中信建投証券股份有限公司
CSC FINANCIAL CO., LTD.

(A joint stock company incorporated in the People's Republic of China with limited liability)
Stock Code: **6066**

2018 Interim Report

Contents

DEFINITIONS

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

"A Share Listing Date"	the date, i.e., 20 June 2018, on which the A Shares of the Company are listed and from which dealings therein are permitted to take place on the Shanghai Stock Exchange
"Articles of Association" or "Articles"	the articles of association of CSC Financial Co., Ltd.
"AUM"	assets under management
"Board" or "Board of Directors"	the Board of Directors of our Company
"BSCOMC"	Beijing State-owned Capital Operation and Management Center (北京國有資本經營管理中心)
"Central Huijin"	Central Huijin Investment Limited (中央匯金投資有限責任公司)
"China Securities Capital"	China Capital Management Limited (中信建投資本管理有限公司)
"China Securities Funds"	China Securities Funds Management Limited (中信建投基金管理有限公司)
"China Securities Futures"	China Futures Co., Ltd. (中信建投期貨有限公司)
"China Securities International"	China Securities (International) Finance Holding Company Limited (中信建投(國際)金融控股有限公司)
"China Securities Investment"	China Securities Investment Limited (中信建投投資有限公司)
"CITIC Group"	CITIC Group Corporation Ltd. (中國中信集團有限公司)
"CITIC Limited"	CITIC Limited (中國中信股份有限公司)
"CITIC Securities"	CITIC Securities Co., Ltd. (中信証券股份有限公司)
"Company Law"	Company Law of the People's Republic of China
"CSC" or "Company", "our Company", "parent company"	CSC Financial Co., Ltd. (中信建投証券股份有限公司)
"CSRC"	the China Securities Regulatory Commission (中國證券監督管理委員會)
"CSRF"	China Structural Reform Fund Co., Ltd. (中國國有企業結構調整基金股份有限公司)
"Director(s)"	director(s) of our Company

"E-Capital"	E-Capital Transfer Co., Ltd. (證通股份有限公司)
"FICC"	Fixed income securities, currencies and commodities
"Glasslake Holdings"	Glasslake Holdings Limited (鏡湖控股有限公司)
"Group"	CSC Financial Co., Ltd. and its subsidiaries
"A Share(s)"	listed domestic shares in the share capital of our Company with a nominal value of RMB1.00 each, listed on the Shanghai Stock Exchange and traded in RMB
"H Share(s)"	overseas listed foreign shares in the share capital of our Company with a nominal value of RMB1.00 each, listed on the Hong Kong Stock Exchange and traded in HK dollars
"H Share Listing Date"	the date, i.e., 9 December 2016, on which the H Shares of the Company are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"SSE"	Shanghai Stock Exchange
"Listing Rules of the SSE"	the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules" or "Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"IPO"	initial public offering
"Latest Practicable Date"	24 August 2018, being the latest practicable date prior to the printing of this interim report for the purposes of ascertaining the information contained herein
"Ministry of Finance"	Ministry of Finance of the People's Republic of China
"NEEQ Company"	National Equities Exchange and Quotations Co., Ltd. (全國中小企業股份轉讓系統有限責任公司)
"PwC"	PricewaterhouseCoopers
"PwC Zhong Tian"	PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership)

DEFINITIONS

"QDII"	Qualified Domestic Institutional Investor (合格境內機構投資者)
"QFII"	Qualified Foreign Institutional Investor (合格境外機構投資者)
"Reporting Period"	from 1 January 2018 to 30 June 2018
"RMB" or "Renminbi"	the lawful currency of the PRC
"RQFII"	Renminbi Qualified Foreign Institutional Investor (人民幣合格境外機構投資者)
"Securities Law"	Securities Law of the People's Republic of China
"Shanghai and Shenzhen Stock Exchanges"	Shanghai Stock Exchange and Shenzhen Stock Exchange
"Shanghai Shangyan"	Shanghai Shangyan Investment Center (Limited Partnership) (上海商言投資中心(有限合夥))
"Shareholder(s)"	holder(s) of the Share(s)
"Share(s)"	ordinary shares in the share capital of our Company with a nominal value of RMB1.00 each, comprising A Shares and H Shares
"Supervisor(s)"	the supervisor(s) of the Company
"Supervisory Committee"	the supervisory committee of the Company
"Tengyun Investment"	Xizang Tengyun Investment Management Limited (西藏騰雲投資管理有限公司) (former known as Xizang Shannan Century Jinyuan Investment Management Limited (西藏山南世紀金源投資管理有限公司))
"the end of the Reporting Period"	30 June 2018
"US$, USD, US Dollar(s)"	United States dollars, the lawful currency of the United States
"Wind Info"	Wind Information Co., Ltd. (上海萬得資訊技術股份有限公司), a joint-stock company with limited liability incorporated in the PRC and a service provider of financial data, information and software

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

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

SECTION 1 COMPANY INFORMATION

I. PROFILE

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

II. BASIC INFORMATION

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

III. CONTACT PERSONS AND METHODS

Contact Person	WANG Guangxue
Contact Address	No. 188 Chaonei Avenue, Dongcheng District, Beijing
Telephone	+8610-6560 8107
Facsimile	+8610-6518 6399
Email	investorrelations@csc.com.cn

IV. PLACES WHERE INTERIM REPORTS OF THE COMPANY ARE AVAILABLE

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

V. OTHER RELEVANT INFORMATION

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

I. KEY ACCOUNTING DATA

Unit: RMB million

Items	**January to June 2018**	January to June 2017	Increase/decrease as compared to the same period last year *(%)*
Total revenue and other income	**8,190**	7,253	12.92
Operating profit	**2,238**	2,501	-10.52
Profit before income tax	**2,239**	2,498	-10.37
Net profit attributable to equity holders of the Company	**1,693**	1,855	-8.75
Net cash flow from operating activities	**6,135**	-11,200	N/A

Unit: RMB million

Items	**30 June 2018**	31 December 2017	Increase/decrease as compared to the end of last year *(%)*
Total assets	**216,882**	205,883	5.34
Total liabilities	**168,930**	161,885	4.35
Equity attributable to equity holders of the Company	**47,685**	43,754	8.98
Total share capital	**7,646**	7,246	5.52

II. KEY FINANCIAL INDICATORS

Items	**January to June 2018**	January to June 2017	Increase/decrease as compared to the same period last year *(%)*
Basic earnings per Share *(RMB Yuan/Share)*	**0.23**	0.26	-11.54
Diluted earnings per Share *(RMB Yuan/Share)*	**0.23**	0.26	-11.54
Return on weighted average equity *(%)*	**4.23**	4.98	Decreased by 0.75 percentage points

Items	**30 June 2018**	31 December 2017	Increase/decrease as compared to the end of last year *(%)*
Net assets per Share attributable to equity holders of the Company *(RMB Yuan/Share)*	**6.56**	6.04	8.61
Gearing ratio *(%)*	**72.37**	73.25	Decreased by 0.88 percentage points

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

The net assets per share attributable to equity holders of the Company as indicated in the table above includes the net assets attributable to equity holders of the Company, which included perpetual bonds of RMB5 billion issued by the Company. After excluding such impact, the net assets per Share attributable to ordinary shareholders of the Company as at the end of Reporting Period was RMB5.87 (31 December 2017: RMB5.35).

III. NET CAPITAL AND RISK CONTROL INDICATORS OF THE COMPANY

Net Capital and relevant risk control indicators of the Company

As at 30 June 2018, the net capital of the Company amounted to RMB37,855 million, representing an increase of RMB830 million, or 2.24%, as compared to net capital of RMB37,025 million as at 31 December 2017, mainly due to the issuance of new shares and the profitability within the period of the Company during the Reporting Period. Net assets and other respective risk control indexes of the Company are in compliance with the relevant requirements of the "Measures for the Risk Control Indexes of Securities Companies" (Revised in 2016) promulgated by the CSRC.

Items	**30 June 2018**	31 December 2017
Net capital *(RMB million)*	**37,855**	37,025
Net assets *(RMB million)*	**46,300**	42,472
Total risk capital reserves *(RMB million)*	**16,942**	17,013
Risk coverage ratio *(%)*	**223.44**	217.63
Capital leverage ratio *(%)*	**21.80**	21.80
Liquidity coverage ratio *(%)*	**303.45**	173.80
Net stable funding ratio *(%)*	**163.57**	136.24
Net capital/net assets *(%)*	**81.76**	87.18
Net capital/liabilities *(%)*	**33.98**	34.71
Net assets/liabilities *(%)*	**41.56**	39.81
Proprietary equity securities and securities derivatives/net capital *(%)*	**12.03**	12.64
Proprietary non-equity securities and securities derivatives/net capital *(%)*	**173.01**	145.12

I. ANALYSIS ON CORE COMPETITIVENESS

In 2018, the Company continued to adhere to the core value of "recognition for achievement, ability and status", as well as the concepts of "risk management as priority" and "healthy development" to strive for better service for existing customers and realize mutual growth with the enterprise. In the meantime, the Company penetrated the local market and moved towards the international market to explore potential quality customers. The Company aimed at taking the advantages of investment banking business as the starting point to steadily develop innovative business, becoming a large best-in-class full-service investment bank based in the PRC with global vision leveraging the development trends in the PRC and global capital market.

Investment banking business of the Company continued to stay at a leading position in the industry, with indicators for core business leading the industry. In the first half of 2018, the number of equity financing projects underwritten by us as a lead underwriter and the amount of lead underwriting ranked second and first in the industry, respectively. The number of bond business underwritten by us as a lead underwriter and the amount of lead underwriting ranked second in the industry, among which both the number of projects underwritten by us as a lead underwriter and the amount of lead underwriting of corporate bonds ranked first in the industry. For merger and acquisition business, the number of MAR (material asset restructuring) projects ranked first in the industry. The Company ranked second among lead securities brokers by the number of innovation-level companies which were listed on the NEEQ and under continuous supervision of the Company (Source: Wind Info, NEEQ Company and statistics of the Company).

Wealth management business of the Company remained at the top of the market. In the first half of 2018, the net income from the securities brokerage business of the Company accounted for 3.14% of the market share, ranking tenth in the industry. As of 30 June 2018, the balance of the Company's margin financing and securities lending amounted to RMB35.664 billion, and the market share was 3.88%, representing a decrease of 0.64 percentage point as compared to that at the end of previous year, ranking ninth in the industry (Source: Wind Info and statistics of the Company).

The performance of trading and institutional customer service business of the Company remained at a leading position. For fixed income business, the sales size of corporate bonds ranked first in the industry. For investment research, the research team of the Company ranked first on "15th New Fortune" in two industries, namely, communications and military industry.

The Company continued to optimize its asset management business. As of 30 June 2018, the AUM of the Company reached RMB602.426 billion, among which, the actively managed AUM reached RMB160,344 million, representing an increase of 2.5 percentage points in terms of the proportion of the AUM of actively managed assets to the AUM of total assets compared to the end of 2017 (Source: The Securities Association of China).

The Company's custody outsourcing business continued to maintain a stable development momentum. The products under custody include securities investment funds, asset management scheme of funds companies, asset management scheme of securities companies, asset management scheme of futures companies, private investment funds and various kind of products. Our custody outsourcing business covers investment targets of the whole the market. As of 30 June 2018, the total size of the Company's custody outsourcing business was RMB159,544 million, representing an increase of 15.61% as compared to that at the beginning of the year. In particular, the size of public funds under custody was RMB33,474 million, ranking second in the securities company custody industry, with a proportion of 26.76% (Source: Wind Info and statistics of the Company).

In terms of information technology, in the first half of 2018, the Company's "Risk Measurement and Management System" was awarded the "Computer Software Copyright Registration Certificate" issued by the National Copyright Administration of the People's Republic of China.

II. BUSINESS OVERVIEW

(I) Overview

As of 30 June 2018, the total assets of the Group were RMB216,882 million, representing an increase of 5.34% as compared to that on 31 December 2017. Equity attributable to equity holders of the Company was RMB47,685 million, representing an increase of 8.98% as compared to that on 31 December 2017. During the Reporting Period, total revenue and other income of the Group amounted to RMB8,190 million in aggregate, representing a year-on-year increase of 12.92%. Total expenses amounted to RMB5,953 million in aggregate, representing a year-on-year increase of 25.27%. Net profit attributable to equity holders of the Company amounted to RMB1,693 million, representing a year-on-year decrease of 8.75%.

(II) Analysis of Principal Businesses

The principal businesses of the Group comprise four segments: investment banking business, wealth management business, trading and institutional client services business and investment management business. During the Reporting Period, total revenue and other income of the investment banking segment amounted to RMB1,519 million in aggregate, representing a year-on-year increase of 4.83%. Total revenue and other income of the wealth management segment amounted to RMB3,506 million in aggregate, representing a year-on-year increase of 4.41%. Total revenue and other income of the trading and institutional client services segment amounted to RMB2,231 million in aggregate, representing a year-on-year increase of 37.89%. Total revenue and other income of the investment management segment amounted to RMB669 million in aggregate, representing a year-on-year increase of 1.67%.

1. Investment Banking Segment

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

1.1 Equity Financing Business

In the first half of 2018, a total of 223 equity financing deals were launched in A-share market, representing a year-on-year decrease of 51.84%. The proceeds raised amounted to RMB559,165 million, representing a year-on-year increase of 4.87%. In particular, the IPO approval rate remained at a low level with an increase in the number of project applications withdrawn, resulting in the significant decrease in the number of projects launched. In the first half of 2018, 62 IPO projects were launched in A-share market, representing a year-on-year decrease of 73.84%; proceeds raised were RMB92,200 million, representing a year-on-year decrease of 20.96%. 161 refinancing deals were launched at the same period, representing a year-on-year decrease of 30.30%. Proceeds raised amounted to RMB466,965 million, representing a year-on-year increase of 10.79%. The financing scale of large-scale and ultra-large-scale projects experienced significant increase in proportion, including 11 projects with financing scale of over RMB10,000 million in the first half of 2018, with aggregate raised proceeds accounting for 52.95% of the total financing amount of A shares. (Source: Wind Info, inclusive of asset-oriented private placement)

In the first half of 2018, against strengthened audit and inactive subscription in the market, the equity financing business of the Company still maintained a leading position in the industry. The Company completed 19 deals, ranking second in the industry. The aggregate amount of equity offerings underwritten by the Company as a lead underwriter was RMB61,397 million, ranked first in the industry. In particular, the number of IPOs underwritten by us as a lead underwriter was 7, ranking second in the industry; the amount of IPOs underwritten by us as a lead underwriter was RMB11,892 million, ranking second in the industry. The IPOs of CATL and Sangfor sponsored and underwritten by the Company were successful, assisting new economy enterprises to be listed on the A-share market. The number of refinancing projects underwritten by us as a lead underwriter was 12, ranking second in the industry; the amount of refinancing underwritten by us as a lead underwriter was approximately RMB49,505 million, ranking first in the industry. In terms of project reserves, as of 30 June 2018, the Company had 26 IPOs and 22 equity refinancing projects under review, ranking second and first in the industry, respectively. (Source: Wind Info and statistics of the Company)

Details of the Company's equity underwriting and sponsorship in the first half of 2018 are set out below:

Items	**First half of 2018**		First half of 2017	
	Amount of lead underwriting *(RMB'00 million)*	**Number of offerings**	Amount of Lead underwriting *(RMB'00 million)*	Number of offerings
IPO	**118.92**	**7**	81.51	13
Refinancing Issuance	**495.05**	**12**	239.90	12
Total	**613.97**	**19**	321.41	25

Source: Wind Info and statistics of the Company

Note: The statistical scope of refinancing includes allotment of shares, public placement, financing-oriented private placement (inclusive of non-public issuance and reorganization ancillary financing), preference shares, but excludes asset-oriented private placement.

For overseas business, in the first half of 2018, China Securities International completed two IPOs and one refinancing issuance in Hong Kong.

Outlook for the second half of 2018

In the second half of 2018, the Company will pay attention to policies and market changes to conduct project underwriting and offering well, promote system development for quality customers, and lay out the development of new economy and innovative business categories, while at the same time, attach great importance to project quality management and risk control, and adhere to balanced and steady development.

1.2 Debt Financing Business

In the first half of 2018, the bond market recorded remarkable results as compared to the stock market. The economic growth has slowed down and stabilized, while Sino-U.S. trade friction continued to escalate, and more stringent regulation has been imposed on the property industry. The monetary policy remained moderate and neutral, while the deposit-reserve ratio was reduced for two times by the People's Bank of China within six months, showing signs of marginal relaxation. As the priority of the “three major battles”, deleveraging and preventing risks were implemented with the general direction remaining unchanged, but with less intensity and slowed pace. The risk aversion mentality caused by the dropping of Shanghai Stock Exchange Composite Index below 2,800 points was beneficial to the bond market. The bond market recorded a steady growth in issuance scale, and the primary and secondary markets, in terms of yield, presented a downward trend in fluctuation, which showed gradual recovery in bear market since 2017. In particular, due to frequent occurrence of credit risk incidents during the year, and new asset management rules on rigid cash payment and net worth management, market risk preference was reduced with differentiated demands, interest rate bonds outperformed credit bonds, and high-grade credit bonds outperformed medium and low-grade credit bonds, leading to expansion of credit spread.

In the first half of 2018, the debt financing business of the Company maintained a promising development momentum, ranking second in the industry. During the Reporting Period, the Company completed a total of 216 underwriting projects as a lead underwriter, comprising corporate bonds, enterprise bonds, other debt financing instruments of non-financial enterprises, financial bonds, asset-backed securitization, convertible bonds and exchangeable bonds, with an aggregate total size of projects underwritten as a lead underwriter of RMB482,717 million. Among the above, the number of corporate bonds underwritten by the Company as a lead underwriter was 105, with the total size of projects underwritten as a lead underwriter amounted to RMB176,935 million. The Company ranked first in the industry in terms of both the amount underwritten as a lead underwriter for corporate bonds and the number of corporate bond projects underwritten as a lead underwriter. By leveraging our professional advantages in the corporate bond business, the Company has accumulated such large-scale central enterprise customers as PetroChina, Sinopec, CSSC, State Grid, Huaneng Power International, China National Building Material, Three Gorges Corporation, China North Industries Group, China South Industries Group and Xinxing Cathay International Group, and such high-quality industry customers as S.F. Express and Longfor Group. In terms of product innovation, the Company, as a lead underwriter, has successfully issued the first domestic rental apartments special bonds, namely “18 Longfor 01”, and the first asset-backed securitization product for sustainable development of PPP project, namely “18 Kingland You”.

Details of debt financing business of the Company in the first half of 2018 are as follows:

Items	First half of 2018			First half of 2017		
	Amount of lead underwriting *(RMB'00 million)*	**Total project scale** *(RMB'00 million)*	**Number of offerings**	Amount of lead underwriting *(RMB'00 million)*	Total project scale *(RMB'00 million)*	Number of offerings
Corporate bonds	**1,035.62**	**1,769.35**	**105**	483.58	878.20	57
Enterprise bonds	**48.70**	**61.30**	**7**	34.46	60.40	4
Convertible bonds	**68.06**	**68.06**	**4**	8.14	8.14	1
Financial bonds	**93.98**	**325.50**	**15**	204.40	1,129.60	17
Others	**959.07**	**2,602.96**	**85**	399.41	1,434.46	84
Total	**2,205.43**	**4,827.17**	**216**	1,129.99	3,510.80	163

Source: Wind Info and statistics of the Company

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

For overseas business, in the first half of 2018, China Securities International completed six overseas bond issuance transactions and served as the financial adviser of 1 overseas bond transaction in Hong Kong.

Outlook for the second half of 2018

In the second half of 2018, the bond market is expected to maintain a moderate growth amidst fluctuation. Actively seizing market opportunities, the Company will strengthen internal and external collaboration, consolidate its competitive edges in such traditional businesses as corporate bonds, debt financing instruments of non-financial institutions and enterprise bonds, and continue to focus on debt financing business with greater market potential such as asset-backed securitization, exchangeable bonds, panda bonds and overseas US$-denominated bonds so as to adapt to market changes with a widened bond product offering.

1.3 Financial Advisory Business

In the first half of 2018, 97 M&A projects were completed in A-share market, representing a year-on-year decrease of 15.65%, and the transaction amount was RMB282,620 million, representing a year-on-year decrease of 42.53%. The development of the NEEQ market has slowed down and returned to rationality. With the intensive issuance of reform policies, the NEEQ market has shifted towards the pursuit of high-quality development, and gradually achieved the survival of the fittest for listed enterprises through strict supervision and differentiated stratification. In the first half of 2018, 320 companies were newly quoted on the NEEQ, and 707 companies were delisted. As of 30 June 2018, 11,243 companies were accumulatively quoted on the NEEQ, representing a decrease of 387 as compared to that at 31 December 2017.

Despite the sluggish market, the M&A business of the Company still recorded satisfactory results. As a result, the structure of investment banking service of the Company was further balanced. In the first half of 2018, the Company acted as financial advisor in 8 significant asset restructuring projects, ranking first in the industry. The transaction amount was RMB21,228 million, ranking fourth in the industry. The Company has a large M&A project reserve. As of 30 June 2018, the Company had a total of 6 projects pending approval by regulatory authorities, ranking first in the industry. In the first half of 2018, as a chief agency broker, the Company recommended 11 companies to be quoted on NEEQ and completed 32 private placements of these listed companies, with RMB1,238 million proceeds raised. As of 30 June 2018, the Company continuously oversaw 57 enterprises in the innovation level, ranking second in the industry. (Source: Wind Info, NEEQ Company and choice financial terminal)

Outlook for the second half of 2018

In the second half of 2018, the Company will further exploit the M&A business opportunities to expand business scale, and strengthen the service layout of the cross-border business. By leveraging its unique advantages in the financial advisory of bankruptcy reorganization of listed companies, the Company will continue to explore business opportunities for the crisis handling by risk companies to enhance diversified service capability of the Company's M&A business. In terms of the NEEQ listing business, the Company will keep abreast of the policy reform trend to seize the market opportunities of "NEEQ + H shares", better serve quality customers and enhance business efficiency in coordination with the refined stratification reform, and coordinate the implementation of reform measures for launching, trading, investor access, information disclosure and regulation, so as to enhance quality, and strengthen risk management and control.

2. Wealth Management Segment

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

2.1 Brokerage and Wealth Management Business

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

In the first half of 2018, the bilateral trading volume of equity and funds in the market was RMB103.47 trillion, representing a year-on-year decrease of 2.63% (Source: Shanghai and Shenzhen Stock Exchanges). The competition among securities firms was increasingly fierce on commission rate, business flow, service approach, service provided and expertise of employees. As the equity funds trading amount decreased in general, the brokerage business encountered great challenges.

In the first half of 2018, the Company endeavored to establish an integrated client services platform and ecological chain to develop businesses covering financial products, margin financing and securities lending, the NEEQ, private equity, investment advisory services, futures, precious metals and IB business through resource integration. The Company, with customer-oriented culture, continued to strengthen the core competitiveness of brokerage business with clients as the focus through raising the standard of service and enhancing procedures, and strived to fulfill diversified wealth management, investment and financing needs of retail, high net worth, institutional, corporate and other clients at different levels.

In the first half of 2018, the net income from the securities brokerage business of the Company accounted for 3.14% of the market share, ranking tenth in the industry. As of 30 June 2018, trading volume of the agency sales of equity funds amounted to RMB3.09 trillion with a market share of 2.99%. The sale of standardized products amounted to RMB30,347 million, and the net income from the distribution of financial products had a market share of 3.56%, ranking sixth in the industry. The number of new capital accounts was 367,000; the total number of clients' capital accounts at the end of the Reporting Period was 7,967,000. The market value of securities under custody for the Company's clients accounts was RMB1.91 trillion with a market share of 5.23%, ranking fourth in the industry; in which new client assets amounted to RMB77,279 million (Sources: Shanghai and Shenzhen Stock Exchanges, China Securities Depositary and Clearing Corporation Limited, The Securities Association of China and statistics of the Company). As of 30 June 2018, the Group had 302 securities branches, of which 56% were located in the relatively affluent Five Provinces and Two Municipalities (Beijing, Shanghai, Guangdong, Fujian, Zhejiang, Jiangsu and Shandong), and among which 57 were located in Beijing. Being the securities company with the largest number of securities branches in Beijing, the Company has established a solid client base for its brokerage and wealth management businesses.

For the overseas business, China Securities International provides wealth management services to clients of the Company's securities brokerage business including institutional clients. As of 30 June 2018, the aggregate transaction amount of stock agency of China Securities International was HK$14,063 million, with 2,641 new clients and 18,974 clients in aggregate, and the total market value of stock under custody for the Company's clients' accounts was HK$34,135 million.

Outlook for the second half of 2018

In the second half of 2018, in the case of weak secondary market, the brokerage business of the Company will continue to adhere to the basis of compliance and risk management, promote construction of the centralized operation center, focus on the development of and services for three major types of clients, namely individual, institutional and corporate client, with technology as the driving force, optimize client classification and strengthen customer service, and adhere to create core competitiveness of high-quality service with focus on the best investment advisory and transaction brand in the industry. Meanwhile, in the second half of the year, the Company will continue to strengthen staff training to establish the "Invincible Army of Wealth Management", so as to promote healthy development of the Company's brokerage business.

2.2 Margin Financing and Securities Lending Business

In the first half of 2018, affected by the overall environment of the A Shares secondary market, the margin financing and securities lending business of the whole the market experienced a significant decrease. As of 30 June 2018, the balance of margin financing and securities lending of the Shanghai and Shenzhen Stock Exchange was RMB919,382 million, which decreased by 10.41% as compared to that of the end of 2017 (Source: Wind Info).

The margin financing and securities lending business of the Company was guided by the principle of "improving risk management and control capabilities to make steady progress". As of 30 June 2018, the balance of the Company's margin financing and securities lending business was RMB35,664 million; the market share was 3.88%, representing a decrease of 0.64 percentage point as compared to that at the end of 2017. The number of margin financing and securities lending accounts was 136,300, representing an increase of 1.21% as compared to that at the end of 2017.

