

恒投证券

HENGTOU SECURITIES

(a joint stock company incorporated in the People's Republic of China with limited liability under the Chinese corporate name “恒泰证券股份有限公司” and carrying on business in Hong Kong as “恒投證券” (in Chinese) and “HENGTOU SECURITIES” (in English))

Stock Code: 1476

2018 INTERIM
REPORT

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Important Notice

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

This report has been considered and approved at the third meeting of the fourth session of the Board and the third meeting of the fourth session of the Supervisory Committee where all the Directors and Supervisors were present, respectively. No Directors, Supervisors or senior management of the Company declared that they could not guarantee or had any objection to the truthfulness, accuracy and completeness of this report.

The interim financial information for the six months ended 30 June 2018 is prepared by the Company in accordance with the International Financial Reporting Standards, and has been reviewed by RSM Hong Kong in accordance with Hong Kong Standards on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. All amounts set out in this report are stated in RMB unless otherwise stated.

Mr. Pang Jiemin (the chairman of the Board), Mr. Niu Zhuang (the president), Ms. Yang Shufei (the chief financial officer) and Mr. Yang Liyang (the finance manager) declared that they undertake the interim financial information in this report are true, accurate and complete.

The forward-looking statements including future plans and development strategies involved in this report do not constitute the Company's substantive commitment to investors. The investors are advised to pay attention to investment risks.

Section I Definitions

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

Articles of Association	the articles of association of the Company, as amended from time to time
asset securitisation	an act of converting less liquid assets into securities that can be traded freely in the financial market to have them become liquid and a direct way of financing through issuing securities in capital market and monetary market
Baotou Huazi	Baotou Huazi Industry Co., Ltd. (包頭華資實業股份有限公司), listed on the Shanghai Stock Exchange (stock code: 600191) and a substantial shareholder of the Company
Board	the board of directors of the Company
Company or Hengtou Securities	a company established as a limited liability company in the PRC on 28 December 1998 and converted into a joint stock company with limited liability under the PRC laws on 3 November 2008 under the corporate name “恒泰证券股份有限公司” (Hengtai Securities Co., Ltd), and carrying on business in Hong Kong as “恒投證券” (in Chinese) and “HENGTOU SECURITIES”(in English) as approved by and registered with the Hong Kong Companies Registry on 27 April 2015, and whose H shares are listed on the Main Board of the Hong Kong Stock Exchange
Corporate Governance Code	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
CSRC	the China Securities Regulatory Commission (中國證券監督管理委員會)
Director(s)	director(s) of the Company
Domestic Share(s)	ordinary share(s) issued by the Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid-up in RMB
end of Reporting Period	30 June 2018
Finance Street Capital	Beijing Finance Street Capital Management Centre (北京金融街資本運營中心), which holds 100% equity interest in Huarong Infrastructure
Finance Street Investment	Beijing Finance Street Investment (Group) Co., Ltd. (北京金融街投資(集團)有限公司), formerly known as Beijing Finance Street Construction Group Co., Ltd. (北京金融街建設集團), a subsidiary of SASAC Xicheng District and a shareholder of the Company

Section I Definitions

Finance Street Xihuan Properties	Beijing Finance Street Xihuan Properties Co., Ltd. (北京金融街西環置業有限公司), formerly known as Beijing Xihuan Properties Co., Ltd. (北京西環置業有限公司), a subsidiary of SASAC Xicheng District and a shareholder of the Company
GDP	gross domestic product
Group	the Company and its subsidiaries
H Share(s)	overseas listed foreign ordinary share(s) with a nominal value of RMB1.00 each in the share capital of the Company, which are listed on the Main Board of the Hong Kong Stock Exchange
Hangzhou Ruisi	Hangzhou Ruisi Industrial Co., Ltd. (杭州瑞思實業有限公司), which holds 98.67% equity interest in Shaanxi Tianchen
Hengtai Capital	Hengtai Capital Investment Co., Ltd. (恒泰資本投資有限責任公司), 100% equity interest of which is held by the Company
Hengtai Changcai	Hengtai Changcai Securities Co., Ltd. (恒泰長財證券有限責任公司), 100% equity interest of which is held by the Company
Hengtai Futures	Hengtai Futures Co., Ltd. (恒泰期貨股份有限公司), 80% and 20% equity interest of which are held by the Company and Hengtai Capital, respectively
Hengtai Pioneer	Hengtai Pioneer Investment Co., Ltd. (恒泰先鋒投資有限公司), 100% equity interest of which is held by the Company
HK\$	Hong Kong dollars, the lawful currency of Hong Kong
Hong Kong	the Hong Kong Special Administrative Region of the PRC
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Hongzhi Huitong	Beijing Hongzhi Huitong Industrial Co., Ltd. (北京鴻智慧通實業有限公司), a shareholder of the Company
Huarong Infrastructure	Beijing Huarong Infrastructure Investment Co., Ltd. (北京華融基礎設施投資有限責任公司), a subsidiary of SASAC Xicheng District and a shareholder of the Company
Huarong Investment	Beijing Huarong Comprehensive Investment Company (北京華融綜合投資公司), which holds 90% equity interest in Finance Street Xihuan Properties

Section I Definitions

Huifa Investment	Tibet Dazi Huifa Investment Co., Ltd. (西藏達孜匯發投資有限公司), formerly known as Shenzhen City Huifa Investment Co., Ltd. (深圳市匯發投資有限公司), and a shareholder of the Company
Huijin Jiaye	Beijing Huijin Jiaye Investment Co., Ltd. (北京匯金嘉業投資有限公司), a shareholder of the Company
IPO	Initial Public Offering
Listing	the listing of the H Shares on the Main Board of the Hong Kong Stock Exchange on 15 October 2015
Listing Date	15 October 2015
Listing Rules	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
margin financing and securities lending	a collateral-backed operating activity in which securities firms provide clients with monies to buy listed securities or with listed securities for sale
Model Code	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
NEEQ	National Equities Exchange and Quotations
New China Fund	New China Fund Management Co., Ltd. (新華基金管理股份有限公司), 58.62% equity interest of which is held by the Company
Ningbo Shike	Ningbo Shike Trading Co., Ltd. (寧波實科商貿有限公司), which holds 70% equity interest in Qingyun Intercontinental
PRC or China	for the purpose of this report, the People's Republic of China (excluding Hong Kong, Macau Special Administration Region of the PRC and Taiwan)
Prospectus	the H Shares prospectus of the Company dated 30 September 2015
Qingyun Intercontinental	Beijing Qingyun Intercontinental Technology Co., Ltd. (北京慶雲洲際科技有限公司), a substantial shareholder of the Company

Section I Definitions

Reporting Period	the six months ended 30 June 2018
RMB	Renminbi, the lawful currency of China, the basic unit of which is Yuan
SASAC Xicheng District	The State-owned Assets Supervision and Administration Commission of Xicheng District People's Government of Beijing Municipality (北京市西城區人民政府國有資產監督管理委員會), which holds 100% equity interest in each of Huarong Investment, Finance Street Capital and Finance Street Investment, respectively
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Shaanxi Hongya	Shaanxi Hongya Ruijiu Trading Co., Ltd. (陝西弘雅瑞久商貿有限公司), which holds 99.60% equity interest in Ningbo Shike
Shaanxi Tianchen	Shaanxi Tianchen Technology Trading Co., Ltd. (陝西天宸科貿有限公司), which holds 97.08% equity interest in Hongzhi Huitong
Shanghai Julu	Shanghai Julu Information Technology Co., Ltd. (上海巨祿信息科技有限公司), which holds 99.47% equity interest in Shenzhen Zhongxin
Shanghai Xishida	Shanghai Xishida Electronic Technology Co., Ltd. (上海喜仕達電子技術有限公司), which holds 99.99% equity interest in Huijin Jiaye
Shanghai Yida	Shanghai Yida Technology Investment Co., Ltd. (上海怡達科技投資有限責任公司), a substantial shareholder of the Company
Shenzhen Zhongxin	Shenzhen Zhongxin Tuoye Technology Co., Ltd. (深圳中新拓業科技有限公司), which holds 95% equity interest in Shanghai Xishida
substantial shareholder(s)	has the meaning ascribed thereto under the Listing Rules
Supervisor(s)	supervisor(s) of the Company
Supervisory Committee	the supervisory committee of the Company

Section I Definitions

Suzhou Bingtai	Suzhou Bingtai Trading Co., Ltd. (蘇州秉泰貿易有限公司), which holds 94% equity interest in Hangzhou Ruisi
this report	2018 interim report of the Company
Tomorrow Holding	Tomorrow Holding Limited Company (明天控股有限公司), which holds approximately 54% equity interest in Baotou Huazi, one of the substantial shareholders of the Company
Wind Info	Wind Info Co., Ltd. (上海萬得信息技術股份有限公司), a joint stock company incorporated in the PRC with limited liability and a service provider of financial data, information and software, being an independent third party of the Company
Zhongchang Hengyuan	Zhongchang Hengyuan Holdings Limited (中昌恒遠控股有限公司), a substantial shareholder of the Company

Section II Company Profile

1. NAME OF COMPANY

Chinese name: 恒泰证券股份有限公司, being the corporate name in the PRC
(carrying on business in Hong Kong as “恒投證券”)

English name: HENGTAI SECURITIES CO., LTD, being English translation of the corporate name in the PRC
(carrying on business in Hong Kong as “HENGTOU SECURITIES”)

2. LEGAL REPRESENTATIVE OF THE COMPANY

Mr. Pang Jiemin

3. BOARD OF DIRECTORS

Executive Directors

Mr. Pang Jiemin (*Chairman*)

Mr. Wu Yigang (*Vice Chairman*)

Non-executive Directors

Mr. Zhang Tao

Mr. Sun Chao

Ms. Dong Hong

Ms. Gao Liang

Independent Non-executive Directors

Ms. Zhou Jianjun

Dr. Lam Sek Kong

Mr. Lv Wendong

Special Committees of the Board

Strategy and Investment Committee

Mr. Pang Jiemin (*Chairman of the Committee*)

Mr. Sun Chao

Dr. Lam Sek Kong

Risk Control and Supervisory Committee

Mr. Pang Jiemin (*Chairman of the Committee*)

Mr. Wu Yigang

Mr. Zhang Tao

3. BOARD OF DIRECTORS (CONTINUED)

Audit Committee

Ms. Zhou Jianjun (*Chairman of the Committee*)
Mr. Zhang Tao
Dr. Lam Sek Kong

Remuneration and Nomination Committee

Ms. Zhou Jianjun (*Chairman of the Committee*)
Mr. Pang Jiemin
Dr. Lam Sek Kong

4. SUPERVISORY COMMITTEE

Mr. Guo Liwen (*Chairman of the Supervisory Committee*)
Ms. Pei Jingjing
Mr. Wang Hui

5. SECRETARY OF THE BOARD

Mr. Zhang Wei
Tel: (86 471) 4913 858
Fax: (86 471) 4913 858
Email: zhangwei@cnht.com.cn
Correspondence address: 18/F, Everbright Bank Building, Oriental Junzuo Block D, Chile Chuan Avenue, Saihan District, Hohhot, Inner Mongolia Autonomous Region, the PRC (Post Code: 010098)

6. JOINT COMPANY SECRETARIES

Mr. Zhang Wei, Ms. Leung Wing Han Sharon

7. AUTHORIZED REPRESENTATIVES

Mr. Pang Jiemin, Ms. Leung Wing Han Sharon

Section II Company Profile

8. HEAD OFFICE IN CHINA

Registered address: 14–18/F, Everbright Bank Building, Oriental Junzuo Block D, Chile Chuan Avenue, Saihan District, Hohhot, Inner Mongolia Autonomous Region, the PRC
(Post Code: 010098)

Head office address: 11/F, China Life Centre, No. 17 Finance Street, Xicheng District, Beijing, the PRC
(Post Code: 100033)

Website: www.cnht.com.cn

Email: dongban@cnht.com.cn

9. PLACE OF BUSINESS IN HONG KONG

40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong

10. AUDITORS

International accounting firm: RSM Hong Kong

Domestic accounting firm: Ruihua Certified Public Accountants LLP

11. HONG KONG LEGAL ADVISOR

Luk & Partners
In Association with
Morgan, Lewis & Bockius

12. H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

13. STOCK CODE (H SHARES)

01476

Section III Summary of Accounting Data and Financial Indexes

I. PRINCIPAL ACCOUNTING DATA AND FINANCIAL INDEXES

(Accounting data and financial indexes set out in this report are prepared in accordance with the International Financial Reporting Standards)

Item	1 January 2018 to 30 June 2018	1 January 2017 to 30 June 2017	Increase/ (decrease) from last period
Operating results (RMB'000)			
Total revenue and other income	995,862	1,928,495	(48.36%)
(Loss)/profit before tax	(362,966)	516,081	(170.33%)
(Loss)/profit for the period – attributable to ordinary shareholders of the Company	(303,912)	361,851	(183.99%)
Net cash generated from/(used in) operating activities	952,918	(2,253,771)	142.28%
(Loss)/earnings per share (RMB/share)			
Basic (loss)/earnings per share ¹	(0.14)	0.12	(216.67%)
Diluted (loss)/earnings per share ¹	(0.14)	0.12	(216.67%)
Profitability index			
Weighted average rate of return on net assets (%) ²	(4.00)	3.77	Decreased by 7.77 percentage points
Item	30 June 2018	31 December 2017	Increase/ (decrease) from the end of last year
Scale indicators (RMB'000)			
Total assets	31,533,692	36,416,987	(13.41%)
Total liabilities	21,232,757	25,474,555	(16.65%)
Accounts payable to brokerage clients	9,257,253	10,028,333	(7.69%)
Equity attributable to ordinary shareholders and holders of perpetual capital securities	9,905,943	10,571,277	(6.29%)
Total share capital ('000 shares)	2,604,567	2,604,567	0.00%
Net assets per share attributable to ordinary shareholders³ (RMB/share)	3.23	3.48	(7.18%)
Gearing ratio (%)⁴	53.76	58.53	Decreased by 4.77 percentage points

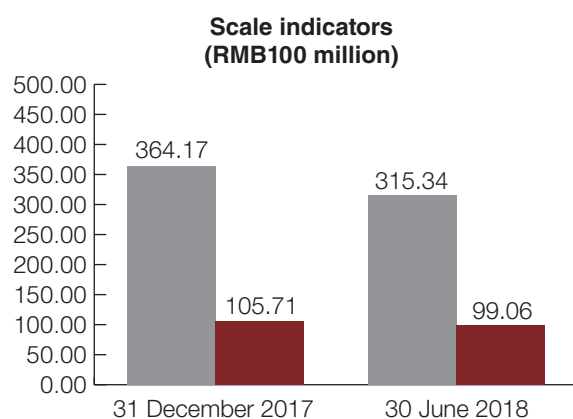
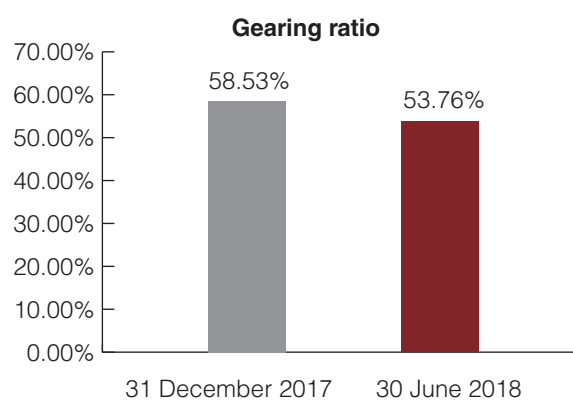
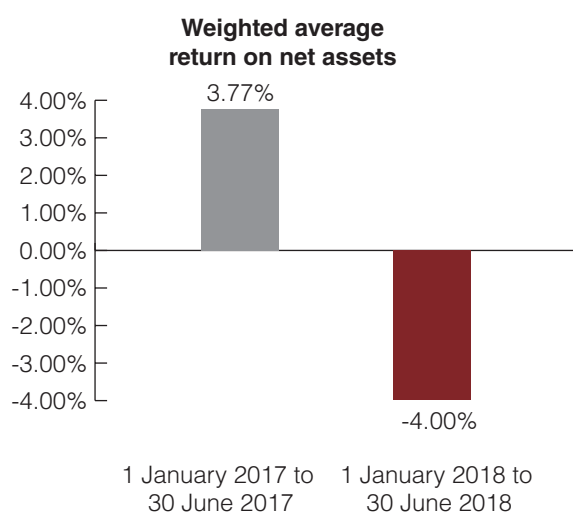
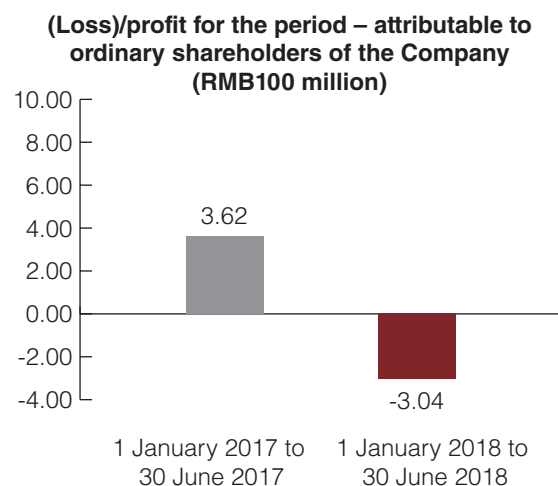
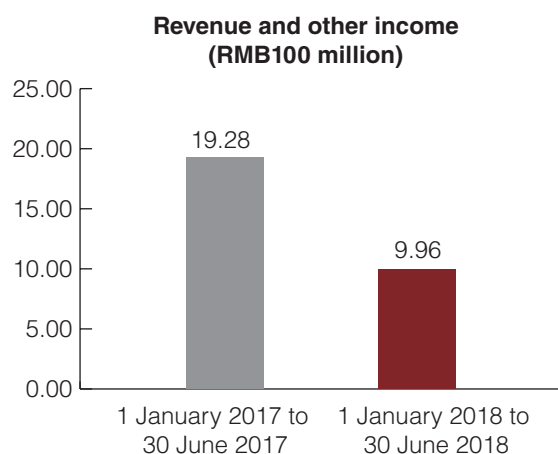
Section III Summary of Accounting Data and Financial Indexes

I. PRINCIPAL ACCOUNTING DATA AND FINANCIAL INDEXES (CONTINUED)

Notes:

1. The index is calculated based on the assumption of deducting the dividends of the holders of cumulative perpetual capital securities.
2. Weighted average rate of return on net assets (%) = $P / (E_o + P \div 2 + E_i \times M_i \div M_o - E_j \times M_j \div M_o)$, in which P represents net profit attributable to ordinary shareholders of the Company during the Reporting Period; E_o represents net assets attributable to ordinary shareholders of the Company at the beginning of the period; E_i represents additional net assets from issuance of new shares or from debt to equity attributable to ordinary shareholders of the Company during the Reporting Period; E_j represents reduced net assets from repurchase or from cash dividend attributable to ordinary shareholders of the Company during the Reporting Period; M_o represents the number of months of the Reporting Period; M_i represents the accumulative number of months calculated from the month following the additional net assets to the end of the Reporting Period; M_j represents the accumulative number of months calculated from the month following the reduced net assets to the end of the Reporting Period.
3. Net assets per share attributable to ordinary shareholders = (equity attributable to ordinary shareholders and holders of perpetual capital securities – perpetual capital securities) \div total share capital
4. Gearing ratio (%) = (total liabilities – account payables to brokerage clients) / (total assets – account payables to brokerage clients)

Section III Summary of Accounting Data and Financial Indexes



■ Total assets
■ Equity attributable to ordinary shareholders of the Company and holders of perpetual capital securities

Section III Summary of Accounting Data and Financial Indexes

II. NET CAPITAL AND RISK CONTROL INDEXES OF THE COMPANY

As at 30 June 2018, the Company's net capital amounted to RMB6,740.99 million, representing a decrease of RMB1,093.25 million as compared with RMB7,834.24 million as at the end of 2017. During the Reporting Period, the net capital and related risk control indexes of the Company met the regulatory requirements.

