repurchase agreements	33	**–**	500,000
Bonds in issue	39	**16,073,356**	13,653,036
Deferred tax liabilities	21	**66,126**	46,847
Other non-current liabilities		**20,992**	10,628
Total non-current liabilities		**16,170,387**	14,220,449
Net assets		**42,319,655**	41,262,679

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2017

(In RMB thousands, unless otherwise stated)

	Note	**30 June 2017 (Unaudited)**	31 December 2016 (Audited)
Equity			
Share capital	40	**7,246,385**	7,176,470
Other equity instruments	41	**5,000,000**	5,000,000
Reserves	42	**15,508,175**	15,099,052
Retained earnings		**14,334,708**	13,787,528
Equity attributable to equity holders of the Company		**42,089,268**	41,063,050
Non-controlling interests		**230,387**	199,629
Total equity		**42,319,655**	41,262,679

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

Approved and authorized for issue by the Board of Directors on 30 August 2017.

Mr. Wang Changqing	**Mr. Qi Liang**
Chairman	*Executive Director and President*

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2017

(In RMB thousands, unless otherwise stated)

		Attributable to equity holders of the Company										
				Reserves								
	Note	Share capital	Other equity instruments	Capital reserve	Surplus reserves	General reserve	Investment revaluation reserve	Foreign currency translation reserve	Retained earnings	Subtotal	Non-controlling interests	Total
At 1 January 2017		7,176,470	5,000,000	6,739,567	2,294,445	6,151,907	(188,413)	101,546	13,787,528	41,063,050	199,629	41,262,679
Profit for the period		–	–	–	–	–	–	–	1,855,140	1,855,140	30,726	1,885,866
Other comprehensive income/ (losses) for the period		–	–	–	–	–	87,600	(27,037)	–	60,563	32	60,595
Total comprehensive income/ (losses) for the period		–	–	–	–	–	87,600	(27,037)	1,855,140	1,915,703	30,758	1,946,461
Capital injected by equity holders – Issuance of H shares		69,915	–	344,949	–	–	–	–	–	414,864	–	414,864
Appropriation to general reserve	42	–	–	–	–	3,611	–	–	(3,611)	–	–	–
Distribution to ordinary equity holders	13	–	–	–	–	–	–	–	(1,304,349)	(1,304,349)	–	(1,304,349)
At 30 June 2017 (unaudited)		7,246,385	5,000,000	7,084,516	2,294,445	6,155,518	(100,813)	74,509	14,334,708	42,089,268	230,387	42,319,655

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

(In RMB thousands, unless otherwise stated)

		Attributable to equity holders of the Company										
				Reserves								
	Note	Share capital	Other equity instruments	Capital reserve	Surplus reserves	General reserve	Investment revaluation reserve	Foreign currency translation reserve	Retained earnings	Subtotal	Non-controlling interests	Total
At 1 January 2016		6,100,000	5,000,000	1,435,956	1,752,094	5,113,814	255,569	44,385	10,404,347	30,106,165	76,738	30,182,903
Profit for the period		–	–	–	–	–	–	–	2,777,219	2,777,219	27,891	2,805,110
Other comprehensive (losses)/ income for the period		–	–	–	–	–	(292,489)	17,049	–	(275,440)	14	(275,426)
Total comprehensive (losses)/ income for the period		–	–	–	–	–	(292,489)	17,049	2,777,219	2,501,779	27,905	2,529,684
Capital injected by equity holders												
– Capital injected by subsidiaries' non-controlling equity holders		–	–	–	–	–	–	–	–	–	3,600	3,600
Appropriation to general reserve	42	–	–	–	–	1,066	–	–	(1,066)	–	–	–
Others		–	–	–	–	–	–	–	(1,626)	(1,626)	–	(1,626)
At 30 June 2016 (audited)		6,100,000	5,000,000	1,435,956	1,752,094	5,114,880	(36,920)	61,434	13,178,874	32,606,318	108,243	32,714,561

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

(In RMB thousands, unless otherwise stated)

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Audited)
Cash flows from operating activities		
Profit before income tax	**2,498,479**	3,743,988
Adjustments for:		
Interest expenses from bonds in issue, short-term financing instruments payable and borrowings	**654,225**	781,591
Dividend income and interest income from available-for-sale financial assets	**(738,258)**	(420,852)
Net gains from disposal of available-for-sale financial assets	**(113,510)**	(126,703)
Interest income from held-to-maturity financial assets	**(20,316)**	(12,990)
Net gains attributable to other interest holders of consolidated structured entities	**212,653**	150,265
Gains on disposal of property, plant, equipment and other assets	**(195)**	(66)
Revaluation gains on financial instruments at fair value through profit or loss	**67,710**	114,483
Net foreign exchange losses	**69,865**	1,032
Depreciation and amortization	**113,953**	99,135
Impairment losses/(reversal)	**27,764**	(13,787)
	2,772,370	4,316,096
Net changes in operating assets		
Margin accounts	**(6,281,146)**	8,054,064
Financial assets held for trading	**(3,245,691)**	(1,941,181)
Cash held on behalf of clients	**4,305,410**	8,468,145
Financial assets held under resale agreements	**(7,896,011)**	(1,068,888)
Other operating assets	**(585,936)**	845,700
	(13,703,374)	14,357,840
Net changes in operating liabilities		
Accounts payable to brokerage clients	**(4,269,798)**	(8,053,256)
Financial liabilities held for trading	**(2,856,898)**	49,680
Financial assets sold under repurchase agreements	**7,791,836**	988,611
Placements from banks and other financial institutions	**(360,000)**	(584,000)
Other operating liabilities	**221,437**	2,004,350
	526,577	(5,594,615)
Net cash (outflow)/inflow from operating activities before tax	**(10,404,427)**	13,079,321
Income tax paid	**(795,252)**	(1,688,370)
Net cash (outflow)/inflow from operating activities	**(11,199,679)**	11,390,951

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017
(In RMB thousands, unless otherwise stated)

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Audited)
Cash flows from investing activities		
Net cash outflow from purchase or disposal of available-for-sale financial assets	**(2,588,189)**	(9,121,920)
Dividend income and interest income received from available-for-sale financial assets	**509,802**	218,521
Cash paid for purchase of property, plant and equipment and other assets	**(62,109)**	(96,758)
Net cash outflow from purchase or disposal of held-to-maturity investments	**(131,550)**	8,913
Net cash outflow from other investing activities	**(82,514)**	(29,708)
Net cash outflow from investing activities	**(2,354,560)**	(9,020,952)
Cash flows from financing activities		
Cash inflow from public offering of H shares	**425,535**	–
Cash inflow from capital injected by non-controlling interests	**–**	3,600
Cash inflow from borrowing activities	**2,154,775**	508,690
Cash inflow from issuing bonds	**34,561,477**	12,178,614
Cash outflow from distribution to other equity instrument holders	**(294,000)**	(294,000)
Payments of debts	**(24,736,858)**	(16,017,361)
Payments of interest on debts	**(1,091,609)**	(904,650)
Net cash outflow from other financing activities	**(22,015)**	(91,136)
Net cash inflow/(outflow) from financing activities	**10,997,305**	(4,616,243)
Net change in cash and cash equivalents	**(2,556,934)**	(2,246,244)
Cash and cash equivalents at the beginning of the period	**17,427,960**	15,967,225
Effect of exchange rate changes on cash and cash equivalents	**(96,901)**	19,843
Cash and cash equivalents at the end of the period *(Note 43)*	**14,774,125**	13,740,824

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

(In RMB thousands, unless otherwise stated)

1 GENERAL INFORMATION

CSC Financial Co., Ltd. (the "Company") (formerly known as China Securities Finance Co., Ltd.) is the successor entity of China Securities Finance Limited Liability Company which was approved for establishment by the China Securities Regulatory Commission (the "CSRC") on 2 November 2005. The original registered capital of the Company was RMB2,700.00 million. The registered address of the Company is Flat 4, No.66 Anli Road, Chaoyang District, Beijing, the People's Republic of China (the "PRC").

The Company received the approval of CRSC on 30 June 2011 to convert into a joint stock company, with registered capital increased to RMB6,100.00 million.

The Company completed its initial public offering of overseas listed foreign shares ("H shares") on The Stock Exchange of Hong Kong Limited on 9 December 2016. Under this offering, the Company issued a total of 1,076.47 million new shares with a nominal value of RMB1 per share. On 5 January 2017, the Company issued an additional 69.92 million H shares through partial exercise of the over-allotment option with a nominal value of RMB1 per share. The registered capital of the Company increased to RMB7,246.39 million after the issuance. The Company completed the industrial and commercial registration for these changes on 5 June 2017, and obtained its new business license with the Unified Social Credit Code of 91110000781703453H on 9 June 2017.

The principal activities of the Company and its subsidiaries (collectively, the "Group") include securities brokerage, financial advisory relating to securities trading and securities investment activities, securities underwriting and sponsoring, proprietary trading and investment of securities, securities asset management, agency sale of securities investment funds, introducing brokerage for futures companies, margin financing and securities lending services, agency sale of financial products, market-making of stock options, custodian services for securities investment funds, and sale of precious metal products, commodity futures brokerage, financial futures brokerage and asset management, equity investment and corporate management services, investment management, raising and management of investment funds.

2 BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2017 have been prepared in accordance with "International Accounting Standard 34 – Interim Financial Reporting" ("IAS 34"), as well as with all applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group prepared by the directors of the Company for the year ended 31 December 2016.

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value. Except for those described below, the accounting policies and methods of computation used in preparing the condensed consolidated interim financial statements are the same as those followed by the Group in the consolidated financial statements for the year ended 31 December 2016 prepared by the directors of the Company.

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

In the current interim period, the Group has adopted the following amendments to the International Financial Reporting Standards ("IFRSs"), issued by the International Accounting Standards Board ("IASB"), that are mandatorily effective for the current interim period. Descriptions of these amendments were disclosed in the Group's annual consolidated financial statements for the year ended 31 December 2016.

(1)	Amendments to IAS 12	Income Taxes
(2)	Amendments to IAS 7	Statement of Cash Flows

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

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

Standards and amendments that are not yet effective and have not been adopted before their effective dates by the Group are as follows:

			Effective for annual periods beginning on or after
(1)	IFRS 15	Revenue from Contracts with Customers	1 January 2018
(2)	Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
(3)	Amendments to IAS 40	Transfer of Investment Property	1 January 2018
(4)	Amendments to IFRS 2	Share-based Payment	1 January 2018
(5)	IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
(6)	IFRS 9	Financial Instruments	1 January 2018
(7)	IFRS 16	Leases	1 January 2019
(8)	IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
(9)	IFRS 17	Insurance Contracts	1 January 2021
(10)	Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continues to be permitted.

The Group is in the process of assessing the impact on the Group's consolidated financial statements from IFRS 9. The Group anticipates that the adoption of the other standards and amendments will not have a significant impact on the Group's consolidated financial statements.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, and income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's consolidated financial statements for the year ended 31 December 2016.