For the overseas business, as of 30 June 2018, the balance of the Company's margin financing and securities lending business was RMB988 million, representing a decrease of 0.40 percentage point as compared to that at the end of 2017. The number of margin financing and securities lending accounts was 3,757, representing an increase of 15.81% as compared to that at the end of 2017.

Outlook for the second half of 2018

In the second half of 2018, the Company will continue to strengthen the risk management capability of the margin financing and securities lending business to actively prevent and resolve business risks. Meanwhile, we will continue to provide clients with more extensive and comprehensive services and improve service quality, so as to further improve the core competitiveness of the business.

2.3 Repurchase Business

In the first half of 2018, affected by new business regulations and significant decrease in the market, the collateralized stock repurchase business of the whole market presented a momentum of negative growth. As of 30 April 2018, the scale of collateralized stock repurchase business of the whole market amounted to RMB1,580,351 million, representing a decrease of RMB44,630 million as compared to that at the end of 2017 (source: Shanghai and Shenzhen Stock Exchanges).

During the Reporting Period, the collateralized stock repurchase business of the Company achieved steady development. As of 30 June 2018, the balance of the collateralized stock repurchase business of the Company amounted to RMB41,223 million, representing a decrease of RMB5,040 million as compared to that at the end of 2017. The balance of margin accounts of the contractual stock repurchase transaction business of the Company amounted to RMB87 million, which remained the same as that at the end of 2017.

Outlook for the second half of 2018

In the second half of 2018, the Company will keep abreast of the development of the secondary market, improve the risk control system of the collateralized stock repurchase business in combination of regulatory policies, and step up the efforts to review all aspects of a project, so as to promote the healthy and stable development of the repurchase business.

3. Trading and Institutional Client Services Segment

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

3.1 Equity Sales and Trading Business

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

With respect to the securities sales and trading business, the Company closely tracked macroeconomic conditions and micro economic data, which helped control the systematic risks on various businesses to a certain extent. The Company became qualified to conduct NEEQ market-making business in July 2014 and provided market-making services to 69 listed companies in the first half of 2018 by selecting and conducting valuation on such companies based on fundamentals to pursue a balance between value and growth.

With respect to the derivatives trading business, along with the stable development of the existing business, the Company actively explored new business models in the derivatives trading business to enhance its investment strategies using its own funds to fulfill various service needs of clients. The Company strengthened its research on the market and strategies to enhance trading strategies and broaden the variety of products, expand the scope of market–making services and constantly develop and optimize trading system. The Company stably promoted the OTC derivatives business including OTC options and non-financing swaps, actively explored new types of linked subjects and revenue structure and provided diversified options to meet the personalized investment needs of clients.

Outlook for the second half of 2018

The Company will keep tracking the economic trend and policy changes, leverage on its advantage in fundamental pricing and adhere to the concept of value investment, seize the structural opportunities arising in the market to achieve a stable income in line with the market environment. With respect to the clients' needs for asset allocation and risk management, the capital-based intermediary businesses which is based on derivative pricing and trading capacity has relatively greater development potential. The Company will steadily develop the OTC derivative business, increase resource investment in market-making and continuously explore opportunities for cross-border investments to satisfy various needs of clients and improve its investment system using its own funds.

3.2 Fixed Income Sales and Trading Business

In the first half of 2018, in view of the intensified market competition, the Company maintained sound relationship with customers and expanded its client base, dug deep into the bond investments needs of various types of clients according to its business development needs to achieve relatively satisfactory sales performance. In the first half of 2018, the scale of corporate bond sales ranked first in the industry.

With respect to the FICC business, the Company actively explored the FICC for opportunities of investment in gold and derivatives while investment transactions under traditional fixed income proprietary business maintained good performance, so as to bring the synergy of FICC related business into full play via the cooperation between the FICC business and traditional fixed income products. Meanwhile, the Company continued to push forward the market-making business at a moderate pace and significantly improved its ranking among market-makers. In the first quarter of 2018, the Company was recognized as one of the leaders in market-making services.

With respect to proprietary business, the Company maintained stable style in proprietary investment, in particular the proprietary investment in bonds, which precisely caught up with market trend with the combination of stable allocation and positive directional trading, hence achieving a satisfactory result in bond investment.

The investment advisory business of the Company kept market risks and credit risks well managed, and also kept abreast with the market pace to proactively carry out asset allocation and optimize asset structure, and accomplished satisfactory investment performance. In addition, the Company put more effort in the marketing and product design of the investment advisory business, fully explored innovative business models, proactively reached out to extensive market participants, and continuously developed interested and potential clients to enhance its market influence.

With respect to the asset-backed securitization business, in the first half of 2018, the Company steadily developed its asset-backed securitization business, of which both the total size and individual size of asset-backed securitization projects underwritten by us as lead underwriter ranked among the top in the market. The Company's professional underwriting capability, sales ability and project reserve capability were widely recognized by the market. According to the statistics from Wind Info, in the first half of 2018, the asset-backed securitization projects underwritten by the Company ranked No. 4 in the market by underwritten size, among which the interbank asset securitization projects ranked No. 3 in the market by underwritten size.

Outlook for the second half of 2018

In the second half of 2018, the Company will continue to develop the underwriting, issuance and sales business of bonds and asset-backed securitization products, enhance market research and analysis and seize market opportunities to enhance investment and sales in fixed income products and proactively explore investment advisory business.

3.3 Investment Research Business

Specialized research capability is the foundation for institutional client services. The Company's research business is well recognized and highly influential in the industry, and highly trusted by institutional clients. The investment research business of the Company mainly provides institutional clients with research consultation services covering macro-economy, fixed income, strategy, industry, corporate, financial engineering and other aspects. Clients mainly include mutual funds, insurance companies, the National Social Security Fund, private equity funds, securities firms and other institutions. The research business of the Company provides clients with research reports and various kinds of tailored research consultation services. As of the end of June 2018, the Company had a research and sales team comprising 154 members, and published a total of 1,898 research reports of various types. The Company's stock research covered 23 industries and 2,677 domestic listed companies.

In the "15th New Fortune Best Analyst" competition, the Company's research business ranked No. 9, No. 8, No. 4 and No. 7 in the categories of "Best Domestic Research Team", "Most Influential Research Institution", "Research Institution with Best Progress" and Best Domestic Sales Service Team, respectively. The Company ranked No. 1 in communications and military industry sectors, and No. 2 in the sector of coal mining.

With respect to overseas business, in the first half of 2018, the Research Department of Capital Securities International covered 43 listed companies, and published a total of 84 English reports and 196 commentaries, including 8 IPO reports.

Outlook for the second half of 2018

In recent years, the competition for high-end research talent in the market has been extremely intense, and new technologies have rapidly penetrated the research business, which provides a greater variety of research products to the market. In the second half of 2018, the Company will continue to put more efforts in team building, operate its businesses with the main theme of new economy, and improve research with wider perspective and deeper insight, with the aim to providing different clients and business lines with comprehensive and in-depth services.

* *Explanation:* covering 2,677 domestic listed companies refers to the number of company involved in 23 industries rather than the number of company covered with individual reports.

3.4 Prime Brokerage Business

The Company provides market-leading full-chain prime brokerage services to institutional investors, including trading service, account service, product design and agency sales, institutional investment and financing service, asset custody service, product operating service, research service, financing solution and value-added services. In the first half of 2018, the total scale of custody and operating services of the Company amounted to RMB159, 544 million, representing an increase of 15.61% as compared to that of the end of 2017, and ranking a leading position in the industry. Among it, the number of products under custody reached 1,575, and products of operating service reached 1,515, representing an increase of 3.96% and 12.14% respectively as compared to that of the end of 2017.

The prime brokerage system of the Company is one of the most comprehensive system with the widest range of supportive systems among the securities brokers in the industry, which connects markets of margin financing and securities lending services, stock index futures, stock options, the NEEQ and interbank markets to offer its clients with convenience and favorable experience in carrying out various businesses at the same time. The self-developed algorithmic trading platform within the prime brokerage system maintained a leading position in the industry in terms of the efficiency of execution of algorithmic trading, which is widely recognized and trusted by various clients including those from the insurance and private equity sectors and enterprises as well as high-net-worth individual clients. The newly developed algorithmic trading services for treasury bond repurchase and other services also satisfied the diversified needs from clients for trading. In the first half of 2018, the trading volume of the prime brokerage business of the Company grew continuously, with an upward trend in trading performance and continuous expansion of client type and scale.

Outlook for the second half of 2018

In the second half of 2018, the prime brokerage system will continue to improve quantitative trading, high-frequency trading, FOF investment management, real-time valuation, data summary, performance assessment, in-disk risk control and other services, in order to satisfy the customized needs of different institutional clients. The embedded algorithmic platform will connect with more trading resource management software such as Jinzheng (金證) and Genwang (根網), and promote the online algorithm trading under Hong Kong Stock Connect to further meet the trading needs of various clients.

3.5 QFII Business

The Company carries out QFII and RQFII brokerage agency business. Currently, the Company's QFII and RQFII businesses have developed a professional service brand featuring advanced transaction system and trading algorithm and extensive research information services.

Outlook for the second half of 2018

In the second half of 2018, the Company will continue to leverage and consolidate its overseas and domestic business resources to build a diversified client network. It will proactively carry out QFII and RQFII businesses to provide its clients with high-level, all-round, diversified, differentiated and integrated financial services.

3.6 Other Investment Businesses

In the first half of 2018, the domestic economic structure entered the continuous adjustment period when more uncertain factors arose in the domestic economic environment, and the Company was exposed to various risks on investment using its own capital equity interests, including decrease in quality investment subjects, inverted prices in primary and secondary markets, and higher uncertainties in investment withdrawal.

Outlook for the second half of 2018

In the second half of 2018, China Securities Investment will continue to carry out the investment in equity and financial products at a moderate pace and implement investment layout by putting strict control over project quality as the top priority, striving for incremental income for the Company.

4. Investment Management Segment

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

4.1 Asset Management Business

On 27 April 2018, with the approval of the State Council, the "Guiding Opinions on Regulating 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》) (hereinafter referred to as the "Asset Management Opinions") was officially released. According to the "regulation of fund pool" and "breakthroughs in rigid demands" and other relevant requirements under the Asset Management Opinions, the Company proactively adjusted business directions, strengthened actively managed business development and sought new opportunities for business development to pursue stable and orderly business development.

As of 30 June 2018, the Company's AUM of entrusted assets reached RMB602,426 million, ranking No. 7 in the industry, representing a decrease of 5.76% as compared to that of the end of 2017. Among which, the AUM of actively managed products reached RMB160,344 million, accounting for 26.62% of the total AUM, representing an increase of 2.5 percentage points as compared to that of the end of 2017.

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

Unit: RMB'00 million

	AUM	
	30 June 2018	31 December 2017
Collective asset management business	**238.21**	218.81
Targeted asset management business	**5,563.75**	6,036.28
Specialized asset management business	**222.30**	137.42
Total	**6,024.26**	6,392.51

For the overseas business, China Securities International provides consultation and asset management services via various investment instruments. As of 30 June 2018, its total AUM reached US$928 million.

Outlook for the second half of 2018

In the second half of 2018, as required by the Asset Management Opinions, the Company will continue to promote the development of actively managed net worth business, standardize the remnant business in a stable and orderly manner, and intensify business transformation through broadening the variety of products, developing sales channels for products, improving the investment performance of products and other means. In the meantime, the Company will keep strengthening the operation management and risk management on products.

4.2 *Fund Management Business*

In the first half of 2018, China Securities Funds will continue to maintain robust and prudent investment style and continue to enhance its investment and research capabilities. It continuously enriches and perfects the research framework of large-scale asset allocation of "macro and micro mutual verification", adheres to the principle of value investment and stable investment, and realizes the preservation and appreciation of investors' assets with favorable return on investment. The institutional customers of China Securities Funds covered commercial banks, securities firms, trust companies, financial companies, private equity funds and other client resources. Under the new regulatory environment, the Company actively adjusted the business structure, actively carried out product innovation and responded to the call of "Serving the Real Economy with Financial Services" to develop key projects such as state-owned enterprise reform funds and regional theme funds. As of 30 June 2018, the AUM of the fund was RMB106,928 million, representing a decrease of 22.36% as compared to that at 31 December 2017. Among which, the AUM of mutual fund was RMB6,430 million, and segregated fund products (including that of Yuandaxin Capital Management (Beijing) Company Limited (元達信資本管理(北京)有限公司)) were RMB100,498 million. Although the AUM has declined to some extent, the overall risk resistance capability has been further enhanced.

Outlook for the second half of 2018

In 2018, conforming to the development orientation of the asset management industry in the new era, China Securities Funds will continue to strengthen its capacity of providing financial services in the real economy with an aim to drive business development by enhancing internal governance, improving management level, and nurturing core talents; and will continue to develop its level of investment research, expand client base and launch key and core products to realize a stable growth in management scale and the value preservation and appreciation of the clients' assets, to strengthen its core competitiveness and improve its brand influence.

4.3 Private Equity Investment Business

In 2018, as there is the accelerated transformation and upgrade in the PRC economy, remarkable results were achieved for structural optimization. Combining with industrial development and its own characteristics, China Securities Capital proactively explored potential projects and developed new funds while reinforcing ex-ante and expo management in accordance with relevant laws and regulations, so as to effectively root out potential risks on the projects, hence realizing steady improvement, structural optimization and stable growth in fund management scale.

As of 30 June 2018, China Securities Capital managed a total of 38 funds, including 10 integrated funds, 4 industrial funds, 14 designated funds, 8 real estate funds and 2 FOFs, with the fund management scale of RMB42,525 million, representing an increase of RMB23,899 million of fund management scale as compared to that at the end of 2017. As of 30 June 2018, China Securities Capital completed over 113 investment projects, including 7 main board listings, 22 NEEQ quotations, and 14 exit projects, with average investment yield of 187%.

With respect of overseas business, the accumulated investment contract amount of the 7 projects completed by CITIC Urban Development Equity Investment Fund Co. (中信城市發展股權投資基金公司), which is invested by China Securities International, totaled RMB6,300 million, realizing management scale of a total of RMB2,573 million. In addition, 2 funds denominated in US dollars were established. As of the end of June 2018, the management fund scale was approximately US$170 million.

Outlook for the second half of 2018

In the second half of 2018, China Securities Capital will continue to enhance its presence in the industry and pay greater efforts in institutional cooperation by focusing on emerging industries such as real estate, healthcare, smart manufacturing, and artificial intelligence. China Securities Capital will explore premium projects, increase its investment in developed enterprises and expand fund scale to improve its brand influence as a professional investment provider.

V. FINANCIAL STATEMENT ANALYSIS

(I) Profitability Analysis

In the first half of 2018, the Group recognized total operating revenue and other income of RMB8,190 million, representing a year-on-year increase of 12.92%. The changes of key items are as follows:

- fee and commission income amounted to RMB3,656 million, representing a year-on-year decrease of 1.22%, which was mainly due to the year-on-year decrease in fee and commission income from brokerage business and asset and fund management business in the first half of 2018;
- interest income amounted to RMB2,971 million, representing a year-on-year increase of 22.72%, which was mainly due to the increase in interest income from margin financing and securities lending business and collateralized stock business;
- investment gains amounted to RMB1,542 million, representing a year-on-year increase of 34.91%, which was mainly due to the increase in net gains from derivative financial instruments;

In the first half of 2018, the total expenses of the Group amounted to RMB5,953 million, representing a year-on-year increase of 25.27%. The changes of key items are as follows:

- fee and commission expenses amounted to RMB435 million, representing a year-on-year decrease of 6.85%, which was mainly due to a year-on-year decrease in fee and commission expenses from investment banking business;
- interest expenses amounted to RMB2,486 million, representing a year-on-year increase of 50.58%, which was mainly due to the increase in interest expense arising from debt securities issued, financial assets sold under repurchase agreements and placements from banks and other financial institutions;
- the impairment losses amounted to RMB256 million, representing a year-on-year increase of 823.12%, which is mainly due to the increase in allowance for impairment losses of margin account;

In the first half of 2018, net profit attributable to equity holders of the company amounted to RMB1,693 million, representing a year-on-year decrease of 8.75%; basic earnings per share amounted RMB0.23, representing a year-on-year decrease of 11.54% while the return on weighted average net assets was 4.23%, representing a year-on-year decrease of 0.75 percentage points, which was mainly due to the issuance of new shares and the decrease of net profit.

(II) Asset Structure and Asset Quality

Total assets and total liabilities increased at different magnitudes. In the first half of 2018, the Group completed the listing of A Shares, increased the scale of repurchasing business, enabling the Group to supplement its working capital and maintain good liquidity. During the Reporting Period, the Group made corresponding allowances for impairment losses in respect of assets which had indication of impairment, enabling the Group to maintain more prudent operations and high asset quality.

As of 30 June 2018, the Group's total assets amounted to RMB216,882 million, representing an increase of RMB10,999 million, or 5.34% as compared to that at the end of last year. Excluding accounts payable to brokerage clients, the Group's total assets amounted to RMB173,574 million, representing an increase of RMB9,107 million, or 5.54% as compared to that at the end of last year. As of 30 June 2018, the Group's total liabilities amounted to RMB168,930 million, representing an increase of RMB7,045 million, or 4.35% as compared to that at the end of last year. Excluding accounts payable to brokerage clients, the Group's total liabilities amounted to RMB125,621 million, representing an increase of RMB5,153 million, or 4.28% as compared to that at the end of last year. As of 30 June 2018, the Group's equity attributable to equity holders of the Company amounted to RMB47,685 million, representing an increase of RMB3,931 million, or 8.98% as compared to that at the end of last year.

A stable asset and liability structure was maintained. As of 30 June 2018, excluding accounts payable to brokerage clients, the Group's total assets amounted to RMB173,574 million, among which investments, including investments in associates and investments in financial assets, accounted for 49.57% of the total assets; margin accounts and financial assets held under resale agreements accounted for 36.45% of the total assets; cash and bank balances accounted for 9.78% of the total assets; and other assets in aggregate accounted for 4.20% of the total assets.

As of 30 June 2018, excluding accounts payable to brokerage clients, the Group's total liabilities amounted to RMB125,621 million with a high proportion of short-term liabilities, among which the amount from financial assets sold under repurchase agreements accounted for 28.17% of the total liabilities; short-term borrowings, placements from banks and other financial institutions, short-term financing instruments payable and issued bonds due within one year accounted for 35.40% of the total liabilities; bonds in issue accounted for 21.75% of the total liabilities; financial liabilities at fair value through profit or loss and derivative financial liabilities accounted for 0.94% of the total liabilities; and other liabilities accounted for 13.74% of the total liabilities.

The gearing ratio of the Group slightly decreased. As of 30 June 2018, excluding accounts payable to brokerage clients, the gearing ratio of the Group was 72.37%, representing a decrease of 0.88 percentage points as compared to that at the end of last year.

(III) Cash flow status

In the first half of 2018, excluding accounts payable to brokerage clients, the Group's net increase in cash and cash equivalents was RMB5,718 million, which was mainly due to the significant increase in cash inflow from operating activities year-on-year.

Net cash inflow from operating activities in the first half of 2018 was RMB6,135 million, representing a year-on-year increase of inflow of RMB17,335 million as compared to a net cash outflow of RMB11,200 million in the same period of 2017, which was mainly due to the decrease in margin accounts and the increase of financial assets sold under repurchase agreements, resulting in the increase in cash inflow.

Net cash outflow from investing activities in the first half of 2018 was RMB2,999 million, representing a year-on-year increase of outflow of RMB644 million as compared to a net cash outflow of RMB2,355 million in the same period of 2017, which was mainly attributable to the increase in net cash outflow from purchase of financial assets at fair value through other comprehensive income.

Net cash inflow from financing activities in the first half of 2018 was RMB2,581 million, representing a year-on-year decrease of inflow of RMB8,416 million as compared to a net cash inflow of RMB10,997 million in the same period of 2017, which was mainly attributable to the increase in net cash outflow from repayment of debt by the Group during the Reporting Period.

VI. ANALYSIS OF PRINCIPAL SUBSIDIARIES AND NON-CONTROLLING COMPANIES

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

Name	Shareholding of the Company	Date of establishment	Registered capital	Place of business	Registered address	Contact number
China Securities Futures	100%	16 March 1993	RMB700 million	11-B (Parallel to Ground Level)/11-A, 8-B4,9-B & C (Nominal Level), Shangzhan Building, 107 Zhongshan Third Road, Yuzhong District, Chongqing (重慶市渝中區中山三路107號上站大樓平街11-B，名義層11-A，8-B4，9-B、C)	11-B (Parallel to Ground Level)/11-A, 8-B4,9-B & C (Nominal Level), Shangzhan Building, 107 Zhongshan Third Road, Yuzhong District, Chongqing (重慶市渝中區中山三路107號上站大樓平街11-B， 名義層11-A，8-B4，9-B、C)	+8623–8676 9602
China Securities Capital	100%	31 July 2009	RMB1,650 million	12/F, Block B, Kaiheng Center Building, Dongcheng District, Beijing (北京市東城區凱恒中心大廈B座12層)	Room 2, East Side, 6/F, 188 Chaoyangmennei Avenue, Dongcheng District, Beijing (北京市東城區朝陽門內大街188號6層東側2間)	+8610–8513 0648
China Securities International	100%	12 July 2012	Share capital of HK$2,000 million	18/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong	18/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong	+852–3465 5600
China Securities Funds	55%	9 September 2013	RMB300 million	17 & 19/F, Block B, Kaiheng Center Building, Dongcheng District, Beijing (北京市東城區凱恒中心大廈B座17、19層)	Unit 1, Building No. 3, Balongqiao Yayuan, Qiaozi Town, Huairou District, Beijing (北京市懷柔區橋梓鎮八龍橋雅苑3號樓1室)	+8610–5910 0211
China Securities Investment	100%	27 November 2017	RMB1,000 million	9/F, Block B, Kaiheng Center Building, Dongcheng District, Beijing (北京市東城區凱恒中心大廈B座9層)	Unit 109, Block C, Beijing Fund Town Center, No. 1 Jinyuan Avenue, Changgou Town, Fangshan District, Beijing (北京市房山區長溝鎮金元大街1號北京基金小鎮大廈C座109)	+8610–8513 0622

In addition, the associate of the Company also includes:

Name	Shareholding Held by the Company	Date of Establishment	Registered Capital
Zhongguancun Equity Exchange Services Group Limited	10%	28 January 2013	RMB500 million

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

China Securities Futures: as of 30 June 2018, total assets and net assets of China Securities Futures amounted to RMB6,252.65 million and RMB1,226.83 million, respectively. In the first half of 2018, China Securities Futures realized total revenue and other income amounting to RMB177.22 million in aggregate, total profit amounting to RMB84.33 million and net profit amounting to RMB71.48 million; (unaudited)

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

China Securities Capital: as of 30 June 2018, total assets and net assets of China Securities Capital amounted to RMB2,124.69 million and RMB1,313.82 million, respectively. In the first half of 2018, China Securities Capital realized total revenue and other income amounting to RMB56.77 million in aggregate, total profit amounting to RMB23.89 million and net profit amounting to RMB20.97 million; (unaudited)

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

China Securities International: as of 30 June 2018, total assets and net assets of China Securities International amounted to RMB8,332.41 million and RMB1,711.97 million, respectively. In the first half of 2018, China Securities International realized total revenue and other income amounting to RMB123.67 million in aggregate, total profit amounting to RMB-66.11 million and net profit amounting to RMB-55.06 million; (unaudited)

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

China Securities Funds: as of 30 June 2018, total assets and net assets of China Securities Funds amounted to RMB578.44 million and RMB489.48 million, respectively. In the first half of 2018, China Securities Funds realized total revenue and other income amounting to RMB104.14 million in aggregate, total profit amounting to RMB30.32 million and net profit amounting to RMB21.96 million; (unaudited)

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

China Securities Investment: as of 30 June 2018, total assets and net assets of China Securities Investment amounted to RMB703.49 million and RMB703.31 million, respectively. In the first half of 2018, China Securities Funds realized total revenue and other income amounting to RMB4.63 million in aggregate, total profit amounting to RMB3.31 million and net profit amounting to RMB3.31 million; (unaudited)

The principal business of China Securities Investment includes equity investment management, investment advisory service (excluding intermediary services) and project investment.

General information of an associate is as follows:

Zhongguancun Equity Exchange Services Group Limited is an associate of the Company with registered capital of RMB500 million. As of 30 June 2018, total assets and net assets of Zhongguancun Equity Exchange Services Group Limited amounted to RMB1,395.35 million and RMB1,243.51 million, respectively. In the first half of 2018, Zhongguancun Equity Exchange Services Group Limited realized total revenue and other income amounting to RMB27.22 million in aggregate, total profit amounting to RMB-3.53 million and net profit amounting to RMB-3.65 million (unaudited).