Unit: in RMB'000

Item	30 June 2018	31 December 2017	Regulatory standard
Net capital	6,740,993	7,834,239	N/A
Including: Net core capital	4,940,993	5,734,239	N/A
Net supplement capital	1,800,000	2,100,000	N/A
Net assets	9,235,629	9,939,416	N/A
Total risk capital provision	2,765,603	3,844,433	N/A
Total assets on and off statement of financial position	19,897,317	21,841,596	N/A
Risk coverage ratio	243.74%	203.78%	≥100%
Capital leverage ratio	24.83%	26.25%	≥8%
Liquidity coverage ratio	256.00%	520.72%	≥100%
Net stable funding ratio	140.00%	154.83%	≥100%
Net capital/net assets	72.99%	78.82%	≥20%
Net capital/liabilities	68.65%	71.19%	≥8%
Net assets/liabilities	94.06%	90.32%	≥10%
Proprietary equity securities and securities derivatives/net capital	20.39%	33.28%	≤100%
Proprietary non-equity securities and securities derivatives/net capital	76.35%	86.58%	≤500%

Section IV Management Discussion and Analysis

I. ECONOMIC AND MARKET ENVIRONMENT DURING THE REPORTING PERIOD

During the Reporting Period, China's macro-economy maintained stable operation with a slight decrease in the growth speed. In the first half of 2018, China's GDP grew by 6.8% year on year, at a growth rate 0.1 percentage point lower than that of the same period in 2017. Fixed asset investment, domestic consumption and export growth slowed down to a certain extent. Specifically, in the first half of 2018, China's fixed asset investment grew by 6% year on year, representing a decrease of 2.6 percentage points as compared with the same period in 2017; total retail sales of consumer goods grew by 9.4% year on year, representing a decrease of 1 percentage point as compared with the same period in 2017; RMB-denominated export volume grew by 4.9%, representing a decrease of 10.1 percentage points as compared with the same period in 2017. During the Reporting Period, broad money growth dropped to 8.0% year on year, the growth of the size of social financing fell to 9.8% year on year, and the liquidity of domestic market remained tight. During the Reporting Period, in respect of the political and economic environment of the world, the global economy continued to recover and advance on the one hand, and was faced with great uncertainties caused by trade friction, geopolitics, etc., in development, on the other hand.

During the Reporting Period, China's securities market declined in choppy trading with stable trading volumes in the market. In the first half of 2018, Shanghai Composite Index and Shenzhen Component Index fell by 13.90% and 15.04%, respectively. At the same time, the turnover of stocks and funds on both stock exchanges totaled RMB57,530,304 million, representing an increase of 1.55% as compared with the same period in 2017. In particular, the total turnover of stocks and funds on Shanghai Stock Exchange amounted to RMB27,370,758 million, representing an increase of 0.59% as compared with the same period in 2017; the total turnover of stocks and funds on Shenzhen Stock Exchange was RMB30,159,546 million, representing an increase of 2.43% as compared with the same period in 2017. (Sources: websites of National Bureau of Statistics, The People's Bank of China, General Administration of Customs, State Administration of Foreign Exchange, the Shanghai Stock Exchange and the Shenzhen Stock Exchange, Wind Info)

II. ANALYSIS OF PRINCIPAL BUSINESSES

During the Reporting Period, the Group recorded revenue and other income of RMB995.86 million and a net profit of RMB-279.87 million, representing a decrease of 48.36% and 171.17% as compared with the same period of 2017, respectively.

(I) Brokerage and Wealth Management Business

During the Reporting Period, the revenue and other income from brokerage and wealth management business amounted to RMB745.58 million, representing a decrease of 14.69% as compared with the same period of 2017.

Section IV Management Discussion and Analysis

II. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

(I) Brokerage and Wealth Management Business (Continued)

1. Securities brokerage

During the Reporting Period, as affected by the volatile securities market in China and the tightening industry regulation, the pace of development of securities brokerage business slowed down as compared with 2017. During the Reporting Period, the number of new accounts opened reached 45,200, and the number of clients reached 2,319,000, representing an increase of 1.79% as compared with the end of 2017. The total assets under custody for clients reached RMB127,274 million, representing a decrease of 17.33% as compared with the end of 2017, which was roughly the same as the fall in the capitalization-weighted index of Shanghai and Shenzhen stock markets. The turnover of stocks and funds reached RMB698,391 million, representing a decrease of 3.66% as compared with the same period of 2017, while the market share of stocks and funds was 0.6114%, representing a decrease of 4.51% as compared with the same period of 2017.

2. Futures brokerage

During the Reporting Period, Hengtai Futures successfully promoted the preparatory work for the construction of three business departments in Shenyang, Jinan and Qingdao in China; continued to carry out various online and offline investment education activities; followed up the special training program for poverty alleviation arranged by China Futures Association; and established cooperative relationships with external institutions to achieve the rights and interests. During the Reporting Period, the number of newly-added clients of Hengtai Futures reached 1,447.

3. Wealth management

During the Reporting Period, the Company continued to promote the sales of financial products by adjusting the organizational structure, establishing the wealth management department, streamlining the procedures of agency sales and optimizing the sales process. It sorted out and further improved the rules and regulations for the sale of financial products to promote the increase in the total sales of each product line in a proactive manner. It further strengthened risk control and enhanced risk awareness so as to improve wealth management standard. Besides, it continued to devote intensive efforts to the work regarding investor education. During the Reporting Period, the Company sold a total of 76 financial products and recorded a sales amount of RMB4,751.46 million, representing an increase of 19.04% as compared to the same period of 2017.

Section IV Management Discussion and Analysis

II. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

(I) Brokerage and Wealth Management Business (Continued)

4. Capital-based intermediary business

During the Reporting Period, the Company renovated various business systems in a timely manner to enhance business operability and improve work efficiency on the one hand; and devoted greater efforts to the guidance and development of institutional customers and high net worth customers on the other hand, which prompted continuous improvement in the customer retention of the Company. As at the end of the Reporting Period, the Company's balance of the margin financing and securities lending business amounted to RMB5,432.39 million, and the balance of stock-pledged repurchase amounted to RMB818.26 million.

5. Asset custody business

During the Reporting Period, the Company continued updating the business systems, optimized customer service processes and strengthened market development efforts based on customer needs, thereby achieving steady growth in asset custody business. As at the end of the Reporting Period, the Company provided custody services for 863 funds, fund services to 552 funds and fund raising supervision services for 90 funds. The total size of asset custody, fund services and fund supervision raising amounted to RMB116,770 million, representing an increase of RMB4,910 million as compared with the end of 2017.

(II) Investment Banking Business

During the Reporting Period, the revenue and other income from investment banking business amounted to RMB60.33 million, representing a decrease of 54.33% as compared with the same period of 2017.

1. Equity financing

During the Reporting Period, Hengtai Changcai, by maintaining and consolidating core customers, gradually formed a stable business scale in mergers and acquisitions, refinancing and IPO business, and steadily pressed ahead equity financing projects in the pipeline.

2. Debt financing

During the Reporting Period, capitalizing on its existing advantages and making use of selected experience to promote its entire work, Hengtai Changcai gradually generated scale effect for its businesses and actively expanded its new business coverage. Hengtai Changcai, serving as the lead underwriter, completed 6 enterprise bond projects with a financing amount of RMB3,790 million.

Section IV Management Discussion and Analysis

II. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

(II) Investment Banking Business (Continued)

3. Business of listing on the NEEQ

During the Reporting Period, the securities industry continued the regulatory framework of strict supervision, intensive compliance and quality improvement. Under the environment of industry de-leveraging and risk control, the NEEQ listing recommendation market continued to shrink and competition therein became fiercer. There were 320 NEEQ listing projects in aggregate, declining by 71.70% as compared with the same period in 2017 (data source: NEEQ). Under such fierce competition circumstances, the Company adhered to the principles of risk control, system improvement, and enhancement of quality and efficiency for the NEEQ listing business, followed the policy preference of serving the real economy with finance, and actively served the capital market demands of the NEEQ listing companies. During the Reporting Period, it completed 17 listing recommendation projects, representing a decrease of 29.20% as compared with the same period of 2017. Nonetheless, it coped with market competitions properly and moved up in the market ranking. It also completed 8 projects for private placements and mergers and reorganizations, and provided continuous steering services for 120 listed companies, which was basically at the same level as that of the same period of 2017.

(III) Investment Management Business

During the Reporting Period, the revenue and other income from investment management business amounted to RMB443.64 million, representing a decrease of 10.70% as compared with the same period of 2017.

1. Assets management

During the Reporting Period, China's securities market fluctuated downwards. In the first half of 2018, the Shanghai Index fell by 13.90%. Due to the market fluctuations, the investment income of equity products and the issuance of new products were significantly impacted. In the meantime, new asset management requirements was implemented in the first half of 2018. As affected by the macro policy of financial de-leveraging and the new asset management requirements, passive management products in asset management business scaled down sharply. Notwithstanding, the Company adhered to its consistent strategy of balanced layout to improve its capability of investment research in an ongoing manner. As a result, the equity collective management schemes under its management outperformed the Shanghai Composite Index, and the performance of the collective management schemes with fixed returns also ranked top 1/3 among congeneric products in the industry during the same period, thus preliminarily developing a sound product foundation.

Section IV Management Discussion and Analysis

II. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

(III) Investment Management Business (Continued)

1. Assets management (Continued)

As at the end of the Reporting Period, the total size of asset management business was RMB89,831.54 million, of which the size of collective schemes amounted to RMB1,852.79 million; the size of targeted schemes amounted to RMB57,074.54 million; the size of the ABS special schemes amounted to RMB30,904.21 million.

As at the end of the Reporting Period, the numbers of subsisting products of the collective, targeted asset management schemes and the ABS special schemes were 29, 52 and 22 respectively.

2. Fund management

During the Reporting Period, New China Fund improved the performance of equity fund investment through constant enhancement of its investment research capacity and intensified efforts on the construction of an investment research team; continued to carry on product reserve and completed the issuance of 1 fund product; strengthened the management of middle and back office to promote business development and enhanced compliance management to level up risk control standards; and continued to push ahead with poverty alleviation.

As at the end of the Reporting Period, New China Fund had 46 publicly-raised funds with total management size amounting to RMB33,993 million, representing a decrease of RMB10,022 million or 22.77% as compared to the end of 2017, primarily attributable to the relative significant amount of net redemption of monetary fund. The size of asset management with special accounts reached RMB22,822 million, representing an increase of RMB4,613 million or 25.33% as compared to the end of 2017.

Section IV Management Discussion and Analysis

II. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

(III) Investment Management Business (Continued)

3. Private equity investment business

During the Reporting Period, Hengtai Capital ceased to carry out new direct investment business in accordance with the requirements of regulatory authorities, and gradually exited from its original direct investment projects. While conducting private equity fund business at full steam, it proactively implemented various tasks according to the rectification plan submitted to the regulatory authorities.

As at the end of the Reporting Period, Hengtai Capital invested in 10 direct investment projects with its own funds for a total investment size of RMB707.85 million, and managed 10 private equity funds with the total size of RMB9,714.07 million.

4. Alternative investment

During the Reporting Period, Hengtai Pioneer completed its exit from part of its investment projects in accordance with the requirements of regulatory authorities, strengthened its post-investment management over existing projects and proactively conducted new investment business. Meanwhile, it further improved system construction, standardized position arrangement and operational lines of business investment, and enhanced internal control and risk management.

As at the end of the Reporting Period, Hengtai Pioneer invested in 11 direct investment projects with its own funds for an investment size of RMB114 million.

(IV) Proprietary Trading Business

During the Reporting Period, the revenue and other income from the proprietary trading business amounted to RMB-291.61 million, representing a decrease of 177.40% as compared with the same period of 2017.

During the Reporting Period, as affected by the continued de-leverage in the PRC, international trade friction and other internal and external factors, the securities market in the PRC fell in choppy trading. For stock investment, the Company reduced its holding, optimized its holding structure and took other measures in a prompt manner to control the overall risks; in light of the severe polarization of domestic fixed income market, continued rise of interest rate bonds and incessant fall of credit bonds, the Company promptly adjusted the holding structure of bonds for fixed income business and obtained certain investment income. During the Reporting Period, as affected by the downward securities market, the proprietary trading business of the Company suffered from losses. In the second half of the 2018, the Company will strengthen prospective study on the market, conduct dynamic adjustments and optimise the holding structure with a view to effectively enhancing the overall income.

Section IV Management Discussion and Analysis

II. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

(IV) Proprietary Trading Business (Continued)

In terms of the stock investment business, by adhering to the principle of prudent operation and the concept of value investment, the Company selected stocks with valuation advantage and liquidity premium as the basis of the portfolio, which turned out relatively effective in the avoidance of non-systemic risks in the market. However, the Company still recorded floating losses due to the overall sluggish market conditions.

In terms of fixed income business, in response to the complex and volatile market environment, the Company strengthened its research on the bond market, adjusted its investment strategies in a timely manner, and accurately understood the structured performance of the bond market in the first half of 2018, resulting in results superior to the market performance; substantial progress was achieved in terms of interest rate swap, bond lending, dealer-quoted bond repurchase and other innovative businesses.

In terms of the share transfer market-making business, in consideration of the poor liquidity of NEEQ market and the flagging overall market environment, the Company strengthened the analysis of the market and implemented prudent investment strategy during the Reporting Period.

(V) International Business

During the Reporting Period, the Company proactively expanded its resource networks for international business, continually explored and fostered various businesses on the overseas market, screened and reserved talents, actively pushed ahead the application for establishment of the Hong Kong subsidiary and promoted future development of international business.

Section IV Management Discussion and Analysis

III. PROSPECTS AND FUTURE PLANS

(I) Development Prospect of the Industry

The regulatory authorities will maintain comprehensive and strict control over the securities industry in the PRC in accordance with laws, and improve capabilities of compliance operation and overall risk control of the industry. On 27 April 2018, the People's Bank of China, China Bank Insurance Regulatory Commission, CSRC and the State Administration of Foreign Exchange jointly promulgated the Guidance Opinions on Regulating the Asset Management Business of Financial Institutions (《關於規範金融機構資產管理業務的指導意見》), which will form a new regulation landscape for the asset management industry, posing certain risks on credit business, proprietary business and asset management business of the securities industry. In respect of capital market construction, on 22 March 2018, the State Council forwarded the Opinions on Pilot Project of Domestic Issuance of Shares and Depository Receipts by Innovative Enterprises (《關於開展創新企業境內發行股票或存托憑證試點的若干意見》) issued by CSRC to support innovative enterprises for financing by way of listing. It is expected that improving the capabilities of the securities industry in boosting the supply-side structural reform and serving the real economy will remain as a future development focus.

In respect of operation in the industry, regulations are increasingly stringent and the market liquidity remains at a tight balance. Under such circumstances, it is expected that in the second half of 2018, the securities market is very likely to stay under consolidation in certain ranges. Brokerage business and margin financing and securities lending businesses are prone to bear the pressure due to the volatile market and light volume. The proprietary business will also be subject to the adverse impact of the volatile stock market. Against the background of the stock market downturn, investment banking business will be faced with pressure from further slowdown of IPO progress and shrinkage of refinancing scale. However, for assets management business, securities companies with an edge in active business management are expected to gain further advantages under the new asset management requirements.

(II) Development Plan of the Company

In strict adherence to the regulatory requirements, the Company will enhance the internal risk control and compliance management, implement prudent operation and constantly promote the business development of the Company, thus improving its competitiveness.

The Company will focus on the establishment of characteristic and differentiated business advantages to further optimize business layout, deepen transformation and reform of business mode, expand scale and improve profitability. In reliance on the construction of a professional and integrated back-office service system, the Company will intensify the construction of the talents and information technology back-office systems, enhance the synergy effect of the front and back office, and fully improve the operating results and management level so as to spend greater efforts on innovation and business advancement while expanding the asset scale and market share. In respect of brokerage business, through its characterized services, the Company strives to build up a new brokerage business ecosystem around finance management and investment and consultation services. It will also highlight active management over clients' assets and financing to increase the predictability of its business operation. Leveraging the unified data center, the Company will also provide characterized services for high net worth clients with targeted marketing mode and diversified product mix. In terms of investment banking business, the Company will intensify its efforts on platform construction to further cement and improve the core competence of bonds issuance. For assets management business, the Company will establish a investment and research personnel training system that integrates "external recruitment" and "internal cultivation" to advance the construction of an echelon of personnel specializing in active business management, strengthen the capability of risk control and management and level up the active management capability.