5 OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating businesses are structured and managed separately according to the nature of their operations and the services they provide. Each of the Group's operating segments represents a strategic business engaged in the following activities.

Investment banking segment: provides investment banking services, including financial advisory, sponsoring, underwriting of equity and debt securities, among others.

Wealth management segment: serves as an agent for business and personal clients in the trading of equity stocks, funds, bonds and futures; and provides margin financing and securities lending services to these clients, among other things.

Trading and institutional client services segment: engages in trading of financial products; serves as an agent for institutional clients (financial institutions) in the trading of equity stocks, funds and bonds, and provides them with margin financing and securities lending; provides services in relation to sales of financial products to institutional clients, and provides specialized research and advisory services to assist their investment decision-making.

Investment management segment: develops asset management products, fund management products services, and private placement offerings, and provides related services through subsidiaries and consolidated structured entities.

Other segment: primarily the treasury function from the head office.

Management monitors the performance and results of these operating segments for considerations of resource allocation and operating decision-making.

Income taxes are managed as a whole and are not allocated to operating segments.

(In RMB thousands, unless otherwise stated)

5 OPERATING SEGMENT INFORMATION (Continued)

	For the Six months ended 30 June 2017					
	Investment banking	**Wealth management**	**Trading and institutional client services**	**Investment management**	**Others**	**Total**
Segment revenue and other income						
Fee and commission income	1,449,113	1,363,954	401,468	486,135	–	3,700,670
Interest income	–	1,966,281	221,367	18,601	214,776	2,421,025
Net investment gains	–	–	995,583	146,996	–	1,142,579
Other income	–	27,584	–	6,492	(45,469)	(11,393)
Total revenue and other income	1,449,113	3,357,819	1,618,418	658,224	169,307	7,252,881
Segment expenses	(738,233)	(2,201,869)	(1,535,205)	(227,107)	(49,360)	(4,751,774)
Including: Interest expenses	(24,812)	(605,984)	(976,883)	(42,965)	–	(1,650,644)
Impairment losses	(174)	(19,727)	(7,863)	–	–	(27,764)
Operating profit	710,880	1,155,950	83,213	431,117	119,947	2,501,107
Share of profits and losses of associates	–	–	–	(2,010)	(618)	(2,628)
Profit before income tax	710,880	1,155,950	83,213	429,107	119,329	2,498,479
Income tax expense						(612,613)
Net profit for the period						1,885,866
Other segment information:						
Depreciation and amortization	31,996	26,134	30,831	11,860	13,132	113,953
Capital expenditure	15,468	18,823	15,598	5,038	7,182	62,109

(In RMB thousands, unless otherwise stated)

5 OPERATING SEGMENT INFORMATION (Continued)

	For the Six months ended 30 June 2016					
	Investment banking	Wealth management	Trading and institutional client services	Investment management	Others	Total
Segment revenue and other income						
Fee and commission income	2,023,015	1,914,240	665,269	524,892	–	5,127,416
Interest income	–	1,752,510	262,517	4,996	245,401	2,265,424
Net investment gains	–	–	884,353	280,394	–	1,164,747
Other income	–	61,172	–	–	12,742	73,914
Total revenue and other income	2,023,015	3,727,922	1,812,139	810,282	258,143	8,631,501
Segment expenses	(892,214)	(2,302,019)	(1,324,645)	(260,739)	(107,896)	(4,887,513)
Including: Interest expenses	(15,739)	(559,642)	(811,679)	(63,427)	–	(1,450,487)
Impairment losses	–	13,725	199	–	(137)	13,787
Profit before income tax	1,130,801	1,425,903	487,494	549,543	150,247	3,743,988
Income tax expense						(938,878)
Net profit for the period						2,805,110
Other segment information:						
Depreciation and amortization	30,955	27,795	16,860	6,913	16,612	99,135
Capital expenditure	27,420	32,812	17,026	6,181	13,319	96,758

(In RMB thousands, unless otherwise stated)

6 FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2017	2016
Brokerage services	**1,729,558**	2,535,541
Investment banking	**1,449,113**	2,023,015
Asset and fund management	**486,135**	524,891
Others	**35,864**	43,969
Total	**3,700,670**	5,127,416

7 INTEREST INCOME

	Six months ended 30 June	
	2017	2016
Margin financing and securities lending	**1,336,379**	1,205,452
Financial assets held under resale agreements	**256,870**	79,245
Bank deposits	**810,839**	967,355
Others	**16,937**	13,372
Total	**2,421,025**	2,265,424

8 NET INVESTMENT GAINS

	Six months ended 30 June	
	2017	2016
Net gains from disposal of available-for-sale financial assets	**113,510**	126,703
Dividend and interest income from available-for-sale financial assets	**738,258**	420,852
Net gains from financial assets held for trading	**413,736**	517,716
Net gains from financial liabilities held for trading	**9,691**	479
Net gains from financial assets designated as at fair value through profit or loss	**21,157**	1,461
Net gains from derivatives	**38,562**	234,811
Interest Income from held-to-maturity investments	**20,316**	12,990
Net gains attributable to other interest holders of consolidated structured entities	**(212,651)**	(150,265)
Total	**1,142,579**	1,164,747

(In RMB thousands, unless otherwise stated)

9 OTHER (LOSSES)/INCOME

	Six months ended 30 June	
	2017	2016
Government grants	**36,957**	62,382
Rental income	**7,521**	6,132
Gains on disposal of property, plant and equipment	**195**	66
Net losses on foreign exchange	**(69,865)**	(1,032)
Others	**13,799**	6,366
Total	**(11,393)**	73,914

10 EXPENSES

	Six months ended 30 June	
	2017	2016
Fee and commission expenses:		
Brokerage expenses	**301,655**	374,896
Investment banking expenses	**144,774**	236,900
Others	**20,855**	16,926
Total	**467,284**	628,722
Interest expenses:		
Accounts payable to brokerage clients	**99,281**	122,613
Financial assets sold under repurchase agreements	**482,382**	344,535
Placements from banks and other financial institutions	**213,254**	93,009
Borrowings	**18,321**	21,946
Bonds in issue and short-term financing instruments payable	**772,893**	759,645
Others	**64,513**	108,739
Total	**1,650,644**	1,450,487
Staff costs (including directors' and supervisors' remuneration):		
Salaries, bonuses and allowances	**1,540,474**	1,650,421
Staff benefits	**188,194**	160,457
Contributions to defined contribution schemes (i)	**128,018**	101,149
Total	**1,856,686**	1,912,027

(In RMB thousands, unless otherwise stated)

10 EXPENSES (Continued)

(i) Retirement benefits are included, and their nature is described below:

Full-time employees of the Group in Mainland China are covered by various government-sponsored retirement plans including social pension schemes and corporate pension schemes, under which the employees are entitled to a monthly pension. Relevant government agencies determine the amount of pension benefits and are responsible for the related pension liabilities to eligible retired employees. The Group is required to make monthly contributions to the government related to these government-sponsored retirement plans for active employees. The Group has no obligation for post-retirement benefits beyond these contributions, which are expensed as incurred.

In addition, the Group participates in various defined contribution retirement schemes for its qualified employees in certain countries or regions outside of Mainland China.

Other operating expenses and costs:

	Six months ended 30 June	
	2017	2016
Depreciation and amortization expenses	**113,953**	99,135
Leasing expenses	**112,325**	112,551
Business travel expenses	**81,938**	65,536
Electronic equipment operating expenses	**64,675**	47,773
Office operating expenses	**54,563**	34,404
Business entertainment expenses	**49,936**	36,960
Postal and communication expenses	**42,183**	34,545
Membership fees of Exchanges	**32,797**	17,723
Vehicle operating and transportation expenses	**31,405**	21,830
Securities investor protection fund	**22,333**	30,664
Property management expenses	**14,537**	13,842
Others	**89,100**	96,388
Total	**709,745**	611,351

(In RMB thousands, unless otherwise stated)

11 IMPAIRMENT LOSSES/(REVERSAL)

	Six months ended 30 June	
	2017	2016
Available-for-sale financial assets	**7,807**	–
Margin financing and securities lending	**2,987**	(13,924)
Financial assets held under resale agreements	**16,796**	137
Others	**174**	–
Total	**27,764**	(13,787)

12 INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
Current income tax		
– Mainland China	**529,742**	774,898
– Hong Kong	**16,144**	7,624
Subtotal	**545,886**	782,522
Deferred income tax	**66,727**	156,356
Total	**612,613**	938,878

Reconciliation between income tax and accounting profit

A reconciliation of the income tax expense applicable to profit before tax at the PRC statutory income tax rate of 25% to income tax expense at the Group's effective income tax rate is as follows:

	Six months ended 30 June	
	2017	2016
Profit before income tax	**2,498,479**	3,743,988
Income tax at the PRC statutory income tax rate	**624,620**	935,997
Effects of different applicable rates of tax prevailing in various regions	**(12,968)**	(13,658)
Non-deductible expenses	**4,073**	7,438
Non-taxable income	**(11,339)**	(23,977)
Others	**8,227**	33,078
Income tax expenses at the Group's effective income tax rate	**612,613**	938,878

13 DIVIDENDS

	Six months ended 30 June	
	2017	2016
Dividends on ordinary shares proposed but not paid	**1,304,349**	–

No dividends on ordinary shares from 1 January 2017 to 30 June 2017 were paid, declared or proposed in respect of the current period.

A cash dividend of RMB1.80 (tax inclusive) per 10 ordinary shares related to the year of 2016, amounting to RMB1,304.35 million (tax inclusive) in total was approved, at the annual general meeting held on 8 June 2017. The above dividend was recognized as dividends payable as at 30 June 2017.

As at 30 June 2016, there were no dividends on ordinary shares for the year ended 31 December 2015.

14 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculations of basic and diluted earnings per share are based on:

	Six months ended 30 June	
	2017	2016
Earnings:		
Profit attributable to ordinary equity holders of the Company	**1,855,140**	2,777,219
Shares:		
Weighted average number of ordinary shares in issue (thousand) (i)	**7,244,454**	6,100,000
Basic and diluted earnings per ordinary share (in RMB yuan)	**0.26**	0.46

Basic earnings per ordinary share was calculated by dividing profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding.

For the six months ended 30 June 2017 and 2016, there were no dilutive events. Therefore, the diluted earnings per share equal to the basic earnings per share.

(i) Weighted average number of ordinary shares in issue is the number of days that the shares are outstanding as a proportion of the total number of days in the period.