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

VII. INFORMATION OF BRANCHES

The general information of branches is as follows:

No.	Branch	Date of establishment	Registered address	Contact number
1	Hubei Branch	6 February 2012	3/F, Block A, Longyuan Building, 24 Zhongbei Road, Wuchang District, Wuhan City	+8627-87890128
2	Shanghai Branch	6 February 2012	Room 1605,1606,1607 Kunming Road, Yangpu District, Shanghai City	+8621-55138037
3	Shenyang Branch	7 February 2012	No. 1, 12/F, 61 Beizhan Road, Shenhe District, Shenyang City	+8624-24863279
4	Jiangsu Branch	13 February 2012	2/F, Huanghe Building, 58 Longyuan West Road, Gulou District, Nanjing City	+8625-83156571
5	Hunan Branch	1 March 2013	No. 9, Furong Middle Road Section 2, Furong District, Changsha City, Hunan Province	+86731-82250463
6	Fujian Branch	16 April 2013	3/F, Wuyi Center, 33 East Street, Gulou District, Fuzhou City	+86591-87612358
7	Zhejiang Branch	18 April 2013	Room 604, 6/F, 225 Qing Chun Road, Shangcheng District, Hangzhou City	+86571-87067252
8	Northwest Branch	19 April 2013	56 Nanda Street, Beilin District, Xi'an City, Shaanxi Province	+8629-87265999-202
9	Guangdong Branch	24 April 2013	Unit 5102 and 5105, 30 Zhujiang East Road, Tianhe District, Guangzhou City	+8620-38381917
10	Chongqing Branch	14 April 2014	2–2, Block 2, Yijing Fenghao, 195 Longshan Road, Longshan Avenue, Yubei District, Chongqing City	+8623-62634398
11	Shenzhen Branch	21 April 2014	22/F, Block B, Rongchao Business Center, 6003 Yitian Road, Futian District, Shenzhen City	+86755-23953860
12	Sichuan Branch	25 April 2014	25, South Third Section, First Ring Road, Wuhou District, Chengdu City	+8628-85576963
13	Shandong Branch	23 May 2014	11/F, Block 4, 8 Long'ao North Road, Lixia District, Jinan City	+86531-61381399

No.	Branch	Date of establishment	Registered address	Contact number
14	Jiangxi Branch	28 May 2014	Unit 5, 30/F, Block 2#, Heping International Hotel, 69 Yanjiang North Avenue, Donghu District, Nanchang City, Jiangxi Province	+86791-86700335
15	Henan Branch	3 June 2014	2/F, Zhonghua Mansion, 3 Shangwu Outer Ring Road, Zhengdong New District, Zhengzhou City, Henan Province	+86371-69092409
16	Shanghai Free Trade Zone Branch	26 September 2014	Room 2206, North Building, 528 South Pudong Road, China (Shanghai) Free Trade Zone	+8621-66821628
17	Tianjin Branch	10 November 2014	Room 201, International Communication Center South Building, Tianjin University of Technology, 26 Yuliang Road, Nankai District, Tianjin City	+8622-23663362

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

VIII. EXPLANATION OF CHANGES IN SCOPE OF STATEMENT CONSOLIDATION

During the Reporting Period, the number of structural entities included in the consolidated financial statements of the Company changed to six. The number of primary entities included in the consolidated financial statement of the Company changed to eleven.

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

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

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

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

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

1. IFRS 9: Financial Instruments

"IFRS 9 Financial Instruments" ("New Financial Instrument Guidelines") introduces new rules for the classification, measurement and derecognition of financial assets; the main impact for the Group includes the classification, measurement for financial instruments also the impairment for financial assets. According to the cohesion regulations, the Group may not restate the comparable financial data for classification and measurement of financial assets and impairment of financial assets, but shall adjust retained earnings or other comprehensive income at the beginning of 2018.

New Financial Instrument Guidelines introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets, including hybrid contracts, are measured as at fair value through profit and loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortized cost. The impairment of financial assets is subject to impairment accounting treatment and recognition of provision for losses based on expected credit losses.

Implementation of the New Financial Instrument Guidelines resulted in the increase in RMB8.5005 million of total equity interests attributable to the shareholders of the parent on 1 January 2018.

2. IFRS 15: Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a 5-step approach. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. IFRS 15 provides specific guidance on capitalization of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The change has no significant impact on the Group's consolidated financial statements.

XI. FINANCING OF THE COMPANY

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

(I) Details of previously raised funds

Pursuant to the Approval of Initial Public Offering of Shares of CSC Financial Co., Ltd. (《關於核准中信建投証券股份有限公司首次公開發行股票的批覆》)(Zheng Jian Xu Ke [2018] No.828) from CSRC, the Company completed the IPO of 400,000,000 shares of RMB denominated ordinary shares (A shares) to domestic investors at the offering price of RMB5.42 per share. The subscription price for the shares was paid up in RMB, amounting to RMB2,168,000,000.00. After deducting the issuance expenses, the net proceeds from the total fund raised by the Company was RMB2,068,697,180.29 (after deducting the underwriting fees, online issuance fees and other transaction fees, but excluding the interest income arising from subscription funds of RMB denominated ordinary shares (A shares) offering during the frozen period. The abovementioned capital was paid up on 13 June 2018, and the amount was verified by PricewaterhouseCoopers Zhong Tian LLP, who issued the capital verification report numbered PricewaterhouseCoopers Zhong Tian [2018] No. 0388 (普華永道中天驗字[2018]第0388號)). The net price to the Company of each security amounted to RMB5.17 (i.e. net proceeds/total number of shares issued), and the closing price on the first day of listing (20 June 2018) was RMB7.8. After deducting the issuance expenses, the proceeds raised from the issuance of new Shares will be entirely used for increasing the capital of the Company, replenishing the working capital of the Company, and promoting the development of domestic and foreign securities related business.

The use of proceeds previously raised from A shares of the Company as of 30 June 2018 is set out as follows:

Unit: RMB ten thousand

Total amount of the raised proceeds:	206,869.72	Accumulated use of total raised proceeds:	85,069.72
Total amount of the unused raised proceeds at the beginning of 2018:	N/A	Use of total amount of raised proceeds in respective years:	85,069.72
Total amount of raised proceeds with changes in usage:	Nil	2018:	85,069.72
Total amount of raised proceeds with changes in usage as a proportion of total raised proceeds:	Nil		

	Investment project		Total investment amount of the raised proceeds				The accumulated investment amount of the raised proceeds as of 30 June 2018				
No.	Proposed investment project	Actual investment project	Proposed investment amount before capital raising	Proposed investment amount after capital raising	Actual investment amount	Difference between proposed investment amount after capital raising and actual investment amount *(Note 1)*	Proposed investment amount before capital raising	Proposed investment amount after capital raising	Actual investment amount *(Note 3)*	Actual investment amount during the Reporting Period	The date on which the project reaches the expected fully utilized state (or the completion progress of the project as of the closing date
1	Replenish the working capital of the Company	Replenish the working capital of the Company	206,869.72	206869.72	85,069.72	121,800.00	206,869.72	206,869.72	85,069.72	85,069.72	*Note 2*
	Total		206,869.72	206,869.72	85,069.72	121,800.00	206,869.72	206,869.72	85,069.72	85,069.72	*Note 2*

The use of proceeds previously raised from H shares of the Company as of 30 June 2018 is set out as follows:

Unit: RMB ten thousand

Total amount of the raised proceeds:	673,269.25	Accumulated use of total raised proceeds:	619,283.82
Total amount of the unused raised proceeds at the beginning of 2018:	148,985.43	Use of total amount of raised proceeds in respective years:	619,283.82
Total amount of raised proceeds with changes in usage:	Nil	2016:	204,106.16
Total amount of raised proceeds with changes in usage as a proportion of total raised proceeds:	Nil	2017:	320,177.66
		2018:	95,000.00

	Investment project		Total investment amount of the raised proceeds			The accumulated investment amount of the raised proceeds as of 30 June 2018					
No.	Proposed investment project	Actual investment project	Proposed investment amount before capital raising	Proposed investment amount after capital raising	Actual investment amount	Difference between proposed investment amount after capital raising and actual investment amount *(Note 1)*	Proposed investment amount before capital raising	Proposed investment amount after capital raising	Actual investment amount *(Note 3)*	Actual investment amount during the Reporting Period	The date on which the project reaches the expected fully utilized state (or the completion progress of the project as of the closing date
1	Meeting customer investment and financing needs	Meeting customer investment and financing needs	35%, an amount equivalent to 235,401.45	35%, an amount equivalent to 235,644.24	235,644.24	–	235,401.45	235,644.24	235,644.24	–	*Note 2*
2	Enhancing investment and market-making capacity	Enhancing investment and market-making capacity	20%, an amount equivalent to 134,515.11	20%, an amount equivalent to 134,653.85	127,572.66	7,081.19	134,515.11	134,653.85	127,572.66	–	*Note 2*
3	Product seed funding	Product seed funding	20%, an amount equivalent to 134,515.11	20%, an amount equivalent to 134,653.85	100,000.00	34,653.85	134,515.11	134,653.85	100,000.00	95,000.00	*Note 2*
4	Enhancing cross-border business capacity and international competitiveness, increasing proportion of overseas assets and revenue	Enhancing cross-border business capacity and international competitiveness, increasing proportion of overseas assets and revenue	15%, an amount equivalent to 100,886.33	15%, an amount equivalent to 100,990.39	88,740.00	12,250.39	100,886.33	100,990.39	88,740.00	–	*Note 2*
5	Working capital and other general business use	Working capital and other general business use	10%, an amount equivalent to 67,257.56	10%, an amount equivalent to 67,326.92	67,326.92	–	67,257.56	67,326.92	67,326.92	–	*Note 2*
	Total		672,575.56	673,269.25	619,283.82	53,985.43	672,575.56	673,269.25	619,283.82	95,000.00	*Note 2*

Note 1: The difference between the actual investment amount and promised investment amount after capital raising was the unused capital raised as of June 30, 2018.

The Company has compared, item by item, the promised investment projects stated in the H share prospectus with the disclosed specific usage. As of June 30, 2018, the H share capital raised which the Company had promised but had not used was equivalent to RMB539.8543 million. The Company will invest the H share raised capital according to the actual business development needs. Among these, the H share capital raised to be used for the trading and institutional client service business (equivalent to RMB70.8119 million) will be used in expanding the scale of investment in FICC and stocks and derivatives and enhancing market-making capacity for various products; the H share capital raised to be used for the investment management business (equivalent to RMB346.5385 million) will be used for the junior-grade investments when issuing asset management products of the securities company, the capital increase of China Securities Funds and China Securities Capital, and the offering of alternative investment services, after which the capital raised will be used according to actual needs; the H share capital raised to be used for overseas business (equivalent to RMB122.5039 million) will be temporarily maintained at the overseas capital raising account and remitted to the overseas subsidiaries for further use according to the actual business needs of the overseas subsidiaries after obtaining the approval of the relevant regulatory authorities. The unused undertaken A share proceeds amount to RMB1,218 million, which are proposed to be used for replenishment of working capital of the Company, and will be used in accordance with the actual development of business.

Note 2: Some of the H share capital raised has been used for the committed projects stated in the prospectus. Correspondingly, the net assets and net capital of the Company have increased. Because the capital invested in the investment projects related to the capital previously raised included both the capital originally held by the Company and the capital raised, it is impossible to calculate the realization of benefits achieved by the raised capital as of June 30, 2018 separately.

Note 3: The calculation of the RMB equivalent of the used amount of H share capital raised was based on actual exchange rate.

(II) Bond Financing

In the first half of 2018, the Company non-publicly issued two tranches of corporate bonds with a total issuance amount of RMB8.0 billion, all of which was used for replenishing working capital of the Company; two tranches of securities company short-term corporate bonds with a total issuance amount of RMB5.9 billion; and 1,159 tranches of structured notes with a total issuance amount of approximately RMB28.1 billion, all of which was used to replenish liquidity of the Company.

As of 30 June 2018, the balance of outstanding bonds of the Company amounted to RMB54.0 billion, with the balances of corporate bonds, perpetual subordinated bonds, US Dollar bonds and short-term corporate bonds for securities firms amounting to RMB29.3 billion, RMB5.0 billion, USD0.2 billion (equivalent to approximately RMB1.3 billion) and RMB18.4 billion, respectively. In addition, as of 30 June 2018, the balance of structured notes issued by the Company was approximately RMB11.7 billion. The above utilization of proceeds was in line with the disclosure provided in the prospectus/offering documents. In the second half of 2018, the Company will continue to utilize the proceeds in accordance with the Company's operation and development strategies with reference to capital market conditions.

In the second half of 2018, the Company will continue to issue corporate bonds, beneficiary certificates and other financing instruments in accordance with the Company's capital needs with reference to the market conditions.

XII. RISK MANAGEMENT

(I) Overview

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

(II) Structure of Risk Management

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

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

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

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

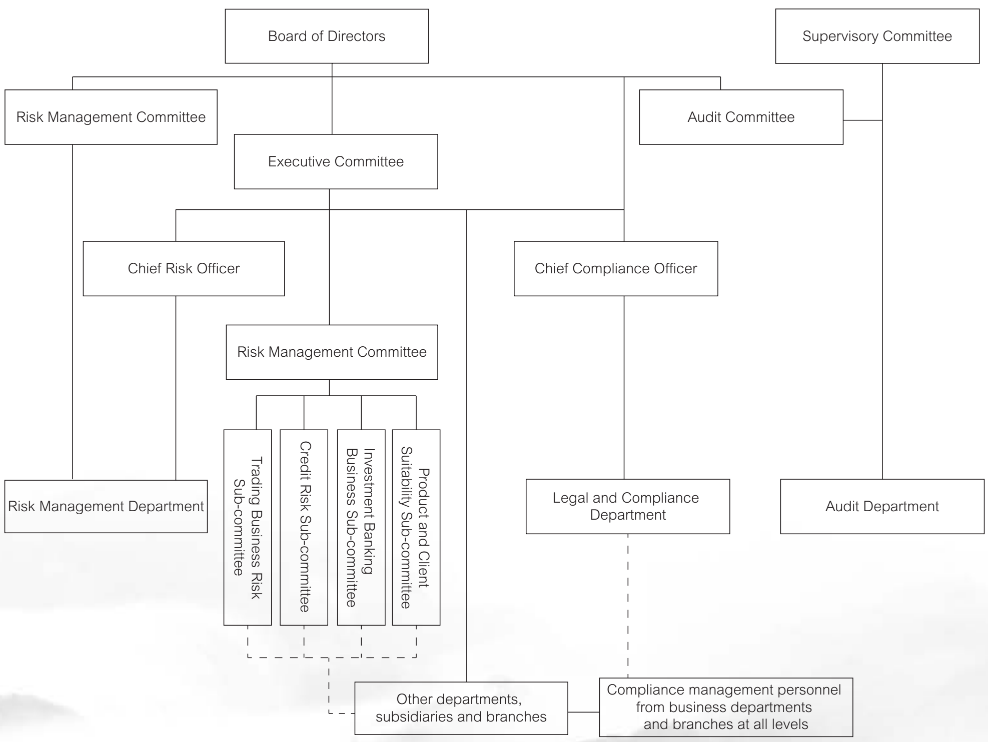
The Risk Management Committee under the Executive Committee of the Company is responsible for reviewing, determining and submitting to the Company for decision-making the Company's risk appetite, risk tolerance level and major risk limits; approving risk limits and risk control standards specific to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

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

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

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

Structure Diagram of Risk Management



In addition, pursuant to the needs of risk management in investment banking business, along with regulatory requirements, the Company has established the internal audit department in the first half of 2018. Through company-level review, the Company conducted export management and terminal risk control of investment banking projects, and performed ultimate approval of decision-making functions for the materials and documents submitted, reported, issued or disclosed in the name of the Company.

(III) Risk Management Mechanism

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

The Company establishes a before-the-event risk control mechanism. It focuses on each of the main business lines to formulate specific risk limits and risk control standards, and has explicit procedures of risk control; the Risk Management Department and the Legal and Compliance Department have participated in the before-the-event evaluation for important projects and the operation system, and have expressed their opinions independently; important risk control parameters are directly under the management and control of the Risk Management Department, which also conducts independent verification for valuation model of financial instruments before going online.

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

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

The Company has formulated guidelines for various types of risk management and control, including market risk, credit risk, operational risk, liquidity risk and reputation risk, in order to guide and regulate the response to risks in various business lines. The Company has established crisis management mechanism and programs, and has formulated effective contingency measures and plans for various businesses, especially for key risks and emergencies such as liquidity crisis and accidents on transaction system, while emergency response mechanism has been established and is drilled sporadically on a regular basis.

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

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

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

In the first half of 2018, the Company takes the opportunity of promoting the implementation of consolidated management to further optimize the comprehensive risk management mechanism, especially for the investment in more resources in risk management and system construction for risk management in the subsidiaries. The risk management capability of grouping of the Company has been father strengthened.

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

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

1. **Strategic Risk Management**

Strategic risks refer to the risks that affects the Company's overall development direction, corporate culture, information and capability of survival or corporate effectiveness.

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

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

2. **Credit Risk Management**

Credit risks refer to the risks arising from the economic loss caused by failure of performing the obligations in the contract by counterparties, issuers of debt financing instruments (or financiers).

Credit risks of the Company arising from securities financial business primarily includes risks from decline in value or insufficient liquidity of collateral provided by customers, customers' failure to repay debts in full in a timely manner due to involvement in legal disputes of collateral assets, and credit risks arising from operational errors including fraudulent credit information, violation of contracts and regulatory requirements in transaction actions. Control of credit risk from securities financing business is realized primarily through risk education for customers, credit investigation and verification on customers, credit management, risk assessment on collateralized (pledged) securities, reasonable setting of indication of limits, day-to-day market observation, risk warnings for customers, forced close-out, and legal recourse. In addition, for both defaulting customers and financing of customers with insufficient guaranteed securities, the Company will perform the provision for impairment in accordance with prudential principles by complying with the accounting standards of IFRS 9.

Credit risk arising from bond investments is primarily due to counterparty defaults, credit issuer defaults or decline in the creditworthiness of issuers, among others. The Company establishes ratings and credit lines for counterparties and maintains black lists to manage its counterparty credit risk, and sets a number of credit limits to control risks on credit facilities, including minimum ratings for credit products and maximum credit exposure of a single borrower. In the first half of 2018, with the increasing number of default cases in bond market, the Company further improved the credit quality of investment portfolio and the capability of credit risk management through the optimization of internal assessment system.

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

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

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

3. Market Risk Management

Market risks refer to the risks of losses in the Company's on-and-off balance sheet business due to adverse changes in the market price (interest rate, exchange rate, securities price and commodity price).

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

The Company adopts VaR as a tool to measure the market risk of its investment portfolio comprising securities and its derivatives. VaR is a method that estimates the maximum possible loss on the portfolio due to movements in market interest rates or securities prices over designated period and within a given confidence interval. As VaR mainly relies on relevant information of historical data, it has certain inherent limitations. To complement, the Company implements daily and specific stress tests to assess the impact on the risk control indicators of net capital of the Company and profit or loss of proprietary portfolio from extreme adverse changes of risk factors, and proposes emergency plans with relevant recommendations and measures in accordance with the assessment.

The Company uses sensitivity analysis as a primary instrument to monitor the interest rate risk. Sensitivity analysis measures the impact on the total income and shareholders' equity interests arising from fair value changes of various financial instruments held at the end of the period when there are reasonable and possible changes in interest rates, on the assumptions that all other variables remain constant and overall market interest rates shift in a parallel manner, while risk management activities which may be taken by the management to reduce interest rate risks are not taken into consideration.

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

The investment structure of the Company primarily comprises equity interest securities and their derivatives business as well as fixed income businesses. Other market price-related businesses include gold trading where the Company primarily focuses on providing liquidity services and arbitrage trading, and performs hedging with T+D gold trading and gold future transactions. The size of the current gold portfolio represents a very small portion and a negligible risk exposure. Accordingly, the Company believes that other price risks do not have a significant impact on the Group's current operations.

4. Operational Risk

Operational Risks refer to the risks of losses caused by imperfect or problematic internal procedures, employees, IT systems or external events.

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

The Risk Management Department of the Company monitors and assesses the operational risks of various businesses including the brokerage business, and also implements regular risk control evaluation. It examines the key risks of various business and management lines, and establishes and implements key control measures in practical business procedures. The business departments are organized to conduct self-evaluation of risk and control to identify new material risks and take appropriate risk control measures. Statistical analysis on various types of operational risk events is performed at least on an annual basis to calculate the frequency of their occurrence and the level of losses, as well as to assess the changing trend of risk and risk allocations. In the first half of 2018, the Company continues to strengthen the specific application of operational risk management tools such as the Key Risk Indicators (KRI) and the Risk Control Self-Assessment (RCSA), etc.

5. Liquidity Risk Management

Liquidity risks refer to the risks that a commercial bank is unable to acquire sufficient funds in a timely manner at a reasonable cost, in response to repay due debts, fulfill other payment obligations and meet other funding needs during normal course of business.

The Company has established clear decision-making levels, along with authority mechanism, mechanism for hierarchical control, and has clearly defined the duties and functions of the Board of Directors, as well as executive management and business departments of the Company in terms of liquidity risk management. The Company has established strict administrative measures of proprietary funds, and requires strict compliance with such administrative measures in implementing foreign liabilities, guarantees and investments. The Company also implements management on liquidity risk limits and conducts daily position analyses and monthly liquidity position analyses mechanism to manage liquidity movements in a timely manner. In respect of business, in order to effectively control the market liquidity risk of its securities portfolios, the Company has implemented securities centralized management system in securities investment and securities financial business, and adopted bond credit rating standards for fixed-income securities investments. The Company has calculated liquidity coverage rates and net stable funds rates in accordance with regulatory requirements and controlled all indicators to be fell within the safety and compliance interval.

The Asset and Liability Management Committee is responsible for organizing and managing the asset and liability allocation plan of the Company, reviewing and approving the internal valuation interest rate of capital and emergency plans for liquidity risk. The Company established the Treasury Operations Department to initiate the management of the liquidity of its proprietary funds, accounting for expanding mid- and long-term stable funding channels, reasonably adjusting the asset allocation among various business lines, and steadily optimizing its assets and liabilities structure. The Company has improved its daily practice for liquidity risk management and control mechanism with the assistance of classified liquidity reserve system, refining internal funds transfer pricing (FTP) system, as well as establishing and optimizing liquidity emergency plans and stress tests. In addition, in the first half of 2018, the Company carried out initial public offering of A Shares and various debt financing instruments to further improve the liquidity.

6. Information Technology Risk Management

Information technology risks refer to the operational, legal and reputational risks incurred from natural factors, human factors, technical defects and management flaws while the information technology is applied in the Company.

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

7. Legal Risk and Compliance Risk Management

Legal risks refer to the risk from contracts not being performed due to invalidity within the law, or improper entering into of the contracts; Compliance risks refer to the risk that the Company may be exposed to legal sanction or regulatory measures, major property loss or reputation loss as a result of its non-compliance with the laws and regulations, regulatory requirements, rules, relevant codes stipulated by self-regulatory organizations as well as code of conduct applicable for our own business activities.

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

8. Reputation Risk Management

Reputation risks refer to the risks of negative comments to the Company from relevant stakeholders as a result of our operations, management and other activities or external events.

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

XIII. MATERIAL ASSET ACQUISITION AND DISPOSAL, MORTGAGE OR PLEDGE, MATERIAL CONTINGENT LIABILITIES AND EXTERNAL GUARANTEES OF THE COMPANY

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

XIV. EMPLOYEES

(I) Number of Employees and Composition

As of 30 June 2018, the Group had 9,718 employees in total (excluding brokers and dispatched employees), among which the Company had 8,786 employees (excluding brokers and dispatched employees). The composition is as follows:

		The Group		The Company	
	Item	**Number of employees**	**Percentage**	**Number of employees**	**Percentage**
			(%)		*(%)*
Professional structure	Brokerage business	6,728	69.23%	6,507	74.06%
	Investment banking	880	9.06%	815	9.28%
	Information technology	464	4.77%	400	4.55%
	Financial planning	318	3.27%	273	3.11%
	Administration	50	0.51%	19	0.22%
	Research	178	1.83%	146	1.66%
	Fixed income business	145	1.49%	131	1.49%
	Asset management business	224	2.31%	114	1.30%
	Margin financing and securities lending businesses	41	0.42%	35	0.40%
	Security investment	72	0.74%	58	0.66%
	Settlement	82	0.84%	45	0.51%
	Legal and compliance/audit	92	0.95%	71	0.81%
	Risk management	72	0.74%	51	0.58%
	Others	372	3.83%	121	1.38%
	Total	9,718	100.00%	8,786	100.00%

As at 30 June 2018, the Company had 312 dispatched employees in total.

Our Company believes that excellent cadre teams are the cornerstone for sustainable development. The Company has devoted enormous resources to the human resources management. The Company constantly attracts professional talents to join and creates the core competitiveness of the Company through a series of human resources management measures such as stringent recruitment conditions and selection procedures, competitive remuneration and benefits in the market, comprehensive training and nurturing program, scientific and effective performance management policies and long-term talents development plans.

(II) Relevant Information of Securities Brokers

As of 30 June 2018, a total of 198 business departments of the Company implemented the system of securities brokers. There were a total of 2,111 brokers who obtained professional brokerage qualifications as reviewed and approved by the Securities Association of China.

(III) Employee Remuneration

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

(IV) Training Program

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

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

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

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

4. The Company attached high importance to recruitment at university campuses, and commenced a series of enrollment and trainee cultivation program to recruit outstanding graduates and students with working and placement opportunities. As of 30 June 2018, the headquarters of the Company provided over 820 placement positions for students on campus, and hired 144 new graduates. The headquarters of the Company produced a 70-hour online induction lectures for new staff members of headquarters and branches, and will organize closed-end and concentrated training for new entrants.

(V) Relationship With Employees

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

I. DIVIDEND

The Board of Directors did not present the proposal in relation to the distribution of any 2018 interim dividends for the six months ended 30 June 2018. The profit distribution proposal for the year of 2017 in the middle of 2018: cash dividends of RMB1.80 (tax inclusive) will be distributed to all Shareholders for every ten shares held on the basis of the total share capital of 7,646,385,238 shares as at 30 June 2018. The relevant proposal is subject to the approval at the general meeting. For the relevant matters in relation to the distribution of 2017 annual profit in the middle of 2018, please refer to the relevant announcement of the resolution of the board issued by the Company on 24 August 2018.