Section IV Management Discussion and Analysis

IV. FINANCIAL STATEMENTS ANALYSIS

(I) Analysis on Profitability during the Reporting Period

During the Reporting Period, the Group recorded revenue and other income of RMB995.86 million in aggregate, representing a decrease of 48.36% as compared with the same period in 2017. Net profit attributable to shareholders of the Company amounted to RMB-303.91 million, representing a decrease of 183.99% as compared with the same period in 2017. Earnings per share amounted to RMB-0.14, representing a decrease of 216.67% as compared with the same period in 2017. Weighted average return on net assets was -4.00%, representing a decrease of 7.77 percentage points as compared with the same period in 2017.

(II) Asset Structure and Asset Quality

As at the end of the Reporting Period, total assets of the Group amounted to RMB31,533.69 million, down by 13.41% as compared with RMB36,416.99 million as at the end of 2017. Total liabilities amounted to RMB21,232.76 million, down by 16.65% as compared with RMB25,474.56 million as at the end of 2017. Equity attributable to ordinary shareholders and holders of perpetual capital securities of the Company amounted to RMB9,905.94 million, down by 6.29% as compared with RMB10,571.28 million as at the end of 2017.

The Group's asset structure remained stable with sound asset quality and liquidity. As at the end of the Reporting Period, the total assets of the Group comprised of: cash assets, which primarily included cash and bank balances (including cash held on behalf of brokerage clients), clearing settlement funds and refundable deposits, amounted to RMB12,580.22 million, representing 40% of the Group's total assets; margin assets, which primarily included margin accounts receivable and financial asset held under resale agreements, amounted to RMB7,281.94 million, representing 23% of the Group's total assets; financial investment assets, which primarily included investment in associates and investment in financial assets, amounted to RMB10,117.70 million, representing 32% of the Group's total assets; and property, equipment and other operating assets, which primarily included property, equipment, investment properties and intangible assets, amounted to RMB1,553.83 million, representing 5% of the Group's total assets.

The Group's gearing ratio and financial leverage ratio remained relatively stable. As at the end of the Reporting Period, liabilities after deducting accounts payable to brokerage clients amounted to RMB11,975.50 million, representing a decrease of RMB3,470.72 million or 22.47% as compared with that at the end of 2017. The gearing ratio of the Group was 53.76%, down by 4.77 percentage points from 58.53% as at the end of 2017 (Note: gearing ratio = (total liabilities – accounts payable to brokerage clients)/(total assets – accounts payable to brokerage clients)). Financial leverage ratio was 2.25 folds, down by 10.00% from 2.50 folds as at the end of 2017 (Note: financial leverage ratio = (total assets – accounts payable to brokerage clients)/equity attributable to ordinary shareholders and holders of perpetual capital securities of the Company).

Section IV Management Discussion and Analysis

IV. FINANCIAL STATEMENTS ANALYSIS (CONTINUED)

(III) Financing Channels and Financing Ability

During the Reporting Period, the Company met its operating capital requirement through debt financing. Debt financing of the Company included the issuance of corporate bonds, margin and securities refinancing and transfer of income right of margin financing and securities lending.

During the Reporting Period, the Company raised accumulated proceeds of RMB841.21 million from issuance of beneficiary certificates. Meanwhile, the Company received comprehensive credit line with greater limit granted by several banks.

(IV) Liquidity Management

The Company focuses on its liquidity management. It has established a specific department responsible for liquidity management. The Company's liquidity management focused on the organic combination of the security, liquidity and profitability of capital. As requested by the CSRC, the Company established sound management system and contingency measure for liquidity risk. The Company has prepared monthly liquidity monitor statement. The liquidity monitor index of the Company in each month throughout the Reporting Period complied with the regulatory requirements.

(V) Cash Flow

During the Reporting Period, net cash flow arising from operating activities amounted to RMB952.92 million, up by RMB3,206.69 million from RMB-2,253.77 million in the corresponding period in 2017; net cash flow arising from investment activities amounted to RMB-227.73 million, down by RMB2,569.17 million from RMB2,341.44 million in the corresponding period in 2017; net cash flow arising from financing activities amounted to RMB-585.88 million, down by RMB198.48 million from RMB-387.40 million in the corresponding period in 2017. Cash and cash equivalents at the end of the Reporting Period amounted to RMB3,772.27 million, down by RMB466.51 million from RMB4,238.78 million in the corresponding period in 2017.

(VI) Changes in Significant Accounting Policies

During the Reporting Period, changes in the accounting policies have been made due to the adoption of new Accounting Standards for Business Enterprises by the Company. The Ministry of Finance of the PRC promulgated the "Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments (revised in 2017)" (Cai Kuai [2017] No.7), "Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets (revised in 2017)" (Cai Kuai [2017] No. 8), and "Accounting Standards for Business Enterprises No. 24 – Hedge Accounting (revised in 2017)" (Cai Kuai [2017] No. 9) on 31 March 2017, "Accounting Standards for Business Enterprises No. 37 – Presentation and Reporting of Financial Instrument (revised in 2017)" (Cai Kuai [2017] No. 14) on 2 May 2017, and "Accounting Standards for Business Enterprises No. 14 – Revenue (revised in 2017)" (Cai Kuai [2017] No. 22) on 5 July 2017, respectively, requiring companies that are listed on both domestic and overseas stock markets, and those that are listed on overseas stock markets and adopt the International Financial Reporting Standards or Accounting Standards for Business Enterprises for statement preparation to adopt the aforesaid standards from 1 January 2018. The Company has started adopting the aforesaid Accounting Standards for Business Enterprises since the time prescribed by the Ministry of Finance of the PRC.

Section IV Management Discussion and Analysis

V. BRANCHES AND SUBSIDIARIES

(I) Branch Offices and Securities Branches

As at the end of the Reporting Period, the Company had 2 branch offices and 144 securities branches.

1. Newly-established securities branches

None in the Reporting Period.

2. Relocation of securities branches

During the Reporting Period, 9 securities branches of the Company were relocated, details of which are as follows:

No.	Name of securities branch before relocation	Name of securities branch after relocation	Address of securities branch after relocation (PRC)
1	Hengtai Securities Co., Ltd Wuhan Yanjiang Avenue Securities Branch (恒泰证券股份有限公司武汉沿江大道证券营业部)	Hengtai Securities Co., Ltd Wuhan Optics Valley International Plaza Securities Branch (恒泰证券股份有限公司武汉光谷国际广场证券营业部)	Room 1706, 17/F, Rongzhong International Office Building, the north of Luoyu Road and the west of Lumo Road, East Lake High-Tech Development Zone, Wuhan, Hubei (湖北省武汉市东湖新技术开发区珞瑜路以北, 鲁磨路以西融众国际写字楼17层1706号)
2	Hengtai Securities Co., Ltd Beijing Jianguo Road Securities Branch (恒泰证券股份有限公司北京建国路证券营业部)	Hengtai Securities Co., Ltd Beijing Guanghua Road Securities Branch (恒泰证券股份有限公司北京光华路证券营业部)	Room B207A, 2/F, Building 30, No.8 Guanghua Road, Chaoyang District, Beijing (北京市朝阳区光华路8号30幢二層B207A 房間)
3	Hengtai Securities Co., Ltd Wuhai Wuda District Bayinsai Street Securities Branch (恒泰证券股份有限公司烏海烏達區巴音賽街證券營業部)	Hengtai Securities Co., Ltd Wuhai Wuda District Bayinsai Street Securities Branch (恒泰证券股份有限公司烏海烏達區巴音賽街證券營業部) ¹	Room 301, No.1 Jiefang South Road, Wuda District, Wuhai, Inner Mongolia (內蒙古自治區烏海市烏達區解放南路1號301室)
4	Hengtai Securities Co., Ltd Beijing Jiancaicheng West Road Securities Branch (恒泰证券股份有限公司北京建材城西路證券營業部)	Hengtai Securities Co., Ltd Beijing Jiancaicheng West Road Securities Branch (恒泰证券股份有限公司北京建材城西路證券營業部) ¹	Room 1005, Unit 2, 10/F, Building 2, No.87 Courtyard, Jiancaicheng West Road, Huilongguan Town, Chanping District, Beijing (北京市昌平區回龍觀鎮建材城西路87號院2號樓10層2單元1005)
5	Hengtai Securities Co., Ltd Shanghai Chengshan Road Securities Branch (恒泰证券股份有限公司上海成山路證券營業部)	Hengtai Securities Co., Ltd Shanghai South Henan Road Securities Branch (恒泰证券股份有限公司上海河南南路證券營業部)	Room 15J, 13/F, No.33 South Henan Road, Huangpu District, Shanghai (上海市黃浦區河南南路33號13層15J室)

Section IV Management Discussion and Analysis

V. BRANCHES AND SUBSIDIARIES (CONTINUED)

(I) Branch Offices and Securities Branches (Continued)

2. Relocation of securities branches (Continued)

No.	Name of securities branch before relocation	Name of securities branch after relocation	Address of securities branch after relocation (PRC)
6	Hengtai Securities Co., Ltd Jiaxing Huanyuan Road Securities Branch (恒泰证券股份有限公司嘉兴花园路证券营业部)	Hengtai Securities Co., Ltd Jiaxing Nanhu Avenue Road Securities Branch (恒泰证券股份有限公司嘉兴南湖大道证券营业部)	Room B1601, Building 1, Business & Finance Tower, Jiaxing Economic and Technology Development Zone, Jiaxing, Zhejiang (浙江省嘉兴市经济技术开发区商务金融大厦1幢B1601室)
7	Hengtai Securities Co., Ltd Linyi Fuqian Road Securities Branch (恒泰证券股份有限公司临沂府前路证券营业部)	Hengtai Securities Co., Ltd Linyi Guangzhou Road Securities Branch (恒泰证券股份有限公司临沂广州路证券营业部)	North side of 3/F, Daguanyuan, Block A of Yanjie Building, Intersection of Guangzhou Road and Menghe Road, Liuqing Avenue, Lanshan District, Linyi, Shandong (山东省临沂市兰山区柳青街道广州路与蒙河路交汇大官苑沿街楼A区三楼北侧)
8	Hengtai Securities Co., Ltd Dalian Huizhan Road Securities Branch (恒泰证券股份有限公司大连会展路证券营业部)	Hengtai Securities Co., Ltd Dalian Huizhan Road Securities Branch (恒泰证券股份有限公司大连会展路证券营业部) ¹	Room 2, 11/F, Building 3, No.67 Huizhan Road, Shahekou District, Dalian, Liaoning (辽宁省大连市沙河口区会展路67号3单元11层2号)
9	Hengtai Securities Co., Ltd Shenyang Fengtian Street Securities Branch (恒泰证券股份有限公司沈阳奉天街证券营业部)	Hengtai Securities Co., Ltd Shenyang Fengtian Street Securities Branch (恒泰证券股份有限公司沈阳奉天街证券营业部) ¹	(Room 601-609) No.351 Fengtian Street, Shenhe District, Shenyang, Liaoning (辽宁省沈阳市浑河区奉天街351号(601-609室))

Note:

1. Name of the securities branch remained unchanged after relocation.

3. Deregistration of securities branches

None in the Reporting Period.

Section IV Management Discussion and Analysis

V. BRANCHES AND SUBSIDIARIES (CONTINUED)

(II) Subsidiaries of the Company

During the Reporting Period, changes in the Company's major subsidiaries are as follows:

1. On 22 January 2018, as Shenzhen Hengtai Baojuchang Investment Management Co., Ltd. does not conduct actual operation activities, Hengtai Capital transferred the 51% equity interests in Shenzhen Hengtai Baojuchang Investment Management Co., Ltd. to Liu Zhihong (劉志宏), an independent third party, at a consideration of RMB1. Upon completion of the transfer, Hengtai Capital no longer held any equity interests in Shenzhen Hengtai Baojuchang Investment Management Co., Ltd..

VI. MAJOR FINANCING

(I) Equity Financing

None in the Reporting Period.

(II) Debt Financing

During the Reporting Period, the Company issued four beneficiary certificates, raising approximately RMB841 million in aggregate, particulars of which are as follows:

Abbreviation	Size of the Issuance (RMB'00 million)	Interest rate	Term (day)	Issue date	Expiry date
Hengfu No.14	0.60	5.50%	364	18 January 2018	17 January 2019
Hengchuangtaifu No.13	5.00	6.20%	365	14 March 2018	14 March 2019
Hengfu No.16	1.40	6.20%	733	11 April 2018	13 April 2020
Hengfu No.17	1.41	5.60%	364	27 June 2018	26 June 2019

VII. MAJOR INVESTMENT

None in the Reporting Period.

VIII. THE USE OF PROCEEDS

On 15 October 2015, the Company raised total proceeds of HK\$1,767,316,320 through public issue of 450,846,000 H Shares on the Hong Kong Stock Exchange. The actual proceeds finally received by the Company (deducting the Listing related expenses and the amount directly transferred into the national treasury pool due to share selling by the selling shareholders (namely reduction of state-owned shares)) was RMB1,306,244,936.55 due to the impact arising from foreign exchange gains or losses, interest and other related fees.

Section IV Management Discussion and Analysis

VIII. THE USE OF PROCEEDS (CONTINUED)

The funds raised as specified in the Prospectus shall be used as the following purposes:

1. about 50% of the funds will be used for the Company's capital-based intermediary business, including margin financing and securities lending and securities-backed lending and for the development of online margin financing and securities lending and securities-backed lending services.
2. about 30% of the funds will be used for the development of the NEEQ market-making business.
3. about 20% of the funds will be used for the development and enhancement of the internet-based finance business of the Company.

On 22 December 2017, the resolution in relation to "Change of the Use of Proceeds of the Company" was considered and approved at the 2017 first extraordinary general meeting of the Company to change the use of the remaining available proceeds for NEEQ market-making business and use RMB320 million thereof for the Company's capital-based intermediary business and replenishing working capital.

The use of the proceeds of the Company was detailed in the table below:

Use of proceeds as specified in the Prospectus	50% of the funds being used for the capital-based intermediary business	30% of the funds being used for the NEEQ market-making business	20% of the funds being used for the internet-based finance business	Total
Amount of proceeds available for use before change (RMB)	653,122,468.27	391,873,480.97	261,248,987.31	1,306,244,936.55
Use of proceeds upon change on 22 December 2017	For the capital-based intermediary business and replenishing working capital	For the NEEQ market-making business	For the internet-based finance business	Total
Amount of proceeds available for use upon change (RMB)	973,122,468.27	71,873,480.97	261,248,987.31	1,306,244,936.55
Accumulated amount of proceeds used as of 30 June 2018 (RMB)	970,902,777.78	50,000,000.00	95,995,131.61	1,116,897,909.39
Remaining amount of proceeds available for use (RMB)	2,219,690.49	21,873,480.97	165,253,855.70	189,347,027.16
Expected timeline for use of the remaining proceeds available for use	Rational use based on actual business needs	Rational use based on actual business needs	Rational use based on actual business needs	–

The proceeds were used and are proposed to be used according to the intentions previously disclosed.

Section IV Management Discussion and Analysis

IX. ACQUISITION OR DISPOSAL OF MATERIAL ASSETS, EXTERNAL GUARANTEE, MORTGAGE, PLEDGE AND MATERIAL CONTINGENT LIABILITIES

During the Reporting Period, there was no acquisition and disposal of the Company's material assets and business merger, nor any major external guarantee, mortgage, pledge, material contingent liabilities that may affect the Company's financial position and operating results.

X. RISK MANAGEMENT

(I) Major Risks and Countermeasures relating to Operation of the Company

1. Credit Risk

Credit risk is the possibility of loss caused by our counterparty's failure to perform a contract or a change in its credit rating or ability to perform. Credit risk of the Company is mainly generated from two aspects: (i) financing business such as margin financing and securities lending and securities-backed lending; and (ii) proprietary credit bond investment business.

Credit risk from financing activities can be controlled by (i) determination of reasonable credit line which is managed through investors education, daily mark to market, risk reminders and forced liquidation of client's positions upon credit investigation via the internal credit rating system; and (ii) conducting sufficient due diligence on the financier and analysis on the fundamentals of pledge target prior to the implementation of securities pledged projects to reasonably determine key risk factors including pledge rate, and maintaining constant risk monitoring over projects in performance to address problems once detected. Investment credit risks can be controlled by establishing securities pool, internal rating, risk monitoring, risk indicator limit, stop-loss and stop-profit as well as other measures.

2. Market risk

Market risk refers to risk of unexpected potential value losses resulting from adverse changes in securities price, interest rate and exchange rate. In particular, risk of adverse price fluctuations refers to the risk that the stock market may fluctuate and cause the prices of stocks and other securities products to change, which may incur losses for the Company. Interest rate risk refers to the risk arising from changes in market interest rates that could result in changes in the prices of bonds and other fixed-income securities. Exchange rate risk refers to possibility that the Company may incur losses due to changes in exchange rates during operating activities involving possession or use of foreign exchanges. Market risk of the Company mainly derives from proprietary businesses including equity securities investment, fixed income securities investment and NEEQ market-making business.

Section IV Management Discussion and Analysis

X. RISK MANAGEMENT (CONTINUED)

(I) Major Risks and Countermeasures relating to Operation of the Company (Continued)

2. Market risk (Continued)

Market risk is mainly managed by the Company through implementation of limit management, securities pool system, daily mark to market, stress test, monitoring and warning, stop-loss and stop-profit, risk report and other systems and measures. Based on risk tolerance preferences, the Company sets the annual overall limits of market risk for proprietary businesses which are decomposed and assigned to the respective business departments level by level. The Company has established a market risk indicator system including Value at Risk (VaR), Basis Point Value (DV01) and Max Drawdown. The Company conducts a daily monitoring over the proprietary position risk and regularly carries out stress test to timely make risk warning and urge relevant business department to handle it when the risk control indicator exceeds the warning threshold.