(In RMB thousands, unless otherwise stated)

15 PROPERTY, PLANT AND EQUIPMENT

	Properties and buildings	Electronic devices	Transportation vehicles	Communication equipment	Office equipment	Security equipment	Others	Total
Cost								
31 December 2016	**424,761**	**501,669**	**37,485**	**7,240**	**71,357**	**8,817**	**31,031**	**1,082,360**
Increases	**–**	**36,749**	**592**	**71**	**818**	**87**	**41**	**38,358**
Decreases	**–**	**(4,829)**	**(498)**	**(20)**	**(404)**	**(195)**	**–**	**(5,946)**
30 June 2017	**424,761**	**533,589**	**37,579**	**7,291**	**71,771**	**8,709**	**31,072**	**1,114,772**
Accumulated depreciation								
31 December 2016	**(96,773)**	**(337,623)**	**(29,492)**	**(4,946)**	**(54,536)**	**(6,737)**	**(28,936)**	**(559,043)**
Increases	**(5,765)**	**(45,731)**	**(1,697)**	**(371)**	**(4,489)**	**(264)**	**(511)**	**(58,828)**
Decreases	**–**	**4,781**	**406**	**19**	**384**	**186**	**–**	**5,768**
30 June 2017	**(102,538)**	**(378,573)**	**(30,783)**	**(5,298)**	**(58,641)**	**(6,815)**	**(29,447)**	**(612,095)**
Net carrying amount								
30 June 2017	**322,223**	**155,016**	**6,796**	**1,993**	**13,130**	**1,894**	**1,625**	**502,677**
31 December 2016	**327,988**	**164,046**	**7,993**	**2,294**	**16,821**	**2,080**	**2,095**	**523,317**
Cost								
31 December 2015	415,001	427,579	37,313	6,317	63,364	7,626	30,990	988,190
Increases	9,760	96,104	1,044	981	8,813	1,340	48	118,090
Decreases	–	(22,014)	(872)	(58)	(820)	(149)	(7)	(23,920)
31 December 2016	424,761	501,669	37,485	7,240	71,357	8,817	31,031	1,082,360
Accumulated depreciation								
31 December 2015	(82,625)	(280,793)	(27,056)	(4,375)	(45,590)	(6,483)	(26,846)	(473,768)
Increases	(14,148)	(78,809)	(3,283)	(627)	(9,765)	(391)	(2,096)	(109,119)
Decreases	–	21,979	847	56	819	137	6	23,844
31 December 2016	(96,773)	(337,623)	(29,492)	(4,946)	(54,536)	(6,737)	(28,936)	(559,043)
Net carrying amount								
31 December 2016	327,988	164,046	7,993	2,294	16,821	2,080	2,095	523,317
31 December 2015	332,376	146,786	10,257	1,942	17,774	1,143	4,144	514,422

FOR THE SIX MONTHS ENDED 30 JUNE 2017

(In RMB thousands, unless otherwise stated)

16 INTANGIBLE ASSETS

	Software	Trading seat rights and others	Total
Cost			
31 December 2016	**282,286**	**75,947**	**358,233**
Increases	**15,857**	**–**	**15,857**
Decreases	**(283)**	**(13)**	**(296)**
30 June 2017	**297,860**	**75,934**	**373,794**
Accumulated amortization			
31 December 2016	**(144,213)**	**(69,600)**	**(213,813)**
Increases	**(22,404)**	**–**	**(22,404)**
Decreases	**124**	**–**	**124**
30 June 2017	**(166,493)**	**(69,600)**	**(236,093)**
Net carrying amount			
30 June 2017	**131,367**	**6,334**	**137,701**
Cost			
31 December 2015	222,084	75,919	298,003
Increases	60,202	28	60,230
Decreases	–	–	–
31 December 2016	282,286	75,947	358,233
Accumulated amortization			
31 December 2015	(106,850)	(69,600)	(176,450)
Increases	(37,363)	–	(37,363)
Decreases	–	–	–
31 December 2016	(144,213)	(69,600)	(213,813)
Net carrying amount			
31 December 2016	138,073	6,347	144,420

(In RMB thousands, unless otherwise stated)

17 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30 June 2017	31 December 2016
Non-current		
At fair value:		
Equity investments	**587,475**	515,068
Fund investments	**10,171**	10,016
Others (i)	**3,913,992**	4,638,008
At cost:		
Equity investments	**951,204**	948,966
Total	**5,462,842**	6,112,058
Analysed into:		
Listed outside Hong Kong	**597,645**	525,084
Unlisted	**4,865,197**	5,586,974
Total	**5,462,842**	6,112,058

	30 June 2017	31 December 2016
Current		
At fair value:		
Debt instruments	**25,052,699**	20,168,666
Equity investments	**201,503**	143,218
Fund investments	**481,719**	413,300
Others (i)	**6,276,872**	7,757,548
At cost:		
Equity investments	**–**	–
Total	**32,012,793**	28,482,732
Analysed into:		
Listed in Hong Kong	**91,275**	95,876
Listed outside Hong Kong	**27,068,320**	21,051,307
Unlisted	**4,853,198**	7,335,549
Total	**32,012,793**	28,482,732

(In RMB thousands, unless otherwise stated)

17 AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

(i) Classified as others in available-for-sale financial assets of the Group primarily includes investments in asset management plans.

In addition, as at 30 June 2017 and 31 December 2016, others of the non-current available-for-sale financial assets included specific accounts invested by the Company together with several other securities companies and managed by China Securities Finance Corporation Limited (the "CSFC"). According to the relevant contracts, the Company injected capital on 6 July 2015 and 1 September 2015, in the aggregate amount of RMB4,244.00 million. Risks and returns of the specific accounts are shared by the Company and other investing securities companies based on investment proportion and the accounts are operated and managed by CSFC.

As at 30 June 2017, based on investment account report provided by CSFC, the cost and fair value of the Company's specific investment were RMB3,075.00 million (31 December 2016: RMB4,244.00 million) and RMB3,112.31 million (31 December 2016: RMB3,990.58 million), respectively.

(ii) As at 30 June 2017, available-for-sale financial assets of the Group included securities lent to clients amounted to RMB1.17 million (31 December 2016: RMB0.25 million). In addition the fair value of securities of the Group which have been pledged as collateral for repurchase agreements *(Note 33)*, placements from CSFC *(Note 34)* and securities borrowing business totaled RMB16,091.23 million (31 December 2016: RMB10,981.77 million).

18 HELD-TO-MATURITY INVESTMENTS

	30 June 2017	31 December 2016
Non-current		
Debt instruments	**589,838**	277,480
Analysed into:		
Listed in Hong Kong	**270,976**	277,480
Listed outside Hong Kong	**318,862**	–
Total	**589,838**	277,480

	30 June 2017	31 December 2016
Current		
Debt instruments	**196,021**	376,828
Analysed into:		
Listed in Hong Kong	**196,021**	376,828

(In RMB thousands, unless otherwise stated)

18 HELD-TO-MATURITY INVESTMENTS (Continued)

As at 30 June 2017, the fair value of held-to-maturity investments held by the Group was RMB807.98 million (31 December 2016: RMB679.56 million).

As at 30 June 2017, held-to-maturity investments pledged as collateral for bonds in issue *(Note 39)* and repurchase agreements *(Note 33)* by the Group amounted to RMB326.63 million and RMB297.38 million, respectively (31 December 2016: RMB332.64 million and Nil).

19 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	30 June 2017	31 December 2016
Non-current		
Analysed by collateral:		
Stock	**4,326,102**	633,670
Allowance for impairment losses	**(28,217)**	(8,226)
Total	**4,297,885**	625,444
Analysed by counterparty:		
Corporates and individuals	**4,297,885**	625,444

	30 June 2017	31 December 2016
Current		
Analysed by collateral:		
Stock	**6,976,686**	3,331,317
Debt Securities	**3,768,687**	3,197,679
Others	**553,184**	565,983
Subtotal	**11,298,557**	7,094,979
Allowance for impairment losses	**(12,115)**	(15,310)
Total	**11,286,442**	7,079,669
Analysed by counterparty:		
Banks	**1,152,389**	674,299
Non-bank financial institutions	**2,263,469**	2,514,348
Corporates and individuals	**7,870,584**	3,891,022
Total	**11,286,442**	7,079,669

(In RMB thousands, unless otherwise stated)

19 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (Continued)

The Group received securities as collateral in connection with financial assets under resale agreements. As part of the resale agreements, the Group received securities allowed to be re-pledged in the absence of default by counterparties. If the collateral received declines in value, the Group may, in certain circumstances, require additional collateral. The Group had an obligation to return the collateral to its counterparties at the maturity of the contracts.

The fair value of the collateral received in connection with financial assets under resale agreements, the collateral allowed to re-pledged and the collateral re-pledged were as below:

	30 June 2017	31 December 2016
Collateral received	**32,690,818**	13,676,075
Collateral allowed to be re-pledged	**1,404,949**	1,517,270
Collateral re-pledged	**936,143**	939,366

20 REFUNDABLE DEPOSITS

	30 June 2017	31 December 2016
Trading deposits	**570,961**	1,843,701
Performance bonds	**1,570,143**	1,579,190
Credit deposits	**42,514**	37,446
Total	**2,183,618**	3,460,337

(In RMB thousands, unless otherwise stated)

21 DEFERRED TAX ASSETS AND LIABILITIES

Changes of deferred tax asset and deferred tax liabilities are as follow:

Deferred tax assets	Salaries, bonuses, and allowances payable	Fair value changes of financial instruments	Allowance for impairment losses	Others	Total
1 January 2016	688,618	13,583	42,207	2,989	747,397
(Charge)/Credit to profit or loss	(233)	16,249	(1,691)	3,183	17,508
Credit/(Debit) to other comprehensive income	–	46,926	(678)	–	46,248
31 December 2016	688,385	76,758	39,838	6,172	811,153
(Charge)/Credit to profit or loss	**(94,035)**	**22,136**	**5,434**	**3,104**	**(63,361)**
Debit to other comprehensive income	**–**	**(11,846)**	**(290)**	**–**	**(12,136)**
30 June 2017	**594,350**	**87,048**	**44,982**	**9,276**	**735,656**

Deferred tax liabilities	Fair value changes of financial instruments	Others	Total
1 January 2016	218,270	340	218,610
(Credit)/Charge to profit or loss	(71,641)	2,018	(69,623)
Credit to other comprehensive income	(102,140)	–	(102,140)
31 December 2016	44,489	2,358	46,847
Charge/(Credit) to profit or loss	**3,760**	**(394)**	**3,366**
Debit to other comprehensive income	**15,913**	**–**	**15,913**
30 June 2017	**64,162**	**1,964**	**66,126**

22 OTHER NON-CURRENT ASSETS

As at 30 June 2017 and 31 December 2016, the other non-current assets of the Group represented long-term deferred expenses incurred on improvement of leasing of property, plant and equipment.

(In RMB thousands, unless otherwise stated)

23 MARGIN ACCOUNTS

	30 June 2017	31 December 2016
Margin accounts		
– Individuals	**35,428,796**	29,502,776
– Institutions	**1,945,966**	1,590,840
Subtotal	**37,374,762**	31,093,616
Allowance for impairment losses	**(89,930)**	(86,943)
Total	**37,284,832**	31,006,673

Margin accounts are funds that the Group provided to clients in margin financing and securities lending business. As at 30 June 2017, the Group's beneficial rights over margin accounts pledged as collateral for repurchase agreements *(Note 33)* amounted to RMB5,943.51 million (31 December 2016: RMB1,282.54 million).

As at 30 June 2017, the Group received collateral with fair value amounted to RMB104,631.00 million (31 December 2016: RMB99,977.48 million), in connection with its margin financing and securities lending business.