Tax Relief of H Shareholders

Pursuant to the Notice of the PRC State Administration of Taxation on Issues Concerning Individual Income Tax Collection and Management after the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) (《國家税務總局關於國税發[1993]045號文件廢止後有關個人所得税徵管問題的通知》(國税函[2011]348號)), the dividends received by overseas resident individual shareholders from the shares issued by domestic non-foreign invested enterprises in Hong Kong are subject to the payment of individual income tax according to the items of "interests, dividend and bonus income," which shall be withheld by the withholding agents in accordance with the relevant laws. Overseas resident individual shareholders who hold shares issued by domestic non-foreign invested enterprises in Hong Kong are entitled to relevant preferential tax treatment pursuant to the provisions in the tax agreements signed between the countries where they are residents and China, or the tax arrangements between the Mainland and Hong Kong (Macau). The relevant dividend tax rate under the relevant tax agreements and tax arrangements is generally 10%, and for the purpose of simplifying tax administration, domestic non-foreign invested enterprises issuing shares in Hong Kong may, when distributing dividends, generally withhold individual income tax at the rate of 10%, and are not obligated to file an application. In circumstances where the tax rate for dividends is not equal to 10%, the following provisions shall apply: (1) for citizens from countries falling under agreements subject to tax rates lower than 10%, the withholding agents will file applications on their behalf to seek entitlement to the relevant agreed-upon preferential treatments, and upon approval by the tax authorities, excessive withheld tax amounts will be refunded; (2) for citizens from countries falling under agreements subject to tax rates higher than 10% but lower than 20%, the withholding agents shall withhold individual income tax at the agreed-upon effective tax rate upon distribution of dividends (bonus), and are not obligated to file an application; (3) for citizens from countries without tax agreements or under other circumstances, the withholding agents shall withhold individual income tax at a tax rate of 20% upon distribution of dividends.

Pursuant to the regulations in the Circular Concerning Questions on Withholding and Payment of Enterprise Income Tax when PRC Resident Enterprises Distribute to Overseas Non-resident Corporate Shareholders of H Shares《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得税有關問題的通知》(Guo Shui Han [2008] No. 897) issued by the State Administration of Taxation, any PRC resident enterprises distributing dividends for the year of 2008 and onward to overseas non-resident corporate shareholders shall withhold enterprise income tax at a uniform rate of 10%.

Pursuant to the Notice of the Ministry of Finance, the State Administration of Taxation, and the China Securities Regulatory Commission on Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shenzhen and Hong Kong Stock Markets (Cai Shui [2016] No. 127) (《財政部國家税務總局證監會關於深港通股票市場交易互聯互通機制試點有關税收政策的通知》(財税[2016]127號)) and the Notice of the Ministry of Finance, the State Administration of Taxation, and the China Securities Regulatory Commission on Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shanghai and Hong Kong Stock Markets (Cai Shui [2014] No. 81) (《財政部國家税務總局證監會關於滬港通股票市場交易互聯互通機制試點有關税收政

策的通知》(財稅[2014]81號)), for dividends derived by mainland individual investors from investing in H-shares listed on the HKEX through Shenzhen Hong Kong Stock Connect, H-share companies shall withhold individual income tax at a tax rate of 20% for the investors. For mainland securities investment funds investing in Shares listed on the HKEX through Shenzhen Hong Kong Stock Connect, the above rules also apply and individual income tax shall be levied on dividends derived therefrom. Dividends derived by mainland enterprise investors from investing in shares listed on the HKEX through Shenzhen Hong Kong Stock Connect shall be included in their total revenue, and the enterprise income tax thereon may be levied according to the tax law. For dividends derived by mainland resident enterprises where the relevant H shares have been continuously held for more than 12 months, the enterprise income tax thereon may be exempt according to the tax law.

Tax Relief of A Shareholders

Pursuant to "Notice on Relevant Issues Concerning Differential Individual Income Tax Policies on Dividends and Bonuses of Listed Companies" (Cai Shui [2015] No. 101) (《關於上市公司股息紅利差別化個人所得稅政策有關問題的通知》(財稅[2015]101號)) and "Notice on Relevant Issues Concerning the Implementation of Differential Individual Income Tax Policies on Dividends and Bonuses of Listed Companies" (Cai Shui [2012] No. 85) (《關於實施上市公司股息紅利差別化個人所得稅政策有關問題的通知》(財稅[2012]85號)), issued by the Ministry of Finance, the State Administration of Taxation and China Securities Regulatory Commission, for the dividends and bonuses received by individual investors from listed companies, from the date when individual investors obtain the Company's stocks to the equity registration date, if the term of shareholding exceeds one year, individual income tax will be temporarily exempted; if the term of shareholding does not exceed one year (including one year), the listed company will not with hold individual income tax, and will make corresponding adjustments in accordance with the above notification requirements when individual investors transfer stocks.

For shareholders of resident enterprises, income tax dividends and bonuses is calculated and paid by itself in accordance with regulations.

For qualified foreign institutional investors (QFII), pursuant to the "Notice of the State Administration of Taxation on Relevant Issues Concerning the Payment of Dividends, Bonuses and Interests and Withholding the Enterprise Income Tax by Chinese Resident Enterprises to Qualified Foreign Institutional Investors" (Guo Shui Han [2009] No. 47) (《國家稅務總局關於中國居民企業向QFII支付股息、紅利、利息代扣代繳企業所得稅有關問題的通知》(國稅函[2009] 47號)), the listed company withholds corporate income tax at a rate of 10%. If the dividends received by QFII shareholders require to enjoy the treatment of Tax Treaty (arrangement), they may apply for tax refunds to the competent tax authorities after obtaining the dividends and bonuses in accordance with relevant regulations.

Pursuant to the "Notice of the Ministry of Finance, the State Administration of Taxation and China Securities Regulatory Commission on the Tax Policies Concerning the Pilot Programs for the Interconnection Transaction Mechanism of Shanghai-Hong Kong Stock Connect Stock Market" (Cai Shui [2014] No. 81) (《財政部國家稅務總局證監會關於滬港通股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)), for the dividends and bonuses received by Hong Kong market investors (including enterprises and individuals) by investing A Shares listed on the Shanghai Stock Exchange, before fulfilling the condition of provision of identities of investors, period of shareholding and other details and data to CSDC by Hong Kong Securities Clearing Co., Ltd., differential taxation policies are not implemented temporarily in accordance with the period of shareholding. Instead, the listed company withholds income tax at a rate of 10%, and handles the withholding declaration with its competent tax authorities. For Hong Kong investors who are tax residents in other countries and whose country enters into Tax Treaty with China that dividend and bonus income tax rate is less than 10%, enterprise or individual may, on its own or entrusting withholding agent, submit an application for tax treaty treatment to the competent tax authorities of the listed company. After the review by the competent tax authorities, tax refund shall be implemented based on the difference between the tax pad and the taxable amount calculated according to the tax treaty rate.

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

To the best knowledge of all Directors, as of 30 June 2018, no Directors, Supervisors or senior management of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of the Company's associated corporations (as defined in Part XV of the Securities and Futures Ordinance), which were required, pursuant to Section 352 of the Securities and Futures Ordinance, to be entered into the register referred to therein, or required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under Appendix 10 to the Hong Kong Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange.

As of 30 June 2018, no Directors and Supervisors or any of their spouses or children under 18 years of age had been granted the rights to purchase Shares or debentures of the Company for the benefit or exercise any aforesaid rights by themselves, nor have any Directors and Supervisors or any of their spouses or children under 18 years of age been granted the aforesaid rights from any other corporate body due to the arrangement made by the Company or any its subsidiaries.

III. RIGHTS OF DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

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

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

To the best knowledge of the Directors, as at 30 June 2018, the following Shareholders (except Directors, Supervisors and senior management) had interests or short positions in any Shares and underlying Shares of the Company required to be recorded in the register to be kept by the Company under Section 336 of the SFO:

	Name	Capacity	Number of Shares Directly or Indirectly held	Class of Shares	Nature of Interest	Approximate Percentage of Shareholding in the Total Issued Ordinary Share Capital	Approximate Percentage of Shareholding in the Relevant Class of Shares
1.	Beijing State-owned Capital Operation and Management Center (北京國管中心)	Beneficial owner	2,684,309,017	A Shares	Long positions	35.11%	42.04%
2.	Central Huijin Investment Limited (中央匯金)	Beneficial owner	2,386,052,459	A Shares	Long positions	31.21%	37.37 %
3.	CITIC Securities Co., Ltd. (中信証券) *(Note 1)*	Beneficial owner	427,000,000	A Shares	Long positions	5.58%	6.69%
		Interest of Controlled Corporation	150,624,815	A Shares	Long positions	1.97%	2.36%
			577,624,815	A Shares	Long positions	7.55%	9.05%
4.	Tengyun Investment (騰雲投資) *(Note 2)*	Beneficial owner	300,000,000	A Shares	Long positions	3.92%	4.70%
5.	Shanghai Shangyan Investment Center (Limited Partnership) (上海商言投資中心(有限合夥)) *(Note 1)*	Beneficial owner	150,624,815	A Shares	Long positions	1.97%	2.36%
6.	Shiji Jinyuan Investment Group Co., Ltd. (世紀金源投資集團有限公司)	Beneficial owner	37,375,185	A Shares	Long positions	0.49%	0.58%
7.	Huang Tao (黃濤) *(Note 2)*	Interest of Controlled Corporation	337,375,185	A Shares	Long positions	4.41%	5.28%
8.	Huang Shiying (黃世熒) *(Note 2)*	Interest of Controlled Corporation	337,375,185	A Shares	Long positions	4.41%	5.28%
9.	Glasslake Holdings Limited (鏡湖控股) *(Note 3)*	Beneficial owner	351,647,000	H Shares	Long positions	4.60%	27.89%
10.	Affluent East Investments Limited (東滿投資有限公司) *(Note 3)*	Interest of Controlled Corporation	351,647,000	H Shares	Long positions	4.60%	27.89%
11.	CITIC Limited (中信股份) *(Note 3)*	Interest of Controlled Corporation	351,647,000	H Shares	Long positions	4.60%	27.89%

	Name	Capacity	Number of Shares Directly or Indirectly held	Class of Shares	Nature of Interest	Approximate Percentage of Shareholding in the Total Issued Ordinary Share Capital	Approximate Percentage of Shareholding in the Relevant Class of Shares
12.	CITIC Group Corporation Ltd. (中信集團) *(Note 3)*	Interest of Controlled Corporation	351,647,000	H Shares	Long positions	4.60%	27.89%
13.	CSRF *(Note 4)*	Beneficial owner	112,740,500	H Shares	Long positions	1.47%	8.94%
14.	CCB (Beijing) Investment Fund Management Co., Ltd. (建信(北京)投資基金管理有限責任公司) *(Note 4)*	Interest of Controlled Corporation	112,740,500	H Shares	Long positions	1.47%	8.94%

Notes:

(1) Shanghai Panxin Equity Investment Management Co., Ltd. (上海磐信股權投資管理有限公司) ("Panxin") is the general partner of Shanghai Shangyan. Panxin is wholly-owned by CITIC Private Equity Funds Management Co., Ltd. (中信產業投資基金管理有限公司) ("CITIC PE"), which is owned by CITIC Securities as to 35%. Therefore, each of Panxin, CITIC PE and CITIC Securities is deemed to be interested in the A Shares held by Shanghai Shangyan under the SFO. In August 2018, Shanghai Shangyan replaced its general partner with Shenzhen Qianhai Xinxin Hongda Investment Management Co., Ltd.* (深圳市前海淳信宏達投資管理有限公司). As such, Panxin ceased to be the general partner of Shanghai Shangyan. Each of Panxin, CITIC PE and CITIC Securities is no longer deemed to be interested in the relevant interest.

(2) Tengyun Investment is owned indirectly by Mr. HUANG Tao and Mr. HUANG Shiying, as to 60% and 40%, respectively, while Century Jinyuan is owned by Mr. HUANG Tao and Mr. HUANG Shiying, as to 60% and 40%, respectively. Mr. HUANG Tao and Mr. HUANG Shiying are brothers. Therefore, each of Mr. HUANG Tao and Mr. HUANG Shiying is deemed to be interested in the A Shares held by Tengyun Investment and Century Jinyuan under the SFO.

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

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

Save as disclosed above, as of 30 June 2018, to the knowledge of the Directors, no other person (except Directors, Supervisors and senior management) had interests or short positions in the Shares, underlying Shares and debentures of the Company required to be recorded in the register to be kept by the Company under Section 336 of the SFO.

As at 30 June 2018, Directors did not hold any positions as directors or employees in companies which had interests or short positions in the Company that needed to be notified to the Company under division 2 and 3 of Part XV of the SFO.

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

During the Reporting Period, save for the listing of A Share on the SSF, there was no repurchase, sale or redemption of securities of the Company made by the Company or any of its subsidiaries. Please refer to the section headed "XI Financing of the Company" of the Management Discussion and Analysis for details.

VI. COMPLYING WITH THE CORPORATE GOVERNANCE CODE

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

VII. DEALING IN SECURITIES BY DIRECTORS AND SUPERVISORS

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

VIII. THE BOARD OF DIRECTORS AND THE BOARD COMMITTEE

Composition of the Board of Directors

The Board of the Company is currently comprised of 14 Directors, two of which are executive Directors (Mr. WANG Changqing and Mr. LI Geping), seven are non-executive Directors (Mr. YU Zhongfu, Mr. DONG Shi, Ms. ZHANG Qin, Ms. ZHU Jia, Mr. WANG Hao, Mr. WANG Bo and Mr. XU Gang) and five are independent non-executive Directors (Mr. FENG Genfu, Ms. ZHU Shengqin, Mr. DAI Deming, Mr. BAI Jianjun and Mr. LIU Qiao). Mr. WANG Changqing is the Chairman of the Board and Mr. LI Geping is the general manager. None of the Directors, Supervisors and members of the senior management is related to other Directors, Supervisors and members of the senior management of the Company.

Board Committees under the Board

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

Name of committee	Members of committee
Development Strategy Committee	WANG Changqing (Chairman), YU Zhongfu, DONG Shi, LI Geping, ZHU Jia, WANG Hao, XU Gang, FENG Genfu
Risk Management Committee	WANG Hao (Chairman), LI Geping, ZHANG Qin, WANG Bo, XU Gang, BAI Jianjun, LIU Qiao
Audit Committee	DAI Deming (Chairman), ZHANG Qin, WANG Bo, FENG Genfu, ZHU Shengqin
Remuneration and Nomination Committee	BAI Jianjun (Chairman), WANG Changqing, YU Zhongfu, DONG Shi, ZHU Shengqin, DAI Deming, LIU Qiao

During the Reporting Period, all Directors faithfully and diligently performed their duties entitled by laws and regulations, and have protected the overall interests of the Company and its Shareholders, especially the legitimate interests of small and medium Shareholders. In particular, the Audit Committee and the management have reviewed the accounting policies adopted by the Company, discussed matters including the risk management, internal control and financial statements of the Company, and reviewed the consolidated interim financial information of the Company for the six months ended 30 June 2018. The external auditor of the Company has reviewed the interim financial information in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

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

IX. THE SUPERVISORY COMMITTEE

The Company strictly complied with the requirements of the Articles of Association and relevant rules in respect of the appointment of Supervisors. The Company's Supervisory Committee currently comprises 5 Supervisors, including 2 employee representative Supervisors (Ms. LU Ya and Ms. LIN Xuan) and 3 Shareholder representative Supervisors (Mr. LI Shihua, Ms. AI Bo and Ms. ZHAO Lijun).

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

X. MATERIAL LITIGATION AND ARBITRATION

During the Reporting Period, there were 6 material litigation and arbitration cases of the Company with target amount of more than RMB10 million which have not been settled:

1. Disputes in relation to margin financing and securities lending business between Yu Xiaofeng and the Company

In September 2012, Yu Xiaofeng opened two accounts in the business department under the Company, and entered into a Margin Financing and Securities Lending Business Contract and Margin Financing and Securities Lending Risk Disclosure Statement.

On 9 June 2017, Yu Xiaofeng filed an arbitration to Beijing Arbitration Commission (the "Arbitration Commission") regarding her disputes with the Company during the course of margin financing and securities lending business, alleging that she suffered from economic loss as the Company breached the contract by mandatorily liquidating her credit account, and therefore, she demanded a compensation amounting to RMB38,163,872.32 from the Company for the economic loss caused by its mandatory liquidation, as well as the interests of the loss from 30 June 2015 to the date of actual payment (when calculated up to 8 June 2017 was temporarily amounted to RMB3,516,304.18, based on the bank loan interest rate for the same period), totaling RMB41,680,176.50. The Arbitration Commission accepted the arbitration application filed by Yu Xiaofeng on 15 June 2017, and the case number is (2017) Jing Zhong An Zi No. 1385. The case is still under arbitration procedures.

2. Dispute relating to breaching contract of transferring and repurchasing beneficial rights of certificate of deposit between the Company (on behalf of the "Minsheng CSC Financial Chongqing No. 1 Directional Asset Management Scheme") and Chongqing Bright Industry (Group) Co., Ltd.

On 23 August 2016, pursuant to the Enforcement Judgement ((2016) Wan 0705 Zhi No.2084), a large-denomination certificate of deposit account opened by Chongqing Bright Industry (Group) Co., Ltd. with China Minsheng Bank Corp., Ltd. Chongqing Branch Business Department was frozen by the People's Court of Tongguan District in Tongling City, Anhui Province and the frozen amount was RMB14,023,239.13. Due to its right of pledge over the large-denomination certificate of deposit, the Company submitted an application for objection to the enforcement of such judgement on 10 October 2016, which was rejected by the People's Court of Tongguan District of Tongling City, Anhui Province. On 11 April 2017, the Company, again, submitted an application for objection to the enforcement of such judgement to the People's Court of Tongguan District. The People's Court of Tongguan District accepted the application of the Company on the same day, and issued an Enforcement Judgement ((2017) Wan 0705 Zhi Yi No. 17) on 26 April 2017, but ruled to dismiss the Company's application for the objection to the enforcement. On 3 May 2017, the Company filed a lawsuit about objections raised by non-party to the People's Court of Tongguan District, with Copper Crown Electrical of Tongling Nonferrous Co., Ltd. as a defendant, and Chongqing Bright Industry (Group) Co., Ltd. and Chongqing Bright Motor Parts Procurement Co., Ltd. as third parties. On 11 July 2017, the Company's petition was rejected by the People's Court of Tongguan District in the first instance. On 28 July 2017, the Company filed an appeal to the Intermediate People's Court of Tongling City, Anhui Province. On 4 December 2017, the Intermediate People's Court of Tongling City, Anhui Province ruled at the second instance that the original judgement was dismissed and remanded for retrial.

On 10 March 2017, being the manager of the "Minsheng CSC Financial Chongqing No. 1 Directional Asset Management Scheme" (hereinafter referred to as the "Chongqing No.1 Directional Asset Management Scheme"), the Company, on behalf of the "Chongqing No. 1 Directional Asset Management Scheme", filed a lawsuit with the People's Court of Jiangbei District in Chongqing City in respect of the breaching dispute relating to contract of transferring and repurchase beneficial rights of certificate of deposit of the Chongqing Bright Industry (Group) Co., Ltd., which was invested by the "Chongqing No. 1 Directional Asset Management Scheme", to require Chongqing Bright Industry (Group) Co., Ltd., the financier, to repay the principle, revenue and liquidated damage of RMB15.4553 million. On 8 June 2017, the People's Court of Jiangbei District in Chongqing City issued a Civil Ruling ((2017) Yu 0105 Min Chu No. 5876), and ruled in favor of the Company. Currently, the judgement made in the first instance has come into effect.

The asset management contract and the entrustor's instruction of "Chongqing No. 1 Directional Asset Management Scheme" appointed the Company to assist China Minsheng Bank Corp., Ltd., the entrustor, and its Chongqing branch to recover investment losses through lawsuits, while the responsibilities arising therefrom shall be fully borne by the entrustor rather than the Company. Upon the expiry of its term, the manager's return of unrealized assets on an "as if" basis to the entrustor shall be deemed as having performed its duties diligently and faithfully. Meanwhile, relevant fees of the lawsuit shall be borne by the entrustor and paid from the entrusted assets.

3. Civil lawsuit between Yao Zhenyu and SDIC Essence Futures Co., Ltd. and the Company

On 15 September 2015, Yao Zhenyu entered into Asset Management Contract of “Rongjin Phase I Asset Management Scheme” with SDIC Essence Futures Co., Ltd. and the Company, with Yao Zhenyu as asset entrustor, SDIC CGOG Futures Co., Ltd. (currently renamed as “SDIC Essence Futures Co., Ltd.”) as asset manager and the Company as asset custodian. In March 2016, the three parties entered into Supplementary Agreement to the Asset Management Contract of “Rongjin Phase I Asset Management Scheme”, pursuant to which the asset management scheme will be extended for 6 months.

On 5 September 2017, Yao Zhenyu filed a civil lawsuit with the People’s Court of Chaoyang District, Beijing (the “People’s Court of Chaoyang District”), claiming that the Company neither supervised nor controlled SDIC Essence Futures Co., Ltd. when the latter failed to perform its obligations under the Asset Management Contract of “Rongjin Phase I Asset Management Scheme”, nor did it perform its obligation to safely keep the properties under the asset management scheme nor inform the entrustor of the aforementioned situation. Yao Zhenyu, who claimed his legitimate rights and interests were damaged due to the Company’s failure to duly performing its obligation as an asset custodian, required SDIC Essence Futures Co., Ltd. and the Company to pay a damage of RMB16.50 million for breaching of the contract.

This case was put to trial on 19 October 2017. SDIC Essence Futures Co., Ltd. submitted an application on the jurisdiction in the court, but it was rejected by the People’s Court of Chaoyang District on 27 October 2017. On 21 November 2017, the case was put to trial again and the People’s Court of Chaoyang District was informed the basic facts of the case. On 29 March 2018, the case was put to trial for the third time. The plaintiff altered the request of the lawsuit, claiming that the “Rongjin Phase I Asset Management Scheme” was valid but not effective, and required SDIC Essence Futures Co., Ltd. and the Company to return the investment payment of RMB16.50 million. The case is still in the course of the trial procedure of the first instance.

4. The Company (as the manager), on behalf of “CSC SDIC Taikang No. 790 Directional Asset Management Scheme”, filed an arbitration against Wang Wei in relation to the stock-pledged repurchase business

In September 2016, the Company entered into Asset Management Contract of “CSC SDIC Taikang No. 790 Directional Asset Management Scheme” with SDIC Taikang Trust Co., Ltd, pursuant to which the Company acted as the manager of the asset management scheme and managed the entrusted assets. The investment scope was the stock-pledged repurchase business and the manager was authorized by the entrustor to manage the entrusted assets under the contract by way of passive management.

On 15 November 2016, the Company, on behalf of the Asset Management Scheme, entered into “Stock-pledged Repurchase Transaction Customer Business Agreement” and “Stock-pledged Repurchase Transaction Agreement” with Wang Wei, pursuant to which Wang Wei shall pledge his 4,000,000 shares held in Torch Electron, which were calculated as 10,000,000 shares in the arbitration request due to the Company’s reserve capitalization of 1.5 shares for each share, while the Company shall finance RMB142,230,000 to Wang Wei. The transaction date for repurchase was 16 November 2017, with an annual interest rate of 5.7%. On 16 November 2016, the initial transaction of pledge repurchase was completed. The Company paid RMB142,230,000 to the respondent.

On 3 January 2017, the People's Court of Cixi City in Zhejiang Province issued a Civil Ruling ((2016) Zhe 0282 Min Chu No. 13530), and ruled that, the respondent, Wang Wei's 8,064,379 shares held in Torch Electron shall be judicially frozen. Since such situation had fulfilled the conditions for repurchase in advance under "Stock-pledged Repurchase Transaction Customer Business Agreement", the Company requested the respondent to repurchase the pledged stocks in advance and repay the principle and interests in full. However, the respondent failed to complete the repurchase of the stocks.

On 29 September 2017, the Company applied for arbitration with Beijing Arbitration Commission, and requested: (1) Wang Wei (the respondent) to repay the principle of finance amounted to RMB142,230,000 to the Asset Management Scheme (the applicant); (2) Wang Wei to bear the responsibility for the breach of contract to the Asset Management Scheme. The liquidated damage was charged on RMB142,230,000 and calculated based on the proportion of 0.05% per day from 6 April 2017 to the day on which the applicants had been compensated in full, and it, when calculated up to 25 September 2017 was temporarily amounted to approximately RMB12,302,895; (3) to rule that the applicant shall be entitled to the priority of compensation over the 10 million tradable shares in Torch Electron (stock code: 603678) provided for pledge by the respondent and the bonus shares, reserve capitalization and cash dividend generated therefrom (the respondent had obtained cash dividend of RMB0.92 million as of the date); (4) to rule that the respondent to bear attorney fee of RMB1.5 million arising in this case for the applicant; (5) to rule that all expenses including case acceptance fees and case handling fees of this case shall be borne by the respondent.

On 10 November 2017, Beijing Arbitration Commission made a final award pursuant to the "Arbitration and Settlement Agreement" and "Arbitration and Settlement Supplemental Agreement". On 17 December 2017, the issuer applied for mandatory enforcement and property preservation to the Third Intermediate People's Court of Beijing and Third Intermediate People's Court of Beijing issued the "Enforcement Judgement" (《執行裁定書》)((2018) Jing 03 Zhi No. 20) on 8 January 2018. The case is still under enforcement procedures.

5. Contract dispute between Zou Rong and QIC Group Holdings Ltd. and the Company

On 29 March 2015, the three parties, namely, Zou Rong (the plaintiff), QIC Group Holdings Ltd. (previously "Zhejiang Quant Investment Management Co., Ltd.", the first defendant) and the Company (the custodian of the private fund and fund outsourcing service institution, the second defendant) entered into "Quant NEEQ Private Placement No. 1 Fund Contract" (hereinafter referred to as "Fund Contract") on 29 March 2015.

On 3 November 2017, Zou Rong filed a civil lawsuit in Beijing Second Intermediate People's Court, claiming that, as the fund custodian and fund outsourcing service institution disclosed in the Fund Contract (Article 10 in Chapter II), the second defendant knew full well that the subscription payment, which was the personal property of the plaintiff, shall be returned to the plaintiff upon the unsuccessful subscription, and that the settlement account managed by the second defendant shall only be used for receiving and paying funds for subscription, purchase and redemption. However, the Company executed the illegal instruction of the first defendant and changed the use of and misappropriated the plaintiff's subscription payments, thus the legal rights and interests of the plaintiff were seriously prejudiced. The Company and QIC Group Holdings Ltd. shall assume joint liability to the plaintiff pursuant to Section 167 under the General Provisions of the Civil Law of the People's Republic of China. Zou Rong filed a civil lawsuit with Beijing Second Intermediate People's Court, and petitioned for: (1) ruling QIC Group Holdings Ltd. to repay RMB88.20 million to the plaintiff; and to pay the plaintiff the losses caused by late payment, which shall be charged at 150% of the standard lending rate of the People's Bank of China on the basis of RMB88.20 million from 22 April 2015 to the actual payment day. The losses, when calculated up to 31 October 2017, temporarily amounted to approximately RMB16,494,318.75. The above two items temporarily amounted to approximately RMB104,694,318.75 in aggregate; (2) ruling the Company to be jointly responsible for the above amounts owed by QIC Group Holdings Ltd. to the plaintiff; (3) ruling the two defendants to be responsible for all costs and cost of preservation of the case.