3. Liquidity risk

Liquidity risk refers to risk where the Company fails to obtain sufficient funds in time at reasonable costs in order to repay mature debts, fulfill other payment obligations and satisfy the funding needs for carrying on normal business. The planning and financing department of the Company is responsible for liquidity risk management. The Company constantly monitors Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and other liquidity risk control indicators and conducts semi-annual liquidity risk stress tests through which its liquidity risk level under the extreme circumstance is evaluated and the risk emergency plans are established. The Company has set threshold values for liquidity risk control indicators, and a risk warning will be sent to the relevant responsible person of the Company once such threshold values are exceeded. The Company monitors and analyzes the matching of the Company's assets and liabilities from various time periods under both normal and stressed situations, the diversification and stability of the Company's capital resources, high-quality liquid assets and market liquidity and at the same time strengthens the management of the Company's liquidity during operating hours and makes reasonable arrangements for financing activities to maintain adequate intraday liquidity position.

Section IV Management Discussion and Analysis

X. RISK MANAGEMENT (CONTINUED)

(I) Major Risks and Countermeasures relating to Operation of the Company (Continued)

4. Operational Risk

Operational risks are risks that may bring along losses as a result of incomplete or defective internal procedures, employee and information technology system and external events. The Company has formulated operational risk management system and internal management system of various businesses and regulated its business activities. It has established an identification, assessment and control system for operational risk that fully covers the Company's business activities. The risk management department guides all departments and branches in respect of risk identification and provides corresponding advisory services in relation to operational risk management. The Company has created an operational risk database to summarize and sort out operational risk data, adopted reasonable measures for risk measurement and evaluation, and managed operational risks through self-appraisal of risks and control (RCSA), loss data collection (LDC), key risk indicator (KRI) monitoring, and other measures.

5. Compliance risk

Compliance risk refers to risk of a securities company being subject to legal sanctions, regulatory measures and self-discipline penalties due to violations of laws, regulations or rules in its business activities or employee conducts. The Company has established an effective and sound compliance management system and compliance management framework. The compliance management department of the Company manages compliance risk through compliance review, compliance monitoring, compliance examination, compliance supervision and compliance training.

(II) Risk Management Measures Adopted by the Company

During the Reporting Period, the Company continued to establish and improve the comprehensive risk management systems by perfecting the risk management system, improving the risk management framework, optimizing the risk management information system and boosting the risk reporting mechanism so as to enhance professional risk management.

Section IV Management Discussion and Analysis

X. RISK MANAGEMENT (CONTINUED)

(II) Risk Management Measures Adopted by the Company (Continued)

1. Perfecting risk management institutional system

The Company has drawn up and formulated the Management Provisions on Client Trading Activities of Hengtai Securities Co., Ltd (《恒泰证券股份有限公司客户交易行为管理规定》), the Management Provisions for Risk Management Positions of Hengtai Securities Co., Ltd (《恒泰证券股份有限公司风险管理岗管理规定》) and the Management Rules on Engagement in Credit Investment Business with Self-owned Capital of Hengtai Securities Co., Ltd (《恒泰证券股份有限公司自有资金参与信用类投资业务管理细则》). It has also amended the Measures for Operational Risk Management of Hengtai Securities Co., Ltd (《恒泰证券股份有限公司操作风险管理规定》), further improving the overall risk management system of the Company.

2. Optimizing risk management framework

The Company has established a four-layered comprehensive risk management organization system, which specified the risk management responsibilities of different organs at different levels including the Board, the Supervisory Committee, the Risk Control and Supervisory Committee, the management, the risk management special committee, the chief risk officer, and the risk management department. During the Reporting Period, the Company assigned the risk management positions in each department to facilitate the fulfillment of responsibilities of monitoring and reporting relevant risks of the respective department.

3. Improving risk management information system

The Company upgraded and optimized the net capital monitoring system to improve the operating efficiency of the system. The Company established a net capital monitoring system for the subsidiaries. The Company set up a new professional version system for abnormal trading, which could monitor the abnormal trading behaviors of shares on the Main Board, the Small and Medium Enterprise board, the Growth Enterprise Market, the NEEQ and Risk Warning Board. The Company completed the upgrading of the internal control systems, thereby optimizing and consummating the risk monitoring of the brokerage business, investment business and credit business of the Company. The Company preliminarily completed the construction of the operational risk management system and was testing the relevant functions.

4. Continuing the work concerning stress test

The Company conducted comprehensive stress tests for the year 2018 and for the first half of 2018, which targeted the Company's financial indicators, risk control indicators and various business risk exposures as the main test objects, and performed special tests on the financing business, real estate industry, fixed income business and income certificate business to evaluate the overall net capital adequacy, financial condition and liquidity of the Company under extreme circumstances. Meanwhile, the Company conducts a comprehensive stress test every month to test the changes in the net capital and other risk control indicators of the Company under the risk factors such as index decline, interest rate rise, credit default and income decline.

Section IV Management Discussion and Analysis

X. RISK MANAGEMENT (CONTINUED)

(II) Risk Management Measures Adopted by the Company (Continued)

5. Steadily propelling risk review and assessment of projects

The risk management department of the Company conducted the beforehand risk review and evaluation and urged business departments to effectively perform the duty of first line of defense against risks. During the Reporting Period, the risk management department of the Company conducted rigorous scrutinies on asset management products, asset securitization projects, and NEEQ listing recommendation projects and formed corresponding risk control advice to feedback to the business department. For subsisting projects, the Company continually monitored, investigated and gave early warning in respect of relevant risks in the duration of such projects. For projects with potential risks or risk events, the risk management department urged the business departments to develop corresponding risk response plans.

6. Steadily carrying out risk monitoring

Through the risk management information system including the internal control platform, the comprehensive asset management business platform and the comprehensive risk management platform, the Company monitored brokerage business, proprietary business, NEEQ market making business, margin financing and securities lending, and stock pledged repurchase business on a day-to-day basis. It reminded the business department for potential risks or risks in time to take effective countermeasures to deal with. The Company also included the major risk indicators and relevant businesses of its subsidiaries into its scope of risk monitoring. A risk monitoring ledger was kept for subsidiaries which were required to report material risk events promptly.

7. Ameliorating risk reporting mechanism

The Company established periodic risk reporting mechanisms such as daily, monthly and annual risk reporting, covering risks concerning net capital, liquidity, the market, credit and operation. Meanwhile, the Company prepared special risk analysis reports irregularly when necessary, and reported to the business department and the management of the Company.

8. Carrying out risk trainings

In order to enhance the risk management awareness of the entire staff and improve their risk management capability, during the reporting period, the Company carried out internal trainings on risk management for relevant personnel in each department, branch and subsidiary on site and via teleconference, network meetings, etc.

Section V Other Material Particulars

I. PROFIT DISTRIBUTION AND PROFIT DISTRIBUTION PLAN

(I) Implementation of the 2017 Profit Distribution Plan

The Company held the 2017 annual general meeting on 31 May 2018 to consider and approve the resolution in relation to the 2017 Profit Distribution Plan, pursuant to which, based on the total number of share capital of the Company of 2,604,567,412 shares as at 31 December 2017, the cash dividend of RMB1.00 per 10 shares (tax inclusive) and RMB260,456,741.20 in aggregate (tax inclusive) was distributed to holders of Domestic Shares and H Shares whose names appeared on the register of members of the Company after the business hours on 12 June 2018.

The 2017 final dividend was denominated and declared in RMB and payable in RMB to holders of Domestic Shares, and in HK dollars to holders of H Shares. The average benchmark exchange rate of RMB against HK dollar announced by the People's Bank of China for the five working days prior to the date of the 2017 annual general meeting was HK\$1.00 to RMB0.815352. Accordingly, the dividend payable per 10 H Shares was HK\$1.226464 (tax inclusive). The distribution of the final dividend for the year 2017 was completed on 25 July 2018.

(II) The 2018 Interim Profit Distribution Plan

The Company did not have any profit distribution plan for the first half of 2018.

II. SHARE OPTION SCHEME OR EQUITY INCENTIVE SCHEME

During the Reporting Period, the Company did not adopt nor implement any share option scheme or equity incentive scheme.

III. SIGNIFICANT LAWSUITS

- (I) The dispute with regard to the Qinghui Leasing asset-backed special scheme Phase I under the management of the Company

1. The lawsuits filed by the Company against Hongyuan Petrochemical and Qinghui Leasing

On 7 January 2016, the Company established the Qinghui Leasing asset-backed special scheme Phase I (the “Project”, “Special Scheme”) and acted as the manager thereof. As agreed under the transaction documents, the Project will fall due on 4 November 2018. In December 2017, the Company learned that Xianyang Hongyuan Petrochemical Co., Ltd. (咸陽鴻元石油化工有限公司) (“Hongyuan Petrochemical”), the single lessee of the Special Scheme, ceased to be a going concern and had been taken to legal proceedings for debt collection by a number of financial institutions. In order to safeguard the legitimate interests of the preferential holders of the Project, on 15 January 2018, the Company instituted a proceeding to the People’s High Court of Beijing (“Beijing High Court”) against Qinghui Leasing Co., Ltd. (慶匯租賃有限公司) (“Qinghui Leasing”), being the equity originators of the Special Scheme and Hongyuan Petrochemical, claiming for an aggregate of RMB530 million. Beijing High Court registered the case on 22 January 2018. Afterwards, Qinghui Leasing and Hongyuan Petrochemical submitted the Applications on Jurisdictional Objection to Beijing High Court, claiming that the case be transferred to the People’s High Court of Liaoning and the People’s High Court of Shaanxi, respectively, for handling. However, on 9 April 2018, the Company received from Beijing High Court the Civil Ruling Paper on the jurisdictional objection, according to which, Beijing High Court had rejected such jurisdictional objection made by Qinghui Leasing and Hongyuan Petrochemical. Notwithstanding, Qinghui Leasing and Hongyuan Petrochemical appealed to the Supreme People’s Court in turn. The Company received the Notice of Appearance at the second instance on jurisdictional matters from the Supreme People’s Court on 5 July 2018 and proposed its Statement of Defense. In addition to filing for trial, the Company applied for property preservation in the process of litigation. As at the end of the Reporting Period, Beijing High Court closed down certain bank accounts of Qinghui Leasing and sealed up certain assets and bank accounts of Hongyuan Petrochemical stepwise.

2. The lawsuits filed by the preferential holders of the Special Scheme against the Company

Since June 2018, the Company has successively received the civil indictments brought by Galaxy Jinhui Securities Assets Management Co., Ltd. (銀河金匯證券資產管理有限公司), Xinyuan Fund Management Limited (鑫元基金管理有限公司), Goldstate Capital Fund Management Co., Ltd. (金元順安基金管理有限公司) and Bank of Nanjing Co., Ltd. (南京銀行股份有限公司), the preferential holders of the Qinghui Leasing asset-backed specialized schemes Phase I (collectively the “Plaintiffs”), claiming for the repayment of the outstanding principals (i.e., RMB60 million, RMB20 million, RMB130 million and RMB100 million, respectively), and the interest payable and relevant charges by the Company. The Plaintiffs claimed that the Company, as the manager of the Special Scheme, issuer and seller of the asset-backed securities, had failed to perform its responsibilities in accordance with the laws and regulations as well as the requirements under the agreements and documents in relation to the Special Scheme, and therefore shall be liable for compensation to the Plaintiffs. Since August 2018, the Company has made counterplea against the Plaintiffs at the competent courts according to the time schedule of the competent courts in succession.

Section V Other Material Particulars

III. SIGNIFICANT LAWSUITS (CONTINUED)

(II) The dispute with regard to the Tianxing Targeted Additional Issuance No. 1 and No. 2 Collective Assets Management Schemes under the management of the Company

The Company set up the Hengtai Tianxing Targeted Additional Issuance No. 1 Collective Assets Management Scheme (“TXTI No. 1”) and Hengtai Tianxing Targeted Additional Issuance No. 2 Collective Assets Management Scheme (“TXTI No. 2”) on 19 June 2015 and 30 June 2015, respectively, and invested in the Donghai Ruijing – Ruixiang NEEQ No. 1 special assets management scheme (“Ruixiang No. 1”) and Donghai Ruijing – Ruixiang NEEQ No. 2 of the special assets management scheme (“Ruixiang No. 2”) issued by Donghai Ruijing Asset Management (Shanghai) Co., Ltd. (東海瑞京資產管理(上海)有限公司) (“Donghai Ruijing”), respectively. TXTI No. 1 and TXTI No. 2 fell due and expired on 28 June 2017 and 5 July 2017. However, since TXTI No. 1 and TXTI No. 2 failed to be cashed out due to the failure of selling off of the assets of Ruixiang No. 1 and Ruixiang No. 2, into which the investment was made, the Company has yet to allocate the entrusted property so far.

In July 2018, the Company received the notice of appearance from the court, pursuant to which, on the grounds that the Company failed to perform its legal obligations and agreements under contracts in the course of management, 25 principals of TXTI No. 1 and TXTI No. 2 had initiated court proceedings against the Company, claiming for compensation totaling approximately RMB150 million and claiming that all litigation fees be borne by the Company. Since August 2018, the Company has made counterplea against the principals at the competent courts according to the time scheduled by the competent courts in succession. Meanwhile, Donghai Ruijing has taken proceedings in respect of the disputes involving the assets into which it made investment. The Company will allocate the entrusted property to the principals after cashing out the underlying assets under TXTI No. 1 and TXTI No. 2.

(III) The lawsuits filed by the Company against Mr. Han Yiwen and Ms. Chao Ye for the equity pledged borrowings project

Beijing Hengtai Puhui Information Service Co., Ltd. (“Hengtai Puhui”) is a wholly-owned subsidiary established by Hengtai Pioneer, a wholly-owned subsidiary of the Company, on 17 April 2015. Hengtai Pioneer transferred 70% of the equity in Hengtai Puhui held by it on 28 June 2017, and holds 30% of the equity in Hengtai Puhui at present. As the internet financial platform, Hengtai Puhui established the NEEQ-Gongzhun Company-Pledge-602191 project on 4 August 2016. Mr. Han Yiwen (韓義文), the legal representative of Gongzhun Meat Products Incorporated Company (“Gongzhun Company”), a company listed on the NEED, made a borrowing of RMB60 million from 225 capital contributors through the platform as pledged by certain equity in Gongzhun Company held by him. The term of the pledge was one year and the interest rate was 6.5% per annum. The borrowings were to be used to replenish the working capital of Gongzhun Company. As the share price of Gongzhun Company was lower than the agreed compensation price, Ms. Chao Ye (Mr. Han Yiwen’s spouse), the director and deputy general manager of Gongzhun Company, increased the pledged shares of Gongzhun Company to Hengtai Puhui on 26 April 2017. Upon the expiry of the loan term, the borrower was unable to repay the principal and interest and caused the default.

III. SIGNIFICANT LAWSUITS (CONTINUED)

(III) The lawsuits filed by the Company against Mr. Han Yiwen and Ms. Chao Ye for the equity pledged borrowings project (Continued)

In October 2017, the Company received the creditor's rights transfer as a registered user of the platform, and filed a case in the People's Court of the Xicheng District in Beijing on 2 November 2017. The court first mediated. When the mediation failed, the Company, in accordance with the agreed jurisdiction, filed a lawsuit concerning the loan contract dispute litigation to the People's Court of the Xicheng District in Beijing on 2 January 2018. The Company claimed that the defendants, Mr. Han Yiwen and Ms. Chao Ye, shall repay the principal, interest, default interest of the creditor's transfer of credits previously received by the Company totaling RMB16,999,900.09; and bear the expenses for execution of creditor's rights including the litigation fees and property preservation fees and that the Company be entitled to the priority of compensation for the pledged shares of the two defendants after the auction sale. A formal court session of the case was held on 25 July 2018 and currently is pending.

(IV) The lawsuit filed by the Company against Shenwu in relation to bond transactions

On 7 December 2016, the Company purchased in the market corporate bonds with an aggregate face value of RMB70 million, which were part of the corporate bonds issued by Shenwu Environmental Technology Co., Ltd. (神霧環保技術股份有限公司) ("Shenwu") by way of non-public issuance in 2016 ("16 Shenwu Bonds", bond code:118579). 16 Shenwu Bonds were unconditionally and irrevocably, jointly and severally, guaranteed by Shenwu Technology Group Corporation Limited (神霧科技集團股份有限公司) and Mr. Wu Daohong, the de facto controller of Shenwu (the "Guarantors"). On 6 February 2018, Shenwu published an announcement informing investors about the upward adjustment to the coupon rate of 16 Shenwu Bonds. Subsequently on 13 February 2018, the Company submitted application through the securities trading system for selling back 16 Shenwu Bonds it held to Shenwu as agreed under the investor put option. As at 14 March 2018, however, the Company had not received the payment of the principal of 16 Shenwu Bonds and the interest accrued thereon in the aggregate amount of RMB75.60 million. On 15 March 2018, Shenwu published an announcement that it was unable to pay the principal of 16 Shenwu Bonds and the interest accrued thereon due to strained liquidity.

On 10 May 2018, the Company filed a lawsuit with the Beijing No.3 Intermediate People's Court, demanding that Shenwu pay the principal of 16 Shenwu Bonds and the interest accrued thereon, the relevant legal fees and fees for property preservation in the aggregate sum of RMB76,853,911.01, and requesting that the Guarantors assume joint and several liabilities for such payments. Further, the Company also files an application for property preservation to freeze the equivalent cash deposits of Shenwu and the Guarantors. The case is scheduled to be heard at the Beijing No.3 Intermediate People's Court on 22 August 2018.

Section V Other Material Particulars

IV. SIGNIFICANT CONTRACTS AND CONTRACT FULFILLMENT

1. The Company entered into a property lease contract with China Everbright Bank, Hohhot Branch on 1 September 2015, pursuant to which the Company leased from China Everbright Bank, Hohhot Branch the space of 14–18/F, Everbright Bank Building, Oriental Junzuo Block D, Chile Chuan Avenue, Saihan District, Hohhot, Inner Mongolia Autonomous Region, China for a term of 1 year commencing from 1 September 2015. The property lease contract was renewed on 1 September 2016 and 1 September 2017, respectively. The rental paid by the Company for the Reporting Period was RMB3,001,500.
2. The Company entered into a property lease contract with China Life Real Estate Co., Limited on 1 March 2016, pursuant to which the Company leased from China Life Real Estate Co., Limited the space of the Unit 1101, 11/F, China Life Centre, Financial Street, Xicheng District, Beijing, China for a term of 3 years commencing from 1 March 2016. The rental paid by the Company for the Reporting Period was RMB9,991,000.