24 ACCOUNTS RECEIVABLE

	30 June 2017	31 December 2016
Assets management fee receivable	**126,233**	127,026
Clearing settlement fund and refundable deposits advanced on behalf of sponsored structured entities	**23,535**	23,348
Clearing funds receivable	**775,134**	102,802
Others	**228,331**	125,650
Subtotal	**1,153,233**	378,826
Allowance for impairment losses	**(521)**	(358)
Total	**1,152,712**	378,468

(In RMB thousands, unless otherwise stated)

25 FINANCIAL ASSETS HELD FOR TRADING

	30 June 2017	31 December 2016
Debt instruments	**22,706,519**	21,512,825
Equity investments	**2,267,527**	1,246,894
Fund investments	**1,171,799**	1,210,008
Others	**4,225,236**	3,258,185
Total	**30,371,081**	27,227,912
Analysed into:		
Listed in Hong Kong	**160,033**	540,211
Listed outside Hong Kong	**25,804,365**	22,996,113
Unlisted	**4,406,683**	3,691,588
Total	**30,371,081**	27,227,912

As at 30 June 2017, the fair value of financial assets held for trading pledged as collateral for repurchase agreements *(Note 33)*, placements from CSFC *(Note 34)*, borrowings *(Note 36)* and securities borrowing business by the Group totaled RMB15,009.95 million (31 December 2016: RMB13,926.13 million).

(In RMB thousands, unless otherwise stated)

26 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2017	31 December 2016
Debt instruments	**50,277**	86,238
Equity investments	**3,975**	3,334
Fund investments	**56,340**	92,982
Others	**21,820**	142,657
Total	**132,412**	325,211
Analysed into:		
Listed outside Hong Kong	**120,571**	192,590
Unlisted	**11,841**	132,621
Total	**132,412**	325,211

As at 30 June 2017, financial assets designated as at fair value through profit or loss held by the Group included securities lent amounted to RMB33.32 million (31 December 2016: RMB38.09 million). The collateral received in margin financing and securities lending business by the Group was disclosed in Margin Accounts *(Note 23)*.

27 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 30 June 2017		
		Fair value	
	Nominal value	**Assets**	**Liabilities**
Interest rate derivatives	**35,999,188**	**18,038**	**19,106**
Equity derivatives	**9,487,178**	**2,905**	**113,517**
Others	**352,846**	**4,702**	**96**
Total	**45,839,212**	**25,645**	**132,719**

	As at 31 December 2016		
		Fair value	
	Nominal value	Assets	Liabilities
Interest rate derivatives	52,267,706	31,033	33,166
Equity derivatives	8,417,278	18,075	97,456
Others	388,475	–	1,954
Total	61,073,459	49,108	132,576

(In RMB thousands, unless otherwise stated)

27 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

In the daily settlement system, any gains or losses on the Group's futures contract position are settled on a daily basis and included in "Cash and Bank Balances". Accordingly, as at 30 June 2017 and 31 December 2016, the futures investments accounted under derivative financial instruments were presented on a net basis and were of zero balance.

As at 30 June 2017, the cumulative gains and losses from changes in fair value of the Group's unexpired futures contracts was a net unrealized loss of RMB0.88 million (31 December 2016: a net unrealized gain of RMB0.43 million).

28 CASH HELD ON BEHALF OF CLIENTS

The Group maintains segregated deposit accounts with banks and authorised institutions to hold cash on behalf of customers arising from its normal course of business. The Group has recorded the related amounts as cash held on behalf of customers and the corresponding liabilities as accounts payable to brokerage clients *(Note 31)*. In Mainland China, the use of cash held on behalf of customers for securities trading and settlement is restricted and governed by relevant third-party deposit regulations issued by the CSRC. In Hong Kong, the "Securities and Futures (Client Money) Rules" under the Securities and Futures Ordinance impose similar restrictions.

29 CASH AND BANK BALANCES

	30 June 2017	31 December 2016
Cash on hand	**129**	105
Deposits in banks	**14,873,722**	17,525,484
Total	**14,873,851**	17,525,589

As at 30 June 2017, the Group's deposits in banks of RMB85.09 million was pledged as collateral for the Group's borrowings *(Note 36)* (31 December 2016: RMB90.87 million), and RMB14.64 million was set aside by a subsidiary as a general reserve (31 December 2016: 6.76 million).

(In RMB thousands, unless otherwise stated)

30 OTHER CURRENT ASSETS

	30 June 2017	31 December 2016
Interest receivable	**2,075,350**	1,565,621
Prepaid expenses	**1,823**	1,981
Deferred expenses	**37,811**	28,589
Others	**507,666**	227,878
Subtotal	**2,622,650**	1,824,069
Allowance for impairment losses	**(38,838)**	(38,838)
Total	**2,583,812**	1,785,231

31 ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

Accounts payable to brokerage clients represent the amounts received from and repayable to clients arising from the ordinary course of the Group's securities brokerage business. For more details, please refer to Note 28 Cash Held on Behalf of Clients.

32 FINANCIAL LIABILITIES HELD FOR TRADING

	30 June 2017	31 December 2016
Debt securities	**137,083**	2,972,738

(In RMB thousands, unless otherwise stated)

33 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	30 June 2017	31 December 2016
Current		
Analysed by collateral:		
Debt Securities	**22,524,882**	16,710,093
Beneficial rights over margin financing and securities lending *(Note 23)*	**4,300,000**	300,000
Gold	**5,389,833**	6,721,358
Others	**608,562**	799,991
Total	**32,823,277**	24,531,442
Analysed by counterparty:		
Banks	**15,259,858**	8,719,621
Non-bank financial institutions	**16,954,857**	15,011,830
Others	**608,562**	799,991
Total	**32,823,277**	24,531,442

	30 June 2017	31 December 2016
Non-current		
Analysed by collateral:		
Beneficial rights over margin financing and securities lending *(Note 23)*	**–**	500,000
Analysed by counterparty:		
Non-bank financial institutions	**–**	500,000

(In RMB thousands, unless otherwise stated)

34 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2017	31 December 2016
Placements from banks	**–**	360,000
Placements from CSFC	**9,000,000**	9,000,000
Total	**9,000,000**	9,360,000

35 TAXES PAYABLE

	30 June 2017	31 December 2016
Income tax	**127,755**	377,263
Value added tax	**49,636**	44,412
Others	**572,417**	334,307
Total	**749,808**	755,982

36 BORROWINGS

Short-term borrowings

	30 June 2017	31 December 2016
Analysed by nature:		
Credit borrowings	**1,254,108**	1,590,489
Mortgage borrowings *(Note 25)*	**–**	110,992
Pledged borrowings *(Note 29)*	**80,000**	80,000
Total	**1,334,108**	1,781,481

As at 30 June 2017, the fixed interest rates on the short-term borrowings of the Group were 4.90% (31 December 2016: in the range of 8.72% – 8.82%). In addition, the Group has variable-rate borrowings which carry interest based on HIBOR or LIBOR.

(In RMB thousands, unless otherwise stated)

37 SHORT-TERM FINANCING INSTRUMENTS PAYABLE

Name	**Issue date**	**Maturity date**	**Coupon rate**	**1 January 2017**	**Increase**	**Decrease**	**30 June 2017**
16 CSC D1	**15/06/2016**	**12/03/2017**	**3.28%**	**2,999,520**	**–**	**(2,999,520)**	**–**
17 CSC D1	**17/01/2017**	**19/07/2017**	**4.00%**	**–**	**3,000,000**	**–**	**3,000,000**
17 CSC D2	**27/02/2017**	**25/08/2017**	**4.53%**	**–**	**3,000,000**	**–**	**3,000,000**
17 CSC D3	**22/03/2017**	**22/03/2018**	**4.80%**	**–**	**3,000,000**	**–**	**3,000,000**
Structured note (i)	**27/01/2017– 30/06/2017**	**03/07/2017– 03/05/2018**		**4,757,679**	**17,091,477**	**(13,184,367)**	**8,664,789**
Total				**7,757,199**	**26,091,477**	**(16,183,887)**	**17,664,789**

Name	Issue date	Maturity date	Coupon rate	1 January 2016	Increase	Decrease	31 December 2016
15 CSC CP007	25/11/2015	24/02/2016	3.20%	3,000,000	–	(3,000,000)	–
15 CSC CP008	21/12/2015	18/03/2016	3.10%	2,500,000	–	(2,500,000)	–
16 CSC CP001	08/03/2016	03/06/2016	2.63%	–	3,000,000	(3,000,000)	–
16 CSC D1	15/06/2016	12/03/2017	3.28%	–	2,999,520	–	2,999,520
Structured notes (i)	17/06/2016– 29/12/2016	04/01/2017– 03/04/2017		5,822,686	8,816,778	(9,881,785)	4,757,679
Total				11,322,686	14,816,298	(18,381,785)	7,757,199

As at 30 June 2017 and 31 December 2016, there were no defaults related to any short-term financing instruments payable by the Group.

(i) As at 30 June 2017 and 31 December 2016, the Group had issued two types of structured notes. One type accrues interests at a fixed annual rate in the range of 3.80%–5.10% and 3.00%–4.20%, respectively. The second type accrues interests at floating rates linked to one or more indices.

(In RMB thousands, unless otherwise stated)

38 OTHER CURRENT LIABILITIES

	30 June 2017	31 December 2016
Salaries, bonuses and allowances payable	**2,344,993**	2,789,462
Interest payable	**606,221**	885,733
Accounts payable to underwriting clients	**55,612**	668,599
Settlement deposits payable	**366,595**	573,378
Securities investor protection fund payable	**24,643**	33,502
Futures settlement risk funds payable	**64,690**	58,597
Funds payable to securities holders	**6,143**	6,090
Dividends payable	**1,304,349**	294,000
Provision	**57,480**	60,456
Amounts due to other holders of consolidated structured entities	**8,212,703**	9,173,295
Bonds in issue maturity within one year *(Note 39)*	**6,000,000**	6,000,000
Others	**3,159,091**	1,641,348
Total	**22,202,520**	22,184,460

39 BONDS IN ISSUE

	30 June 2017	31 December 2016
Bonds in issue		
– Maturity within one year *(Note 38)*	**6,000,000**	6,000,000
– Maturity over one year	**16,073,356**	13,653,036

(1) As at 30 June 2017 and 31 December 2016, there were no defaults related to any bonds in issue.