On 7 November 2017, Beijing Second Intermediate People's Court duly put on record and made the first-instance judgement on 4 June 2018, rejecting all claims of Zou Rong, the plaintiff. Zou Rong refused to accept the first-instance judgement and has filed an appeal. The case is currently in the second instance of the court.

6. The Company, as the manager, on behalf of "CSC Longxing No. 916 Directional Asset Management Scheme", applied for pre-litigation property preservation and arbitration case in relation to the default matters in stock-pledged repurchase business

The Company, as the manager of Longxing No. 916 Directional Asset Management Scheme (hereinafter referred to as the "Directional Scheme"), as required by the investment order of E Fund Management Co., Ltd., the principal of the Directional Scheme, entered into "Stock-pledged Repurchase Transaction Customer Business Agreement" and "Stock-pledged Repurchase Transaction Agreement" with Pan Yicen, a financier, on 21 September 2017, granting financed funds with an amount of RMB110 million to Pan Yicen, which will be due on 17 September 2020. Pan Yicen pledged his 22,650,000 Shares held in Tianguang Zhongmao (stock code: 002509), with the warning line of performance guarantee of 150% and the lowest line of 130%. Luo Weiguang, the third person, signed the "Guarantee Contract" to provide irrevocable joint liability guarantee.

Due to the decrease in stock price of Tianguang Zhongmao, the proportion of performance guarantee fell below the warning line on 23 March 2018, and further broke the closing line for two consecutive days on March 27 and 28. After several times of communication with Pan Yicen, Pan Yicen had not adopted measures such as making up or repurchasing the stock in advance, constituting a substantial breach of contract.

According to the requirements of the Zhongshan Branch of China Construction Bank Co., Ltd., the actual investor of the Directional Scheme, the Company entrusted Guangdong Kunlun Law Firm as the agent of the case to apply for property preservation to the Shunde District People's Court of Guangdong Province, and filed an arbitration application to the Beijing Arbitration Commission in accordance with the relevant agreements. Currently, the Shunde District People's Court of Guangdong Province has accepted the application for property preservation of the Company. The Beijing Arbitration Commission duly accepted the arbitration application on 20 July 2018.

In this case, the Company is not required to bear legal fees, preservation arbitration fees and other fees, and will transfer the payment to the law firm, the court, and the guarantee company upon receipt of relevant fees paid by the principal.

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

The Company issued 400,000,000 shares for A-share listing on the Shanghai Stock Exchange on 20 June 2018. After the issuance of A Shares, the Company's registered capital will be changed to RMB7,646,385,238. At present, the procedures for the change of business registration of registered capital are being processed.

In April 2018, according to the Reply to the Relevant Opinion on the Capital Contribution from CSC Financial Co., Ltd. to China Securities (International) Finance Holding Company Limited (Jigoubu Han [2018] No. 800), the Company contributed HK$1 billion, after which the share capital upon capital contribution amounted to HK$2 billion.

XII. RATING CLASSIFICATION OF THE COMPANY BY SECURITIES REGULATORS

In 2018, under the classification base on securities firms by the CSRC, the Company was rated “Class A Grade AA” for nine consecutive years. The Company is one of only three PRC securities firms in the industry which received such a rating for eight consecutive years during 2010 and 2018 with such a rating being the highest rank granted by the CSRC. In addition, China Securities Futures, our wholly-owned subsidiary, was rated Class A Grade AA for three consecutive years in the futures enterprises announced by the China Futures Association in 2018, being the highest rating granted by the CSRC.

XIII. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Positions	changes
Li Geping	Executive Director, General Manager, Chief Financial Officer	Appointed
Zhang Qin	Non-executive Director	Appointed
Zhu Jia	Non-executive Director	Appointed
Wang Bo	Non-executive Director	Appointed
Qi Liang	Executive Director, General Manager	Resigned
Hu Donghui	Non-executive Director	Resigned
Wang Chenyang	Non-executive Director	Resigned
Wang Shouye	Non-executive Director	Resigned
Lin Xuan	Supervisor	Elected
Zhao Lijun	Supervisor	Appointed
Wu Lili	Supervisor	Resigned
Wang Jing	Supervisor	Resigned
Liu Hui	Supervisor	Resigned
Peng Heng	Member of Executive Committee, Chief Financial Officer	Resigned

On 16 April 2018, the Company's first 2018 extraordinary general meeting considered and approved the Resolution on Election of Directors of the Second Session of the Board of the Company, electing Mr. LI Geping, Ms. ZHANG Qin, Ms. ZHU Jia and Mr. WANG Bo as Directors of the Company. Mr. QI Liang and Ms. HU Donghui, Mr. WANG Chenyang and Mr. WANG Shouye no longer served as Directors of the Company due to the change in the session of the Board.

On 22 February 2018, Ms. LU Ya and Ms. LIN Xuan were elected as employee representative Supervisors of the second session of the Supervisory Committee of the Company at the meeting of employee representatives of the Company. Mr. WU Lili no longer served as a Supervisor of the Company due to the change in the session of the Supervisory Committee.

On 16 April 2018, the Company 2018 first extraordinary general meeting considered and approved the Resolution on Election of Supervisors of the Second Session of the Supervisory Committee of the Company, electing Ms. LIN Xuan and Ms. ZHAO Lijun as Supervisors of the Company. Ms. WANG Jing and Mr. LIU Hui no longer served as Supervisors of the Company due to the change in the session of the Supervisory Committee.

For details, please refer to the announcement published by the Company on 16 April 2018.

On 16 April 2018, the second meeting of the second session of the Board of the Company considered and approved the Resolution on Appointment of the General Manager of the Company, appointing Mr. LI Geping as the general manager of the Company. Mr. QI Liang no longer served as the general manager of the Company due to the expiry of his term of office.

On 27 May 2018, the fifth meeting of the second session of the Board of the Company considered and approved the Resolution on Adjustment of the Chief Financial Officer of the Company, appointing Mr. LI Geping as the Chief Financial Officer of the Company. Mr. PENG Heng no longer served as the Chief Financial Officer of the Company.

XIV. SUBSEQUENT EVENTS

1. From the Reporting Period to the date of the publication of this report, the Company non-publicly issued two trenches of corporate bonds with a total issuance size of RMB6 billion.

   (1) In July 2018, the Company privately issued a 3-year fixed rate corporate bond ("18 Xintou F3") with a face value of RMB3.5 billion. The bond pays interest annually at 4.86% per annum and is not guaranteed.

   (2) In July 2018, the Company privately issued a 3-year fixed rate corporate bond ("18 Xintou F4") with a face value of RMB2.5 billion. The bond pays interest annually at 4.84% per annum and is not guaranteed.

2. On 3 July 2018, the Company was qualified as a quotation institution of the “Bond Connect”;

   On 31 July 2018, the Company was qualified as a First Class OTC Option Dealer.

3. At the end of the Reporting Period, prior to the disclosure of the report, there were 2 new material arbitrations involving target amount with over RMB10 million of the Group yet to be settled:

   1. The case that the Company (as the applicant) applied for arbitration and property preservation in relation to the default of stock-pledged repurchase business by Beijing Maiden Voyage Corrugated Pipe Manufacturing Co., Ltd, the financier)

   On 27 April 2017, the Company entered into the “Stock-pledged Repurchase Transaction Customer Business Agreement” and “Transaction Application (Initial Transaction)” with Beijing Maiden Voyage Corrugated Pipe Manufacturing Co., Ltd., pursuant to which 34.21 million shares of Maiden Voyage energy saving stock were pledged by Beijing Maiden Voyage Corrugated Pipe Manufacturing Co., Ltd., which was granted financing instruments of RMB100 million by the Company. Afterwards, the Company, again, entered into relevant supplement agreement with Beijing Maiden Voyage Corrugated Pipe Manufacturing Co., Ltd. to perform changes in the repurchase term and adjustment to interest rate. On 25 July 2018, after the expiry of the stock pledge contract of Beijing Maiden Voyage Corrugated Pipe Manufacturing Co., Ltd., as the respondent failed to perform the repurchase obligations upon numerous reminders by the Company, constituting the breach of the agreement. In order to protect the Company’s creditors’ right, the Company applied to Beijing Arbitration Commission for arbitration and property preservation in accordance with relevant agreement. Beijing Arbitration Commission officially accepted the arbitration application on 10 August 2018.

   In this case, the advance payment of arbitration fees and other fees were made by the Company, and the related fees for creditors’ right were eventually undertaken by the financier.

2. **The case that the Company (as the applicant) applied for arbitration and property preservation in relation to the default of stock-pledged repurchase business by Huang Qingle, the financier**

On 10 April 2017, the Company entered into the "Stock-pledged Repurchase Transaction Customer Business Agreement" and "Transaction Application (Initial Transaction)" with Huang Qingle, the financier, pursuant to which 42.95 million shares of Maiden Voyage energy saving stock were pledged by the financer, who was granted financing instruments of RMB111.2 million by the Company. On 10 July 2018, both parties entered into the "Stock-pledged Repurchase Transaction Customer Application (Supplemental Transaction)", pursuant to which any breach of contract by the financier and its persons acting in concert were considered as the breach of contract by the financier, and the Company was entitled to request the financier to repurchase the pledged stocks in advance. On 25 July 2018, Beijing Maiden Voyage Corrugated Pipe Manufacturing Co., Ltd., the person acting in concert of the financier, was in breach of a stock-pledged agreement of the Company. Pursuant to the above supplemental agreement, the financier also constituted breach of contract, and shall perform the obligation of repurchase the stock. However, the financier failed to perform the obligation of repurchase. In order to protect the Company's creditors' right, the Company applied to Beijing Arbitration Commission for arbitration and property preservation in accordance with relevant agreement. Beijing Arbitration Commission officially accepted the arbitration application on 10 August 2018.

In this case, the advancement payment of arbitration fees and other fees were made by the Company, and the related fees for creditors' right were eventually undertaken by the financier.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

INTRODUCTION

We have reviewed the interim financial information set out on pages 65 to 156, which comprises the interim condensed consolidated statement of financial position of CSC Financial Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2018 and the interim condensed consolidated income statement, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim 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 "Interim Financial Information"). The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this Interim Financial Information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this Interim Financial Information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the Interim Financial Information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 August 2018

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2018
(In RMB thousands, unless otherwise stated)

	Note	**Six months ended 30 June 2018 (Unaudited)**	2017 (Unaudited)
Revenue			
Fee and commission income	7	**3,655,500**	3,700,670
Interest income	8	**2,971,353**	2,421,025
Net investment gains	9	**1,541,704**	1,142,579
		8,168,557	7,264,274
Other income/(loss)	10	**21,859**	(11,393)
Total revenue and other income		**8,190,416**	7,252,881
Fee and commission expenses	11	**(435,341)**	(467,284)
Interest expenses	11	**(2,485,551)**	(1,650,644)
Staff costs	11	**(1,953,365)**	(1,856,686)
Tax and surcharges		**(42,670)**	(39,651)
Other operating expenses and costs	11	**(779,389)**	(709,745)
Impairment losses	12	**(256,297)**	(27,764)
Total expenses		**(5,952,613)**	(4,751,774)
Operating profit		**2,237,803**	2,501,107
Share of profits and losses of associates		**1,256**	(2,628)
Profit before income tax		**2,239,059**	2,498,479
Income tax expense	13	**(532,669)**	(612,613)
Profit for the period		**1,706,390**	1,885,866
Attributable to:			
Equity holders of the Company		**1,692,862**	1,855,140
Non-controlling interests		**13,528**	30,726
		1,706,390	1,885,866
Earnings per share attributable to ordinary equity holders of the Company (expressed in RMB yuan per share)			
– Basic and diluted	15	**0.23**	0.26

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(In RMB thousands, unless otherwise stated)

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Profit for the period	**1,706,390**	1,885,866
Other comprehensive income		
Items that may be reclassified to profit or loss in subsequent periods		
Available-for-sale financial assets:		
Changes in fair value		125,969
Income tax effect on changes in fair value		(30,369)
Gains reclassified to the consolidated income statement		(8,190)
		87,410
Net gains on investments in debt instruments measured at fair value through other comprehensive income	**252,607**	
Net gains on investments in debt instruments measured at fair value through other comprehensive income reclassified to profit or loss on disposal	**36,169**	
Income tax relating to these items	**(71,208)**	
	217,568	
Share of other comprehensive income of associates	**1,131**	222
Foreign currency translation differences	**47,491**	(27,037)
Items that will not be reclassified subsequently to profit or loss		
Net losses on investments in equity instruments designated as at fair value through other comprehensive income	**(140,911)**	
Income tax relating to these items	**35,228**	
	(105,683)	
Other comprehensive income for the period, net of tax	**160,507**	60,595
Total comprehensive income for the period	**1,866,897**	1,946,461
Attributable to:		
Equity holders of the Company	**1,853,369**	1,915,703
Non-controlling interests	**13,528**	30,758
	1,866,897	1,946,461

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

(In RMB thousands, unless otherwise stated)

	Note	**30 June 2018 (Unaudited)**	31 December 2017 (Audited)
Non-current assets			
Property, plant and equipment	16	**471,558**	515,203
Investment properties		**48,695**	49,648
Intangible assets	17	**171,192**	169,892
Investment in associates		**207,710**	206,292
Financial assets at fair value through profit or loss	30	**2,435,648**	
Available-for-sale financial assets	18		5,326,584
Financial assets at fair value through other comprehensive income	19	**3,270,995**	
Held-to-maturity investments	20		573,592
Financial assets at amortised costs	21	**317,885**	
Financial assets held under resale agreements	22	**4,206,880**	5,109,380
Refundable deposits	23	**2,156,228**	2,228,778
Deferred tax assets	24	**1,113,422**	796,063
Other non-current assets	25	**193,767**	203,953
Total non-current assets		**14,593,980**	15,179,385
Current assets			
Margin accounts	26	**37,077,997**	47,821,230
Accounts receivable	27	**2,070,726**	1,369,856
Financial assets held for trading	28		32,341,915
Financial assets designated as at fair value through profit or loss	29		307,184
Financial assets at fair value through profit or loss	30	**49,767,217**	
Available-for-sale financial assets	18		34,255,207
Financial assets at fair value through other comprehensive income	19	**28,862,010**	
Held-to-maturity investments	20		4,976
Financial assets at amortised cost	21	**58,277**	
Derivative financial assets	31	**1,120,013**	120,384
Financial assets held under resale agreements	22	**21,977,138**	20,955,696
Cash held on behalf of clients	32	**41,751,620**	39,740,852
Cash and bank balances	33	**16,970,560**	11,227,905
Other current assets	34	**2,632,508**	2,558,802
Total current assets		**202,288,066**	190,704,007
Total assets		**216,882,046**	205,883,392

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2018

(In RMB thousands, unless otherwise stated)

	Note	**30 June 2018 (Unaudited)**	31 December 2017 (Audited)
Current liabilities			
Accounts payable to brokerage clients	35	**43,308,376**	41,416,503
Derivative financial liabilities	31	**218,892**	285,284
Financial liabilities held for trading	36		126,780
Financial liabilities at fair value through profit or loss	37	**952,584**	
Financial assets sold under repurchase agreements	38	**35,390,935**	29,147,293
Placements from banks and other financial institutions	39	**9,000,000**	14,000,000
Taxes payable	40	**534,891**	346,183
Short-term borrowings	41	**2,695,357**	2,050,817
Short-term financing instruments payable	42	**27,264,400**	27,641,673
Other current liabilities	43	**21,856,941**	22,918,671
Total current liabilities		**141,222,376**	137,933,204
Net current assets		**61,065,690**	52,770,803
Total assets less current liabilities		**75,659,670**	67,950,188
Non-current liabilities			
Financial liabilities at fair value through profit or loss	37	**13,621**	
Financial liabilities designated as at fair value through profit or loss			11,640
Bonds in issue	44	**27,319,310**	23,872,761
Deferred tax liabilities	24	**320,663**	36,018
Other non-current liabilities		**53,652**	30,991
Total non-current liabilities		**27,707,246**	23,951,410
Net assets		**47,952,424**	43,998,778

AS AT 30 JUNE 2018

(In RMB thousands, unless otherwise stated)

	Note	**30 June 2018 (Unaudited)**	31 December 2017 (Audited)
Equity			
Share capital	45	**7,646,385**	7,246,385
Other equity instruments	46	**5,000,000**	5,000,000
Reserves	47	**18,326,634**	16,489,518
Retained earnings		**16,711,627**	15,018,176
Equity attributable to equity holders of the Company		**47,684,646**	43,754,079
Non-controlling interests		**267,778**	244,699
Total equity		**47,952,424**	43,998,778

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

Approved and authorized for issue by the Board of Directors on 24 August 2018.

Wang Changqing	**Li Geping**
Chairman	*Executive Director and President*

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(In RMB thousands, unless otherwise stated)

		Attributable to equity holders of the Company										
				Reserves								
	Note	Share capital	Other equity instruments	Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Foreign currency translation reserve	Retained earnings	Subtotal	Non-controlling interests	Total
At 31 December 2017 (Audited)		7,246,385	5,000,000	7,084,516	2,702,394	6,930,389	(269,666)	41,885	15,018,176	43,754,079	244,699	43,998,778
Change in accounting policy		–	–	–	(4,066)	(14,655)	22,880	–	4,342	8,501	412	8,913
At 1 January 2018 (Restated)		7,246,385	5,000,000	7,084,516	2,698,328	6,915,734	(246,786)	41,885	15,022,518	43,762,580	245,111	44,007,691
Profit for the period		–	–	–	–	–	–	–	1,692,862	1,692,862	13,528	1,706,390
Other comprehensive income for the period		–	–	–	–	–	113,016	47,491	–	160,507	–	160,507
Total comprehensive income for the period		–	–	–	–	–	113,016	47,491	1,692,862	1,853,369	13,528	1,866,897
Capital injected by equity holders												
– Issuance of A shares	45	400,000	–	1,668,697	–	–	–	–	–	2,068,697	–	2,068,697
– Capital injected by subsidiaries' non-controlling equity holders		–	–	–	–	–	–	–	–	–	18,139	18,139
Appropriation to general reserve	47	–	–	–	–	3,753	–	–	(3,753)	–	–	–
Dividends to non-controlling interests		–	–	–	–	–	–	–	–	–	(9,000)	(9,000)
At 30 June 2018 (Unaudited)		7,646,385	5,000,000	8,753,213	2,698,328	6,919,487	(133,770)	89,376	16,711,627	47,684,646	267,778	47,952,424

(In RMB thousands, unless otherwise stated)

		Attributable to equity holders of the Company										
				Reserves								
	Note	Share capital	Other equity instruments	Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Foreign currency translation reserve	Retained earnings	Subtotal	Non-controlling interests	Total
At 31 December 2016 (Audited)		7,176,470	5,000,000	6,739,567	2,294,445	6,151,907	(188,413)	101,546	13,787,528	41,063,050	199,629	41,262,679
Profit for the period		–	–	–	–	–	–	–	1,855,140	1,855,140	30,726	1,885,866
Other comprehensive income for the period		–	–	–	–	–	87,600	(27,037)	–	60,563	32	60,595
Total comprehensive income for the period		–	–	–	–	–	87,600	(27,037)	1,855,140	1,915,703	30,758	1,946,461
Capital injected by equity holders												
– Issuance of H shares	45	69,915	–	344,949	–	–	–	–	–	414,864	–	414,864
Appropriation to general reserve	47	–	–	–	–	3,611	–	–	(3,611)	–	–	–
Dividend – 2016	14	–	–	–	–	–	–	–	(1,304,349)	(1,304,349)	–	(1,304,349)
At 30 June 2017 (Unaudited)		7,246,385	5,000,000	7,084,516	2,294,445	6,155,518	(100,813)	74,509	14,334,708	42,089,268	230,387	42,319,655

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2018
(In RMB thousands, unless otherwise stated)

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Profit before income tax	**2,239,059**	2,498,479
Adjustments for:		
Interest expenses on bonds in issue, short-term financing instruments payable and borrowings	**1,448,803**	654,225
Dividend income and interest income from financial assets at fair value through other comprehensive income	**(590,684)**	
Dividend income and interest income from available-for-sale financial assets		(738,258)
Net gains from disposal of financial assets at fair value through other comprehensive income	**(17,107)**	
Net gains from disposal of available-for-sale financial assets		(113,510)
Interest income from financial assets at amortised costs	**(15,690)**	
Interest income from held-to-maturity financial assets		(20,316)
Net gains or losses attributable to other interest holders of consolidated structured entities	**154,083**	212,653
Net gains from disposal of investments in associates and joint ventures	**(207)**	–
Share of profits and losses from associates and joint ventures	**(1,256)**	2,628
Net gains on disposal of property, plant, equipment and other assets	**(122)**	(195)
Revaluation gains or losses on financial instruments at fair value through profit or loss	**(416,655)**	67,710
Net foreign exchange losses	**28,829**	69,865
Depreciation and amortisation	**125,811**	113,953
Impairment losses	**256,297**	27,764
	3,211,161	2,774,998
Net changes in operating assets		
Margin accounts	**10,481,434**	(6,281,146)
Financial assets at fair value through profit or loss	**(8,948,782)**	
Financial assets held for trading		(3,245,691)
Cash held on behalf of clients	**(2,010,768)**	4,305,410
Financial assets held under resale agreements	**(119,153)**	(7,896,011)
Other operating assets	**(491,700)**	(588,564)
	(1,088,969)	(13,706,002)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018
(In RMB thousands, unless otherwise stated)

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Net changes in operating liabilities		
Accounts payable to brokerage clients	**1,891,873**	(4,269,798)
Financial liabilities at fair value through profit or loss	**817,884**	
Financial liabilities held for trading		(2,856,898)
Financial assets sold under repurchase agreements	**6,243,642**	7,791,836
Placements from banks and other financial institutions	**(5,000,000)**	(360,000)
Other operating liabilities	**526,418**	221,437
	4,479,817	526,577
Net cash inflow/(outflow) from operating activities before tax	**6,602,009**	(10,404,427)
Income tax paid	**(466,541)**	(795,252)
Net cash inflow/(outflow)from operating activities	**6,135,468**	(11,199,679)
Cash flows from investing activities		
Net cash flow from purchase or disposal of financial assets at fair value through other comprehensive income	**(3,302,333)**	
Net cash flow from purchase or disposal of available-for-sale financial assets		(2,588,189)
Dividend income and interest income received from financial assets at fair value through other comprehensive income	**465,913**	
Dividend income and interest income received from available-for-sale financial assets		509,802
Cash paid for purchase of property, plant and equipment and other assets	**(76,594)**	(62,109)
Net cash flow from purchase or disposal of financial assets at amortised costs	**(127,458)**	
Net cash flow from purchase or disposal of held-to-maturity investments		(131,550)
Other cash flows from investing activities	**41,690**	(82,514)
Net cash outflow from investing activities	**(2,998,782)**	(2,354,560)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(In RMB thousands, unless otherwise stated)

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Cash flows from financing activities		
Cash inflows from public offering	**2,168,000**	425,535
Cash inflows from capital injected by non-controlling interests	**18,175**	–
Cash inflows from borrowing activities	**11,287,797**	2,154,775
Cash inflows from issuing bonds	**41,906,772**	34,561,477
Distribution to other equity instrument holders	**(294,000)**	(294,000)
Repayments of interest on debts	**(1,293,394)**	(940,332)
Payments of debts	**(51,019,042)**	(24,736,858)
Other cash outflows from financing activities	**(193,170)**	(173,292)
Net cash inflow from financing activities	**2,581,138**	10,997,305
Net change in cash and cash equivalents	**5,717,824**	(2,556,934)
Cash and cash equivalents at the beginning of the period	**11,183,962**	17,427,960
Effect of exchange rate changes on cash and cash equivalents	**18,662**	(96,901)
Cash and cash equivalents at the end of the period *(Note 48)*	**16,920,448**	14,774,125

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

1 GENERAL INFORMATION

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

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

The Company completed its initial public offering of overseas listed foreign shares ("H shares") on The Stock Exchange of Hong Kong Limited on 9 December 2016. Under this offering, the Company issued a total of 1,076.47 million new shares with a nominal value of RMB1 per share. On 5 January 2017, the Company issued an additional 69,915,238 H shares through partial exercise of the over-allotment option with a nominal value of RMB1 per share. The registered capital of the Company increased to RMB7,246.39 million after such issuance. The Company completed the industrial and commercial registration for these changes on 5 June 2017, and obtained its new business license with the Unified Social Credit Code of 91110000781703453H on 9 June 2017.

The Company completed its initial public offering of domestic listed shares ("A shares") on the Shanghai Stock Exchange on 20 June 2018. The Company issued a total of 400,000,000 shares with a nominal value of RMB1 per share. After this issuance, total share capital of the Company was increased to RMB7,646,385,238.00.

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

2 BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting", as well as with all applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The interim condensed consolidated financial statements should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2017, which have been audited.

(In RMB thousands, unless otherwise stated)

3 PRINCIPAL ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value. Except for those described below, the accounting policies used in preparing the interim condensed consolidated financial statements are the same as those adopted in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017.

3.1 Standards and amendments effective in 2018 relevant to and adopted by the Group

In the current interim period, the Group has adopted the following International Financial Reporting Standards ("IFRSs") and amendments issued by the International Accounting Standards Board ("IASB"), that are mandatorily effective for the current interim period. Descriptions of these standards and amendments were disclosed in the Group's annual consolidated financial statements for the year ended 31 December 2017.