V. ENGAGEMENT OF AUDITORS

During the Reporting Period, the Company re-appointed Ruihua Certified Public Accountants LLP as its external domestic auditor for the year 2018 for providing relevant audit service based on China Accounting Standards for Business Enterprises. The Company also re-appointed RSM Hong Kong as its external international auditor for the year 2018 for providing relevant audit and review services based on the International Financial Reporting Standards.

VI. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company exerts its effort in maintaining high quality corporate governance in order to protect the interest of its shareholders and enhance its corporate value and accountability. During the Reporting Period, the Company has been in strict compliance with all the code provisions of Corporate Governance Code (if applicable). The Company will continue to review and enhance its corporate governance practice so as to ensure the compliance with the Corporate Governance Code.

VII. CORPORATE GOVERNANCE

(I) General Meeting

The Articles of Association and the Rules of Procedure for General Meetings of the Company have stipulated the rights and obligations of shareholders and the convocation, voting and proposal of general meetings. During the Reporting Period, the Company convened 1 general meeting.

(II) Operation of the Board and its Special Committees

The Board comprises 9 Directors, including 2 executive Directors (Mr. Pang Jiemin (*Chairman*) and Mr. Wu Yigang (*Vice Chairman*)), 4 non-executive Directors (Mr. Zhang Tao, Mr. Sun Chao, Ms. Dong Hong and Ms. Gao Liang) and 3 independent non-executive Directors (Ms. Zhou Jianjun, Dr. Lam Sek Kong and Mr. Lv Wendong).

The Board consists of 4 special committees, including Strategy and Investment Committee, Risk Control and Supervisory Committee, Audit Committee and Remuneration and Nomination Committee. The special committees of the Board shall, within their terms of reference specified in the rules of respective procedures, conduct work and be accountable to the Board.

Composition of special committees of the Board:

Strategy and Investment Committee: Mr. Pang Jiemin (*Chairman*), Mr. Sun Chao and Dr. Lam Sek Kong

Risk Control and Supervisory Committee: Mr. Pang Jiemin (*Chairman*), Mr. Wu Yigang and Mr. Zhang Tao

Audit Committee: Ms. Zhou Jianjun (*Chairman*), Mr. Zhang Tao and Dr. Lam Sek Kong

Remuneration and Nomination Committee: Ms. Zhou Jianjun (*Chairman*), Mr. Pang Jiemin and Dr. Lam Sek Kong

During the Reporting Period, the Board convened 7 meetings to consider 35 proposals; the Strategy and Investment Committee, the Risk Control and Supervisory Committee, the Audit Committee and the Remuneration and Nomination Committee convened 1 meeting, 2 meetings, 2 meetings and 3 meetings, respectively.

The Audit Committee has reviewed and confirmed this report.

(III) Operation of the Supervisory Committee

Supervisory Committee consists of 3 members, namely, Mr. Guo Liwen, the chairman, Ms. Pei Jingjing, the shareholder representative Supervisor, and Mr. Wang Hui, the employee representative Supervisor. During the Reporting Period, the Supervisory Committee convened 2 meetings to consider 8 proposals. The Supervisors performed their duties diligently and supervised the operation of the Company in accordance with relevant laws and regulations and the relevant requirements of the Articles of Association, so as to protect the legitimate interests of the Company, shareholders and investors.

Section V Other Material Particulars

VIII. COMPLIANCE WITH MODEL CODE

The Company has also adopted the Model Code as its code of conduct regarding securities transactions by the Directors and Supervisors. The Company has made specific enquiry with all Directors and Supervisors, and all Directors and Supervisors confirmed that they have complied with the required standards set out in the Model Code during the Reporting Period.

IX. DIRECTOR AND SUPERVISOR SERVICE CONTRACT

No Directors or Supervisors entered into any service contract with the Company or its subsidiaries which shall be compensated (except for statutory compensation) upon termination within one year.

X. DIRECTORS' AND SUPERVISORS' RIGHT TO PURCHASE SHARES OR DEBENTURES

During the Reporting Period, no Directors, Supervisors or their respective spouse or children under the age of 18 purchase the shares or debentures of the Company to obtain rights, or such persons exercise any such right; or no arrangements have been made by the Company or any of its subsidiaries to entitle such right to the Company's Directors, Supervisors or their respective spouse or children under the age of 18 in any other body corporate.

XI. EVALUATION RESULTS OF THE COMPANY BY SECURITIES REGULATORY AUTHORITY

In the evaluation of securities companies of 2018 carried out by the CSRC, the Company was assigned BB rating in B class.

XII. OTHER SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

On 16 May 2018, the proposal regarding Reduction of Registered Capital of Hengtai Capital Investment Co., Ltd., a Wholly-owned Subsidiary of the Company was considered and approved at the fifth extraordinary meeting of the fourth session of the Board, pursuant to which it was approved to reduce the registered capital of Hengtai Capital. On 22 August 2018, Hengtai Capital completed the industrial and commercial filing and registration for the change of registered capital and the registered capital of Hengtai Capital was changed from RMB1.5 billion to RMB1.2 billion.

Section VI Changes in Shareholdings and Particulars about Shareholders

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

As at 30 June 2018, to the knowledge of the Directors after having made reasonable enquiries, the following persons (excluding the Directors, Supervisors or chief executives of the Company) had interests or short positions in shares or underlying shares of the Company which are required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, as recorded in the register required to be kept pursuant to Section 336 of the SFO:

Name of substantial shareholders	Class of shares	Nature of interest	Number of shares held (shares)	Approximate percentage of total number of issued shares of the Company ¹ (%)	Approximate percentage of the Company's total issued Domestic Shares/H Shares ¹ (%)	Long positions/ short positions/ shares available for lending
Huarong Infrastructure ²	Domestic Shares	Beneficial owner	155,079,698	5.95	7.20	Long positions
Finance Street Capital ²	Domestic Shares	Interests of controlled corporation	155,079,698	5.95	7.20	Long positions
Finance Street Investment ³	Domestic Shares	Beneficial owner	165,418,345	6.35	7.68	Long positions
Finance Street Xihuan Properties ⁴	Domestic Shares	Beneficial owner	211,472,315	8.12	9.82	Long positions
Huarong Investment ⁴	Domestic Shares	Interests of controlled corporation	211,472,315	8.12	9.82	Long positions
SASAC Xicheng District ^{2, 3, 4}	Domestic Shares	Interests of controlled corporation	531,970,358	20.42	24.70	Long positions
Baotou Huazi ⁵	Domestic Shares	Beneficial owner/parties acting in concert	443,868,000	17.04	20.61	Long positions
Tomorrow Holding ⁵	Domestic Shares	Interests of controlled corporation/parties acting in concert	443,868,000	17.04	20.61	Long positions
Zhongchang Hengyuan ⁵	Domestic Shares	Beneficial owner/parties acting in concert	443,868,000	17.04	20.61	Long positions
Shanghai Yida ⁵	Domestic Shares	Beneficial owner/parties acting in concert	443,868,000	17.04	20.61	Long positions
Huifa Investment ⁶	Domestic Shares	Beneficial owner	154,000,000	5.91	7.15	Long positions
Ms. Chen Shan ⁶	Domestic Shares	Interests of controlled corporation	154,000,000	5.91	7.15	Long positions
Mr. Shen Weimin ⁶	Domestic Shares	Interests of controlled corporation	154,000,000	5.91	7.15	Long positions
Huijin Jiaye ⁷	Domestic Shares	Beneficial owner	206,182,000	7.92	9.57	Long positions
Shanghai Xishida ⁷	Domestic Shares	Interests of controlled corporation	206,182,000	7.92	9.57	Long positions
Shenzhen Zhongxin ⁷	Domestic Shares	Interests of controlled corporation	206,182,000	7.92	9.57	Long positions

Section VI Changes in Shareholdings and Particulars about Shareholders

I. SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY (CONTINUED)

Name of substantial shareholders	Class of shares	Nature of interest	Number of shares held (shares)	Approximate percentage of total number of issued shares of the Company ¹ (%)	Approximate percentage of the Company's total issued Domestic Shares/H Shares ¹ (%)	Long positions/ short positions/ shares available for lending
Shanghai Julu ⁷	Domestic Shares	Interests of controlled corporation	206,182,000	7.92	9.57	Long positions
Mr. Ci Penghui ⁷	Domestic Shares	Interests of controlled corporation	206,182,000	7.92	9.57	Long positions
Qingyun Intercontinental ⁸	Domestic Shares	Beneficial owner	226,961,315	8.71	10.54	Long positions
Ningbo Shike ⁸	Domestic Shares	Interests of controlled corporation	226,961,315	8.71	10.54	Long positions
Shaanxi Hongya ⁸	Domestic Shares	Interests of controlled corporation	226,961,315	8.71	10.54	Long positions
Mr. Duan Shuai ⁸	Domestic Shares	Interests of controlled corporation	226,961,315	8.71	10.54	Long positions
Mr. Sun Yuanlin ⁸	Domestic Shares	Interests of controlled corporation	226,961,315	8.71	10.54	Long positions
Hongzhi Huitong ⁹	Domestic Shares	Beneficial owner	154,000,000	5.91	7.15	Long positions
Shaanxi Tianchen ⁹	Domestic Shares	Interests of controlled corporation	154,000,000	5.91	7.15	Long positions
Hangzhou Ruisi ⁹	Domestic Shares	Interests of controlled corporation	154,000,000	5.91	7.15	Long positions
Suzhou Bingtai ⁹	Domestic Shares	Interests of controlled corporation	154,000,000	5.91	7.15	Long positions
Mr. Zhang Li ⁹	Domestic Shares	Interests of controlled corporation	154,000,000	5.91	7.15	Long positions
Nice Hill International Limited ¹⁰	H Shares	Beneficial owner	39,540,000	1.52	8.77	Long positions
Mason Investments Limited ¹⁰	H Shares	Interests of controlled corporation	39,540,000	1.52	8.77	Long positions
Mason Assets Limited ¹⁰	H Shares	Interests of controlled corporation	39,540,000	1.52	8.77	Long positions
Mason Financial Services Group Limited ^{10, 11}	H Shares	Interests of controlled corporation	39,540,000	1.52	8.77	Long positions
Mason Financial Services Group Limited ^{10, 12}	H Shares	Interests of controlled corporation	39,540,000	1.52	8.77	Long positions
Mason Financial Holdings Limited ¹⁰	H Shares	Interests of controlled corporation	39,540,000	1.52	8.77	Long positions

Section VI Changes in Shareholdings and Particulars about Shareholders

I. SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY (CONTINUED)

Notes:

1. As at 30 June 2018, the Company has issued a total of 2,604,567,412 shares, including 2,153,721,412 Domestic Shares and 450,846,000 H Shares.
2. Huarong Infrastructure is wholly-owned by Finance Street Capital, which is in turn wholly-owned by SASAC Xicheng District. Therefore, each of Finance Street Capital and SASAC Xicheng District is deemed to be interested in 155,079,698 Domestic Shares held by Huarong Infrastructure.
3. Finance Street Investment is wholly-owned by SASAC Xicheng District. Therefore, SASAC Xicheng District is deemed to be interested in 165,418,345 Domestic Shares held by Finance Street Investment.
4. 90.00% of the equity interest in Finance Street Xihuan Properties is held by Huarong Investment, which is in turn wholly-owned by SASAC Xicheng District. Therefore, each of Huarong Investment and SASAC Xicheng District is deemed to be interested in 211,472,315 Domestic Shares held by Finance Street Xihuan Properties.
5. Tomorrow Holding, Zhongchang Hengyuan and Shanghai Yida have entered into an agreement to act in concert in respect of their shareholding in the Company. Therefore, each of Tomorrow Holding, Baotou Huazi (which is held by Tomorrow Holding as to approximately 54.32%), Zhongchang Hengyuan and Shanghai Yida is deemed to be interested in 443,868,000 Domestic Shares (being an aggregate of 308,000,000, 75,100,000 and 60,768,000 Domestic Shares held by Baotou Huazi, Zhongchang Hengyuan and Shanghai Yida, respectively).
6. 53.33% and 46.67% of the equity interest in Huifa Investment is held by Mr. Shen Weimin and Ms. Chen Shan, respectively. Therefore, each of Mr. Shen Weimin and Ms. Chen Shan is deemed to be interested in 154,000,000 Domestic Shares held by Huifa Investment.
7. 99.99% of the equity interest in Huijin Jiaye is held by Shanghai Xishida. 95.00% of the equity interest in Shanghai Xishida is held by Shenzhen Zhongxin. 99.47% of the equity interest in Shenzhen Zhongxin is held by Shanghai Julu. 35.00% of the equity interest in Shanghai Julu is held by Mr. Ci Penghui. Therefore, each of Shanghai Xishida, Shenzhen Zhongxin, Shanghai Julu, and Mr. Ci Penghui is deemed to be interested in 206,182,000 Domestic Shares held by Huijin Jiaye.
8. 70.00% of the equity interest in Qingyun Intercontinental is held by Ningbo Shike, which is in turn held by Shaanxi Hongya as to 99.60%. Shaanxi Hongya is held by Mr. Duan Shuai and Mr. Sun Yuanlin as to 49.00% and 51.00%, respectively. Moreover, 0.40% of the equity interest in Ningbo Shike is held by Mr. Sun Yuanlin. Therefore, each of Ningbo Shike, Shaanxi Hongya, Mr. Duan Shuai and Mr. Sun Yuanlin is deemed to be interested in 226,961,315 Domestic Shares held by Qingyun Intercontinental.

Section VI Changes in Shareholdings and Particulars about Shareholders

I. SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY (CONTINUED)

Notes: (Continued)

9. 97.08% of the equity interest in Hongzhi Huitong is held by Shaanxi Tianchen. 98.67% of the equity interest in Shaanxi Tianchen is held by Hangzhou Ruisi. 94.00% of the equity interest in Hangzhou Ruisi is held by Suzhou Bingtai. 81.82% of the equity interest in Suzhou Bingtai is held by Mr. Zhang Li. Therefore, each of Shaanxi Tianchen, Hangzhou Ruisi, Suzhou Bingtai and Mr. Zhang Li is deemed to be interested in 154,000,000 Domestic Shares held by Hongzhi Huitong.
10. Nice Hill International Limited is wholly-owned by Mason Investments Limited, which is in turn wholly-owned by Mason Assets Limited; while Mason Assets Limited is wholly-owned by Mason Financial Services Group Limited (which is located in the Marshall Islands); Mason Financial Services Group Limited (which is located in the Marshall Islands) is wholly-owned by Mason Financial Services Group Limited (which is located in the Cayman Islands), which is in turn wholly-owned by Mason Financial Holdings Limited. Therefore, each of Mason Investments Limited, Mason Assets Limited, Mason Financial Services Group Limited, Mason Financial Services Group Limited and Mason Financial Holdings Limited is deemed to be interested in 39,540,000 H Shares held by Nice Hill International Limited.
11. Mason Financial Services Group Limited referred is located in Marshall Islands.
12. Mason Financial Services Group Limited referred is located in Cayman Islands.

Save as disclosed above, as at 30 June 2018, the Company is not aware of any other persons (excluding the Directors, Supervisors and chief executives of the Company) having the interests or short positions in the Shares or underlying Shares required to be recorded in the register under Section 336 of the SFO.

Section VI Changes in Shareholdings and Particulars about Shareholders

II. INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ANY OF ITS ASSOCIATED CORPORATIONS

As at 30 June 2018, based on the information acquired by the Company and to the knowledge of the Directors, the Directors, Supervisors and chief executives of the Company have no (i) interests and short positions (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) which shall be notified to the Company and the Hong Kong Stock Exchange in accordance with Sections 7 and 8 of Part XV under the SFO, or (ii) interests or short positions which shall be recorded in the interests register in accordance with section 352 of the SFO, or (iii) interest and short positions which shall be notified to the Company and the Hong Kong Stock Exchange in accordance with the requirements of the Model Code in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO), save as disclosed as follows:

Name	Class of shares	Nature of interest	Number of shares held (Shares)	Approximate percentage of total number of issued shares of the Company ¹ (%)	Approximate percentage of the Company's issued Domestic Shares/ H Shares ¹ (%)	Long positions/ Short positions/ shares available for lending
Supervisor						
Ms. Pei Jingjing ²	Domestic Shares	Interests of controlled corporation	206,182,000	7.92	9.57	Long position

Notes :

- As at 30 June 2018, the Company has issued a total of 2,604,567,412 shares, including 2,153,721,412 Domestic Shares and 450,846,000 H Shares.
- 99.99% and 0.01% of the equity interest in Huijin Jiaye are held by Shanghai Xishida and Ms. Pei Jingjing who is a Supervisor of the Company, respectively. 95.00% and 2.00% of the equity interest in Shanghai Xishida are held by Shenzhen Zhongxin and Ms. Pei Jingjing, respectively. Approximately 99.47% of the equity interest in Shenzhen Zhongxin is held by Shanghai Julu. Each of Ms. Pei Jingjing and Mr. Ci Penghui holds 35.00% of equity interest in Shanghai Julu. Therefore, Ms. Pei Jingjing is deemed to be interested in 206,182,000 Domestic Shares held by Huijin Jiaye.

III. PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the Reporting Period.

Section VII Directors, Supervisors, Senior Management and Employees

I. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Save for the followings, there was no change in details of Directors and Supervisors which are required to be disclosed pursuant to Rule 13.51B of the Listing Rules as compared with those disclosed in the 2017 annual report :

1. Changes in Directors

1. As at 5 January 2018, the Inner Mongolia Securities Regulatory Bureau of the CSRC issued the Approval on Qualification of Dong Hong as a Director of Securities Company (Nei Zheng Jian Xu Ke [2018] No. 1) (《關於董紅證券公司董事任職資格的批覆》(內證監許可[2018]1號)), pursuant to which, Ms. Dong Hong's qualification as a director of securities company had been approved. Accordingly, the appointment of Ms. Dong Hong as a non-executive Director of the fourth session of the Board had come into effect since 5 January 2018.
2. As at 5 January 2018, the Inner Mongolia Securities Regulatory Bureau of the CSRC issued the Approval on Qualification of Lv Wendong as an Independent Director of Securities Company (Nei Zheng Jian Xu Ke [2018] No. 2) (《關於核准呂文棟證券公司獨立董事任職資格的批覆》(內證監許可[2018]2號)), pursuant to which, Mr. Lv Wendong's qualification as an independent director of securities company had been approved. Accordingly, the appointment of Mr. Lv Wendong as an independent non-executive Director of the fourth session of the Board had come into effect since 5 January 2018.
3. On 31 January 2018, the Inner Mongolia Securities Regulatory Bureau of the CSRC issued the Approval on Qualification of Gao Liang as a Director of Securities Company (Nei Zheng Jian Xu Ke [2018] No. 4) (《關於高靚證券公司董事任職資格的批覆》(內證監許可[2018]4號)), pursuant to which, Ms. Gao Liang's qualification as a director of securities company had been approved. Accordingly, the appointment of Ms. Gao Liang as a non-executive Director of the fourth session of the Board had come into effect since 31 January 2018.
4. The biographical details of the abovementioned Directors were disclosed in the circular and the supplemental circular of the Company dated 6 November 2017 and 7 December 2017, respectively.

2. Changes in Supervisors

None in the Reporting Period.

3. Changes in Senior Management

None in the Reporting Period.

4. Change in Directors' information

Ms. Zhou Jianjun, an independent non-executive Director, ceased to be the chief accountant of Beijing Zhongchuan Xinju Accounting Firm Company Limited (北京中川鑫聚會計師事務所有限責任公司) since May 2018 and has been serving as the finance manager of Beijing Xinlian Renhe Investment Co., Ltd (北京信聯仁和投資有限公司) since June 2018.

Section VII Directors, Supervisors, Senior Management and Employees

II. EMPLOYEES, REMUNERATION POLICY AND TRAINING

At the end of the Reporting Period, the Group had 2,083 employees in total, including 1,577 employees of the Company and 506 employees of its subsidiaries.

The remuneration of the Company's employees comprises of basic wage, allowances, benefits and others. The Company has made contributions to schemes such as social insurance and housing provident fund on behalf of employees in accordance with relevant requirements of the PRC. The Company has strictly observed the Labor Law of the People's Republic of China, Labor Contract Law of the People's Republic of China and other external laws and regulations, and has established a sound human resources management system and process to bring its hiring under regulation, thus effectively protecting the rights and interests of the employees.

The Company has always paid special attention to staff training. The Company made surveys and analysis in respect of training needs at the beginning of the year and compiled the annual training plan upon consolidation, processing and analysis of the data collected. During the Reporting Period, 32 external trainings and 3 internal on-site trainings were organized, providing trainings for 38 employees and 120 employees, respectively.

Independent Review Report



TO THE BOARD OF DIRECTORS OF HENGTOU SECURITIES

(a joint stock company incorporated in the People's Republic of China with limited liabilities under the Chinese corporate name “恒泰证券股份有限公司” and carrying on business in Hong Kong as “恒投證券” (in Chinese) and “HENGTOU SECURITIES” (in English))

INTRODUCTION

We have reviewed the interim financial information set out on pages 49 to 92 which comprises the condensed consolidated statement of financial position of the Group as at 30 June 2018 and the related condensed consolidated statement of profit or loss, condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. 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 Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. 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 Hong Kong 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 IAS 34.

RSM Hong Kong

Certified Public Accountants

Hong Kong

24 August 2018

Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June	
		2018 (unaudited)	2017 (unaudited)
Fees and commission income	3	728,663	921,830
Interest income	4	424,102	433,477
Net investment income	5	(180,982)	567,194
Other income and gains	6	24,079	5,994
Total operating income		995,862	1,928,495
Fees and commission expenses	7	(69,142)	(76,851)
Interest expenses	8	(295,209)	(342,235)
Fair value losses from financial assets at fair value through profit or loss and derivative financial instruments		(219,944)	(75,616)
Staff costs	9	(397,002)	(523,088)
Depreciation and amortisation	10	(47,766)	(44,401)
Taxes and surcharges		(8,927)	(9,135)
Other operating expenses	11	(273,727)	(331,475)
Impairment losses	12	(45,374)	(9,411)
Total operating expenses		(1,357,091)	(1,412,212)
Operating (loss)/profit		(361,229)	516,283
Share of profits less losses of associates		(1,737)	(202)
(Loss)/profit before tax		(362,966)	516,081
Income tax credit/(expense)	13	83,100	(122,851)
(Loss)/profit for the period		(279,866)	393,230
Attributable to:			
Ordinary shareholders of the Company		(303,912)	361,851
Non-controlling interests		24,046	31,379
		(279,866)	393,230
(Loss)/earnings per share			
Basic and diluted	14	(RMB0.14)	RMB0.12

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June	
		2018 (unaudited)	2017 (unaudited)
(Loss)/profit for the period		(279,866)	393,230
Other comprehensive income:			
<i>Items that may be reclassified to profit or loss:</i>			
Available-for-sale financial assets:			
– Net movement in the investment revaluation reserve		–	42,142
Other comprehensive income for the period, net of tax	15	–	42,142
Total comprehensive income for the period		(279,866)	435,372
Attributable to:			
Ordinary shareholders of the Company		(303,912)	403,571
Non-controlling interests		24,046	31,801
		(279,866)	435,372

Condensed Consolidated Statement of Financial Position

As at 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	30 June 2018 (unaudited)	31 December 2017 (audited)
Non-current assets			
Property and equipment	17	520,674	516,773
Investment properties		17,875	18,288
Goodwill		43,739	43,739
Intangible assets		106,427	117,464
Interest in associates		12,488	16,101
Available-for-sale financial assets	18	–	1,343,855
Financial assets held under resale agreements	19	586,446	614,910
Refundable deposits		697,554	614,506
Deferred tax assets		148,229	112,194
Other non-current assets	20	41,561	66,495
Total non-current assets		2,174,993	3,464,325
Current assets			
Margin account receivables	21	5,422,388	5,322,835
Other current assets	22	675,329	585,448
Available-for-sale financial assets	18	–	396,444
Financial assets held under resale agreements	19	1,273,106	1,046,749
Financial assets at fair value through other comprehensive income	23	225,127	–
Financial assets at fair value through profit or loss	24	9,880,079	12,997,560
Cash held on behalf of brokerage clients	25	8,780,888	9,491,666
Clearing settlement funds		944,734	773,387
Cash and bank balances		2,157,048	2,338,573
Total current assets		29,358,699	32,952,662
Total assets		31,533,692	36,416,987

Condensed Consolidated Statement of Financial Position

As at 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

	<i>Note</i>	30 June 2018 (unaudited)	31 December 2017 (audited)
Current liabilities			
Debt instruments	27	2,808,753	1,500,000
Placements from a financial institution		500,000	700,000
Account payables to brokerage clients	28	9,257,253	10,028,333
Employee benefit payables		209,803	415,732
Other current liabilities	29	2,238,056	3,626,753
Current tax liabilities		8,140	74,330
Financial assets sold under repurchase agreements	30	4,433,460	5,065,778
		19,455,465	21,410,926
Net current assets			
		9,903,234	11,541,736
Total assets less current liabilities			
		12,078,227	15,006,061
Non-current liabilities			
Debt instruments	27	1,682,068	3,344,857
Financial assets sold under repurchase agreements	30	45,000	590,000
Deferred revenue		3,542	6,938
Deferred tax liabilities		46,682	121,834
		1,777,292	4,063,629
Total non-current liabilities			
		1,777,292	4,063,629
NET ASSETS			
		10,300,935	10,942,432

Condensed Consolidated Statement of Financial Position

As at 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

	<i>Note</i>	30 June 2018 (unaudited)	31 December 2017 (audited)
Equity			
Share capital	31	2,604,567	2,604,567
Share premium		1,665,236	1,665,236
Perpetual capital securities	32	1,500,000	1,500,000
Reserves		4,136,140	4,801,474
Total equity attributable to ordinary shareholders of the Company and holders of perpetual capital securities		9,905,943	10,571,277
Non-controlling interests		394,992	371,155
TOTAL EQUITY		10,300,935	10,942,432

Approved by the Board of Directors on 24 August 2018 and are signed on its behalf by:

Pang Jiemin

Chairman of Board of Directors

Wu Yigang

Vice Chairman of Board of Directors

Yang Shufei

Chief Financial Officer

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

	(unaudited)										
	Attributable to ordinary shareholders of the Company and holders of perpetual capital securities										
	Share capital	Share premium	Perpetual capital securities	Surplus reserve	General risk reserve	Transactions risk reserve	Investment revaluation reserve	Retained profits	Total	Non-controlling interests	Total equity
At 1 January 2017	2,604,567	1,665,236	1,500,000	449,200	598,597	547,291	87,350	2,208,719	9,660,960	275,245	9,936,205
Total comprehensive income for the period	-	-	-	-	-	-	41,720	361,851	403,571	31,801	435,372
Dividend paid (Note 16)	-	-	-	-	-	-	-	(102,000)	(102,000)	-	(102,000)
Capital contribution by non-controlling shareholders of a subsidiary	-	-	-	-	-	-	-	-	-	37,440	37,440
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	(818)	(818)
Change in equity for the period	-	-	-	-	-	-	41,720	259,851	301,571	68,423	369,994
At 30 June 2017	<u>2,604,567</u>	<u>1,665,236</u>	<u>1,500,000</u>	<u>449,200</u>	<u>598,597</u>	<u>547,291</u>	<u>129,070</u>	<u>2,468,570</u>	<u>9,962,531</u>	<u>343,668</u>	<u>10,306,199</u>
At 31 December 2017	<u>2,604,567</u>	<u>1,665,236</u>	<u>1,500,000</u>	<u>508,906</u>	<u>709,241</u>	<u>609,999</u>	<u>390,307</u>	<u>2,583,021</u>	<u>10,571,277</u>	<u>371,155</u>	<u>10,942,432</u>
Adjustments on initial application of IFRS 9 (Note 2)	-	-	-	224	251	221	(390,307)	390,646	1,035	(209)	826
Restated balance at 1 January 2018	<u>2,604,567</u>	<u>1,665,236</u>	<u>1,500,000</u>	<u>509,130</u>	<u>709,492</u>	<u>610,220</u>	-	<u>2,973,667</u>	<u>10,572,312</u>	<u>370,946</u>	<u>10,943,258</u>
Total comprehensive income for the period	-	-	-	-	-	-	-	(303,912)	(303,912)	24,046	(279,866)
Dividend paid (Note 16)	-	-	-	-	-	-	-	(362,457)	(362,457)	-	(362,457)
Change in equity for the period	-	-	-	-	-	-	-	(666,369)	(666,369)	24,046	(642,323)
At 30 June 2018	<u>2,604,567</u>	<u>1,665,236</u>	<u>1,500,000</u>	<u>509,130</u>	<u>709,492</u>	<u>610,220</u>	-	<u>2,307,298</u>	<u>9,905,943</u>	<u>394,992</u>	<u>10,300,935</u>

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June	
		2018 (unaudited)	2017 (unaudited)
NET CASH GENERATED FROM/(USED IN)			
OPERATING ACTIVITIES		952,918	(2,253,771)
Proceeds from disposal of property and equipment and intangible assets		101	754
Deposit received for disposal of a subsidiary		–	5,000
Disposal of an associate		204	–
Disposal of a subsidiary		–	797
Dividend income and interest income received from available-for-sale financial assets		–	2,842
Proceeds from disposal of available-for-sale financial assets		–	2,529,041
Dividend income received from an associate		1,593	–
Purchases of available-for-sale financial assets		–	(173,768)
Purchases of property and equipment, intangible assets and other non-current assets		(36,332)	(45,656)
Other investing cash flows (net)		(193,300)	22,432
NET CASH (USED IN)/GENERATED FROM		(227,734)	2,341,442
INVESTING ACTIVITIES			
Capital contribution by non-controlling shareholders of a subsidiary		–	37,440
Proceeds from issuance of debt instruments		841,210	1,100,000
Repayments of debt instruments		(1,200,000)	(1,300,000)
Interest paid for financing activities		(120,768)	(122,844)
Dividends paid		(102,000)	(102,000)
Other financing cash flows (net)		(4,325)	–
NET CASH USED IN FINANCING ACTIVITIES		(585,883)	(387,404)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		139,301	(299,733)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		3,632,644	4,539,201
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		323	(684)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	26	3,772,268	4,238,784

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

1. BASIS OF PREPARATION

These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” issued by International Accounting Standards Board and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These condensed consolidated financial statements should be read in conjunction with the 2017 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2017 except as stated below.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

(a) Application of new and revised International Financial Reporting Standards

In the current period, the Group has adopted all the new and revised International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board that are relevant to its operations and effective for its accounting year beginning on 1 January 2018. IFRSs comprise International Financial Reporting Standards (“IFRS”); International Accounting Standards (“IAS”); and Interpretations.

The Group has initially adopted IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Group’s condensed consolidated financial statements.

IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained profits of the current period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)

(a) Application of new and revised International Financial Reporting Standards (cont'd)

IFRS 9 Financial Instruments (cont'd)

The adoption of IFRS 9 resulted in the following changes to the Group's accounting policies.

(i) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through other comprehensive income ("FVTOCI") or fair value through profit or loss ("FVTPL"), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVTOCI.

(ii) Measurement

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

At initial recognition, the Group measures its financial assets at its fair value plus, in the case of financial assets not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)

(a) Application of new and revised International Financial Reporting Standards (cont'd)

IFRS 9 Financial Instruments (cont'd)

(ii) Measurement (cont'd)

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- **FVTOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in other income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment losses are presented as separate line item in the statement of profit or loss.
- **FVTPL:** Assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)

(a) Application of new and revised International Financial Reporting Standards (cont'd)

IFRS 9 Financial Instruments (cont'd)

(iii) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables (i.e. fee and commission receivables), the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. Meanwhile, other receivable (i.e. margin account receivables, financial assets held under resale agreements and non-trade receivables) are adopting general approach.

Set out below is the impact of the adoption of IFRS 9 on the Group.

The following table summarise the impact on the Group's opening retained profits as at 1 January 2018 is as follows:

	<i>RMB'000</i>
Reclassification of available-for-sale financial assets to FVTPL	390,307
(Increase)/decrease in impairment loss for:	
– margin account receivables (<i>note b</i>)	22,832
– financial assets held under resale agreements (<i>note b</i>)	(22,590)
– other current assets (<i>note b</i>)	858
Related reserves which were determined based on net profits	(696)
Related deferred tax	(274)
	<hr/>
Adjustment to retained profits from adoption of IFRS 9 on 1 January 2018	<u>390,437</u>
Attributable to:	
– ordinary shareholders of the Company	390,646
– non-controlling interests	(209)
	<hr/>
	<u>390,437</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)

(a) Application of new and revised International Financial Reporting Standards (cont'd)

IFRS 9 Financial Instruments (cont'd)

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018

Financial assets	Classification under IAS 39	Classification under IFRS 9	Carrying amounts under IAS 39	Carrying amounts under IFRS 9
Equity investments (<i>note a</i>)	Available-for-sale	FVTPL	1,740,299	1,740,299
Equity investments	FVTPL	FVTPL	4,246,338	4,246,338
Debt investments	FVTPL	FVTPL	7,952,583	7,952,583
Debt investments	FVTPL	FVTOCI	798,639	798,639
Financial assets held under resale agreements (<i>note b</i>)	Loans and receivables	Amortised cost	1,661,659	1,639,069
Refundable deposits	Loans and receivables	Amortised cost	614,506	614,506
Other non-current assets	Loans and receivables	Amortised cost	66,495	46,195
Other non-current assets	Loans and receivables	FVTPL	-	20,300
Margin account receivables (<i>note b</i>)	Loans and receivables	Amortised cost	5,322,835	5,345,667
Other current assets (<i>note b</i>)	Loans and receivables	Amortised cost	585,448	586,306
Cash held on behalf of brokerage clients	Loans and receivables	Amortised cost	9,491,666	9,491,666
Clearing settlement funds	Loans and receivables	Amortised cost	773,387	773,387
Cash and bank balances	Loans and receivables	Amortised cost	2,338,573	2,338,573

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)

(a) Application of new and revised International Financial Reporting Standards (cont'd)

IFRS 9 Financial Instruments (cont'd)

The impact of these changes on the Group's equity is as follows:

	Effect on surplus reserve	Effect on general risk reserve	Effect on transaction risk reserve	Effect on investment revaluation reserve	Effect on retained profits
Opening balance - IAS 39	508,906	709,241	609,999	390,307	2,583,021
Reclassification of trading equity investments from available-for-sale to financial assets at FVTPL (<i>note a</i>)	–	–	–	(390,307)	390,307
(Increase)/decrease in impairment loss for:					
– margin account receivables (<i>note b</i>)	–	–	–	–	17,124
– financial assets held under resale agreements (<i>note b</i>)	–	–	–	–	(16,942)
– other current assets (<i>note b</i>)	–	–	–	–	853
Appropriation to related reserve	224	251	221	–	(696)
	<u>224</u>	<u>251</u>	<u>221</u>	<u>(390,307)</u>	<u>390,646</u>
Opening balance – IFRS 9	<u>509,130</u>	<u>709,492</u>	<u>610,220</u>	<u>–</u>	<u>2,973,667</u>

Notes:

- (a) These equity investments represent investments that the Group intends to hold for trading purposes. Under IFRS 9, equity investment are generally measured at FVTPL. As a result, assets with a fair value of approximately RMB1,740 million were reclassified from available-for-sale financial assets to financial assets at FVTPL and fair value gains of RMB390.307 million were reclassified from the available-for-sale reserve to retained profits on 1 January 2018. Unlike IAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit or loss.
- (b) Margin account receivables, financial assets held under resale agreements and other current assets that were classified as loans and receivables under IAS 39 are now classified at amortised cost. A net decrease of RMB1.035 million in the allowance for impairment over these receivables was recognised in opening retained profits at 1 January 2018 on transition to IFRS 9.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)

(a) Application of new and revised International Financial Reporting Standards (cont'd)

IFRS 9 Financial Instruments (cont'd)

For assets in scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of IFRS 9 impairment model requirements at 1 January 2018 results in an additional impairment allowance as follows:

	<i>RMB'000</i>
Impairment allowance at 31 December 2017 under IAS 39	52,449
Additional/(reversal) of impairment recognised as at 1 January 2018 on:	
– margin account receivables	(22,832)
– financial assets held under resale agreements	22,590
– other current assets	(858)
	<u>51,349</u>
Impairment allowance at 1 January 2018 under IFRS 9	<u>51,349</u>

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Group has adopted IFRS 15 using the cumulative effect method with the effect of initially applying this standard recognised at the date of initial application. Accordingly, the information presented for 2017 has not been restated, i.e. it is presented, as previously reported, under IAS 18 and related interpretations.