(2) The details of bonds in issue

Maturity within one year	**30 June 2017**	31 December 2016
Corporate bonds		
15 Xinjiantou (i)	**6,000,000**	–
Subordinated bonds		
15 Zhongjiantou (ii)	**–**	6,000,000
Carrying amount	**6,000,000**	6,000,000

(In RMB thousands, unless otherwise stated)

39 BONDS IN ISSUE (Continued)

(2) The details of bonds in issue (Continued)

Maturity over one year	**30 June 2017**	31 December 2016
Corporate bonds		
15 Xinjiantou (i)	**–**	6,000,000
15 Xintou 01 (iii)	**1,799,440**	1,795,749
16 Xintou G1 (iv)	**2,993,509**	2,990,493
16 Xintou G2 (v)	**1,495,830**	1,494,393
17 Xintou G1 (vi)	**3,954,493**	–
17 Xintou G2 (vii)	**2,988,031**	–
CSCIFN15B2009 (viii)	**1,342,053**	1,372,401
Structured notes		
Zhiyingbao-070 (ix)	**1,500,000**	–
Carrying amount	**16,073,356**	13,653,036

(i) In June 2015, the Company privately issued a 5-year fixed rate corporate bond with a face value of RMB6 billion which offers the options, at the end of the third year, for the Company to redeem it at face value or increase the coupon rate, or the investors to sell back the bond. The bond pays interest annually at 5.32% per annum and is not guaranteed.

(ii) In April 2015, the Company privately issued a 3-year fixed rate subordinated bond with a face value of RMB6 billion, which offers the options, at the end of the second year, for the Company to redeem it at face value or increase the coupon rate, or the investors to sell back the bond. The bond pays interest annually at 5.45% per annum and is not guaranteed. The bond was fully redeemed in April 2017.

(iii) In August 2015, the Company publicly issued a 10-year fixed rate corporate bond with a face value of RMB1.8 billion, which offers the options, at the end of the fifth year, for the Company to redeem it at face value or increase the coupon rate, or the investors to sell back the bond. The bond pays interest annually at 4.20% per annum and is not guaranteed.

(iv) In May 2016, the Company publicly issued a 5-year fixed rate corporate bond with a face value of RMB3 billion, which offers the options, at the end of the third year, for the Company to redeem it at face value or increase the coupon rate, or the investors to sell back the bond. The bond pays interest annually at 3.14% per annum and is not guaranteed.

39 BONDS IN ISSUE (Continued)

(2) The details of bonds in issue (Continued)

(v) In August 2016, the Company publicly issued a 5-year fixed rate corporate bond with a face value of RMB1.5 billion, which offers the options, at the end of the third year, for the Company to redeem it at face value or increase the coupon rate, or for the investors to sell back the bond. The bond pays interest annually at 2.90% per annum and is not guaranteed.

(vi) In April 2017, the Company publicly issued a 3-year fixed rate corporate bond with a face value of RMB4 billion. The bond pays interest annually at 4.48% per annum and is not guaranteed.

(vii) In May 2017, the Company publicly issued a 3-year fixed rate corporate bond with a face value of RMB3 billion. The bond pays interest annually at 4.88% per annum and is not guaranteed.

(viii) In September 2015, CSCI Finance (2015) Co., Ltd. publicly issued a 5-year fixed rate credit enhancement bond with a face value of USD0.2 billion. The bond pays interest semi-annually at 3.125% per annum and is unconditionally and irrevocably guaranteed by China Securities (International) Financial Holding Co., Ltd.

(ix) In March 2017, the Company issued a 2-year fixed rate structured note with a face value of RMB1.5 billion. The structured note pays interest annually at 4.60% per annum and is not guaranteed.

40 SHARE CAPITAL

All shares issued by the Company are fully paid common shares, with a notional value of RMB1 per share. The number of shares and nominal value of the Company's share capital are as follows:

	30 June 2017	31 December 2016
Issued and fully paid ordinary shares of RMB1 each *(in thousands)*		
– Domestic shares	**5,985,361**	5,992,353
– H shares	**1,261,024**	1,184,117
Total	**7,246,385**	7,176,470
Ordinary equity share capital *(in RMB'000)*		
– Domestic shares	**5,985,361**	5,992,353
– H shares	**1,261,024**	1,184,117
Total	**7,246,385**	7,176,470

On 9 December 2016, the Group completed its initial public offering of 1,076.47 million H shares on the Main Board of The Stock Exchange of Hong Kong Limited. According to the relevant PRC requirements, certain existing shareholders of the state-owned shares of the Company carried out their obligations of state-owned shares reduction and have transferred an aggregate of 107.65 million shares of the Company to the National Social Security Fund of the PRC based on 10% of the actual number of new shares in issue, and such shares were then converted into H shares on a one-for-one basis.

On 30 December 2016, the over-allotment option of the Group's H Shares Global Offering was partially exercised by the International Underwriters with 69.92 million newly issued H shares. According to the relevant PRC requirements, certain existing shareholders of the state-owned shares of the Company carried out their obligations of state-owned shares reduction and have transferred an aggregate of 6.99 million shares of the Company to the National Social Security Fund of the PRC based on 10% of the actual number of new shares in issue, and such shares were then converted into H shares on a one-for-one basis. The over-allotment shares were listed and traded on the Main Board of The Stock Exchange of Hong Kong Limited on 5 January 2017.

41 OTHER EQUITY INSTRUMENTS

In January 2015, the Company issued first batch of perpetual subordinated bonds amounted to RMB2 billion. In March 2015, the second batch amounted to RMB3 billion was issued.

Key terms and conditions relating to the above equity instruments are as follows:

– The bonds are repriced every 5 interest-accruing years, and at the end of the repricing cycle, the issuer has the option to extend the bonds for another repricing cycle (another five years) or redeem them in full;

– The bonds offer no redemption option to the investors so that investors cannot require the issuer to redeem their bonds during the life of the bonds;

– The issuer has the option to defer interest payment, except in the event of mandatory interest payments, so that at each interest payment date, the issuer may choose to defer to the next payment date interests payable from the current period as well as all interests and accreted interests already deferred according to the related terms, without any limitation with respect to the number of deferrals. Mandatory interest payment events are limited to dividend distributions to ordinary equity holders and reductions of registered capital;

– The bonds' priority of payments is subordinate to the Company's general debts but senior to the Company's equity shares. Unless in the event of discontinuance, closure or liquidation of the Company, investor cannot require the Company to accelerate payment of the bonds' principals.

The perpetual subordinated bonds issued by the Company are classified as equity instruments, and recognized under equity in the consolidated statement of financial position. As at 30 June 2017, the perpetual subordinated bonds had no declared interests (31 December 2016: RMB294.00 million).

42 RESERVES

The amounts of the Group's reserves and the related movements are presented in the consolidated statement of changes in equity.

(1) Capital reserve

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

42 RESERVES (Continued)

(2) Surplus reserve

(i) Statutory surplus reserve

Pursuant to the Company Law of the PRC, the Company is required to appropriate 10% of its profit for the year for the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses, if any, and may also be converted into capital of the Company, provided that the balance of the statutory surplus reserve after this capitalisation is not less than 25% of the registered capital immediately before capitalization.

(ii) Discretionary surplus reserve

After making the appropriation to the statutory surplus reserve, the Company may also appropriate its after-tax profit for the year, as determined under Accounting Standards of Business Enterprises, to its discretionary surplus reserve upon approval by the equity holders in a general meeting. Subject to the shareholders' approval, the discretionary surplus reserve may be used to offset accumulated losses, if any, and may be converted into capital of the Company.

(3) General reserve

Pursuant to the requirements of regulatory authorities, including the Ministry of Finance and the CSRC, the Company is required to appropriate 10% of its after-tax profit for the year for the general risk reserve and 10% for the transaction risk reserve. These reserves may be used to offset accumulated losses of the Company but shall not be declared as dividends or converted into share capital. Regulatory reserve represents reserves that are established by subsidiaries and branches in certain countries or jurisdictions outside Mainland China in accordance with the regulatory requirements in their respective territories are also included herein.

(4) Investment revaluation reserve

The investment revaluation reserve represents the fair value changes of available-for-sale financial assets.

(5) Foreign currency translation reserve

The foreign currency translation reserve represents the exchange difference arising from the translation of the financial statements of the subsidiaries incorporated outside Mainland China with functional currencies other than RMB.

(6) Distributable profits

The Company's distributable profits are based on the retained profits of the Company as determined under China Accounting Standards and IFRSs, whichever is lower.

(In RMB thousands, unless otherwise stated)

43 CASH AND CASH EQUIVALENTS

	30 June 2017	30 June 2016
Cash and bank balance	**14,873,851**	14,019,001
Less: Restricted deposits *(Note 29)*	**(99,726)**	(278,177)
Cash and cash equivalents	**14,774,125**	13,740,824

44 COMMITMENTS AND CONTINGENT LIABILITIES

(1) Capital commitments

	30 June 2017	31 December 2016
Contracted, but not provided for	**55,858**	7,064

The above-mentioned capital commitments are primarily in respect of the construction of properties and purchase of equipment by the Group.

(2) Operating lease commitments

At the end of the reporting period/year, the Group leased certain office properties under operating lease arrangements. The total future minimum lease payments under irrevocable operating lease arrangements are summarized below:

	30 June 2017	31 December 2016
Within one year	**297,014**	266,957
After one year but not more than two years	**285,519**	238,517
After two years but not more than three years	**243,830**	182,688
After three years	**397,075**	239,094
Total	**1,223,438**	927,256

(3) Legal proceedings

From time to time in the ordinary course of business, the Group are subject to claims and are parties to legal and regulatory proceedings. As at 30 June 2017 and 31 December 2016, the Group was not involved in any material legal, or arbitration proceedings that if adversely determined, would have material impact on their financial position or results of operations.

(In RMB thousands, unless otherwise stated)

45 RELATED PARTY DISCLOSURES

(1) Beijing State-Owned Capital Operation and Management Center

As at 30 June 2017, Beijing State-Owned Capital Operation and Management Center owned 37.04% of the equity interest and voting rights of the Company (31 December 2016: 37.46%).

Beijing State-Owned Capital Operation and Management Center was established by State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality, which is a People-owned enterprise controlled by the PRC government.

The Group entered into transactions with Beijing State-Owned Capital Operation and Management Center at arm's length in the ordinary course of business. Management considers that transactions between the Group and Beijing State-Owned Capital Operation and Management Center are not significant.

(2) Central Huijin and companies under Central Huijin

As at 30 June 2017, Central Huijin Investment Ltd. ("Huijin") owned 32.93% of the equity interest and voting rights of the Company (31 December 2016: 33.29%).

Central Hujin is a wholly-owned subsidiary of China Investment Corporation, which is incorporated in Beijing, the PRC. Central Huijin was established to hold certain equity interests in state-owned financial institutions as authorized by the Chinese State Council and does not engage in other commercial activities. Central Huijin exercises its legal rights and assumes obligations related to the Company on behalf of the PRC Government. Central Huijin has equity interests in certain other banks and financial institutions under the direction of the Chinese government.