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

The new accounting standard IFRS 9 Financial Instruments and their impacts are disclosed in Note 3.3 Changes in principal accounting policies, Note 3.4 The impact of changes in principal accounting policies and Note 4 Significant accounting judgements and estimates respectively. The adoption of the other standards and amendments does not have a significant impact on the operating results, comprehensive income, or financial position of the Group.

(In RMB thousands, unless otherwise stated)

3 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

The Group has not adopted the following new or amended standards and interpretations issued by the IASB and the IFRS Interpretations Committee ("IFRIC"), that have been issued but are not yet effective.

				Effective for annual periods beginning on or after
(1)	IFRIC 23	(i)	Uncertainty over Income Tax Treatments	1 January 2019
(2)	IFRS 16	(i)	Leases	1 January 2019
(3)	IFRS 17	(i)	Insurance Contracts	1 January 2021
(4)	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	(i)	The Annual Improvements to IFRSs 2015 – 2017 Cycle	1 January 2019
(5)	Amendments to IFRS 9	(ii)	Prepayment Features with Negative Compensation	1 January 2019
(6)	Amendments to IAS 19	(iii)	Employee Benefits Regarding Plan Amendment, Curtailment or Settlement	1 January 2019
(7)	Amendments to IAS 28	(iv)	Long-term Interests in Associates and Joint Ventures	1 January 2019
(8)	Amendments to IFRS 10 and IAS 28	(i)	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/ removed. Early application of the amendments continues to be permitted.

(i) Descriptions of these standards and amendments were disclosed in the Group's annual consolidated financial statements for the year ended 31 December 2017. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

3 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

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

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

(iii) Amendments to IAS 19: Employee benefits regarding plan amendment, curtailment or settlement

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

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

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

3.3 Changes in principal accounting policies

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with the transition date of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the Group's consolidated financial statements.

3 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.3 Changes in principal accounting policies (Continued)

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 earnings and other components of reserves in the current period. For notes disclosures, the consequential amendments to the selected IFRS 7 disclosures considered to be relevant to this interim condensed consolidated financial statements have only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in the Group's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. Specific accounting policies which have been significantly impacted by IFRS 9 are described as follows:

Financial instruments

(1) Initial recognition, classification and measurement of financial instruments

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

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

Financial assets

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

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

3 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.3 Changes in principal accounting policies (Continued)

Financial instruments (Continued)

(1) Initial recognition, classification and measurement of financial instruments (Continued)

Financial assets (continued)

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

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

Debt Instruments

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

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

(i) Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent SPPI and that are not designated at FVPL, are measured at amortised cost.

(ii) Fair value through other comprehensive income: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI and that are not designated at FVPL, are measured at FVOCI.

(iii) Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL.

3 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.3 Changes in principal accounting policies (Continued)

Financial instruments (Continued)

(1) Initial recognition, classification and measurement of financial instruments (Continued)

Debt Instruments (Continued)

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

Equity instruments

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

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

Financial liabilities

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

(2) Reclassification of financial assets

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

3 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.3 Changes in principal accounting policies (Continued)

Financial instruments (Continued)

(3) Subsequent measurement of financial instruments

Subsequent measurement of financial instruments depends on the categories:

Amortised cost

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

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

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

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

3 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.3 Changes in principal accounting policies (Continued)

Financial instruments (Continued)

(3) Subsequent measurement of financial instruments (Continued)

Fair value through other comprehensive income

Debt instruments

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

When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in “Net investment gains”.

Equity instruments

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

Financial assets at fair value through profit or loss

Debt instruments

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

Equity instruments

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

3 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.3 Changes in principal accounting policies (Continued)

Financial instruments (Continued)

(3) Subsequent measurement of financial instruments (Continued)

Financial liabilities at fair value through profit or loss

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

When financial liabilities designated as at FVPL are derecognised, fair value gains and losses are subsequently reclassified from other comprehensive income to retained earnings.

(4) Impairment of financial instruments

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

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

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

3 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.3 Changes in principal accounting policies (Continued)

Financial instruments (Continued)

(4) Impairment of financial instruments (Continued)

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

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

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

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

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

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

3.4 The impact of changes in principal accounting policies

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

(In RMB thousands, unless otherwise stated)

3 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.4 The impact of changes in principal accounting policies (Continued)

(1) Classification and measurement of financial instruments

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

	IAS 39		IFRS 9	
Financial assets	**Measurement categories**	**Carrying amount**	**Measurement categories**	**Carrying amount**
Cash held on behalf of clients	Amortised costs (Loans and receivables)	39,740,852	Amortised costs	39,740,852
Cash and bank balances	Amortised costs (Loans and receivables)	11,227,905	Amortised costs	11,227,905
Margin accounts	Amortised costs (Loans and receivables)	47,821,230	Amortised costs	47,811,699
Derivative financial assets	FVPL	120,384	FVPL (Mandatory)	120,384
Financial assets held under resale agreements	Amortised costs (Loans and receivables)	26,065,076	Amortised costs	26,063,226
Accounts receivable	Amortised costs (Loans and receivables)	1,369,856	Amortised costs	1,339,856
Refundable deposits	Amortised costs (Loans and receivables)	2,228,778	Amortised costs	2,228,778
Investment in financial instruments	FVPL (Held for trading)	32,341,915	FVPL (Mandatory)	43,997,946
	FVPL (Designated)	307,184		
	FVOCI (Debt instruments classified as available-for-sale financial assets)	34,107,891	FVOCI (Debt instruments)	25,256,315
	FVOCI (Equity instruments classified as available-for-sale financial assets)	5,473,900	FVOCI (Equity instruments)	3,411,905
	Amortised costs (Held-to-maturity investments)	578,568	Amortised costs	249,084

There were no changes to the classification and measurement of financial liabilities, other than to changes in the fair value of financial liabilities designated at fair value through profit or loss that are attributable to changes in the instrument's credit risk, which are now presented in other comprehensive income. Such changes have no impact to the Group.

(In RMB thousands, unless otherwise stated)

3 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.4 The impact of changes in principal accounting policies (Continued)

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

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	IAS39 Carrying amount 31 December 2017	Reclassifications	Remeasurements Expected Credit Loss Allowance	IFRS9 Carrying amount 1 January 2018
Cash held on behalf of clients	39,740,852	–	–	39,740,852
Cash and bank balances	11,227,905	–	–	11,227,905
Margin accounts	47,821,230	–	(9,531)	47,811,699
Derivative financial assets	120,384	–	–	120,384
Financial assets held under resale agreements	26,065,076	–	(1,850)	26,063,226
Accounts receivable	1,369,856	(30,000)	–	1,339,856
Refundable deposits	2,228,778	–	–	2,228,778
Financial Instruments – Held-to-maturity investments				
Opening balance under IAS 39	578,568			
Reclassification: To FVPL (Mandatory) (IFRS 9)		(18,146)		
To FVOCI (Debt instruments) ((IFRS 9)		(299,055)		
Remeasurement: ECL allowance			(12,283)	
Financial assets at amortised costs				
Closing balance under IFRS 9				249,084

In the table above, non-reclassified held-to-maturity investments under IAS 39 are entirely recognised to financial assets at amortised costs under IFRS 9.

(In RMB thousands, unless otherwise stated)

3 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.4 The impact of changes in principal accounting policies (Continued)

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

	IAS39 Carrying amount 31 December 2017	Reclassifications	Remeasurements Changes in Fair Value	IFRS9 Carrying amount 1 January 2018
Financial Instruments – FVPL (Held for trading)				
Opening balance under IAS 39	32,341,915			
Reclassification: From available for sale financial assets (IAS 39)		11,199,297		
From accounts receivable		30,000		
From held-to maturity investments (IAS 39)		18,146		
Remeasurement: From cost to fair value			102,362	
From amortised cost to fair value			(958)	
Financial Instruments – FVPL (Designated)				
Opening balance under IAS 39	307,184			
FVPL (Mandatory)				
Closing balance under IFRS 9				43,997,946

In the table above, the financial assets at fair value through profit or loss and those reclassified from other financial assets under IAS 39 are entirely recognised to financial assets at fair value through profit or loss (mandatory) under IFRS 9.

(In RMB thousands, unless otherwise stated)

3 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.4 The impact of changes in principal accounting policies (Continued)

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

	IAS 39 Carrying amount 31 December 2017	Reclassifications	Remeasurements	IFRS 9 Carrying amount 1 January 2018
Financial Instruments – FVOCI (Debt instruments classified as available-for-sale financial assets)				
Opening balance under IAS 39	34,107,891			
Reclassification: From held-to-maturity investments (IAS 39)		299,451		
To FVPL (Mandatory) (IFRS 9)		(9,137,302)		
Remeasurement: From amortised cost to fair value			(13,725)	
Closing balance under IFRS 9				
FVOCI (Debt instruments)				25,256,315

In the table above, non-reclassified debt instruments of available-for-sale financial assets and those reclassified from other financial assets under IAS 39 are entirely recognised to the financial assets at fair value through other comprehensive income (debt instruments) under IFRS 9.

(In RMB thousands, unless otherwise stated)

3 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.4 The impact of changes in principal accounting policies (Continued)

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

	IAS 39 Carrying amount 31 December 2017	Reclassifications	Remeasurements Changes in Fair Value	IFRS 9 Carrying amount 1 January 2018
Financial Instruments – FVOCI (Equity instruments classified as available-for-sale financial assets)				
Opening balance under IAS 39	5,473,900			
Reclassification: To FVPL (Mandatory) (IFRS 9)		(2,061,995)		
Closing balance under IFRS 9				
FVOCI (Equity instruments)				3,411,905

In the table above, non-reclassified equity instruments of available-for-sale financial assets are entirely recognised to the financial assets at fair value through other comprehensive income (equity instruments) under IFRS 9.

(In RMB thousands, unless otherwise stated)

3 PRINCIPAL ACCOUNTING POLICIES(CONTINUED)

3.4 The impact of changes in principal accounting policies (Continued)

(3) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model as at 1 January 2018.

	Loan Loss Allowance under IAS 39	Reclassifications	Remeasurements	Loan Loss Allowance under IFRS 9
Loans and Receivables (IAS 39)/Financial assets at amortised costs (IFRS 9)				
Margin accounts	111,466	–	9,531	120,997
Financial assets held under resale agreements	42,647	–	1,850	44,497
Total	154,113	–	11,381	165,494
Held-to-maturity investments (IAS 39)/ Financial assets at amortised costs (IFRS 9)				
Financial instruments	396	(396)	12,283	12,283
Available-for-sale financial assets (IAS 39)/Financial assets at fair value through other comprehensive income/ (IFRS 9)				
Financial instruments	76,484	(76,484)	4,391	4,391

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the critical accounting estimates and judgements made in measurement of the expected credit loss allowance and classification of financial instruments.

(1) Measurement of the expected credit loss allowance

Expected credit loss measurement

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

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

– Determining criteria for significant increase in credit risk;

– Choosing appropriate models and assumptions for the measurement of ECL;

– Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.

The Group has applied a 'three-stage' impairment model for ECL measurement based on changes in credit quality since initial recognition of financial assets as summarised below:

– A financial instrument that is not credit-impaired on initial recognition is classified in "Stage 1" and has its credit risk continuously monitored by the Group.

– If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit-impaired. The Group considers a financial instrument to have experienced a SICR when one or more of the following quantitative and qualitative criteria have been met:

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(1) Measurement of the expected credit loss allowance (Continued)

Expected credit loss measurement (Continued)

- for margin financing – the occurrence of fore-warning credit management actions such as margin call measure triggered based on the pre-determined threshold of margin loans to collateral ratios, significant deterioration in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements which have an effect on the probability of a default occurring; and

- for debt securities investments – significant deteriorations in the investment's external credit rating and grading to below investment grade.

- If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3". The Group defines a financial instrument is credit impaired upon the occurrence of credit events including:

  - for margin financing – credit management actions such as force liquidation of a margin client's position triggered based on the pre-determined threshold of margin loan to collateral ratios; and collateral valuation falling short of the related margin loan amount;

  - for debt securities investments – significant deterioration in the investment's external rating whereby the issuer is assessed to be typically in default, with little prospect for recovery of principal or interest; or, significant financial difficulty of the issuer

Inputs, assumptions and estimation techniques

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

A pervasive concept in measuring ECL by the Group is that it should consider forward-looking information. ECL are the discounted product of the Probability of Default (PD) with considering the forward-looking impact, Exposure at Default (EAD), and Loss Given Default (LGD).

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. For margin loan financing, the Group determines the PD by borrower based on factors including the coverage ratio of margin loan to underlying collateral value, the volatility of such collateral's valuation. For debt securities investments, external credit rating and related PD are taken into consideration.

- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months or over the remaining lifetime;

- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. For margin loan financing, the Group determines LGD, based on factors including the realisable value of collateral upon forced liquidation taking into consideration the estimated volatility over the realisation period. For debt securities investments, LGD is determined based on assessed publicly available information from credit rating agencies based on the issuers and type of securities.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(1) Measurement of the expected credit loss allowance (Continued)

Forward – looking information incorporated in the ECL model

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

In addition to the base economic scenario, the Group's management expert team also provide other possible scenarios along with scenario weightings. The number of other scenarios used is set based on the analysis of each major product type to ensure non-linearities are captured. The number of scenarios and their attributes are reassessed at each reporting date. At 1 January 2018 for all portfolios the Group concluded that three scenarios appropriately captured non-linearities. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The assessment of SICR is performed using the probability-weighted forward-looking lifetime PD, along with qualitative and backstop indicators. Following this assessment, the Group measures ECL as either a probability weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting.

The Group considers these forecasts to represent its best estimate of possible outcomes. As with any economic forecasts, the above projections and likelihoods of occurrence are subject to an uncertain degree.

The ECL as at 30 June 2018 analysed by stage is set out in Note 52.1.

(2) Classification of financial assets

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

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

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

5 TAXATION

According to relevant PRC tax policies, the most significant categories of taxes to which the Group is currently subjected are as follows:

(1) Income tax

From 1 January 2008, the "Enterprise Income Tax Law of the PRC" and the "Regulations on the Implementation of Enterprise Income Tax Law of the PRC" became effective for the Company and its subsidiaries excluding China Futures Co., Ltd. and China Securities (International) Finance Holding Co., Ltd.. Income tax computation and payment are governed by the "Announcement of the State Administration of Taxation on Printing and Distributing Administrative Measures for Collection of Consolidated Payments of Enterprise Income Tax by Enterprises with Multi-Location Operations" (Public Notice of the State Administration of Taxation [2012] No. 57). The PRC Enterprise income tax rate applicable to the Company is 25%.

In accordance with Explanation on Implementation of Tax Preferential Treatments concerning Western China Development Strategy issued by local taxation bureau in Yuzhong District, Chongqing City, the applicable income tax rates for China Futures Co., Ltd. is 15%.

The income tax rate for China Securities (International) Finance Holding Co., Ltd. (a Hong Kong Company) is 16.5%.

(2) Value added tax

Pursuant to the "Circular regarding the Comprehensive Implementation of the Pilot Programs for Transformation from Business Taxes to Value-added Taxes (the "VAT Pilot Programs")" (Cai Shui [2016] No. 36), the "Circular regarding Further Clarification of Relevant Policies Applicable to the Financial Sector in the Comprehensive Implementation of the VAT Pilot Programs (Cai Shui [2016] No. 46), the "Supplementary Circular regarding VAT Policies Applicable to Transactions between Financial Institutions" (Cai Shui [2016] No.70) issued by the Ministry of Finance (the "MOF") and the State Administration of Taxation (the "SAT") of the PRC, effective from 1 May 2016, the Group is subject to value-added taxes on its income from principal businesses at 6%, instead of business tax at 5% prior to 1 May 2016.

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

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

5 TAXATION

(3) Urban maintenance and construction taxes and educational surcharges are charged at 7% and 3% of turnover taxes payable, respectively. In addition, according to the provisions of "Administrative Measures for Collection and Usage of Local Educational Surcharges in Beijing" (Jin Zheng Fa [2011] No. 72), since 1 January 2012, the local educational surcharges of the Company's head office and securities trading department located in Beijing are levied at 2% of the total amount of value-added tax, consumption tax and business tax.

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

6 OPERATING SEGMENT INFORMATION

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

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

Wealth management segment: serves as a brokerage agent for corporate and personal clients in the trading of equity stocks, funds, bonds and futures; and provides margin financing and securities lending services to these clients.

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

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

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

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

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

(In RMB thousands, unless otherwise stated)

6 OPERATING SEGMENT INFORMATION (CONTINUED)

	For the six months ended 30 June 2018					
	Investment banking	Wealth management	Trading and institutional client services	Investment management	Others	Total
Segment revenue and other income						
Fee and commission income	1,519,719	1,230,922	474,203	430,656	–	3,655,500
Interest income	–	2,265,858	420,832	15,142	269,521	2,971,353
Net investment gains	–	–	1,325,306	216,398	–	1,541,704
Other income	(385)	9,562	10,235	7,171	(4,724)	21,859
Total revenue and other income	1,519,334	3,506,342	2,230,576	669,367	264,797	8,190,416
Segment expenses	(716,777)	(3,044,314)	(1,823,225)	(265,623)	(102,674)	(5,952,613)
Including: Interest expenses	(17,510)	(1,295,521)	(1,109,618)	(62,902)	–	(2,485,551)
Impairment losses	–	(244,174)	(9,302)	(2,821)	–	(256,297)
Operating profit	802,557	462,028	407,351	403,744	162,123	2,237,803
Share of profits and losses of associates	–	–	–	2,351	(1,095)	1,256
Profit before income tax	802,557	462,028	407,351	406,095	161,028	2,239,059
Income tax expense						(532,669)
Net profit for the period						1,706,390
Other segment information:						
Depreciation and amortisation	32,103	27,424	48,708	12,275	5,301	125,811
Capital expenditure	16,483	15,512	25,718	13,388	5,493	76,594

(In RMB thousands, unless otherwise stated)

6 OPERATING SEGMENT INFORMATION (CONTINUED)

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

(In RMB thousands, unless otherwise stated)

7 FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2018	2017
Brokerage services income	**1,652,845**	1,729,558
Investment banking income	**1,519,719**	1,449,113
Asset and fund management income	**430,656**	486,135
Others	**52,280**	35,864
Total	**3,655,500**	3,700,670

8 INTEREST INCOME

	Six months ended 30 June	
	2018	2017
Margin financing and securities lending	**1,577,828**	1,336,379
Financial assets held under resale agreements	**608,933**	256,870
Bank deposits	**784,392**	810,839
Others	**200**	16,937
Total	**2,971,353**	2,421,025

(In RMB thousands, unless otherwise stated)

9 NET INVESTMENT GAINS

	Six months ended 30 June	
	2018	2017
Net gains from disposal of financial assets at fair value through other comprehensive income	**17,107**	
Net gains from disposal of available-for-sale financial assets		113,510
Dividend and interest income from financial assets at fair value through other comprehensive income	**590,684**	
Dividend and interest income from available-for-sale financial assets		738,258
Net gains from financial assets at fair value through profit or loss	**103,866**	
Net gains from financial assets held for trading		413,736
Net losses from financial liabilities at fair value through profit or loss	**(37,863)**	
Net gains from financial liabilities held for trading		9,691
Net gains from financial instruments designated as at fair value through profit or loss		21,157
Net gains from derivatives	**1,006,096**	38,562
Interest Income from financial assets at amortised costs	**15,690**	
Interest Income from held-to-maturity investments		20,316
Net gains or losses attributable to other interest holders of consolidated structured entities	**(154,083)**	(212,651)
Gains on disposal of an associated company	**207**	–
Total	**1,541,704**	1,142,579

10 OTHER INCOME/(LOSS)

	Six months ended 30 June	
	2018	2017
Rental income	**7,780**	7,521
Government grants	**6,998**	36,957
Gains on disposal of property, plant and equipment	**122**	195
Net losses on foreign exchange	**(28,829)**	(69,865)
Others	**35,788**	13,799
Total	**21,859**	(11,393)

(In RMB thousands, unless otherwise stated)

11 EXPENSES

	Six months ended 30 June	
	2018	2017
Fee and commission expenses:		
Brokerage expenses	**318,282**	301,655
Investment banking expenses	**98,979**	144,774
Others	**18,080**	20,855
Total	**435,341**	467,284
Interest expenses:		
Bonds in issue and short-term financing instruments payable	**1,417,294**	772,893
Financial assets sold under repurchase agreements	**583,740**	482,382
Placements from banks and other financial institutions	**320,822**	213,254
Accounts payable to brokerage clients	**81,468**	99,281
Borrowings	**31,509**	18,321
Others	**50,718**	64,513
Total	**2,485,551**	1,650,644
Staff costs (including directors' and supervisors' remuneration):		
Salaries, bonuses and allowances	**1,609,365**	1,540,474
Staff benefits	**195,117**	188,194
Contributions to defined contribution schemes *(i)*	**148,883**	128,018
Total	**1,953,365**	1,856,686

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

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

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

(In RMB thousands, unless otherwise stated)

11 EXPENSES (CONTINUED)

Other operating expenses and costs:

	Six months ended 30 June	
	2018	2017
Leasing expenses	**176,479**	112,325
Depreciation and amortisation expenses	**125,811**	113,953
Business travel expenses	**80,253**	81,938
Electronic equipment operating expenses	**71,461**	64,675
Office operating expenses	**48,777**	54,563
Postal and communication expenses	**45,403**	42,183
Business entertainment expenses	**45,243**	49,936
Membership fees of exchanges	**33,452**	32,797
Vehicle operating expenses	**26,704**	31,405
Securities investor protection fund	**23,347**	22,333
Auditors' remuneration	**2,411**	165
Others	**100,048**	103,472
Total	**779,389**	709,745

12 IMPAIRMENT LOSSES

	Six months ended 30 June	
	2018	2017
Margin financing	**252,026**	2,987
Financial assets at fair value through other comprehensive income	**2,821**	
Financial assets at amortised costs	**265**	
Available-for-sale financial assets		7,807
Financial assets held under resale agreements	**(1,636)**	16,796
Others	**2,821**	174
Total	**256,297**	27,764

(In RMB thousands, unless otherwise stated)

13 INCOME TAX EXPENSE

(1) Income tax

	Six months ended 30 June	
	2018	2017
Current income tax		
– Mainland China	**593,994**	529,742
– Hong Kong	**15,439**	16,144
Subtotal	**609,433**	545,886
Deferred income tax	**(76,764)**	66,727
Total	**532,669**	612,613

(2) Reconciliation between income tax and accounting profit

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

	Six months ended 30 June	
	2018	2017
Profit before income tax	**2,239,059**	2,498,479
Income tax at the PRC statutory income tax rate	**559,765**	624,620
Effects of different applicable rates of tax prevailing in various jurisdictions	**(2,615)**	(12,968)
Non-deductible expenses	**6,462**	4,073
Non-taxable income	**(33,498)**	(11,339)
Others	**2,555**	8,227
Income tax expenses at the Group's effective income tax rate	**532,669**	612,613

14 DIVIDENDS

	Six months ended 30 June	
	2018	2017
Dividends on ordinary shares proposed but not paid	**–**	1,304,349

No dividends on ordinary shares from 1 January 2018 to 30 June 2018 were paid, declared or proposed in respect of the current period.

As at 30 June 2018, there were no dividends on ordinary shares for the year ended 31 December 2017.

A cash dividend of RMB1.80 (tax inclusive) per 10 ordinary shares related to the year of 2016, amounting to RMB1,304,349,342.84 (tax inclusive) in total was approved, at the annual general meeting held on 8 June 2017. The above dividend was recognised as dividends payable as at 30 June 2017 and was paid in the year ended 31 December 2017.

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

Basic earnings per share was calculated by dividing profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding. The calculations of basic and diluted earnings per share are based on:

	Six months ended 30 June	
	2018	2017
Earnings:		
Profit attributable to equity holders of the Company	**1,692,862**	1,855,140
Less: Profit attributable to other equity instrument holders of the Company *(i)*	**–**	–
Profit attributable to ordinary equity holders of the Company	**1,692,862**	1,855,140
Shares:		
Weighted average number of ordinary shares in issue *(thousand) (Note 45)*	**7,268,485**	7,244,454
Basic and diluted earnings per share *(in RMB yuan)*	**0.23**	0.26

There were no dilutive shares during the six months ended 30 June 2018 (six months ended 30 June 2017: None).

(i) The Company issued two batches of perpetual subordinated bonds during the year ended 31 December 2015, under the terms and conditions as detailed in Note 46 Other Equity Instruments.

For the purpose of calculating basic earnings per ordinary share, distributions on perpetual subordinated bonds were deducted from the profit attributable to ordinary equity holders of the Company. No profit attributable to other equity instrument holders of the Company were declared and distributed for the six months ended 30 June 2018 and 30 June 2017.

