海通证券 | 30
1988-2018

INTERIM REPORT 2018

海通证券股份有限公司

HAITONG SECURITIES CO., LTD.*

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

Stock Code: 6837

** For identification purpose only*

CONTENTS

IMPORTANT NOTICE

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

This Report was considered and approved at the 31st meeting of the sixth session of the Board and the 19th meeting of the sixth session of the Supervisory Committee. Mr. Feng Lun, an independent non-executive Director, was unable to attend the Board meeting in person due to business trip, and had appointed Mr. Xiao Suining, an independent non-executive Director, to vote on his behalf. None of the Directors or Supervisors has any objection to this Report.

Deloitte Touche Tohmatsu has reviewed the 2018 unaudited interim financial report of the Company which was prepared in accordance with IFRS and issued standard and unqualified auditor's review report for the Company. All the data in this Report has been presented in RMB unless otherwise indicated.

Mr. Zhou Jie, Chairman of the Company, Mr. Zhang Xinjun, Chief Financial Officer, and Mr. Ma Zhong, head of the accounting department, hereby warrant the truthfulness, accuracy and completeness of the financial report contained in this Report.

The Company had no profit distribution proposal or proposal on conversion of capital reserve funds into share capital for the first half of 2018.

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

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

The Company did not provide external guarantees in violation of the stipulated decision-making procedures during the Reporting Period.

Section I DEFINITIONS AND IMPORTANT RISK WARNINGS

I. DEFINITIONS

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

"A Share(s)"	domestic shares of the Company, with a nominal value of RMB1.00 each, which are listed and traded on the Shanghai Stock Exchange
"ABS"	Asset-backed Securities
"Articles of Association" or "Articles"	the articles of association of Haitong Securities
"Board"	the board of directors of Haitong Securities
"China" or "PRC"	the People's Republic of China, and for the purposes of this Report only, excluding Hong Kong, Macau Special Administrative Region and Taiwan
"Code"	the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Hong Kong Listing Rules
"Company" or "Haitong Securities"	Haitong Securities Co., Ltd.
"Company Law"	the Company Law of the People's Republic of China
"CSRC"	the China Securities Regulatory Commission
"Director(s)"	the director(s) of Haitong Securities
"EUR" or "Euro"	the official currency of the Eurozone
"Fortune HFT"	Shanghai Fortune HFT Asset Management Co., Ltd. (上海富誠海富通資產管理有限公司)
"Fullgoal Fund"	Fullgoal Fund Management Co., Ltd. (富國基金管理有限公司)
"Group"	the Company and its subsidiaries
"Gui'an UT"	Gui'an UT Financial Leasing (Shanghai) Co., Ltd. (貴安恒信融資租賃（上海）有限公司)

Section I DEFINITIONS AND IMPORTANT RISK WARNINGS

"H Share(s)"	ordinary shares in the share capital of the Company with nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange and traded in HK dollars
"Haitong Bank"	Haitong Bank, S.A.
"Haitong Capital"	Haitong Capital Investment Co., Ltd. (海通開元投資有限公司)
"Haitong Futures"	Haitong Futures Co., Ltd. (海通期貨股份有限公司)
"Haitong Innovation Securities"	Haitong Innovation Securities Investment Co., Ltd. (海通創新證券投資有限公司)
"Haitong International Holdings"	Haitong International Holdings Limited (海通國際控股有限公司)
"Haitong International Securities"	Haitong International Securities Group Limited (海通國際證券集團有限公司), listed on the Hong Kong Stock Exchange, stock code: 665
"Haitong Resource"	Shanghai Haitong Resource Management Co., Ltd. (上海海通資源管理有限公司)
"Haitong UniFortune"	Haitong UniFortune International Leasing Co., Ltd. (海通恒運國際租賃有限公司)
"Haitong UniTrust Financial Leasing (Shanghai)"	Haitong UniTrust Financial Leasing (Shanghai) Corporation (海通恒信融資租賃（上海）有限公司)
"Haitong UT"	Haitong UniTrust International Leasing Co., Ltd. (海通恒信國際租賃股份有限公司)
"Haitong UT Capital"	Haitong UT Capital Group Co., Limited (海通恒信金融集團有限公司)
"Haitong UT Holdings"	Haitong UT Holdings Limited (海通恒信融資租賃控股有限公司)
"Haitong-Fortis PE"	Haitong-Fortis Private Equity Fund Management Co., Ltd. (海富產業投資基金管理有限公司)