The Group enters into transactions with Central Huijin and its related parties in the ordinary course of business under normal commercial terms. Corresponding transactions and balances with these banks and financial institutions were as follows:

	Six months ended 30 June	
	2017	2016
Brokerage services income	**2,287**	1,231
Investment banking income	**68,977**	34,680
Bank deposits interest income	**111,082**	133,533
Other interest income	**645**	–
Brokerage expenses	**(7,272)**	(12,847)
Investment banking expenses	**(6,864)**	(383)
Other fee and commission expenses	**(5,354)**	(3)
Interest expenses	**(32,909)**	(26,576)

(In RMB thousands, unless otherwise stated)

45 RELATED PARTY DISCLOSURES (Continued)

(2) Central Huijin and companies under Central Huijin (Continued)

	30 June 2017	31 December 2016
Assets		
Available-for-sale financial assets	**930,219**	489,599
Financial assets held for trading	**404,739**	781,983
Derivative financial assets	**2,308**	3,858
Cash held on behalf of clients	**10,187,157**	9,856,640
Cash and bank balances	**2,838,035**	5,984,859
Interest receivable	**17,488**	26,084
Liabilities		
Accounts payable to brokerage clients	**18,245**	7,865
Derivative financial liabilities	**1,709**	3,158
Financial assets sold under repurchase agreements	**3,910,747**	3,328,106
Interest payable	**19,750**	28,321
Account payable	**9,034**	33

(3) Government related entities

According to the provisions of IAS 24 – Related Parties Disclosures, government entities controlled and jointly controlled by the Chinese government and their subsidiaries (the "government related entities") are also regarded as related parties of the Group.

Part of the Group's transactions including securities and futures dealing and broking, underwriting of debt securities, purchase and sale of government bonds, and equity and debt securities issued by other government related entities are entered into with government related entities. These transactions are entered into under normal commercial terms and conditions.

Directors of the Company consider that transactions with government related entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the counterparties are government related entities.

(In RMB thousands, unless otherwise stated)

45 RELATED PARTY DISCLOSURES (Continued)

(4) Other major shareholders and its related parties

Details of the major transactions and balances of the Group and other major shareholders and its related parties are as follows:

	Six months ended 30 June	
	2017	2016
Fee and commission income	**8,936**	–
Fee and commission expenses	**(8,527)**	–
Interest income	**1,666**	–
Interest expenses	**(1,341)**	–

	30 June 2017	31 December 2016
Assets		
Available-for-sale financial assets	**49,968**	–
Financial assets held for trading	**197,174**	79,600
Cash held on behalf of clients	**1,356,051**	–
Cash and bank balances	**750,966**	–
Derivative financial assets	**416**	–
Interest receivable	**4,893**	244
Account receivable	**493**	–
Liabilities		
Derivative financial liabilities	**1,077**	–
Financial assets sold under repurchase agreements	**152,244**	–
Accounts payable to brokerage clients	**204,872**	–
Short-term borrowings	**169,244**	–
Interest payable	**89**	–
Account payable	**284**	–

(5) Subsidiaries and consolidated structured entities

The Group entered into transactions with its subsidiaries and consolidated structured entities at arm's length in the ordinary course of business. Management considers that transactions between the Group and its subsidiaries and consolidated structured entities are not significant.

(In RMB thousands, unless otherwise stated)

45 RELATED PARTY DISCLOSURES (Continued)

(6) The Group's associates

The Group entered into transactions with its associates at arm's length in the ordinary course of business. Management considers that transactions between the Group and its associates are not significant.

(7) Key management personnel

Key management personnel are those who have the authority and responsibility to directly or indirectly plan, direct and control the Group activities, including the board of directors, the board of supervisors and other senior management personnel.

The Group's remuneration for key management personnel are disclosed as follow:

	Six months ended 30 June	
	2017	2016
Salaries, bonuses and allowances	**14,713**	62,355
Staff benefits	**1,274**	1,420
Contributions to defined contribution schemes	**773**	788
Total	**16,760**	64,563

46 FAIR VALUE AND FAIR VALUE HIERARCHY

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1 : where the inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 : where the inputs are all directly and indirectly observable inputs other than the quoted market prices of assets and liabilities in Level 1.

Level 3 : where the inputs are unobservable inputs for relevant assets or liabilities.

The Group uses valuation techniques or counterparty quotations to determine fair value when market prices are not available in active markets.

The major parameters used in valuation techniques include underlying securities prices, interest rates, foreign exchange rates, volatilities, correlations and counterparty credit spreads, among others, which are all observable and available from an active market.

(In RMB thousands, unless otherwise stated)

46 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

For certain unlisted equity securities (private equity securities), thinly traded equity securities, unlisted funds, and certain over-the-counter derivative contracts, the management uses counterparty quotations or valuation techniques to determine their fair value. Valuation techniques used include discounted cash flow analysis, net asset value method and market comparison approach. The fair value measurement of these financial instruments may use unobservable inputs that may have significant impact on the valuation results, and therefore, the Group includes them as Level 3 assets and liabilities. The unobservable inputs that may have impact on the valuation among others include weighted average cost of capital, liquidity discount, and price to book ratio. As at 30 June 2017 and 31 December 2016, fair value changes resulting from the changes in the unobservable inputs were not significant. The Group has implemented internal control procedures to monitor and control the Group's exposures to such financial instruments.

(1) Financial instruments recorded at fair value

	30 June 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets held for trading				
– Debt instruments	**7,397,708**	**15,308,811**	**–**	**22,706,519**
– Equity investments	**2,267,508**	**19**	**–**	**2,267,527**
– Fund investments	**1,171,799**	**–**	**–**	**1,171,799**
– Others	**274**	**4,224,962**	**–**	**4,225,236**
Subtotal	**10,837,289**	**19,533,792**	**–**	**30,371,081**
Financial assets designated as at fair value through profit or loss	**60,315**	**72,097**	**–**	**132,412**
Derivative financial assets	**2,315**	**22,671**	**659**	**25,645**
Available-for-sale financial assets				
– Debt instruments	**87,700**	**24,964,999**	**–**	**25,052,699**
– Equity investments	**506,544**	**136,237**	**146,197**	**788,978**
– Fund investments	**491,890**	**–**	**–**	**491,890**
– Others	**–**	**9,680,274**	**510,590**	**10,190,864**
Subtotal	**1,086,134**	**34,781,510**	**656,787**	**36,524,431**
Total assets	**11,986,053**	**54,410,070**	**657,446**	**67,053,569**
Financial liabilities held for trading	**–**	**137,083**	**–**	**137,083**
Financial liabilities designated as at fair value through profit or loss	**–**	**–**	**9,913**	**9,913**
Derivative financial liabilities	**4,676**	**63,626**	**64,417**	**132,719**
Total liabilities	**4,676**	**200,709**	**74,330**	**279,715**

FOR THE SIX MONTHS ENDED 30 JUNE 2017

(In RMB thousands, unless otherwise stated)

46 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(1) Financial instruments recorded at fair value (Continued)

	31 December 2016			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
– Debt instruments	7,662,569	13,850,256	–	21,512,825
– Equity investments	1,246,894	–	–	1,246,894
– Fund investments	1,210,008	–	–	1,210,008
– Others	–	3,258,185	–	3,258,185
Subtotal	10,119,471	17,108,441	–	27,227,912
Financial assets designated as at fair value through profit or loss	96,315	228,896	–	325,211
Derivative financial assets	15,358	31,032	2,718	49,108
Available-for-sale financial assets				
– Debt instruments	84,174	20,084,492	–	20,168,666
– Equity investments	466,633	92,769	98,884	658,286
– Fund investments	423,316	–	–	423,316
– Others	–	12,189,556	206,000	12,395,556
Subtotal	974,123	32,366,817	304,884	33,645,824
Total assets	11,205,267	49,735,186	307,602	61,248,055
Financial liabilities held for trading	–	2,972,738	–	2,972,738
Financial liabilities designated as at fair value through profit or loss	–	–	9,938	9,938
Derivative financial liabilities	16,060	90,898	25,618	132,576
Total liabilities	16,060	3,063,636	35,556	3,115,252

(In RMB thousands, unless otherwise stated)

46 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(2) Movements in Level 3 financial instruments measured at fair value

Movements in Level 3 financial instruments measured at fair value in each year/period are as follow:

	Six months ends 30 June 2017			
	Available-for-sale financial assets	**Derivative financial assets**	**Financial liabilities designated as at fair value through profit or loss**	**Derivative financial liabilities**
Beginning balance	**304,884**	**2,718**	**9,938**	**25,618**
Total gains or losses for the year	**4,115**	**(3,739)**	**(25)**	**(32,801)**
Changes in fair value in other comprehensive income for the year	**51,944**	**–**	**–**	**–**
Increases	**425,590**	**2,730**	**–**	**319,840**
Decreases	**(95,115)**	**(1,050)**	**–**	**(248,240)**
Transfers to Level 1 from Level 3	**(4,631)**	**–**	**–**	**–**
Transfers to Level 2 from Level 3	**(30,000)**	**–**	**–**	**–**
Ending balance	**656,787**	**659**	**9,913**	**64,417**
Gains/(Losses) for the year included in profit or loss for assets/liabilities held at the end of the year	**4,115**	**(3,739)**	**25**	**32,801**

(In RMB thousands, unless otherwise stated)

46 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(2) Movements in Level 3 financial instruments measured at fair value (Continued)

	Year ended 31 December 2016			
	Available-for-sale financial assets	Derivative financial assets	Financial liabilities designated as at fair value through profit or loss	Derivative financial liabilities
Beginning balance	21,698	–	–	–
Total gains or losses for the year	–	(3,202)	138	(12,455)
Changes in fair value in other comprehensive income for the year	43,668	–	–	–
Increases	250,644	5,920	9,800	38,073
Decreases	(1,626)	–	–	–
Transfers to Level 1 from Level 3	(9,500)	–	–	–
Ending balance	304,884	2,718	9,938	25,618
Gains/(Losses) for the year included in profit or loss for assets/liabilities held at the end of the year	–	(3,202)	(138)	12,455

46 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(3) Important unobservable input value in fair value measurement of Level 3

For financial instruments in Level 3, prices are determined by discounted cash flow models. Determinations to classify fair value measures within Level 3 of the valuation hierarchy are primarily based on the significance of the unobservable inputs to the overall fair value measurement. The following table presents the related valuation techniques and inputs of the major financial instruments in Level 3 of the Group.

Financial assets	**Valuation technique and key input**	**Significant unobservable input**	**Relationship of unobservable input to fair value**
Equity investment	Market approach	Liquidity discount adjustment	The lower the discount, the higher the fair value
Asset-backed securities, structured notes	Discounted cash flow technique	Risk-adjusted discount rate	The higher the risk-adjusted discount rate, the lower the fair value
Over-the-counter options	Black-scholes option pricing model	Risk-adjusted discount rate, price volatility of underlying assets	Not applicable

(4) Transfers between Level 1 and Level 2

For the six months ended 30 June 2017 and the year ended 31 December 2016, there were no transfers of fair value measurement between Level 1 and Level 2.

(In RMB thousands, unless otherwise stated)

46 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(5) Financial assets and financial liabilities not measured at fair value

As at 30 June 2017 and 31 December 2016, among the Group's financial assets and financial liabilities not measured at fair value, the fair value of financial instruments that are traded in an active market, are quoted as market price at the end of the reporting year or evaluated by data published by the valuation institution. The fair value of financial instruments that are not traded in an active market are determined by the current value of estimated future cash flow using market rate at the end of the reporting period as the discounted rate, including financial assets held under resale agreements, refundable deposits, margin accounts, accounts receivable, cash held on behalf of clients, cash and bank balances, accounts payable to brokerage clients, financial assets sold under repurchase agreements, placements from banks and other financial institutions, short-term borrowings and short-term financing instruments payable. These financial instruments are of short term in nature and their fair values approximate their carrying amounts.