The adoption of IFRS 15 did not result any significant changes to the Group's accounting policies.

(b) New and revised IFRSs in issue but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted. The Group has not early adopted any new or amended standards that has been issued but is not yet effective.

The Group is still assessing the impact of these new and revised IFRSs and there are no significant updates to the information provided in the last annual financial statements about the possible impacts of the new standards issued but not yet effective which may have a significant impact on the Group's consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

3. FEES AND COMMISSION INCOME

	Six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
Fees and commission income arising from:		
– Securities brokerage business	361,159	422,641
– Assets management business	262,073	318,907
– Underwriting and sponsoring business	31,331	37,623
– Future brokerage business	30,208	34,587
– Financial advisory business	18,463	84,336
– Investment advisory business	2,375	4,968
– Custody business	23,054	18,768
	728,663	921,830

4. INTEREST INCOME

	Six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
Interest income arising from:		
– Margin financing and securities lending	216,500	195,160
– Deposits in financial institutions	170,171	195,483
– Financial assets held under resale agreements	37,431	42,309
– Others	–	525
	424,102	433,477

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

5. NET INVESTMENT INCOME

	Six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
Net realised gains from disposal of available-for-sale financial assets	–	116,419
Dividend income and interest income from available-for-sale financial assets	–	2,256
Dividend income from financial instruments at FVTPL and derivative financial instruments	335,478	225,832
Net realised (losses)/gains from disposal of financial instruments at FVTPL and derivative financial instruments	(518,021)	220,658
Interest income from investments classified as receivables	984	858
Loss on disposal of an associate	(79)	–
Others	656	1,171
	(180,982)	567,194

6. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
Foreign exchange gains/(losses)	323	(684)
Rental income	1,502	1,510
Government grants	5,581	1,425
Gain/(losses) on disposal of property and equipment and intangible assets	4	(525)
Gains from financial instruments at fair value through profit or loss and derivative financial instruments	14,891	–
Others	1,778	4,268
	24,079	5,994

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

7. FEES AND COMMISSION EXPENSES

	Six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
Expenses arising from:		
– Securities brokerage business	69,142	75,407
– Underwriting and sponsoring business	–	1,444
	69,142	76,851

8. INTEREST EXPENSES

	Six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
Interest expenses arising from:		
– Account payables to brokerage clients	18,962	22,489
– Placements from a financial institution	14,466	17,951
– Financial assets sold under repurchase agreements	149,340	104,968
– Debts instruments	119,645	134,924
– Other investors under the assets management schemes	(6,221)	52,143
– Limited partners under limited partnerships	(983)	9,760
	295,209	342,235

9. STAFF COSTS

	Six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
Short-term benefits	367,283	495,658
Defined contribution plan	29,719	27,430
	397,002	523,088

The Group is required to participate in pension schemes in the People's Republic of China ("PRC") whereby the Group is required to pay annual contributions for its employees at certain rates of the wages of employees. The Group has no other material obligations for payment of retirement benefits to its employees beyond the contributions described above.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

10. DEPRECIATION AND AMORTISATION

	Six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
Depreciation of:		
– property and equipment	19,195	17,750
– investment properties	413	412
Amortisation of:		
– intangible assets	19,536	16,294
– leasehold improvements and long-term prepaid expenses	8,622	9,945
	47,766	44,401

11. OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
Auditors' remuneration	5,261	3,930
Business entertainment expenses	11,483	10,811
Business travel expenses	18,549	17,742
Consulting fees	38,625	34,216
Electronic equipment operating expenses	15,768	43,395
Miscellaneous office expenses	4,766	6,585
Other commission expenses	33,895	32,908
Postal and communication expenses	6,921	7,625
Rental expenses	58,957	59,241
Securities investor protection funds	1,637	26,749
Utilities and building management fees	5,738	6,639
Others	72,127	81,634
	273,727	331,475

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

12. IMPAIRMENT LOSSES

	Six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
Impairment losses/(reversal of impairment losses) on:		
– margin financing and securities lending	3,891	(3,109)
– financial assets held under resale agreements	5,267	(1,121)
– other current assets	36,216	13,641
	45,374	9,411

13. INCOME TAX (CREDIT)/EXPENSE

	Six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
Current tax	28,363	103,618
Deferred tax	(111,463)	19,233
	(83,100)	122,851

The provision for the PRC corporate income tax is calculated based on the statutory income tax rate of 25%.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

14. (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit for the period attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue.

	Six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
(Loss)/earnings		
(Loss)/profit for the period attributable to ordinary shareholders of the Company	(303,912)	361,851
Less: Dividends for cumulative perpetual capital securities required	(50,581)	(50,581)
	(354,493)	311,270
Number of shares		
Weighted average number of ordinary shares used in basic earnings per share calculation	2,604,567	2,604,567

For the six months ended 30 June 2018, there were no dilutive potential ordinary shares (six months ended 30 June 2017: Nil), so the diluted (loss)/earnings per share were the same as the basic (loss)/earnings per share.

15. OTHER COMPREHENSIVE INCOME FOR THE PERIOD

Components of other comprehensive income, including reclassification adjustments:

	Six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
Fair value gains on available-for-sale financial assets	–	172,608
Less: Transfer to profit or loss upon disposal	–	(116,419)
Tax effect	–	(14,047)
	–	42,142

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

16. DIVIDENDS

	Six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
Final dividend in respect of the financial year ended 31 December 2017 of RMB0.10 per ordinary share	260,457	–
Dividend paid to holders of perpetual capital securities	102,000	102,000
Total	362,457	102,000

- (i) The dividends paid for the period ended 30 June 2018 was approximately RMB260.457 million being final dividend of RMB0.10 per ordinary shares in respect of the year ended 31 December 2017, and RMB102 million being dividend calculated at 6.80% p.a. on the nominal value of perpetual capital securities for the period from 29 June 2017 to 28 June 2018.
- (ii) The dividend paid during the six months ended 30 June 2017 was RMB102 million being dividend calculated at 6.80% p.a. on the nominal value of perpetual capital securities for the period from 29 June 2016 to 28 June 2017.

The directors do not recommend the payment of dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

17. PROPERTY AND EQUIPMENT

During the six months ended 30 June 2018, the Group acquired property and equipment of approximately RMB27.048 million (unaudited) (six months ended 30 June 2017: RMB17.972 million (unaudited)).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30 June 2018 (unaudited)	31 December 2017 (audited)
Available-for-sale financial assets:		
– Current	–	396,444
– Non-current	–	1,343,855
	–	1,740,299
	–	–
At fair value:		
– Equity securities	–	1,595,761
– Assets management schemes	–	71,060
– Investment funds	–	73,478
	–	1,740,299
	–	–
Analysis into:		
– Listed outside Hong Kong	–	623,108
– Unlisted	–	1,117,191
	–	1,740,299
	–	–

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

19. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	30 June 2018 (unaudited)	31 December 2017 (audited)
Financial assets held under resale agreements:		
– Non-current	586,446	614,910
– Current	1,273,106	1,046,749
	1,859,552	1,661,659
Analysis by collateral type:		
– Equity securities	818,256	849,125
– Debt securities	1,073,399	816,780
Less: Impairment losses	(32,103)	(4,246)
	1,859,552	1,661,659
Analysis by market:		
– Shenzhen Stock Exchange	879,300	917,370
– Shanghai Stock Exchange	1,009,784	293,670
– Interbank	–	450,312
– Others	2,571	4,553
Less: Impairment losses	(32,103)	(4,246)
	1,859,552	1,661,659

As at 30 June 2018, the Group did not hold any collateral under resale agreements for which the Group was permitted to sell or re-pledge in the absence of default for the transactions (31 December 2017: Nil).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

20. OTHER NON-CURRENT ASSETS

	30 June 2018 (unaudited)	31 December 2017 (audited)
Leasehold improvements and long-term prepaid expenses (<i>note</i>)	34,237	38,954
Long-term receivables	7,324	7,241
Investments classified as receivables	–	33,637
Less: Impairment losses	–	(13,337)
	41,561	66,495

Note:

The movements of leasehold improvements and long-term prepaid expenses are as below:

	30 June 2018 (unaudited)	31 December 2017 (audited)
At beginning of the period/year	38,954	37,411
Transfer in	–	3,122
Additions	3,904	18,474
Amortisation	(8,621)	(20,053)
At the end of the period/year	34,237	38,954

21. MARGIN ACCOUNT RECEIVABLES

	30 June 2018 (unaudited)	31 December 2017 (audited)
Individual receivables	5,305,477	5,237,910
Institution receivables	126,911	114,387
Less: Impairment losses	(10,000)	(29,462)
	5,422,388	5,322,835

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

21. MARGIN ACCOUNT RECEIVABLES (CONT'D)

The fair value of collaterals for margin financing and securities lending business is analysed as follows:

	30 June 2018 (unaudited)	31 December 2017 (audited)
Equity securities	12,577,563	13,998,678
Cash	909,478	761,903
	13,487,041	14,760,581

The Group evaluates the collectability of receivables from margin clients based on management's assessment on the credit rating, collateral value and the past collection history of each margin clients.

22. OTHER CURRENT ASSETS

	30 June 2018 (unaudited)	31 December 2017 (audited)
Fees and commission receivables (<i>note a</i>)	163,586	115,103
Interest receivables (<i>note b</i>)	269,875	332,874
Prepaid expenses	13,945	12,059
Other receivables	227,923	125,412
	675,329	585,448

Notes:

(a) Fees and commission receivables

As at the end of the period/year, the ageing analysis of fees and commission receivables, based on the invoice date, is as follows:

	30 June 2018 (unaudited)	31 December 2017 (audited)
Within one year	159,942	114,094
Over one year	37,202	1,009
Less: Impairment losses	(33,558)	-
	163,586	115,103

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

22. OTHER CURRENT ASSETS (CONT'D)

Notes: (cont'd)

(b) Interest receivables

	30 June 2018 (unaudited)	31 December 2017 (audited)
Interest receivables arising from:		
– Financial assets at fair value through profit or loss	182,908	257,718
– Margin financing and securities lending	87,752	75,137
– Bank deposits	8,196	3,950
– Financial assets held under resale agreements	1,533	2,669
Less: Impairment losses	<u>(10,514)</u>	<u>(6,600)</u>
	<u>269,875</u>	<u>332,874</u>

(c) Other receivables

	30 June 2018 (unaudited)	31 December 2017 (audited)
Other receivables	245,072	137,553
Less: Impairment losses	<u>(17,149)</u>	<u>(12,141)</u>
	<u>227,923</u>	<u>125,412</u>

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2018 (unaudited)	31 December 2017 (audited)
Current:		
– Debt securities	<u>225,127</u>	<u>–</u>
Analysis into:		
– Listed outside Hong Kong	<u>225,127</u>	<u>–</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2018 (unaudited)	31 December 2017 (audited)
Held for trading:		
– Debt securities	5,711,340	8,306,950
– Equity securities	2,696,528	2,432,186
– Investment funds	806,368	789,992
– Assets management schemes	665,843	1,024,160
	9,880,079	12,553,288
Financial assets designated at fair value through profit or loss:		
– Debt securities	–	444,272
	9,880,079	12,997,560
Analysis into:		
– Listed in Hong Kong	187,331	488,262
– Listed outside Hong Kong	5,390,230	7,809,250
– Unlisted	4,302,518	4,700,048
	9,880,079	12,997,560

25. CASH HELD ON BEHALF OF BROKERAGE CLIENTS

The Group maintains segregated deposit accounts with banks and authorised institutions to hold clients' monies arising from its normal course of business. The Group has classified their brokerage clients' monies as cash held on behalf of brokerage clients under the current assets section of the condensed consolidated statement of financial position, and recognised the corresponding account payables to the respective brokerage clients on the grounds that the Group is liable for any loss or misappropriation of their brokerage clients' monies. Cash held for brokerage clients for their transaction and settlement purposes is subject to regulatory oversight by third-party depository institutions in accordance with China Securities Regulatory Commission ("CSRC") regulations.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

26. CASH AND CASH EQUIVALENTS

	30 June 2018 (unaudited)	30 June 2017 (unaudited)
Cash on hand	76	90
Bank balances with original maturity within three months	1,763,672	2,429,121
Bank balances included in assets classified as held for sale	–	5,463
Clearing settlement funds	944,734	996,506
Financial assets held under resale agreements with original maturity within three months	1,269,120	965,454
Less: restricted bank deposits	(205,334)	(157,850)
	3,772,268	4,238,784

27. DEBT INSTRUMENTS

	30 June 2018 (unaudited)	31 December 2017 (audited)
Beneficiary certificates	1,450,821	1,604,857
Subordinated bonds	1,540,000	1,740,000
Long-term corporate bond	1,500,000	1,500,000
	4,490,821	4,844,857
Analysis by remaining maturity:		
Current		
Within one year	2,808,753	1,500,000
Non-current		
Between one year and two years	142,068	1,604,857
Between two years and five years	1,540,000	1,740,000
	1,682,068	3,344,857
	4,490,821	4,844,857

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

27. DEBT INSTRUMENTS (CONT'D)

Beneficiary certificates:

At 30 June 2018 (unaudited)

Name	Par value	Issuance date	Due date	Interest rate	Par value			Accrued Interest	Book value as at 30 June 2018	
					As at 1 January 2018	Issuance	Redemption			
					As at 30 June 2018					
恒創泰富No. 6	100,000	24.02.2017	22.02.2019	5.70%	104,857	-	-	104,857	2,826	107,683
恒創泰富No. 8	300,000	08.03.2017	08.03.2018	5.20%	300,000	-	(300,000)	-	-	-
恒創泰富No. 9	200,000	10.03.2017	09.03.2018	5.20%	200,000	-	(200,000)	-	-	-
恒創泰富No. 11	500,000	27.06.2017	27.06.2018	5.78%	500,000	-	(500,000)	-	-	-
恒創泰富No. 12	500,000	21.07.2017	20.07.2018	5.45%	500,000	-	-	500,000	-	500,000
恒創泰富No. 13	500,000	14.03.2018	14.03.2019	6.20%	-	500,000	-	500,000	-	500,000
恒富No. 14	60,130	18.01.2018	17.01.2019	5.50%	-	60,130	-	60,130	-	60,130
恒富No. 16	140,140	11.04.2018	13.04.2020	6.20%	-	140,140	-	140,140	1,928	142,068
恒富No. 17	140,940	27.06.2018	26.06.2019	5.60%	-	140,940	-	140,940	-	140,940
Total					<u>1,604,857</u>	<u>841,210</u>	<u>(1,000,000)</u>	<u>1,446,067</u>	<u>4,754</u>	<u>1,450,821</u>

At 31 December 2017 (audited)

Name	Par value	Issuance date	Due date	Interest rate	Par value			Accrued Interest	Book value as at 31 December 2017	
					As at 1 January 2017	Issuance	Redemption			
					As at 31 December 2017					
Hengfu No. 9	300,000	06.05.2015	04.05.2017	6.55%	332,624	-	(332,624)	-	-	
恒創泰富No. 1	500,000	12.09.2016	13.03.2017	3.50%	500,000	-	(500,000)	-	-	
恒創泰富No. 2	500,000	14.09.2016	15.03.2017	3.60%	500,000	-	(500,000)	-	-	
恒創泰富No. 3	500,000	17.11.2016	17.11.2017	3.70%	500,000	-	(500,000)	-	-	
恒創泰富No. 4	500,000	18.11.2016	17.11.2017	3.80%	500,000	-	(500,000)	-	-	
恒創泰富No. 5	500,000	23.11.2016	23.11.2017	3.80%	500,000	-	(500,000)	-	-	
恒創泰富No. 6	100,000	24.02.2017	22.02.2019	5.70%	-	100,000	-	100,000	4,857	104,857
恒創泰富No. 8	300,000	08.03.2017	08.03.2018	5.20%	-	300,000	-	300,000	-	300,000
恒創泰富No. 9	200,000	10.03.2017	09.03.2018	5.20%	-	200,000	-	200,000	-	200,000
恒創泰富No. 11	500,000	27.06.2017	27.06.2018	5.78%	-	500,000	-	500,000	-	500,000
恒創泰富No. 12	500,000	21.07.2017	20.07.2018	5.45%	-	500,000	-	500,000	-	500,000
Total					<u>2,832,624</u>	<u>1,600,000</u>	<u>(2,832,624)</u>	<u>1,600,000</u>	<u>4,857</u>	<u>1,604,857</u>

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For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

27. DEBT INSTRUMENTS (CONT'D)

Subordinated bonds:

At 30 June 2018 (unaudited)

Name	Par value	Issuance		Nominal interest rate	Book value	Issuance	Redemption	Book value
		date	Due date		as at 1 January 2018			as at 30 June 2018
14 恒泰債(123262)	200,000	30.01.2015 (with early redemption option on 30.01.2018)	30.01.2020	6.70%	200,000	-	(200,000)	-
恒泰期貨股份有限公司 次級債	40,000	15.08.2016 (with early redemption option on 15.08.2018)	15.08.2020	6.00%	40,000	-	-	40,000
恒泰證券股份有限公司 2017次級債	1,500,000	01.11.2017 (with early redemption option on 01.11.2020)	01.11.2022	5.90%	1,500,000	-	-	1,500,000
					<u>1,740,000</u>	<u>-</u>	<u>(200,000)</u>	<u>1,540,000</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