Section I DEFINITIONS AND IMPORTANT RISK WARNINGS

"HFT Fund"	HFT Fund Management Co., Ltd. (海富通基金管理有限公司)
"HK$", "HKD" or "HK dollars"	the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"HT Asset Management"	Shanghai Haitong Securities Asset Management Company Ltd. (上海海通證券資產管理有限公司)
"IFRS"	the International Financial Reporting Standards
"IPO"	initial public offering
"NEEQ"	National Equities Exchange and Quotations (全國中小企業股份轉讓系統)
"NSSF"	the National Council for Social Security Fund of the PRC
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
"PRC GAAP"	generally accepted accounting principles in the PRC
"Reporting Period"	from 1 January 2018 to 30 June 2018
"RMB" or "Renminbi"	the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time

Section I DEFINITIONS AND IMPORTANT RISK WARNINGS

"the Shanghai Stock Exchange" or "SSE"	the Shanghai Stock Exchange
"Shanghai Weitai Properties"	Shanghai Weitai Properties Management Co., Ltd. (上海惟泰置業管理有限公司)
"the Shenzhen Stock Exchange" or "SZSE"	the Shenzhen Stock Exchange
"Supervisor(s)"	the supervisor(s) of Haitong Securities
"Supervisory Committee"	the supervisory committee of Haitong Securities
"US$", "USD" or "U.S. dollars"	the lawful currency of the United States of America
"QDII"	Qualified Domestic Institutional Investor
"WOFE"	Wholly Owned Foreign Enterprises
"Wind Info"	Wind Information Co., Ltd.

Section I DEFINITIONS AND IMPORTANT RISK WARNINGS

II. IMPORTANT RISK WARNINGS

The business of the Company is highly dependent on the securities market conditions in jurisdictions where the Company operates. Our results of operations may be materially affected by various factors, such as macro-economic environment, cyclical fluctuations of the industry, development stages of the market, behaviour of the investors and the international economic environment.

The Company is exposed to various risks in its business operations, primarily including (i) policy risks, whereby the operations of securities firms in general are subject to material adverse effect caused by national macro-control measures, and changes of laws, regulations, regulatory policies or trading rules applicable to securities industry; (ii) compliance risks, whereby the securities firms may be subject to legal punishment or regulatory penalties or may incur significant financial losses due to failure to comply with laws and regulations, regulatory requirements, rules, relevant standards made by the self-regulatory organisations or code of conducts applicable to the securities firms; (iii) credit risks, which may result in loss to the operations of the Company due to the inability of the borrower, counterparty or debt issuer to meet its agreed financial obligations; (iv) market risks, where the Company's proprietary investments record losses due to adverse fluctuations of market prices (such as the stock price, interest rate, exchange rate or product price); (v) operational risks triggered by deficiencies in internal processes, misoperation and misconduct of employees, IT system failures, or impact from external sources; (vi) liquidity risks, where the Company is unable to obtain sufficient funds in a timely manner at a reasonable cost to pay the debts due and fulfil other payment obligations and meet the requirements for carrying out normal business; and (vii) reputational risks, where the corporate image of the Company among stakeholders is damaged due to the Company's operational, management or other acts or the external incidents. All these risks may directly affect the results of operations and financial conditions of the Company. In addition, these effects may overlap with each other due to certain inherent correlation among these risk factors.