As at 30 June 2017 and 31 December 2016, the carrying amounts and fair values of held-to-maturity investments are disclosed in Note 18, the carrying amounts and fair values of bonds in issue are summarized below:

	30 June 2017	31 December 2016
Bonds in issue		
– Carrying amount	**22,073,356**	19,653,036
– Fair value	**22,111,609**	19,799,766

47 FINANCIAL INSTRUMENTS RISK MANAGEMENT

Overview

The management considers effective risk management a critical element in ensuring the Company's successful operations. Therefore, the Company has established a set of comprehensive risk management and internal control systems to enable the Company to monitor, evaluate and manage various financial risks in its business activities, including primarily credit risk, market risk, liquidity risk and operational risk.

Structure of risk management

The Board of Directors is the Company's highest decision-making body in risk management, the executive management is the execution body, while different units are responsible for directly managing the risks they face in their business or operational activities. The Company has three dedicated risk control departments, namely the Risk Management Department, the Legal and Compliance Department and the Internal Audit Department, which independently monitor and manage risks before the event, during the event and after the event, as per their respective roles and responsibilities.

47 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Structure of risk management (Continued)

The Board of Directors makes decisions with respect to the Company's overall risk-management strategies and policies, internal control arrangements, and actions to address material risks facing the Company, among other things.

The Risk Management Committee under the Board of Directors is responsible for supervising the overall risk management of the Company and ensuring the associated risks are adequately managed so that risk management activities may be effectively carried out through the Company's business and operating activities. The Board's Risk Management Committee also has the following responsibilities: preparing the overall risk management policies for the Board's deliberation; determining the strategic structure and resources for risk management so that they are aligned with the internal risk management policies; setting limits for major risks; and supervising and reviewing the risk management policies and making recommendations to the Board.

The Company's Executives Committee makes overall decisions with respect to the prevention, control, mitigation, or acceptance of risks in the Company's business and operating activities and makes decisions on efforts to improve the internal control rules and procedures and control measures in accordance with the risk management policies adopted by the Board.

The Company's Risk Management Committee of the Executives Committee is responsible for discussing and proposing the Company's risk preference and tolerance as well as key risk limits for further decision-making; review and approval of specific risk limits and risk control criteria for each business lines; drafting and promoting the implementation of various risk management rules and measures; review and approval of new businesses and products; review and approval of the Company's risk reports; and formulating risk control strategies and plans for material business matters.

The Chief Risk Officer of the Company, serving also as the chairman of the Company's Risk Management Committee, is responsible for leading risk management activities across the Company, including organizing the formulation of relevant risk management rules and procedures, improving the Company's risk management practices, and guiding the Risk Management Department in the identification, evaluation, monitoring and reporting of various risks.

Each and every department and branch/subsidiary of the Company, within their respective roles and responsibilities, is responsible for following the decisions, rules and procedures, and risk control polices, and implementing risk-control measures and engaging in direct risk control efforts in their business activities. Every staff of the Company has the responsibility to comply with the Company's relevant rules and procedures and contribute to daily risk control efforts as part of their own job responsibilities.

The Risk Management Department that is responsible for risk management of the Company, the Legal and Compliance Department that is responsible for legal affairs and compliance management, and the Internal Audit Department that is responsible for the Company's internal audit activities are the three independent risk management functions that establish their own rules and procedures and operate independently to promote risk management of the Company. Specifically, the Risk Management Department is responsible for risk management before and during the event through risk monitoring and assessment, the Legal and Compliance Department is responsible for managing the overall legal and compliance risks of the Company, and the Internal Audit Department is responsible for conducting audits to identify material defects in key rules and procedures and processes, as well as internal control weakness, and supervising corrections and rectifications.

47 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk management activities

The Risk Management Department works with business departments and back-office departments to jointly identify major risks facing the business and management lines, and create the Risk Catalogue and Key Control List on two levels for key business or management lines and general business or management lines, and continues to update the Risk Catalogue and Key Control List in light of business changes and monitoring findings.

The Risk Management Department formulates the risk monitoring processes and indicators for key business and management lines, with risk monitoring indicators for brokerage business, proprietary business, securities financing business, and asset management business embedded in the monitoring system, while the risk monitoring for other business or management lines primarily relies on regular and ad hoc monitoring.

The Risk Management Department also formulates operational process for risk assessment, and determines main assessment methods and qualitative and quantitative risk rating criteria. It assesses and rates the risk matters on an on-going basis, evaluates the controls of major business risks on a regular basis, and conducts comprehensive year-end assessments of the risk control process, risk exposures and positions, and risk incidents of the departments, branches and subsidiaries as a key component of their performance assessment.

The Risk Management Department is responsible for building and maintaining mechanisms for communicating and reporting risk information and significant risk early warning information. The Company has established a risk information management system for communicating and managing risk information and providing significant risk early warnings, and the Risk Management Department is responsible for formulating operational procedures for communicating and reporting risk information and issuing risk early warnings, so that the departments and branches and subsidiaries can report risk information or issue early warnings on potential risks identified to the Risk Management Department. The Risk Management Department then aggregates and manages the risk information, performs comprehensive analyses on various risk information to identify risk control weaknesses and loopholes and prepare improvement recommendations on risk control, reports significant risks to the Chief Risk Officer and executive management or Risk Management Committee, and at the same time, and communicates risk information to relevant parties, while tracking any follow-up activities. The Risk Management Department prepares risk reports and risk control recommendation report in controlling the risk before the event and risk monitoring before and during the event and evaluation. The Risk Management Department reports the findings to relevant parties, responsible persons, the President and the Chairman of the Board of directors. The Risk Management Department continuously monitors the risks and the risk control status by following up on the implementation of risk control recommendations by relevant parties in managing risks identified in the risk reports.

The Legal and Compliance Department manages legal and compliance risks through contract review, litigation management, and compliance management before and during the event, and reports legal and compliance risks to the Company's Chief Compliance Officer and executive management.

The Internal Audit Department detects defects in rules and procedures and processes or internal control weaknesses through audits, reports these issues to the Company's Board of Supervisors, the Board's Audit Committee, executive management, the Legal and Compliance Department and the Risk Management Department, and drives and reviews any follow-up actions.

47 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control

Financial risks in the Company's daily operating activities primarily include market risk, liquidity risk, credit risk, and operational risk. The Company has established specific policies and procedures to identify and address these risks, set out appropriate risk limits and internal control processes to manage these risks, and built integrated control system and information technology systems to continuously monitoring these risks.

47.1 Credit risk

Credit risk refers to potential losses due to borrowers or counterparties' failures to meet their contractual obligations.

The Company primarily faces four types of credit risk: firstly, the credit risk associated with its securities financing activities, which is risk of losses due to defaults of its margin financing and securities lending clients, repurchase clients and collateralized stock repurchase clients; secondly, the default risk of bond investments, namely the risk of asset impairment and changes in investment returns due to defaults of bond issuers or counterparties who refuse to repay matured principals and interests; thirdly, the risk associated with over-the-counter derivative transactions where the customers default and are unable to provide margin deposits in full or make settlement payments; and fourthly, the risk of loss arising from the Company's obligations to settle on behalf of its customers in securities trading or derivative trading on the customers' accounts which become under-margined on the settlement date due to the Company's failure to require full margin deposits before the transactions or because the customers are unable to cover their transactions due to other reasons.

Credit risk arises from securities financing business primarily due to fraudulent credit information from customers, failure of customers to repay debts in full on a timely manner, customers' breach of contract with respect to the size and structures of trading positions, customers' violation of regulatory requirements in their trading actions, decline in value or liquidity of collateral provided by customers, and involvement of collateral in legal disputes, among others. Measures for controlling credit risk arising from this type of business primarily include customer education, credit investigation and verification, setting proper limits, credit review and approval, daily marking to market, customer risk warnings, forced closure customers' positions, and rights of recourse.

Credit risk arises from securities investments primarily due to counterparty defaults, credit issuer defaults or decline in the creditworthiness of issuers. The Company establishes credit lines for counterparties and maintains black lists to manage its counterparty credit risk, and sets a number of credit limits to help control risks on credit facilities, including minimum ratings for credit products and maximum credit exposure of a single borrower.

The Company controls credit risk arising from over-the-counter derivative transactions by setting counterparty ratings and credit lines, and setting limits to the sizes of transactions and credit risk exposures before transactions take place. The Company has also adopted daily monitoring, measuring counterparties risk exposures, implementing the system of underlying securities trading contract, and valuation of collateral, mark-to-market, and established forced position squaring procedures to help control its credit risk exposures within established limits.

(In RMB thousands, unless otherwise stated)

47 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

47.1 Credit risk (Continued)

In order to manage the credit risk arising from the brokerage business, securities brokerage transactions in Mainland China are all settled on a fully-pledged basis, which enables settlement risks associated with brokerage business to be well under control. The Company strictly complies with relevant trading and settlement rules and procedures to eliminate non-compliant financing operations for clients. With regard to clients' credit risk, the Company has adopted safeguard measures to prevent overdraft or negative balance of equivalent securities for repurchase financing clients, including minimum ratio of equivalent securities retained and maximum leverage ratio, and established various rules and practices to manage the credit risk of option trading clients, including margin management, position limits, and forced close-out.

Furthermore, the Company's Risk Management Department monitors the credit risk on an on-going basis, including tracking the credit risk status of counterparties and the Company's businesses and products, as well as using stress testing and sensitivity analysis, among other methods, to measure and estimate the credit risk of major business lines.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

	30 June 2017	31 December 2016
Available-for-sale financial assets	**32,503,227**	28,949,550
Held-to-maturity investments	**785,859**	654,308
Financial assets held under resale agreements	**15,584,327**	7,705,113
Refundable deposits	**2,183,618**	3,460,337
Margin accounts	**37,284,832**	31,006,673
Financial assets held for trading	**27,864,970**	25,885,137
Financial assets designated as at fair value through profit or loss	**72,097**	228,895
Derivative financial assets	**25,645**	49,108
Cash held on behalf of clients	**50,777,253**	55,082,662
Bank balances	**14,873,722**	17,525,484
Others	**3,698,712**	2,135,109
Total maximum credit risk exposure	**185,654,262**	172,682,376

47 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

47.2 Liquidity risk

Liquidity risk is the risk of loss when the Company is unable to fund its obligations to financial liabilities. The Company has established clear decision-making levels, authority delegation and risk control rules and procedures, and clearly defined the roles and responsibilities of the Board of Directors, executive management and business departments in liquidity risk management. The Company has established strict rules and procedures for managing its own funds and requires strict compliance with these rules and procedures in taking debts, providing guarantees and making investments; it also sets liquidity risk limits and conducts daily position analyses and monthly liquidity position analyses to manage liquidity movements. For effective management of market liquidity risk of its securities portfolios, the Company has implemented securities centralization management for securities investment and financing activities, and adopted credit rating criteria for fixed-income securities investments. The Company also calculates liquidity coverage ratio and net stable funds ratio as per regulatory requirements and all indicators fall within the safety zone.