27. DEBT INSTRUMENTS (CONT'D)

Subordinated bonds: (cont'd)

At 31 December 2017 (audited)

Name	Par value	Issuance date	Due date	Nominal interest rate	Book value as at 1 January 2017	Issuance	Redemption	Book value as at 31 December 2017
14 恒泰債(123321)	1,000,000	11.11.2014 (with early redemption option on 11.11.2017)	11.11.2019	6.90%	1,000,000	-	(1,000,000)	-
14 恒泰債(123291)	300,000	16.12.2014 (with early redemption option on 16.12.2017)	16.12.2019	6.54%	300,000	-	(300,000)	-
14 恒泰債(123262)	200,000	30.01.2015 (with early redemption option on 30.01.2018)	30.01.2020	6.70%	200,000	-	-	200,000
恒泰期貨股份有限公司次級債	40,000	15.08.2016 (with early redemption option on 15.08.2018)	15.08.2020	6.00%	40,000	-	-	40,000
恒泰證券股份有限公司 2017次級債	1,500,000	01.11.2017 (with early redemption option on 01.11.2020)	01.11.2022	5.90%	-	1,500,000	-	1,500,000
					<u>1,540,000</u>	<u>1,500,000</u>	<u>(1,300,000)</u>	<u>1,740,000</u>

As approved by CSRC, the Company issued 5-year subordinated bonds with a nominal value of RMB1 billion on 11 November 2014, RMB300 million on 16 December 2014 and RMB200 million on 30 January 2015. These subordinated bonds were listed at Shanghai Stock Exchange. In addition, as approved by CSRC, the Group had also issued 4-year subordinated bond with nominal value of RMB40 million on 15 August 2016. This subordinated bond was unlisted.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

27. DEBT INSTRUMENTS (CONT'D)

Long-term corporate bond:

At 30 June 2018 (unaudited)

Name	Issuance date	Due date	Nominal interest rate	Book value as at 1 January 2018	Issuance	Book value as at 30 June 2018
14恒泰05(136215)	29.01.2016	29.01.2019	3.42%	1,500,000	–	1,500,000

At 31 December 2017 (audited)

Name	Issuance date	Due date	Nominal interest rate	Book value as at 1 January 2017	Issuance	Book value as at 31 December 2017
14恒泰05(136215)	29.01.2016	29.01.2019	3.42%	1,500,000	–	1,500,000

28. ACCOUNT PAYABLES TO BROKERAGE CLIENTS

	30 June 2018 (unaudited)	31 December 2017 (audited)
Clients' deposits for:		
– margin financing and securities lending	988,688	794,279
– other brokerage business	8,268,565	9,234,054
	9,257,253	10,028,333

Account payables to brokerage clients represent the monies received from and repayable to brokerage clients. Account payables to brokerage clients are interest bearing at the prevailing interest rate.

The majority of the account payables balances are repayable on demand except where certain account payables to brokerage clients represent monies received from clients for their margin financing activities under normal course of business, such as margin financing and securities lending. Only the amounts in excess of the required amount of margin deposits and cash collateral are repayable on demand.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

29. OTHER CURRENT LIABILITIES

	30 June 2018 (unaudited)	31 December 2017 (audited)
Payables to:		
– other investors of consolidated structural entities	1,583,150	3,254,570
– limited partners of consolidated limited partnerships	12,933	18,242
Other payables	423,649	163,695
Interest payables	163,361	148,884
Tax and surcharges payables	54,963	41,362
	2,238,056	3,626,753

30. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	30 June 2018 (unaudited)	31 December 2017 (audited)
Financial assets sold under repurchase agreements		
– Non-current	45,000	590,000
– Current	4,433,460	5,065,778
	4,478,460	5,655,778
Analysis by collateral type		
– Equity securities	45,000	90,000
– Debt securities	1,833,460	2,465,778
– Rights and interests in margin financing	2,600,000	3,100,000
	4,478,460	5,655,778
Analysis by market		
– Bank and other financial institutions	2,645,000	3,190,000
– Shanghai Stock Exchange	899,540	1,362,884
– Shenzhen Stock Exchange	338,176	389,814
– Inter-bank market	595,744	713,080
	4,478,460	5,655,778

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

30. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS (CONT'D)

	30 June 2018 (unaudited)	31 December 2017 (audited)
Analysis by transaction type		
Pledged	4,376,145	5,505,998
Sold	102,315	149,780
	4,478,460	5,655,778

As at 30 June 2018, the carrying amount of the financial assets at fair value through profit or loss and margin account receivables that had been placed as financial assets sold under repurchase agreements are as below:

	30 June 2018 (unaudited)	31 December 2017 (audited)
Financial assets at fair value through profit or loss	2,245,076	2,872,498
Margin account receivables	3,465,247	3,465,247
	5,710,323	6,337,745

31. SHARE CAPITAL

All shares issued by the Company are fully paid ordinary shares. The par value per share is RMB1. The Company's number of shares issued and their nominal value are as follows:

At 1 January 2017, 31 December 2017 and 30 June 2018	<u>2,604,567</u>
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32. PERPETUAL CAPITAL SECURITIES

The Group issued a perpetual subordinated debt (the "Debt") with nominal value of RMB1,500 million on 29 June 2015. The Debt is undated and will carry a 6.80% coupon rate until the first redemption date on 29 June 2020. The coupon rate will be reset every five years if the Debt is not redeemed.

The Group does not have any contractual obligation to deliver cash or other financial assets to redeem the Debt. The redemption of the Debt is solely at the discretion of the Group.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

33. COMMITMENTS

Capital commitments

Capital commitments outstanding at 30 June 2018 not provided for in the financial statements are as follows:

	30 June 2018 (unaudited)	31 December 2017 (audited)
Acquisition of property and equipment	390,950	374,600
Acquisition of intangible assets	110,000	147,280
	500,950	521,880

Lease commitments – the Group as lessee

As at 30 June 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	30 June 2018 (unaudited)	31 December 2017 (audited)
Within 1 year (inclusive)	81,410	99,806
1 – 2 years (inclusive)	28,584	48,572
2 – 3 years (inclusive)	8,812	15,700
After 3 years	3,663	7,011
	122,469	171,089

34. CONTINGENT LIABILITIES

As at 30 June 2018, the Group is not involved in any material legal, arbitration or administrative proceedings which the Group expect would have significant adverse impact on their financial position and operating results, should unfavorable rulings have been handed down (31 December 2017: Nil).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

35. RELATED PARTY TRANSACTIONS AND BALANCES

- (i) Transactions/balances between the Group and major shareholders:

	30 June 2018 (unaudited)	31 December 2017 (audited)
Balances at the end of the period/year		
– Account payables to brokerage clients	10,794	15,064
– Other current assets	–	342
	–	–
	Six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
Transactions during the period		
– Fees and commission income	3	100
– Interest expenses	23	42
– Rental expenses	3,592	4,228
– Other operating expense	–	289
	–	–

- (ii) Key management personnel remuneration

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

	Six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
Short-term benefits		
– Fees, salaries, allowance and bonus	6,268	23,303
Post-employment benefit		
– Contributions to pension scheme	284	290
	–	–
	6,552	23,593

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

36. SEGMENT REPORTING

	Brokerage and wealth management	Investment banking	Proprietary trading	Investment management	Others	Total
6 months ended 30 June 2018 (unaudited):						
Operating income						
– External	745,086	59,698	(291,609)	428,584	30,024	971,783
– Inter-segment	(1)	–	1	–	–	–
Other income and gains	497	636	–	15,054	7,892	24,079
Segment operating income	745,583	60,334	(291,609)	443,638	37,916	995,862
Segment expenses	(610,557)	(42,656)	(290,439)	(318,691)	(94,748)	(1,357,091)
Segment operating profit/(loss)	135,026	17,678	(582,048)	124,947	(56,832)	(361,229)
Share of profits less losses of associates	–	–	–	–	(1,737)	(1,737)
Profit/(loss) before tax	135,026	17,678	(582,048)	124,947	(58,569)	(362,966)
Other segment information:						
Interest income	360,794	9,904	8,388	14,992	30,024	424,102
Interest expenses	(158,426)	–	(126,108)	(10,675)	–	(295,209)
Depreciation and amortisation	(33,873)	(1,150)	(105)	(9,129)	(3,509)	(47,766)
Impairment losses	(9,334)	–	(36,040)	–	–	(45,374)
Capital expenditure	16,959	91	–	7,671	10,928	35,649
As at 30 June 2018 (unaudited):						
Segment assets	17,366,435	459,798	7,251,480	4,907,770	1,399,980	31,385,463
Deferred tax assets						148,229
Total assets						31,533,692
Segment liabilities	14,109,163	41,947	4,483,074	2,165,685	386,206	21,186,075
Deferred tax liabilities						46,682
Total liabilities						21,232,757

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

36. SEGMENT REPORTING (CONT'D)

	Brokerage and wealth management	Investment banking	Proprietary trading	Investment management	Others	Total
6 months ended 30 June 2017 (unaudited):						
Operating income						
– External	874,117	131,977	376,768	493,952	45,687	1,922,501
– Inter-segment	1	(1)	–	–	–	–
Other income and gains	(187)	122	–	2,820	3,239	5,994
Segment operating income	873,931	132,098	376,768	496,772	48,926	1,928,495
Segment expenses	(724,506)	(65,575)	(167,884)	(370,604)	(83,643)	(1,412,212)
Segment operating profit/(loss)	149,425	66,523	208,884	126,168	(34,717)	516,283
Share of profits less losses of associates	–	–	–	–	(202)	(202)
Profit/(loss) before tax	149,425	66,523	208,884	126,168	(34,919)	516,081
Other segment information:						
Interest income	355,119	6,278	7,888	18,505	45,687	433,477
Interest expenses	(140,078)	–	(122,270)	(79,887)	–	(342,235)
Depreciation and amortisation	(31,858)	(1,264)	(137)	(8,153)	(2,989)	(44,401)
Reversal of impairment losses/ (impairment losses)	3,926	–	–	(13,337)	–	(9,411)
Capital expenditure	22,766	187	59	18,663	3,981	45,656
As at 31 December 2017 (audited):						
Segment assets	17,952,096	492,156	8,892,666	7,425,721	1,542,154	36,304,793
Deferred tax assets						112,194
Total assets						36,416,987
Segment liabilities	16,620,584	102,730	4,208,419	4,296,017	124,971	25,352,721
Deferred tax liabilities						121,834
Total liabilities						25,474,555

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

37. FAIR VALUE MEASUREMENTS

The carrying amount and fair value of debt instruments which are not presented at fair value are as below:

	30 June 2018 (unaudited)	31 December 2017 (audited)
Carrying amount of financial liabilities		
– Subordinated bonds	1,540,000	1,740,000
– Long-term corporate bond	1,500,000	1,500,000
	3,040,000	3,240,000

	At 30 June 2018 (unaudited)			Total
	Level 1	Level 2	Level 3	
Fair value of financial liabilities				
– Subordinated bonds	–	1,491,591	40,000	1,531,591
– Long-term corporate bond	–	1,487,271	–	1,487,271
	–	2,978,862	40,000	3,018,862

	At 31 December 2017 (audited)			Total
	Level 1	Level 2	Level 3	
Fair value of financial liabilities				
– Subordinated bonds	–	1,681,301	40,000	1,721,301
– Long-term corporate bonds	–	1,466,613	–	1,466,613
	–	3,147,914	40,000	3,187,914

Except as disclosed above, the directors of the Company consider that the carrying amount of the Group's financial assets and financial liabilities as reflected in the condensed consolidated statement of financial position approximate their respective fair values.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

37. FAIR VALUE MEASUREMENTS (CONT'D)

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. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

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

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

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy at 30 June 2018:

	Fair value measurements as at 30 June 2018 (unaudited)			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements:				
Financial assets at fair value through profit or loss				
– Debt securities	901,363	4,789,677	20,300	5,711,340
– Equity securities	1,255,625	1,296,144	144,759	2,696,528
– Investment funds	132,727	612,326	61,315	806,368
– Assets management schemes	12,101	653,742	–	665,843
	<u>2,301,816</u>	<u>7,351,889</u>	<u>226,374</u>	<u>9,880,079</u>
Financial assets at fair value through other comprehensive income				
– Debt securities	–	215,568	9,559	225,127
	<u>2,301,816</u>	<u>7,567,457</u>	<u>235,933</u>	<u>10,105,206</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

37. FAIR VALUE MEASUREMENTS (CONT'D)

(a) Disclosures of level in fair value hierarchy at 30 June 2018: (cont'd)

	Fair value measurements as at 31 December 2017 (audited)			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements:				
Financial assets at fair value through profit or loss				
– Debt securities for trading purpose	1,852,906	6,417,044	37,000	8,306,950
– Equity securities	2,283,316	111,232	37,638	2,432,186
– Investment funds	312,331	458,661	19,000	789,992
– Assets management schemes	–	1,024,160	–	1,024,160
– Debt securities designated at fair value through profit or loss	100,704	343,568	–	444,272
	<u>4,549,257</u>	<u>8,354,665</u>	<u>93,638</u>	<u>12,997,560</u>
Available-for-sale financial assets				
– Equity securities	280,688	388,270	926,803	1,595,761
– Investment funds	–	33,163	40,315	73,478
– Assets management schemes	–	71,060	–	71,060
	<u>280,688</u>	<u>492,493</u>	<u>967,118</u>	<u>1,740,299</u>
	<u><u>4,829,945</u></u>	<u><u>8,847,158</u></u>	<u><u>1,060,756</u></u>	<u><u>14,737,859</u></u>

There were no significant transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy except for:

As at 30 June 2018

One equity security with fair value of RMB871.193 million which were successfully listed during the period were transferred from Level 3 to Level 2.

As at 31 December 2017

Two equity securities with fair value of RMB103.458 million which were successfully listed during the year were transferred from Level 3 to Level 1 and Level 2.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

37. FAIR VALUE MEASUREMENTS (CONT'D)

(b) Reconciliation of financial assets measured at fair value based on Level 3:

Description	(unaudited)		Total
	Financial assets at FVTPL	Financial assets at FVTOCI	
At 1 January 2018	1,060,756	–	1,060,756
Reclassification on initial application of IFRS 9			
– from financial assets at FVTPL to financial assets at FVTOCI	(37,000)	37,000	–
– from other non-current assets to financial assets at FVTPL	20,300	–	20,300
Losses for the period	(684)	–	(684)
Changes in fair value recognised in profit or loss	40,171	–	40,171
Purchases	35,246	–	35,246
Transfers	(871,193)	–	(871,193)
Sales and settlements	(21,222)	(27,441)	(48,663)
At 30 June 2018	<u>226,374</u>	<u>9,559</u>	<u>235,933</u>
Total gains or losses included in profit or loss for assets held at end of the reporting period	<u>39,487</u>	<u>–</u>	<u>39,487</u>
		(audited)	
Description	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
At 1 January 2017	411,624	675,785	1,087,409
Losses for the year	(11,337)	–	(11,337)
Changes in fair value recognised in other comprehensive income	–	338,604	338,604
Purchases	19,000	60,997	79,997
Transfers	–	(103,458)	(103,458)
Sales and settlements	(325,649)	(4,810)	(330,459)
At 31 December 2017	<u>93,638</u>	<u>967,118</u>	<u>1,060,756</u>
Total gains or losses included in profit or loss for assets held at end of the reporting period	<u>–</u>	<u>–</u>	<u>–</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

37. FAIR VALUE MEASUREMENTS (CONT'D)

(b) Reconciliation of financial assets measured at fair value based on Level 3: (cont'd)

In year 2017, the total gains or losses recognised in other comprehensive income are presented in fair value gains on financial assets through other comprehensive income in the condensed consolidated statement of profit and loss and other comprehensive income.

The total gains or losses recognised in profit or loss including those for assets held at end of Reporting Period is presented in net investment income in the condensed consolidated statement of profit or loss.

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 30 June 2018:

The Group's financial market department is responsible for the fair value measurements of financial assets and liabilities required for financial reporting purposes, including Level 3 fair value measurements. The financial market department reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the financial market department and the Board of Directors periodically.

Certain of the financial assets at fair value through profit or loss classified as Level 2 consist of debt securities and bond investments trading in the inter-bank bond market and the over-the-counter market. Fair values are determined based on recent transaction prices in inactive markets and using valuation techniques. The remaining of the financial assets through profit or loss classified as Level 2 consist of restricted shares, close-end funds and collective assets management schemes. Fair values of restricted shares are determined by the quoted market prices of the shares with an adjustment of discount for lack of marketability. Fair values of close-end funds are determined by trading price which is based on the net asset value as at the reporting date. Fair values of collective assets management schemes are determined based on the fair value of the underlying investments in each portfolio.

For financial instruments in Level 3, prices are determined using valuation methodologies such as discounted cash flow models and other similar techniques. Determinations to classify fair value measures within Level 3 of the valuation hierarchy are generally based on the significance of the unobservable inputs to the overall fair value measurement.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

37. FAIR VALUE MEASUREMENTS (CONT'D)

- (c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 30 June 2018: (cont'd)

Level 3 fair value measurements

At 30 June 2018 (unaudited):

Description	Valuation technique	Unobservable inputs	Effect on fair value for increase of inputs
Debt securities, private placements bonds	Discounted cash flows	Risk adjusted discount rates	Decrease
Unlisted equity investments	Market comparable companies Net assets value	Discount rate for lack of marketability N/A	Increase N/A

At 31 December 2017 (audited):

Description	Valuation technique	Unobservable inputs	Effect on fair value for increase of inputs
Debt securities, private placements bonds	Discounted cash flows	Risk adjusted discount rates	Decrease
Unlisted equity investments	Market comparable companies Net assets value	Discount rate for lack of marketability N/A	Increase N/A

There were no changes in the valuation techniques used.

38. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 24 August 2018.