For details of the specific risk factors and the risk management measures that the Company has or will take, investors are advised to carefully read "Potential Risks and Prevention Measures" in section IV "Report of the Board of Directors" of this Report, and pay special attention to the above risk factors.

Section II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

I. CORPORATE INFORMATION

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

Registered capital and net capital

Unit: Yuan Currency: RMB

	As at the end of the Reporting Period	As at the end of last year
Registered capital	11,501,700,000.00	11,501,700,000.00
Net capital	73,685,420,159.77	75,292,211,294.80

Scope of business of the Company

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

Qualification for each individual business of the Company

1. Online securities entrustment business qualification (Zheng Jian Xin Xi Zi [2001] No. 3)
2. Qualification for lending and purchase of bonds, bond transactions and bond repurchase business in the national inter-bank lending market and the bond market (Yin Ban Han [2001] No. 819)
3. Qualification for lending transactions and bond transactions in the national inter-bank lending centre (Zhong Hui Jiao Fa [2001] No. 306)
4. Qualification for acquisition of securities business departments (Hu Zheng Ji Bian [2002] No. 090)
5. Open-end securities investment fund consignment business qualification (Zheng Jian Ji Jin [2002] No. 076)
6. Securities company engaged in relevant innovative activity trials (Zhong Zheng Xie Han [2005] No. 079)

Section II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

7. Qualification for short-term commercial paper underwriting business (Yin Fa [2005] No. 173)
8. Qualification for quotation transfer business (Zhong Zheng Xie Han [2006] No. 3)
9. Trader Qualification for Shanghai Stock Exchange Fixed Income Securities Consolidated Electric Trading Platform (Shang Zheng Hui Han [2007] No. 86)
10. Qualification for Association of PRC Inter-bank Market Trader (August 2007)
11. Qualification for overseas securities investment management business as a qualified domestic institutional investor (Zheng Jian Xu Ke [2008] No. 146)
12. A-grade clearing participant qualification of China Securities Depositary and Clearing Corporation Limited (Zhong Guo Jie Suan Han Zi [2008] No. 22)
13. Qualification for provision of intermediary introduction business for the futures companies (Hu Zheng Jian Ji Gou Zi [2010] No. 122)
14. Qualification for direct investment business trials (Ji Gou Bu Bu Han [2008] No. 421)
15. Qualification for implementation of the broker system (Hu Zheng Jian Ji Gou Zi [2009] No. 302)
16. Qualification of providing trading units for insurance agency investors (Bao Jian Zi Jin Shen Zheng [2009] No. 1)
17. Qualification for margin financing and securities lending business (Zheng Jian Xu Ke [2010] No. 315)
18. Qualification of engaging of stock index futures hedging business through proprietary trading of the company (Hu Zheng Jian Ji Gou Zi [2010] No. 372)
19. Qualification for securities house assigned by NSSF (August 2011)
20. Qualification for fund evaluation business (Zhong Zheng Xie Fa [2010] No. 070)
21. Qualification of engaging of stock index futures through asset management (Hu Zheng Jian Ji Gou Zi [2011] No. 237)
22. Stock repo transaction business trials (Ji Gou Bu Bu Han [2011] No. 512) (Shang Zheng Jiao Zi [2011] No. 37)
23. Qualification for issuance of overseas listed foreign shares (Zheng Jian Xu Ke [2011] No. 1821) (H Share)
24. Trial business of bond collateralised repo with quotes (Ji Gou Bu Bu Han [2011] No. 585)
25. Partnership independent custody business trials (Ji Gou Bu Bu Han [2012] No. 686)
26. Over-the-counter transaction business (Zhong Zheng Xie Han [2012] No. 825)
27. Pilot qualification of engaging of margin and securities refinancing business (Zhong Zheng Jin Han [2012] No. 113)
28. Pilot qualification of underwriting of private debts for SMEs (Zhong Zheng Xie Han [2012] No. 561)
29. Qualification for foreign exchange operation in the securities business (SC201307)
30. Qualification for issuance of short-term financing bonds (Department of Fund and Intermediary Supervision Han [2014] No. 1551)
31. Qualification for agency sale of financial products (Hu Zheng Jian Ji Gou Zi [2013] No. 180)
32. Pilot qualification of conducting capital consumption payment services for client securities (Ji Gou Bu Bu Han [2013] No. 741)