(In RMB thousands, unless otherwise stated)

16 PROPERTY, PLANT AND EQUIPMENT

	Properties and buildings	Electronic devices	Transportation vehicles	Communication Equipment	Office equipment	Security equipment	Others	Total
Cost								
31 December 2017	431,472	573,243	37,551	7,326	78,539	9,216	36,647	1,173,994
Increases	–	15,435	–	377	1,287	170	1,496	18,765
Decreases	–	(5,323)	(183)	(20)	(779)	(194)	(13)	(6,512)
30 June 2018	431,472	583,355	37,368	7,683	79,047	9,192	38,130	1,186,247
Accumulated depreciation								
31 December 2017	(110,467)	(411,852)	(31,960)	(5,642)	(62,181)	(6,922)	(29,767)	(658,791)
Increases	(5,856)	(48,445)	(1,143)	(372)	(6,151)	(320)	(1,043)	(63,330)
Decreases	–	5,834	177	20	1,199	189	13	7,432
30 June 2018	(116,323)	(454,463)	(32,926)	(5,994)	(67,133)	(7,053)	(30,797)	(714,689)
Net carrying amount								
30 June 2018	315,149	128,892	4,442	1,689	11,914	2,139	7,333	471,558
Cost								
31 December 2016	424,761	501,669	37,485	7,240	71,357	8,817	31,031	1,082,360
Increases	6,711	92,566	853	116	8,912	786	5,789	115,733
Decreases	–	(20,992)	(787)	(30)	(1,730)	(387)	(173)	(24,099)
31 December 2017	431,472	573,243	37,551	7,326	78,539	9,216	36,647	1,173,994
Accumulated depreciation								
31 December 2016	(96,773)	(337,623)	(29,492)	(4,946)	(54,536)	(6,737)	(28,936)	(559,043)
Increases	(13,694)	(94,907)	(3,124)	(725)	(9,199)	(558)	(999)	(123,206)
Decreases	–	20,678	656	29	1,554	373	168	23,458
31 December 2017	(110,467)	(411,852)	(31,960)	(5,642)	(62,181)	(6,922)	(29,767)	(658,791)
Net carrying amount								
31 December 2017	321,005	161,391	5,591	1,684	16,358	2,294	6,880	515,203

(In RMB thousands, unless otherwise stated)

17 INTANGIBLE ASSETS

	Software	Trading seat rights and others	Total
Cost			
31 December 2017	354,791	75,918	430,709
Increases	26,656	2,800	29,456
Decreases	(39)	–	(39)
Effect of exchange rate change	–	(17)	(17)
30 June 2018	381,408	78,701	460,109
Accumulated amortisation			
31 December 2017	(191,217)	(69,600)	(260,817)
Increases	(28,168)	–	(28,168)
Decreases	39	–	39
Effect of exchange rate change	29	–	29
30 June 2018	(219,317)	(69,600)	(288,917)
Net carrying amount			
30 June 2018	162,091	9,101	171,192
Cost			
31 December 2016	282,286	75,947	358,233
Increases	73,128	–	73,128
Decreases	(623)	(29)	(652)
31 December 2017	354,791	75,918	430,709
Accumulated amortisation			
31 December 2016	(144,213)	(69,600)	(213,813)
Increases	(47,307)	–	(47,307)
Decreases	303	–	303
31 December 2017	(191,217)	(69,600)	(260,817)
Net carrying amount			
31 December 2017	163,574	6,318	169,892

(In RMB thousands, unless otherwise stated)

18 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 December 2017
Non-current	
At fair value:	
Equity investments	489,850
Fund investments	11,692
Others (i)	3,901,018
At cost:	
Equity investments	960,837
	5,363,397
Allowance for impairment losses	(36,813)
Total of non-current	5,326,584
Analysed into:	
Listed outside Hong Kong	479,729
Unlisted	4,846,855
Total of non-current	5,326,584
Current	
At fair value:	
Debt instruments	26,687,032
Equity investments	202,197
Fund investments	473,903
Others (i)	6,931,746
	34,294,878
Allowance for impairment losses	(39,671)
Total of current	34,255,207
Analysed into:	
Listed in Hong Kong	87,550
Listed outside Hong Kong	29,439,643
Unlisted	4,728,014
Total of current	34,255,207
Total	39,581,791

18 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

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

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

As at 31 December 2017, based on investment account report provided by CSF, the balance of cost and fair value of the Company's specific investment were RMB3,075.00 million and RMB3,411.91 million, respectively.

As at 31 December 2017, available-for-sale financial assets of the Group included securities lent to clients amounted to RMB0.37 million. In addition the fair value of securities of the Group which have been pledged as collateral for repurchase agreements (Note 38), placements from China Securities Finance Corporation Limited (Note 39) and securities borrowing business were RMB15,124.48 million.

See Note 3.4 regarding the classification impacts of the adoption of IFRS 9 from 1 January 2018.

(In RMB thousands, unless otherwise stated)

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2018
Non-current	
Equity instruments (i)	**3,270,995**
Analysed into:	
Unlisted	**3,270,995**
Current	
Debt instruments	**28,862,010**
Analysed into:	
Listed outside Hong Kong	**28,743,793**
Unlisted	**118,217**
Total of current	**28,862,010**
Total	**32,133,005**

(i) Equity instruments assets at fair value through other comprehensive income are the specific accounts invested by the Company together with several other securities companies and managed by CSF. According to the relevant contracts, risks and returns of the specific accounts are shared by the Company and other investing securities companies based on investment proportion and the accounts are operated and managed by CSF. The Company manages these financial assets for purposes other than to generate investment returns.

As at 30 June 2018, based on investment account report provided by CSF, the balance of cost and fair value of the Company's specific investment were RMB3,075.00 million and RMB3,271.00 million, respectively.

As at 30 June 2018, the fair value of securities classified as financial assets at fair value through other comprehensive income of the Group which have been pledged as collateral for repurchase agreements (Note 38), placements from China Securities Finance Corporation Limited (Note 39) and securities borrowing business were RMB22,790.42 million.

(In RMB thousands, unless otherwise stated)

20 HELD-TO-MATURITY INVESTMENTS

	31 December 2017
Non-current	
Debt instruments	573,592
Analysed into:	
Listed in Hong Kong	261,368
Listed outside Hong Kong	312,224
Total	573,592
Current	
Debt instruments	4,976
Analysed into:	
Listed outside Hong Kong	4,976

As at 31 December 2017, the fair value of held-to-maturity investments held by the Group was RMB577.49 million

As at 31 December 2017, held-to-maturity investments pledged as collateral for bonds in issue (Note 44) and repurchase agreements (Note 38) by the Group amounted to RMB261.37 million and RMB290.58 million, respectively.

See Note 3.4 regarding the classification impacts of the adoption of IFRS 9 from 1 January 2018.

(In RMB thousands, unless otherwise stated)

21 FINANCIAL ASSETS AT AMORTISED COSTS

	30 June 2018
Non-current	
Debt instruments	**317,885**
Analysed into:	
Listed outside Hong Kong	**317,885**
Current	
Debt instruments	**58,277**
Analysed into:	
Listed outside Hong Kong	**58,277**

As at 30 June 2018, the fair value of financial assets at amortised costs held by the Group was RMB367.52 million.

As at 30 June 2018, financial assets at amortised costs pledged as collateral for bonds in issue (Note 44) by the Group amounted to RMB264.66 million.

(In RMB thousands, unless otherwise stated)

22 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	30 June 2018	31 December 2017
Non-current		
Analysed by collateral:		
Stock	**4,217,371**	5,136,215
Allowance for impairment losses	**(10,491)**	(26,835)
Total	**4,206,880**	5,109,380
Analysed by counterparty:		
Non-bank financial institutions	**306,600**	–
Corporates and individuals	**3,900,280**	5,109,380
Total	**4,206,880**	5,109,380
Current		
Analysed by collateral:		
Stock	**11,853,054**	8,445,537
Debts	**10,156,452**	12,340,479
Others	**–**	185,492
	22,009,506	20,971,508
Allowance for impairment losses	**(32,368)**	(15,812)
Total	**21,977,138**	20,955,696
Analysed by counterparty:		
Banks	**87,947**	2,218,114
Non-bank financial institutions	**8,982,898**	9,429,257
Corporates and individuals	**12,906,293**	9,308,325
Total	**21,977,138**	20,955,696

(In RMB thousands, unless otherwise stated)

22 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

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

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

	30 June 2018	31 December 2017
Collateral received	**48,821,845**	45,855,552
Collateral allowed to be re-pledged	**627,290**	1,691,476
Collateral re-pledged	**489,317**	1,247,270

23 REFUNDABLE DEPOSITS

	30 June 2018	31 December 2017
Performance bonds	**1,533,887**	1,630,871
Trading deposits	**584,367**	559,425
Credit deposits	**37,974**	38,482
Total	**2,156,228**	2,228,778

(In RMB thousands, unless otherwise stated)

24 DEFERRED TAX ASSETS AND LIABILITIES

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

Deferred tax assets	Salaries, bonuses, and allowances payable	Fair value changes of financial instruments	Allowance for impairment losses	Others	Total
31 December 2016	688,385	76,758	39,838	6,172	811,153
Credited/(debited) to the statement of profit or loss	(57,130)	(29,792)	13,020	1,127	(72,775)
Credited to other comprehensive income	–	56,177	1,508	–	57,685
31 December 2017	631,255	103,143	54,366	7,299	796,063

Deferred tax assets	Salaries, bonuses, and allowances payable	Fair value changes of financial instruments	Allowance for impairment losses	Others	Total
31 December 2017	631,255	103,143	54,366	7,299	796,063
Change in accounting policy	–	(15,143)	(4,289)	831	(18,601)
1 January 2018	631,255	88,000	50,077	8,130	777,462
Credited to the statement of profit or loss	124,302	182,891	61,615	3,132	371,940
Credited/(debited) to other comprehensive income	–	(36,603)	623	–	(35,980)
30 June 2018	755,557	234,288	112,315	11,262	1,113,422

(In RMB thousands, unless otherwise stated)

24 DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

Changes of deferred tax assets and deferred tax liabilities are as follow (Continued):

Deferred tax liabilities	Fair value changes of financial instruments	Others	Total
31 December 2016	44,489	2,358	46,847
Credited to the statement of profit or loss	(41,400)	(499)	(41,899)
Debited to other comprehensive income	31,070	–	31,070
31 December 2017	34,159	1,859	36,018

Deferred tax liabilities	Fair value changes of financial instruments	Others	Total
31 December 2017	34,159	1,859	36,018
Change in accounting policy	(10,531)	–	(10,531)
1 January 2018	23,628	1,859	25,487
Debited to the statement of profit or loss	293,283	1,893	295,176
30 June 2018	316,911	3,752	320,663

25 OTHER NON-CURRENT ASSETS

As at 30 June 2018 and 31 December 2017, other non-current assets of the Group represented lease of property, long-term deferred expenses incurred on leasehold improvements of property, plant and equipment.

(In RMB thousands, unless otherwise stated)

26 MARGIN ACCOUNTS

	30 June 2018	31 December 2017
Margin accounts		
– Individuals	**33,051,372**	43,847,465
– Institutions	**4,399,890**	4,085,231
	37,451,262	47,932,696
Allowance for impairment losses	**(373,265)**	(111,466)
Total	**37,077,997**	47,821,230

Margin accounts are funds that the Group provided to clients in margin financing business. As at 30 June 2018, no margin accounts were pledged for repurchase agreements (31 December 2017: RMB5,497.40 million) (Note 38).

As at 30 June 2018, the Group received collateral with fair value amounted to RMB94,799.57 million (31 December 2017: RMB127,821.69 million), in connection with its margin financing business.

27 ACCOUNTS RECEIVABLE

	30 June 2018	31 December 2017
Clearing funds receivable	**442,768**	14,667
Assets management fee receivable	**100,085**	109,541
Clearing settlement fund and refundable deposits advanced on behalf of sponsored structured entities	**23,914**	23,724
Others	**1,504,480**	1,222,440
	2,071,247	1,370,372
Allowance for impairment losses	**(521)**	(516)
Total	**2,070,726**	1,369,856

(In RMB thousands, unless otherwise stated)

28 FINANCIAL ASSETS HELD FOR TRADING

	31 December 2017
Debt instruments	22,490,703
Equity investments	4,295,117
Fund investments	908,104
Others	4,647,991
Total	32,341,915
Analysed into:	
Listed in Hong Kong	301,826
Listed outside Hong Kong	27,330,616
Unlisted	4,709,473
Total	32,341,915

As at 31 December 2017, the fair value of financial assets held for trading pledged as collateral for repurchase agreements (Note 38), placements from China Securities Finance Corporation Limited (Note 39), bonds in issue (Note 44) and securities borrowing business by the Group totaled RMB13,595.68 million.

See Note 3.4 regarding the classification impacts of the adoption of IFRS 9 from 1 January 2018.

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

	31 December 2017
Debt instruments	1,250
Equity investments	4,535
Fund investments	135,658
Others	165,741
Total	307,184
Analysed into:	
Listed outside Hong Kong	305,934
Unlisted	1,250
Total	307,184

As at 31 December 2017, financial assets designated as at fair value through profit or loss held by the Group included securities lent amounted to RMB86.34 million.

See Note 3.4 regarding the classification impacts of the adoption of IFRS 9 from 1 January 2018.

(In RMB thousands, unless otherwise stated)

30 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2018
Current	
Financial assets at fair value through profit or loss (Mandatory)	
Debt instruments	**31,170,833**
Equity investments	**3,802,549**
Fund investments	**2,406,137**
Others	**12,387,698**
Total	**49,767,217**
Analysed into:	
Listed in Hong Kong	**446,382**
Listed outside Hong Kong	**38,397,687**
Unlisted	**10,923,148**
Total	**49,767,217**
Non-current	
Financial assets at fair value through profit or loss (Mandatory)	
Equity investments	**1,924,105**
Others	**511,543**
Total	**2,435,648**
Analysed into:	
Listed outside Hong Kong	**234,573**
Unlisted	**2,201,075**
Total	**2,435,648**

As at 30 June 2018, the fair value of financial assets at fair value through profit or loss (mandatory) pledged as collateral for repurchase agreements (Note 38), placements from China Securities Finance Corporation Limited (Note 39), short-term borrowings (Note 41), bonds in issue (Note 44) and securities borrowing business by the Group totaled RMB17,885.97 million.

As at 30 June 2018, financial assets at fair value through profit or loss (mandatory) held by the Group included securities lent amounted to RMB72.54 million.

(In RMB thousands, unless otherwise stated)

31 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 30 June 2018		
	Nominal value	**Fair value**	
		Assets	**Liabilities**
Interest rate derivatives	**40,727,178**	**7,551**	**8,150**
Equity derivatives	**24,643,212**	**1,108,685**	**203,299**
Others	**846,686**	**3,777**	**7,443**
Total	**66,217,076**	**1,120,013**	**218,892**

	As at 31 December 2017		
	Nominal value	Fair value	
		Assets	Liabilities
Interest rate derivatives	27,093,882	7,941	8,931
Equity derivatives	12,828,476	112,443	276,353
Others	32,441	–	–
Total	39,954,799	120,384	285,284

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in futures were settled daily and the corresponding payments or receipts were included in "cash and bank balances" as at 30 June 2018. Accordingly, the amount of mark-to-market gains or losses of unexpired futures contracts included derivative financial instruments above was nil. As at 30 June 2018, the fair value of the Group's unexpired futures contracts was RMB-11.93 million (31 December 2017: RMB-1.54 million).

32 CASH HELD ON BEHALF OF CLIENTS

The Group maintains segregated deposit accounts with banks and authorized institutions to hold cash on behalf of customers arising from its normal course of business. The Group has recorded the related amounts as cash held on behalf of clients and the corresponding liabilities as accounts payable to brokerage clients (Note 35). In Mainland China, the use of cash held on behalf of clients for securities trading and settlement is restricted and governed by relevant third-party custodian regulations issued by the CSRC. In Hong Kong, the "Securities and Futures (Client Money) Rules" under the Securities and Futures Ordinance impose similar restrictions.

(In RMB thousands, unless otherwise stated)

33 CASH AND BANK BALANCES

	30 June 2018	31 December 2017
Cash on hand	**69**	98
Deposits in banks	**16,970,491**	11,227,807
Total	**16,970,560**	11,227,905

As at 30 June 2018, the Group's deposits in banks of RMB20.05 million (31 December 2017: RMB20.00 million) was collateralized for Bonds in issue (Note 44).

As at 30 June 2018, the Group's deposits in banks of RMB30.06 million (31 December 2017: RMB23.94 million) was set aside by a subsidiary as a general reserve.

34 OTHER CURRENT ASSETS

	30 June 2018	31 December 2017
Interest receivable	**2,268,097**	2,223,253
Deferred expenses	**56,811**	37,561
Prepaid expenses	**7,989**	1,604
Others	**338,432**	335,205
Subtotal	**2,671,329**	2,597,623
Allowance for impairment losses	**(38,821)**	(38,821)
Total	**2,632,508**	2,558,802

35 ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

Accounts payable to brokerage clients represent the amounts received from and repayable to clients arising from the ordinary course of the Group's securities brokerage business. For more details, please refer to Note 32 Cash Held on Behalf of Clients.

(In RMB thousands, unless otherwise stated)

36 FINANCIAL LIABILITIES HELD FOR TRADING

	31 December 2017
Current	
Debt instruments	126,780

37 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2018
Current	
Financial liabilities at fair value through profit or loss (Held for trading)	
Debt instruments	**952,584**
Non-current	
Financial liabilities at fair value through profit or loss (Designated)	
Debt instruments	**13,621**
Total	**966,205**

38 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	30 June 2018	31 December 2017
Current		
Analysed by collateral:		
Debt securities	**28,384,509**	17,031,899
Beneficial rights over margin financing and securities lending *(Note 26)*	**–**	4,000,000
Gold	**1,429,359**	4,375,495
Others	**5,577,067**	3,739,899
Total	**35,390,935**	29,147,293
Analysed by counterparty:		
Banks	**13,054,135**	12,763,415
Non-bank financial institutions	**16,759,713**	12,643,979
Others	**5,577,087**	3,739,899
Total	**35,390,935**	29,147,293

(In RMB thousands, unless otherwise stated)

39 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2018	31 December 2017
Placements from banks	**–**	5,000,000
Placements from China Securities Finance Corporation Limited	**9,000,000**	9,000,000
Total	**9,000,000**	14,000,000

40 TAXES PAYABLE

	30 June 2018	31 December 2017
Income tax	**205,036**	86,877
Value added tax	**114,853**	28,859
Others	**215,002**	230,447
Total	**534,891**	346,183

41 SHORT-TERM BORROWINGS

	30 June 2018	31 December 2017
Analysed by nature:		
Credit borrowings	**2,490,744**	2,050,817
Collateral borrowings *(Note 30)*	**204,613**	–
Total	**2,695,357**	2,050,817

As at 30 June 2018 and 31 December 2017, the Group had variable-rate borrowings which carried interest at HIBOR or LIBOR.

(In RMB thousands, unless otherwise stated)

42 SHORT-TERM FINANCING INSTRUMENTS PAYABLE

Name	**Issue date**	**Maturity date**	**Coupon rate**	**31 December 2017**	**Increase**	**Decrease**	**30 June 2018**
17 CSC D3	22/03/2017	22/03/2018	4.80%	3,000,000	–	(3,000,000)	–
17 CSC D4	21/07/2017	21/07/2018	4.74%	3,496,120	3,636	–	3,499,756
17 CSC D5	12/09/2017	12/09/2018	4.85%	4,892,960	5,161	–	4,898,121
17 CSC D6	20/11/2017	20/11/2018	5.20%	3,902,822	4,094	–	3,906,916
18 CSC D1	12/02/2018	28/01/2019	5.34%	–	2,910,000	–	2,910,000
18 CSC D2	14/05/2018	24/04/2019	4.70%	–	2,900,000	–	2,900,000
Structured notes (i)	22/08/2017 ~29/06/2018	03/07/2018 ~13/06/2019		12,349,771	28,120,181	(31,320,345)	9,149,607
Total				27,641,673	33,943,072	(34,320,345)	27,264,400

Name	Issue date	Maturity date	Coupon rate	31 December 2016	Increase	Decrease	31 December 2017
16 CSC D1	15/06/2016	12/03/2017	3.28%	2,999,520	–	(2,999,520)	–
17 CSC D1	17/01/2017	19/07/2017	4.00%	–	3,000,000	(3,000,000)	–
17 CSC D2	27/02/2017	25/08/2017	4.53%	–	3,000,000	(3,000,000)	–
17 CSC D3	22/03/2017	22/03/2018	4.80%	–	3,000,000	–	3,000,000
17 CSC D4	21/07/2017	21/07/2018	4.74%	–	3,496,120	–	3,496,120
17 CSC D5	12/09/2017	12/09/2018	4.85%	–	4,892,960	–	4,892,960
17 CSC D6	20/11/2017	20/11/2018	5.20%	–	3,902,822	–	3,902,822
Structured notes (i)	10/03/2017 ~29/12/2017	03/01/2018 ~18/12/2018		4,757,679	39,551,934	(31,959,842)	12,349,771
Total				7,757,199	60,843,836	(40,959,362)	27,641,673

As at 30 June 2018 and 31 December 2017, there were no defaults related to any short-term financing instruments payable by the Group.

(i) As at 30 June 2018 and 31 December 2017, the Group had issued two types of structured notes. One type accrues interests at a fixed annual rate in the range of 1.60%–7.60% and 3.00%–6.60%, respectively. The other one accrues interests at floating rate linked to one or more indexes.

(In RMB thousands, unless otherwise stated)

43 OTHER CURRENT LIABILITIES

	30 June 2018	31 December 2017
Amounts due to other holders of consolidated structured entities	**7,857,588**	8,247,497
Bonds in issue with maturity within one year (1)	**5,513,886**	7,000,000
Salaries, bonuses and allowances payable	**3,048,465**	2,591,643
Interest payable (2)	**1,451,873**	1,435,456
Settlement deposits payable	**309,102**	443,324
Accounts payable to underwriting clients	**136,559**	31,573
Futures settlement risk funds payable	**76,107**	71,630
Provision	**57,403**	57,425
Securities investor protection fund payable	**23,225**	26,107
Dividends payable	**9,000**	294,000
Funds payable to securities holders	**6,160**	6,184
Others	**3,367,573**	2,713,832
Total	**21,856,941**	22,918,671

(1) Bonds in issue with maturity within one year as at 30 June 2018 and 31 December 2017 were as follows:

	30 June 2018	31 December 2017
15 Xinjiantou (i)	**–**	6,000,000
16 Xintou G1 (ii)	**2,999,305**	–
“Zhi Yingbao”-070 (iii)	**1,500,000**	–
“Zhi Yingbao”-076 (iv)	**1,000,000**	1,000,000
Gushouxin series (v)	**14,581**	–
Total	**5,513,886**	7,000,000

43 OTHER CURRENT LIABILITIES (CONTINUED)

(1) Bonds in issue with maturity within one year as at 30 June 2018 and 31 December 2017 were as follows (continued):

(i) In June 2015, the Company privately issued a 5-year fixed rate corporate bond, 15 Xinjiantou, with a face value of RMB6 billion, which offers the options, at the end of the third year, for the Company to redeem in full at face value or increase the coupon rate, or the investors to put back the bond. The bond pays interest annually at 5.32% per annum and is not guaranteed. The bond was fully redeemed in June 2018.

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

(iii) In March 2017, the Company issued a 2-year fixed rate structured note, “Zhi Yingbao”-070, with a face value of RMB1.5 billion. The structured note pays interest annually at 4.60% per annum and is not guaranteed.

(iv) In August 2017, the Company issued a 450-days fixed rate structured note, “Zhi Yingbao”-076, with a face value of RMB1 billion. The structured note pays interest quarterly at 5.10% per year and is not guaranteed.

(v) As at 30 June 2018， the structured notes Gushouxin series issued by the Company amounted to RMB14.58 million were with remaining tenors less than one year. The structured notes accrues interests at a fixed annual rate in the range of 4.70%~5.00%. The structured notes will pay the principal and interest at maturity and is not guaranteed.

(2) The movements in interest payable that are mainly attributable to bonds in issue, short-term financing instruments payable and short-term borrowings between 30 June 2018 and 31 December 2017 mainly represented cash payments of interest expenses of RMB1,293.39 million and accretion of interest payable of RMB1,412.66 million. Except for the accretion of interest payable, the Group did not have any significant non-cash changes to liabilities arising from financing activities during the six months ended 30 June 2018.

(In RMB thousands, unless otherwise stated)

44 BONDS IN ISSUE

	30 June 2018	31 December 2017
Corporate bonds in issue	**27,317,300**	22,372,761
Structured notes in issue	**2,010**	1,500,000
Total	**27,319,310**	23,872,761

(1) As at 30 June 2018 and 31 December 2017, there were no defaults related to any bonds in issue.

(2) The details of bonds in issue

		30 June 2018	31 December 2017
Corporate bonds			
15 Xintou 01	(i)	**1,795,625**	1,798,176
CSCIFN15B2009	(ii)	**1,314,493**	1,296,288
16 Xintou G1	(43(1) (ii))	**–**	2,996,195
16 Xintou G2	(iii)	**1,498,600**	1,497,122
17 Xintou G1	(iv)	**3,960,482**	3,957,908
17 Xintou G2	(v)	**2,992,552**	2,990,630
17 Xintou F1	(vi)	**4,923,709**	4,919,873
17 Xintou F2	(vii)	**2,918,858**	2,916,569
18 Xintou F1	(viii)	**3,967,091**	–
18 Xintou F2	(ix)	**3,945,890**	–
Structured notes			
Gushouxin series	(x)	**2,010**	–
“Zhi Yingbao”-070	(43(1) (iii))	**–**	1,500,000
Carrying amount		**27,319,310**	23,872,761

44 BONDS IN ISSUE (CONTINUED)

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

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

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

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

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

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

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

(vii) In October 2017, the Company privately issued a 3-year fixed rate corporate bond with a face value of RMB3 billion. The bond pays interest annually at 5.07% per annum and is not guaranteed.

(viii) In March 2018, the Company privately issued a 2-year fixed rate corporate bond with a face value of RMB4 billion. The bond pays interest annually at 5.43% per annum and is not guaranteed.

(ix) In April 2018, the Company privately issued a 3-year fixed rate corporate bond with a face value of RMB4 billion. The bond pays interest annually at 5.12% per annum and is not guaranteed.

(x) As at 30 June 2018,.the Group had issued two types of structured notes named "Gushouxin series" with remaining tenors greater than one year. One type accrues interests at a fixed annual rate 4.60%. The other one accrues interests at floating rate linked to one or more indexes. The principal and interest of the structured notes will be repaid upon maturity and the notes are not guaranteed.

45 SHARE CAPITAL

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

	30 June 2018	31 December 2017
Issued and fully paid ordinary shares of RMB1 each *(in thousands)*		
– A shares	**6,385,361**	5,985,361
– H shares	**1,261,024**	1,261,024
Total	**7,646,385**	7,246,385

The Company completed its initial public offering of A shares on the Shanghai stock exchange on 20 June 2018. The Company issued 400,000,000 shares with a face value of RMB1 per share.

On 9 December 2016, the Group completed its initial public offering of 1,076,470,000 H shares on the Main Board of The Stock Exchange of Hong Kong Limited.