The Company has the Treasury Operation Department to manage the liquidity of its own funds, including developing long-term and stable funding channels, improving asset allocation between business lines, and steadily optimizing its of assets and liabilities structure. The Company continues to improve its daily practices for liquidity risk management with the help of level-by-level liquidity reserves, liquidity contingency planning, and stress testing. In addition to improving liquidity risk management practices and systems, the Company aims to further improve the use of technology and the level of automation in process management, fund allocation, and position monitoring. The Company has adopted the Funds Transfer Pricing (FTP) since 2016 for trial implementation, which improves the funding allocation in each business lines by marketization and liquidity risk controls.

(In RMB thousands, unless otherwise stated)

47 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

47.2 Liquidity risk (Continued)

The maturity profile of the financial liabilities as at the end of the reporting period, based on their contractual undiscounted payments, is as follows:

	30 June 2017					
	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Accounts payable to brokerage clients	52,466,237	–	–	–	–	52,466,237
Derivative financial liabilities in net settlement	113,312	289	2,092	17,026	–	132,719
Financial liabilities held for trading	–	137,159	–	–	–	137,159
Financial liabilities designated as at fair value through profit or loss	–	–	–	9,913	–	9,913
Financial assets sold under repurchase agreements	–	24,317,570	8,929,771	–	–	33,247,341
Placements from banks and other financial institutions	–	7,131,950	2,045,500	–	–	9,177,450
Short-term borrowings	–	1,367,138	–	–	–	1,367,138
Short-term financing instruments payable	–	8,077,916	10,132,556	–	–	18,210,472
Bonds in issue	–	129,772	520,468	17,376,924	–	18,027,164
Others	5,346,559	6,078,387	8,088,081	20,685	307	19,534,019
Total	57,926,108	47,240,181	29,718,468	17,424,548	307	152,309,612
Cash flows from derivative financial liabilities settled on a net basis	113,312	–	2,080	17,026	–	132,418
Gross-settled derivative financial liabilities:						
Contractual amounts receivable	–	–	–	–	–	–
Contractual amounts payable	–	289	12	–	–	301

(In RMB thousands, unless otherwise stated)

47 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

47.2 Liquidity risk (Continued)

The maturity profile of the financial liabilities as at the end of the reporting period, based on their contractual undiscounted payments, is as follows (continued):

	31 December 2016					
	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Accounts payable to brokerage clients	56,736,034	–	–	–	–	56,736,034
Derivative financial liabilities in net settlement	97,361	53	5,556	29,606	–	132,576
Financial liabilities held for trading	–	2,974,594	–	–	–	2,974,594
Financial liabilities designated as at fair value through profit or loss	–	–	–	9,938	–	9,938
Financial assets sold under repurchase agreements	–	18,990,592	5,825,754	510,956	–	25,327,302
Placements from banks and other financial institutions	–	7,445,178	2,030,333	–	–	9,475,511
Short-term borrowings	–	1,782,793	–	–	–	1,782,793
Short-term financing instruments payable	–	7,839,785	29,355	–	–	7,869,140
Bonds in issue	–	10,691	565,166	14,626,396	–	15,202,253
Others	2,991,681	6,900,322	8,883,804	10,615	13	18,786,435
Total	59,825,076	45,944,008	17,339,968	15,187,511	13	138,296,576
Cash flows from derivative financial liabilities settled on a net basis	97,361	145	5,371	29,606	–	132,483
Gross-settled derivative financial liabilities:						
Contractual amounts receivable	–	–	–	–	–	–
Contractual amounts payable	–	(92)	185	–	–	93

47 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

47.3 Market risk

Market risk represents risk of fluctuations in fair values or future cash flows of financial instruments due to movements in market prices. Market risks primarily include stock price risk, interest rate risk, foreign exchange rate risk, and other price risks.

For market risks, the Company has established a sound risk management organizational structure and built risk management processes that enables end-to-end coverage of investment activities before, during and after making the investments, with risk limits applied to every investment. The Company annually reviews and approves risk limits for the Company as well as each and every proprietary business lines, including exposure limits, stop-loss limits, VaR limits and stress testing limits, and charges the Risk Management Department to monitor and supervise their implementation and compliance. The Company has adopted daily mark-to-market practices, and implemented stop-loss procedures commensurate with its trading strategies. On a regular basis, the Company assesses the risk tolerance of its proprietary business lines and the effectiveness of its risks, and includes the assessment results in the performance evaluation of these business lines. The Company makes on-going efforts to improve its proprietary business management system, including automated controls over relevant limit indicators.

(1) Value at risk (VaR)

The Company adopts VaR as a tool to measure the market risk of its entire securities investment portfolio comprising different types and varieties of financial instruments. VaR is a method that estimates the maximum possible loss on the portfolio due to movements in market interest rates or securities prices over a specified time period and within a given confidence interval.

VaR is calculated using the Company's historical data (at a confidence level of 95% and with a holding period of 10 trading days). Although VaR analysis is a key instrument for measuring market risk, it has to rely on historical data and relevant information, and accordingly, it has certain inherent limitations so that it may not accurately predict the future changes of risk factors and in particular, cannot effectively reflect the risk under extreme market conditions.

(In RMB thousands, unless otherwise stated)

47 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

47.3 Market risk (Continued)

(1) Value at risk (VaR) (Continued)

The Company's VaR analysis by risk categories is summarised as follows:

	As at 30 June 2017	**Six months ended 30 June 2017**		
		Average	**Maximum**	**Minimum**
Equity price-sensitive financial instruments	**26,510**	**22,085**	**41,847**	**13,994**
Interest rate-sensitive financial instruments	**222,391**	**230,389**	**264,721**	**195,944**

	As at 30 June 2016	Six months ended 30 June 2016		
		Average	Maximum	Minimum
Equity price-sensitive financial instruments	94,393	120,932	178,640	84,055
Interest rate-sensitive financial instruments	107,524	67,756	107,524	42,667

In addition, for the purpose of maintaining market stability, the Company made contributions to a special account solely managed by CSFC and agreed with other investing securities companies to share risks and returns on the investments in proportion to their respective contributions. This investment is also exposed to market risks, but since it is impossible to accurately estimate the exposure, it is not included in the calculations for the above VaR indicators.

(In RMB thousands, unless otherwise stated)

47 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

47.3 Market risk (Continued)

(2) Interest rate risk

Interest rate risk represents the risk of losses to the fair values or future cash flows of financial instruments due to adverse movements in market interest rates. The Company's interest rate risk primarily comes from the interest rate-sensitive financial instruments whose fair values are subject to changes due to adverse movements in market interest rates.

The Company primarily uses interest rate sensitivity analysis to monitor its interest rate risk. Sensitivity analysis measures the impact of fair value changes of financial instruments held at the year end on the Company's total income and shareholders' equity when reasonable and possible changes occur to interest rates, assuming all other variables remain the same. Sensitivity analysis assumes that market interest rates shift in a parallel manner and does not consider any risk management actions that the management may take to reduce its interest rate risk.

Interest rate sensitivity analysis of the Group are as follows:

	Six months ended 30 June	
Sensitivity of revenue	**2017**	2016
Change in basis points		
+25 basis points	**(143,751)**	(154,810)
– 25 basis points	**145,178**	156,595

	Six months ended 30 June	
Sensitivity of equity	**2017**	2016
Change in basis points		
+25 basis points	**(186,071)**	(129,776)
– 25 basis points	**188,548**	131,692

47 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

47.3 Market risk (Continued)

(3) Foreign exchange rate risk

With respect to foreign exchange rate risk, the Group's foreign-currency-denominated assets and liabilities represent only a small portion in its entire assets and liabilities portfolio. After the public offering on the Stock Exchange of Hong Kong Limited, the Group raised approximately HKD7.81 billion in foreign funds. The Group has strictly followed the plans and arrangements for these funds as disclosed in the Prospectuses, requiring that 15% of these funds be retained to support its overseas operations under proper and effective control of its foreign exchange risk exposures, and the rest be remitted back to Mainland China and converted into Renminbi to support its domestic operations, including wealth management, institutional client services and investment management. As at 30 June 2017, the Group had converted about HKD6.31 billion to support its afore-mentioned business activities, as its foreign exchange risk exposures further decreased. The Group manages its foreign exchange rate risk by limiting the size of its foreign-currency-denominated assets and liabilities and setting stop-loss limits for proprietary investments by its overseas subsidiaries, among other methods. In its income structure, the majority of its income-earning business activities are conducted in Renminbi, with only a small portion denominated in foreign currencies. Given the small portion of the foreign-currency-denominated businesses in both its assets and liabilities portfolio and income structure, the Group believes that its foreign exchange rate risk has only an insignificant impact on its current operations.

(4) Other price risks

Other price risks refer to risks of fair value decline to the Group's investment portfolio due to fluctuations in market prices other than stock prices, interest rates, and foreign exchange rates, including primarily commodity prices. The Group's investment portfolio primarily comprises equity securities and their derivative instruments as well as fixed income businesses. Other market price-related businesses include gold trading where the Group primarily focuses on providing liquidity services and arbitrage trading, and economically hedges its positions with deferred gold trading and gold future transactions. The size of its gold portfolio represents a very small portion of the Group's portfolio and a negligible risk exposure. Accordingly, the Group believes that other price risks do not have a significant impact on the Group's current operations.

47 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

47.4 Capital management

The Group's objectives of capital management are:

- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for equity holders and benefits for other stakeholders;
- To support the Group's stability and growth;
- To maintain a strong capital base to support the development of their business; and
- To comply with the capital requirements under the PRC regulations.

In accordance with Administrative Measures for Risk Control Indicators of Securities Companies (Revision 2016) (the "Administrative Measures") issued by the CSRC and effective 1 October 2016, the Company is required to meet the following standards for risk control indicators on a continual basis:

- Risk coverage ratio shall be no less than 100%;
- Capital leverage ratio shall be no less than 8%;
- Liquidity coverage ratio shall be no less than 100%;
- Net stable funding ratio shall be no less than 100%;

Risk coverage ratio = net capital/sum of various risk capital provisions x 100%;

Capital leverage ratio = core net capital/total asset on-/off-balance-sheet x 100%;

Liquidity coverage ratio = high quality liquid assets/net cash outflow in 30 days x 100%;

Net stable funding ratio = available amount of stable funding/required amount of stable funding x 100%.

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

48 EVENTS AFTER THE REPORTING PERIOD

Issuance of corporate bonds

In July 2017, the Company privately issued a 3-year fixed rate corporate bond ("17 Xintou F1") with a face value of RMB5 billion. The bond pays interest at 4.74% per annum and is not guaranteed.

In July 2017, the Company privately issued a 1-year fixed rate short-term corporate bond ("17 Xintou D4") with a face value of RMB3.5 billion. The bond pays interest at 4.74% per annum and is not guaranteed.

中信建投証券股份有限公司
CSC Financial Co., Ltd.