Section II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

33. Qualification of the 11th batch of insurance agency for 2013 (Hu Bao Jian Xu Ke [2013] No. 204)
34. Qualification for agency distributing precious metal spot contract such as gold and proprietary trading for gold spot contract (Ji Gou Bu Bu Han [2013] No. 959)
35. Custody qualification of security investment funds (Zheng Jian Xu Ke [2013] No. 1643)
36. Qualification for agency business of securities pledge registration (February 2014)
37. Internet securities business trials (Zhong Zheng Xie Han [2014] No. 358)
38. Membership qualification on the gold exchange (Certificate No. T004)
39. Pilot issuance of short-term corporate bonds by securities companies (Shang Zheng Duan Zhai [2014] No. 4)
40. Business pilot of financing-oriented option exercise with respect to share incentive schemes of listed companies (Shenzhen Han [2014] No. 321)
41. Qualification for the stock options market making business (Zheng Jian Xu Ke [2015] No. 153)
42. Principal market maker in SSE 50 ETF options contracts (Shang Zheng Han [2015] No. 214)
43. Business qualification for options settlement (Zhong Guo Jie Suan Han Zi [2015] No. 20)
44. Futures membership certificate (Certificate number: NO. G02008)
45. Qualification for offshore proprietary business (Ji Gou Bu Han [2015] No. 1204)
46. No comment letter on innovative programme of one-way video account opening (Zhong Guo Jie Suan Ban Zi [2015] No. 461)
47. Qualification for inter-bank gold price asking transactions (Shang Jin Jiao Fa [2015] No. 120)
48. Qualification for carrying on main underwriting business of debt financial instruments for non-financial enterprises (August 2016)
49. Qualification for note dealing (Yin Ban Fa [2016] No. 224)
50. Qualification for relevant business on tools mitigating credit risk (January 2017)
51. Qualification for secondary dealers for OTC options business (Zhong Zheng Xie Fa [2018] No. 160)

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

II. CONTACT PERSONS AND CONTACT METHODS

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

Section II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

III. BASIC CORPORATE INFORMATION

Registered address	No. 689 Guangdong Road, Shanghai, PRC
Postal code of registered address	200001
Business address	No. 689 Guangdong Road, Shanghai, PRC
Postal code of business address	200001
Internet website	http://www.htsec.com
E-mail	haitong@htsec.com
Principal place of business in Hong Kong	21st Floor, Li Po Chun Chambers, 189 Des Voeux Road Central, Central, Hong Kong
Unified social credit code in the business licence	9131000013220921X6

IV. INFORMATION DISCLOSURE AND PLACE FOR INSPECTION

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

V. BRIEF INFORMATION ON THE COMPANY'S SHARES

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

Section II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

VI. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE COMPANY

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

(I) Major accounting data and financial indicators

Items	January to June 2018	January to June 2017	As compared to the corresponding period of last year
Results of operations *(RMB'000)*			*Change*
Total revenue, gains and other income	**18,989,573**	20,075,598	-5.41%
Profit before income tax	**4,501,386**	5,810,403	-22.53%
Profit for the period – attributable to owners of the Company	**3,030,926**	4,023,478	-24.67%
Net cash flow (used in)/from operating activities	**(10,432,732)**	(149,087)	N/A
Other comprehensive income	**(702,352)**	378,673	-285.48%
Earnings per share *(RMB/share)*			*Change*
Basic earnings per share	**0.26**	0.35	-25.71%
Diluted earnings per share	**0.26**	0.35	-25.71%
Index of profitability			*Change*
Weighted average returns on net assets *(%)*	**2.56**	3.57	-1.01 percentage points