According to the relevant PRC requirements, certain existing shareholders of the state-owned shares of the Company have transferred an aggregate of 107,647,000 shares of the Company to the National Social Security Fund of the PRC, and such shares were then converted into H shares on a one-for-one basis.

On 30 December 2016, the over-allotment option of the Group's H Shares Global Offering was partially exercised by the International Underwriters with 69,915,238 newly issued H shares, for a total contribution of RMB414,863,592.04, resulting in a capital reserve of RMB344,948,354.04. According to the relevant PRC requirements, certain existing shareholders of the state-owned shares of the Company carried out their obligations of state-owned share reduction and have transferred an aggregate of 6,991,524 shares of the Company to the National Social Security Fund of the PRC based on 10% of the actual number of new shares issued, and such shares were then converted into H shares on a one-for-one basis. The over-allotment shares were listed and traded on the Main Board of The Stock Exchange of Hong Kong Limited on 5 January 2017.

46 OTHER EQUITY INSTRUMENTS

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

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

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

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

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

– The priority over repayment of these bonds is subordinated to the Company's general debts but senior to the Company's ordinary equity shares. Unless in the event of discontinuance, closure or liquidation of the Company, investors of these bonds cannot require the Company to accelerate payment of bonds' principals.

The perpetual subordinated bonds issued by the Company are classified as equity instruments, and recognised under equity in the consolidated statement of financial position.

47 RESERVES

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

(1) Capital reserve

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

47 RESERVES (CONTINUED)

(2) Surplus reserve

(i) Statutory surplus reserve

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

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

(ii) Discretionary surplus reserve

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

(3) General reserves

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

(4) Investment revaluation reserve

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

(5) Foreign currency translation reserve

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

(6) Distributable profits

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

(In RMB thousands, unless otherwise stated)

48 CASH AND CASH EQUIVALENTS

	30 June 2018	30 June 2017
Cash and bank balance	**16,970,560**	14,873,851
Less: Restricted deposits	**(50,112)**	(99,726)
Cash and cash equivalents	**16,920,448**	14,774,125

49 COMMITMENTS AND CONTINGENT LIABILITIES

(1) Capital commitments

	30 June 2018	31 December 2017
Contracted, but not provided for	**23,594**	29,740

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

(2) Operating lease commitments

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

	30 June 2018	31 December 2017
Within one year	**317,176**	342,887
After one year but not more than two years	**272,517**	270,275
After two years but not more than three years	**209,062**	219,985
After three years	**294,819**	309,371
Total	**1,093,574**	1,142,518

(In RMB thousands, unless otherwise stated)

49 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(3) Legal proceedings

The Company and its subsidiaries are subject to claims and are parties to legal and regulatory proceedings in their ordinary course of businesses. As at 30 June 2018 and 31 December 2017, management of the Group believes that the Group was not involved in any material legal, or arbitration proceedings that if adversely determined, would have material impact on its financial position or results of operations of the Group.

50 RELATED PARTY DISCLOSURES

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

As at 30 June 2018, Beijing State-Owned Capital Operation and Management Center owned 35.11% of the equity interest and voting rights of the Company (31 December 2017: 37.04%).

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

The transactions between Beijing State-owned Capital Operation and Management Centers and company are based on general transaction price, and perform according to the normal commercial terms. Corresponding transactions and balances with these banks and financial institutions were as follows:

	Six months ended 30 June	
	2018	2017
Fee and commission income	**8**	1,132
Interest expense	**(6)**	–

	30 June 2018	**31 December 2017**
Financial assets at fair value through profit or loss	**100,713**	
Interest receivable	**4,152**	**–**
Accounts payable to brokerage clients	**5,237**	**231**

(2) Central Huijin and companies under Central Huijin

As at 30 June 2018, Central Huijin Investment Limited ("Central Huijin") owned 31.21% of the equity interest and voting rights of the Company (31 December 2017: 32.93%).

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

(In RMB thousands, unless otherwise stated)

50 RELATED PARTY DISCLOSURES (CONTINUED)

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

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

	Six months ended 30 June	
	2018	2017
Fee and commission income	**20,003**	71,264
Interest income	**108,746**	111,727
Fee and commission expense	**(13,897)**	(19,490)
Interest expense	**(87,696)**	(32,909)

	30 June 2018	31 December 2017
Assets		
Available-for-sale financial assets		1,007,608
Financial assets at fair value through other comprehensive income	**1,208,373**	
Financial assets held for trading		334,617
Financial assets designated as at fair value through profit or loss		230
Financial assets at fair value through profit or loss	**1,623,241**	
Financial assets held under resale agreements	**485,650**	137,200
Derivative financial assets	**57,817**	20,809
Cash held behalf of client	**7,955,665**	6,694,184
Cash and bank balances	**961,355**	1,098,211
Interest receivable	**45,839**	27,846
Accounts receivable	**16,038**	–
Other assets	**5,231**	7,633
Liabilities		
Accounts payable to brokerage clients	**53,072**	7,509
Derivative financial liabilities	**1,533**	900
Financial assets sold under repurchase agreements	**6,608,800**	3,267,750
Interest payable	**5,525**	19,660
Short-term borrowings	**838,125**	–
Placements from banks and other financial institutions	**–**	900,000
Accounts payable	**265,222**	313,934
Other liabilities	**46,257**	–

(In RMB thousands, unless otherwise stated)

50 RELATED PARTY DISCLOSURES (CONTINUED)

(3) Government related entities

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

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

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

(4) Other major shareholders and its related parties

	Six months ended 30 June	
	2018	2017
Fee and commission income	**14,498**	8,936
Fee and commission expense	**(12,859)**	(8,527)
Interest income	**28,106**	1,666
Interest expense	**(14,658)**	(1,341)

(In RMB thousands, unless otherwise stated)

50 RELATED PARTY DISCLOSURES (CONTINUED)

(4) Other major shareholders and its related parties (Continued)

	30 June 2018	31 December 2017
Assets		
Financial assets held for trading		333,924
Financial assets at fair value through profit or loss	**185,296**	
Available-for-sale financial assets		824,447
Financial assets at fair value through other comprehensive income	**876,290**	
Financial assets held under resale agreement	**–**	184,572
Derivative financial assets	**2,288**	–
Cash held behalf of client	**1,361,753**	1,412,160
Cash and bank balance	**846,416**	669,879
Interest receivable	**20,978**	9,567
Account receivable	**5,873**	963
Liabilities		
Financial assets sold under repurchase agreement	**905,700**	–
Accounts payable to brokerage clients	**176,946**	115,760
Derivative financial liabilities	**7,158**	1,336
Short-term borrowings	**284,514**	320,491
Interest payable	**1,220**	1,049
Accounts payable	**1**	458

(5) The Group's associates

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

(In RMB thousands, unless otherwise stated)

50 RELATED PARTY DISCLOSURES (CONTINUED)

(6) Key management personnel

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

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

	Six months ended 30 June	
	2018	2017
Salaries, bonuses and allowances	**41,672**	14,713
Staff benefits	**1,386**	1,274
Contributions to defined contribution schemes	**842**	773
Total	**43,900**	16,760

51 FAIR VALUE AND FAIR VALUE HIERARCHY

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

Fair value hierarchy

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

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

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

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

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

(In RMB thousands, unless otherwise stated)

51 FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

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

For certain unlisted equity securities (private equity securities), thinly traded equity securities, unlisted asset management plans, and certain over-the-counter derivative contracts, the management uses counterparty quotations or valuation techniques to determine their fair value. Valuation techniques used include discounted cash flow analysis and market comparison approach. The fair value measurement of these financial instruments may use unobservable inputs that may have significant impact on the valuation results, and therefore, the Group includes them as Level 3 assets and liabilities. The unobservable inputs that may have impact on the valuation include, among others, weighted average cost of capital, liquidity discount, and price to book ratio. As at 30 June 2018 and 31 December 2017, fair value changes resulting from the changes in the unobservable inputs were not significant. The Group has implemented internal control procedures to monitor and control the Group's exposures to such financial instruments.

(1) Financial instruments recorded at fair value

	30 June 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss (Mandatory)				
– Debt instruments	**7,662,524**	**23,508,309**	**–**	**31,170,833**
– Equity investments	**3,181,234**	**813,524**	**1,731,896**	**5,726,654**
– Fund investments	**2,362,159**	**43,978**	**–**	**2,406,137**
– Others	**–**	**12,094,046**	**805,195**	**12,899,241**
Subtotal	**13,205,917**	**36,459,857**	**2,537,091**	**52,202,865**
Derivative financial assets	**3,824**	**291,429**	**824,760**	**1,120,013**
Financial assets at fair value through other comprehensive income				
– Debt instruments	**315,156**	**28,546,854**	**–**	**28,862,010**
– Equity instruments	**–**	**3,270,995**	**–**	**3,270,995**
Subtotal	**315,156**	**31,817,849**	**–**	**32,133,005**
Total assets	**13,524,897**	**68,569,135**	**3,361,851**	**85,455,883**

(In RMB thousands, unless otherwise stated)

51 FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

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

	30 June 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial liabilities at fair value through profit or loss				
– Financial liabilities at fair value through profit or loss (Held for trading)	**–**	**952,584**	**–**	**952,584**
– Financial liabilities at fair value through profit or loss (Designated)	**–**	**–**	**13,621**	**13,621**
Subtotal	**–**	**952,584**	**13,621**	**966,205**
Derivative financial liabilities	**7,655**	**127,614**	**83,623**	**218,892**
Total liabilities	**7,655**	**1,080,198**	**97,244**	**1,185,097**

(In RMB thousands, unless otherwise stated)

51 FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

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

	31 December 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets held for trading				
– Debt instruments	**7,025,061**	**15,465,642**	**–**	**22,490,703**
– Equity investments	**3,232,916**	**1,062,201**	**–**	**4,295,117**
– Fund investments	**908,104**	**–**	**–**	**908,104**
– Others	**274**	**4,601,767**	**45,950**	**4,647,991**
Subtotal	**11,166,355**	**21,129,610**	**45,950**	**32,341,915**
Financial assets designated as at fair value through profit or loss	**140,193**	**166,991**	**–**	**307,184**
Derivative financial assets	**6,734**	**95,121**	**18,529**	**120,384**
Available-for-sale financial assets				
– Debt instruments	**163,086**	**26,523,946**	**–**	**26,687,032**
– Equity investments	**386,106**	**163,617**	**80,840**	**630,563**
– Fund investments	**438,470**	**47,125**	**–**	**485,595**
– Others	**–**	**10,521,139**	**311,625**	**10,832,764**
Subtotal	**987,662**	**37,255,827**	**392,465**	**38,635,954**
Total assets	**12,300,944**	**58,647,549**	**456,944**	**71,405,437**
Financial liabilities held for trading	**–**	**126,780**	**–**	**126,780**
Financial liabilities designated as at fair value through profit or loss	**–**	**–**	**11,640**	**11,640**
Derivative financial liabilities	**6,041**	**181,579**	**97,664**	**285,284**
Total liabilities	**6,041**	**308,359**	**109,304**	**423,704**

(In RMB thousands, unless otherwise stated)

51 FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

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

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

	Six months ends 30 June 2018				
	Financial assets held for trading (IAS 39)/ Financial assets at FVPL (Mandatory) (IFRS 9)	Available-for-sale financial assets (IAS 39)/ Financial assets at FVOCI (IFRS 9)	Derivative financial assets	Financial liabilities at fair value through profit or loss (Designated)	Derivative financial liabilities
31 December 2017	45,950	392,465	18,529	11,640	97,664
Change in accounting policy	1,453,478	(392,465)	–	–	–
1 January 2018	1,499,428	–	18,529	11,640	97,664
Total gains or losses for the period	16,030	–	1,027,293	1,981	137,670
Increases	1,156,183	–	9,356	–	303,076
Decreases	(134,550)	–	(230,418)	–	(454,787)
30 June 2018	2,537,091	–	824,760	13,621	83,623
Gains for the period included in profit or loss for assets/liabilities held at the end of the period	16,030	–	1,027,293	(1,981)	(137,670)

(In RMB thousands, unless otherwise stated)

51 FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

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

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

	Year ended 31 December 2017				
	Financial assets held for trading	Available-for-sale financial assets	Derivative financial assets	Financial liabilities designated as at fair value through profit or loss	Derivative financial liabilities
31 December 2016	–	304,884	2,718	9,938	25,618
Total gains or losses for the year	–	95,184	(3,254)	1,702	(161,029)
Changes in fair value in other comprehensive income for the year	–	(123,283)	–	–	–
Increases	45,950	357,465	20,818	–	598,832
Decreases	–	(184,420)	(1,753)	–	(365,757)
Transfers to Level 1 from Level 3	–	(27,365)	–	–	–
Transfers to Level 2 from Level 3	–	(30,000)	–	–	–
31 December 2017	45,950	392,465	18,529	11,640	97,664
Gains for the year included in profit or loss for assets/liabilities held at the end of the year	–	95,184	(3,254)	(1,702)	161,029

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

The fair value of financial instruments under Level 3 are determined by comparable company methods, discounted cash flow models and Black-Scholes option pricing model. Determinations to classify fair value measures within Level 3 of the valuation hierarchy are primarily based on the significance of the unobservable inputs which mainly include market data and inputs with reference to comparable companies, risk-adjusted discount rate and price volatility of underlying assets to the overall fair value measurement.

(In RMB thousands, unless otherwise stated)

51 FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

(4) Transfers between Level 1 and Level 2

For the six months ended 30 June 2018 and year ended 31 December 2017, there were no transfers of fair value measurement between Level 1 and Level 2.

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

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities not measured in the consolidated statement of financial position at their fair value. Financial assets held under resale agreements, refundable deposits, margin accounts, accounts receivable, cash held on behalf of clients, cash and bank balances, accounts payable to brokerage clients, financial assets sold under repurchase agreements, placements from banks and other financial institutions, short-term borrowings and short-term financing instruments payable are not included in table as their fair values approximate their carrying amounts.

As at 30 June 2018, the carrying amounts and fair value of financial assets at amortised cost are disclosed in Note 21 and as at 31 December 2017, the carrying amounts and fair value of held-to-maturity investments are disclosed in Note 20. The carrying amounts and fair value of bonds in issue (including bonds in issue with maturity within one year) are summarized below:

	30 June 2018	31 December 2017
Bonds in issue (including bonds in issue with maturity within one year)		
– Carrying amount	**32,833,196**	30,872,761
– Fair value	**32,788,473**	30,383,102

52 FINANCIAL INSTRUMENTS RISK MANAGEMENT

Overview

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

52 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Structure of risk management

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

The Board of Directors is the Company's highest decision-making body in risk management, which makes decisions with respect to the Company's overall risk management strategies and policies, internal control arrangements, and actions to address material risks faced by the Company, among other things.

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

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

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

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

52 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Structure of risk management (Continued)

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

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

In addition, pursuant to the needs of risk management in investment banking business, along with regulatory requirements, the Company has established the internal audit department in the first half of 2018. Through company-level review, the Company conducted export management and terminal risk control of investment banking projects, and performed ultimate approval of decision-making functions for the materials and documents submitted, reported, issued or disclosed in the name of the Company.

Risk management activities

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

The Company establishes a before-the-event risk control mechanism. It focuses on each of the main business lines to formulate specific risk limits and risk control standards, and has explicit procedures of risk control; the Risk Management Department and the Legal and Compliance Department have participated in the before-the-event evaluation for important projects and the operation system, and have expressed their opinions independently; important risk control parameters are directly under the management and control of the Risk Management Department, which also conducts independent verification for valuation model of financial instruments before going online.

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

52 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk management activities (Continued)

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

The Company has formulated guidelines for various types of risk management and control, including market risk, credit risk, operational risk, liquidity risk and reputation risk, in order to guide and regulate the response to risks in various business lines. The Company has established crisis management mechanism and programs, and has formulated effective contingency measures and plans for various businesses, especially for key risks and emergencies such as liquidity crisis and accidents on transaction system, while emergency response mechanism has been established and is drilled sporadically on a regular basis.

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

Risk analysis and control

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

52 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

52.1 Credit risk

Credit risks refer to the risks arising from the economic loss caused by failure of performing the obligations in the contract by counterparties, issuers of debt financing instruments (or financiers).

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

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

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

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

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

(In RMB thousands, unless otherwise stated)

52 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

52.1 Credit risk (Continued)

The Group's maximum exposure to credit risk without taking account of any collateral and other credit enhancements:

	30 June 2018	31 December 2017
Available-for-sale financial assets		34,398,142
Financial assets at fair value through other comprehensive income	**28,862,010**	
Financial assets at amortised costs	**376,162**	
Held-to-maturity investments		578,568
Financial assets held under resale agreements	**26,184,018**	26,065,076
Refundable deposits	**2,156,228**	2,228,778
Margin accounts	**37,077,997**	47,821,230
Financial assets at fair value through profit or loss	**46,037,730**	
Financial assets held for trading		27,866,531
Financial assets designated as at fair value through profit or loss		166,991
Derivative financial assets	**1,120,013**	120,384
Cash held on behalf of clients	**41,751,620**	39,740,852
Deposits in banks	**16,970,491**	11,227,807
Others	**4,646,423**	3,891,098
Total maximum credit risk exposure	**205,182,692**	194,105,457

(In RMB thousands, unless otherwise stated)

52 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

52.1 Credit risk (Continued)

The Group's credit risk exposure of financial instruments for which an ECL allowance is recognised as follows according to the stage of ECL:

(i) Financial assets held under resale agreements loss allowance

	Stage of ECL			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	12-month ECL	**Lifetime ECL**	**Lifetime ECL (Credit-impaired)**	
1 January 2018 *(Note 3.4(3))*	44,497	–	–	44,497
Increases	–	–	–	–
Reverses	(1,636)	–	–	(1,636)
Write – offs	–	–	–	–
Foreign exchange and other movements	(2)	–	–	(2)
30 June 2018	42,859	–	–	42,859

(ii) Financial assets at fair value through other comprehensive income loss allowance

	Stage of ECL			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	12-month ECL	**Lifetime ECL**	**Lifetime ECL (Credit-impaired)**	
1 January 2018 *(Note 3.4(3))*	4,138	253	–	4,391
Increases	17	2,677	637	3,331
Reverses	(258)	(252)	–	(510)
Write – offs	–	–	–	–
Foreign exchange and other movements	–	–	–	–
30 June 2018	3,897	2,678	637	7,212

(In RMB thousands, unless otherwise stated)

52 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

52.1 Credit risk (Continued)

(iii) Margin accounts loss allowance

	Stage of ECL			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	12-month ECL	**Lifetime ECL**	**Lifetime ECL (Credit-impaired)**	
1 January 2018 *(Note 3.4(3))*	116,742	–	4,255	120,997
Increases	19,595	61,954	170,477	252,026
Reverses	–	–	–	–
Write – offs	–	–	–	–
Foreign exchange and other movements	242	–	–	242
30 June 2018	136,579	61,954	174,732	373,265

(iv) Financial assets at amortised cost loss allowance

	Stage of ECL			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	12-month ECL	**Lifetime ECL**	**Lifetime ECL (Credit-impaired)**	
1 January 2018 *(Note 3.4(3))*	12,283	–	–	12,283
Increases	265	–	–	265
Reverses	–	–	–	–
Write – offs	–	–	–	–
Foreign exchange and other movements	115	–	–	115
30 June 2018	12,663	–	–	12,663

(In RMB thousands, unless otherwise stated)

52 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

52.1 Credit risk (Continued)

(v) Allowance for bad debts loss allowance

	Stage of ECL			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	12-month ECL	**Lifetime ECL**	**Lifetime ECL (Credit-impaired)**	
1 January 2018	1,050	26,272	12,015	39,337
Increases	2,821	–	–	2,821
Reverses	–	–	–	–
Write – offs	(2,821)	–	–	(2,821)
Foreign exchange and other movements	5	–	–	5
30 June 2018	1,055	26,272	12,015	39,342

52.2 Liquidity risk

Liquidity risks refer to the risks that a commercial bank is unable to acquire sufficient funds in a timely manner at a reasonable cost, in response to repay due debts, fulfill other payment obligations and meet other funding needs during normal course of business.

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

(In RMB thousands, unless otherwise stated)

52 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

52.2 Liquidity risk (Continued)

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

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

	30 June 2018					
	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Accounts payable to brokerage clients	43,308,376	–	–	–	–	43,308,376
Derivative financial liabilities	210,756	813	7,304	19	–	218,892
Financial liabilities at fair value through profit or loss	–	953,149	–	13,621	–	966,770
Financial assets sold under repurchase agreements	–	33,989,703	1,480,793	–	–	35,470,496
Placements from banks and other financial institutions	–	5,128,917	4,103,133	–	–	9,232,050
Short-term borrowings	–	2,719,615	–	–	–	2,719,615
Short-term financing instruments payable	–	16,427,091	11,844,266	–	–	28,271,357
Bonds in issue	–	363,679	922,603	29,361,679	–	30,647,961
Other debts	5,399,584	5,468,818	6,616,937	53,097	554	17,538,990
Total	48,918,716	65,051,785	24,975,036	29,428,416	554	168,374,507
Cash flows from derivative financial liabilities settled on a net basis	210,756	774	7,304	–	–	218,834
Gross-settled derivative financial liabilities	–	39	–	19	–	58
Contractual amounts receivable	–	–	–	–	–	–
Contractual amounts payable	–	39	–	19	–	58

(In RMB thousands, unless otherwise stated)

52 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

52.2 Liquidity risk (Continued)

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

	31 December 2017					
	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Accounts payable to brokerage clients	41,416,503	–	–	–	–	41,416,503
Derivative financial liabilities	276,347	12	3,338	5,587	–	285,284
Financial liabilities held for trading	–	126,840	–	–	–	126,840
Financial liabilities designated as at fair value through profit or loss	–	–	–	11,640	–	11,640
Financial assets sold under repurchase agreements	–	20,705,875	8,752,291	–	–	29,458,166
Placements from banks and other financial institutions	–	11,097,797	3,077,350	–	–	14,175,147
Short-term borrowings	–	2,122,985	–	–	–	2,122,985
Short-term financing instruments payable	–	14,062,313	14,615,607	–	–	28,677,920
Bonds in issue	–	79,173	966,843	25,783,874	–	26,829,890
Other debts	4,888,460	6,303,265	8,008,571	30,437	554	19,231,287
Total	46,581,310	54,498,260	35,424,000	25,831,538	554	162,335,662
Cash flows from derivative financial liabilities settled on a net basis	276,347	6	3,338	5,587	–	285,278
Gross-settled derivative financial liabilities	–	6	–	–	–	6
Contractual amounts receivable	–	–	–	–	–	–
Contractual amounts payable	–	6	–	–	–	6

(In RMB thousands, unless otherwise stated)

52 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

52.3 Market risk

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

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

(1) Value at risk (VaR)

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

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

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

	30 June 2018	31 December 2017
Equity price-sensitive financial instruments	**100,784**	25,377
Interest rate-sensitive financial instruments	**193,476**	237,622

(In RMB thousands, unless otherwise stated)

52 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

52.3 Market risk (Continued)

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

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

(2) Interest rate risk

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

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

Interest rate sensitivity analysis of the Group are as follows:

Sensitivity of revenue	**30 June 2018**	31 December 2017
Change in basis points		
+25 basis points	**(158,272)**	(120,103)
– 25 basis points	**159,621**	121,122

Sensitivity of equity	**30 June 2018**	31 December 2017
Change in basis points		
+25 basis points	**(140,252)**	(173,675)
– 25 basis points	**141,828**	175,859

52 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

52.3 Market risk (continued)

(3) Foreign currency rate risk

With respect to foreign exchange rate risk, the Group's foreign-currency-denominated assets and liabilities represent only a small portion in its entire assets and liabilities portfolio. As at 30 June 2018, the foreign exchange exposure is approximately RMB1,526 million. The Group manages its foreign exchange rate risk by limiting the size of its foreign-currency-denominated assets and liabilities and setting stop-loss limits for proprietary investments by its overseas subsidiaries. The majority of its income-generating business activities under the current structure are conducted in Renminbi, with only a small portion denominated in foreign currencies. Given the small portion of the foreign-currency-denominated businesses in both its assets and liabilities portfolio and income structure, the Group believes that its foreign exchange rate risk has an insignificant impact on its current operations.

(4) Other price risks

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

52.4 Capital management

The Group's objectives of capital management are:

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

52 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

52.4 Capital management (Continued)

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

- The risk coverage ratio shall be no less than 100%;
- The capital leverage ratio shall be no less than 8%;
- The liquidity coverage ratio shall be no less than 100%;
- The net stable funding ratio shall be no less than 100%;

Risk coverage ratio = net capital/sum of various risk capital provisions x 100%,
Capital leverage ratio = core net capital/total asset on-/off-balance-sheet x 100%,
Liquidity coverage ratio = high quality liquid assets/net cash outflow in 30 days x 100%,
Net stable funding ratio = available amount of stable funding/required amount of stable funding x 100%.

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

53 EVENTS AFTER THE REPORTING PERIOD

(1) Issuance of corporate bonds

(i) In July 2018, the Company privately issued a 3-year fixed rate corporate bond ("18 Xintou F3") with a face value of RMB3.5 billion. The bond pays interest annually at 4.86% per annum and is not guaranteed.

(ii) In July 2018, the Company privately issued a 3-year fixed rate corporate bond ("18 Xintou F4") with a face value of RMB2.5 billion. The bond pays interest annually at 4.84% per annum and is not guaranteed.

(2) Dividend

On 24 August 2018, the Board of Directors proposed a cash dividend distribution related to the profit for the year ended 31 December 2017 of RMB1.80 (tax inclusive) per 10 ordinary shares. Such dividends estimated to be RMB1,376,349,342.84 (tax inclusive) which accounted for 36.98% of profit attributable to ordinary equity holders of the Company of 2017 will be distributed to all the ordinary equity holders based on the shareholding as of 30 June 2018 of 7,646,385,238 shares. The remaining profit will be carried forward to the future years. Such proposal is subject to the approval at the General Meeting of the ordinary equity holders.

中信建投証券股份有限公司
CSC FINANCIAL CO., LTD.