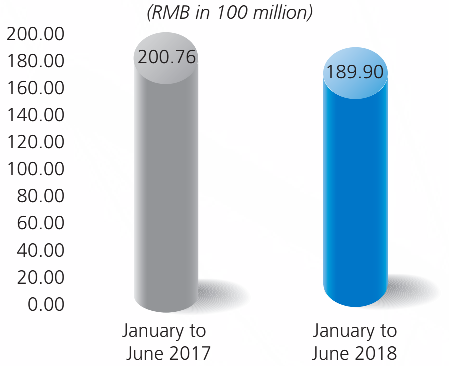
Items	As at 30 June 2018	As at 31 December 2017	As compared to the end of the last corresponding period
Indices of size *(RMB'000)*			*Change*
Total assets	**573,220,488**	534,706,333	7.20%
Total liabilities	**444,247,698**	405,012,029	9.69%
Accounts payable to brokerage clients	**83,031,997**	83,774,388	-0.89%
Equity attributable to owners of the Company	**116,999,076**	117,755,479	-0.64%
Total share capital *('000 shares)*	**11,501,700**	11,501,700	–
			Change
Net assets per share attributable to owners of the Company *(RMB/share)*	**10.17**	10.24	-0.68%
Gearing ratio *(%)*[1]	**73.69**	71.24	+2.45 percentage points

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

Section II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

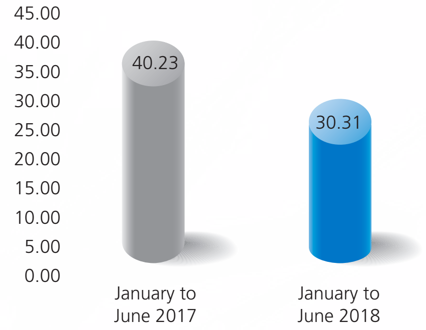
Total revenue, gains and other income

(RMB in 100 million)

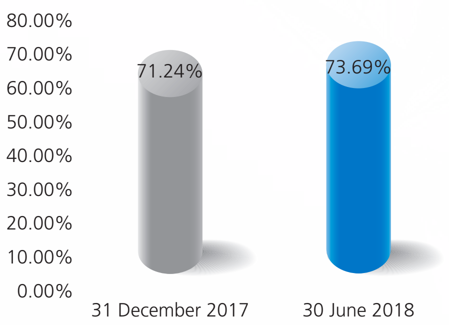


Profit for the period – attributable to owners of the Company

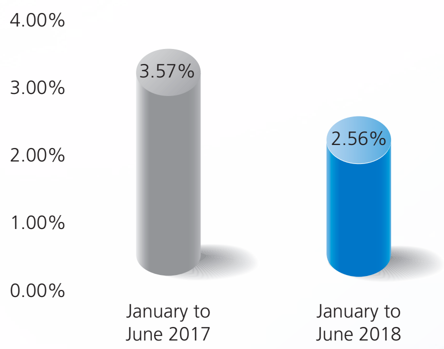
(RMB in 100 million)



Gearing ratio

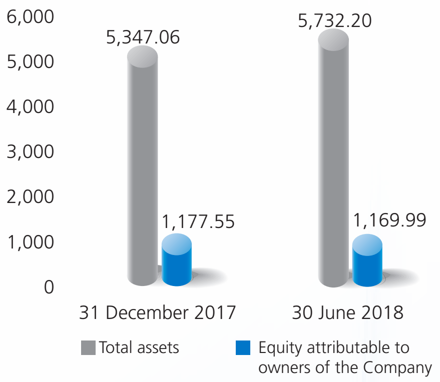


Weighted average returns on net assets



Indices of size

(RMB in 100 million)



Section II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

(II) Differences of accounting data between IFRS and PRC GAAP

The net profits for the periods from January to June 2018 and from January to June 2017 and the net assets as at 30 June 2018 and 31 December 2017 as stated in the consolidated financial statements of the Group prepared in accordance with PRC GAAP are consistent with those prepared in accordance with IFRS.

(III) Net capital and other risk control indicators of the Company

As at 30 June 2018, the net capital of the Company was RMB73,685 million, representing a decrease of RMB1,607 million as compared to the end of the previous year (RMB75,292 million). During the Reporting Period, all risk control indicators including net capital of the Company met the regulatory requirements.

Items	**30 June 2018**	31 December 2017
Net capital *(RMB'000)*	**73,685,420**	75,292,211
Net assets *(RMB'000)*	**106,685,617**	106,859,158
Risk coverage ratio	**254.41%**	249.31%
Capital leverage ratio	**26.02%**	27.06%
Liquidity coverage ratio	**217.24%**	188.90%
Net stable funding rate	**142.10%**	135.49%
Net capital/net assets	**69.07%**	70.46%
Net capital/liabilities	**47.05%**	50.16%
Net assets/liabilities	**68.12%**	71.20%
Proprietary equity securities and securities derivatives/net capital	**31.60%**	30.78%
Proprietary non-equity securities and derivatives held/net capital	**85.36%**	57.72%

Note: Data above are calculated based on the financial information prepared in accordance with PRC GAAP.

Section III SUMMARY OF THE COMPANY'S BUSINESS

I. DESCRIPTIONS OF THE PRINCIPAL BUSINESSES OF THE COMPANY, ITS OPERATING MODELS AND INDUSTRIES DURING THE REPORTING PERIOD

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

The Company's principal business lines comprise wealth management, investment banking, asset management, trading and institutional client services, and financial leasing.

Wealth management mainly refers to the provision of comprehensive financial services and investment solutions to retail and high-net-worth customers, including securities and futures brokerage services, investment advisory services, financial planning services, and financing business services such as margin financing, securities lending, and stock pledge.

Investment banking mainly refers to the provision of sponsorship and underwriting services for corporate and government customers with regard to financing activities in both equity capital markets and debt capital markets, the provision of financial advisory services to corporate customers for mergers and acquisitions as well as asset restructurings, and the provision of NEEQ quotation services. Based on the nature of business, the investment banking business of the Company is further categorised into segments of equity financing business, debt financing business, mergers and acquisitions financing business, NEEQ and structural financing business. The Company strives to provide customers with "one stop" domestic and overseas investment banking services.

Asset management mainly refers to the provision of comprehensive investment management services on diversified products to individuals, corporations and institutional clients, including asset management, fund management, public and private equity investment services. HT Asset Management carries out businesses including targeted asset management, collective asset management, specialised asset management, QDII business, and innovative business. The principal businesses of HFT Fund and Fullgoal Fund include management of mutual funds (including QDII), asset management for corporate annuities, NSSF and specific customers, providing professional fund investment financing services for investors. The Company also operates a number of professional investment management platforms for private equity (PE), which provides services including management of industrial investment funds, investment consultation and promotion and establishment of investment funds.

Section III SUMMARY OF THE COMPANY'S BUSINESS

Trading and institutional client services mainly refers to the provision of stock sale and trading, prime brokerage, stock borrowing and lending and stock research in major global financial markets for global institutional investors, as well as the issuance and market making services for various financial instruments such as fixed income products, currency and commodity products, futures and options, exchange traded funds and derivatives. Meanwhile, the Company exerts and enhances the advantage of cooperation among business segments through investment funds and private equity projects and focuses on exploring investment opportunities with reasonable return on investment capital, thus to expand customer relationships and promote overall growth of its business.

Financial leasing mainly refers to the provision of innovative financial service and solutions to individuals, enterprises and governments, including financial leasing, operating leasing, factoring, entrusted loans and relevant advisory services. Haitong UT is the primary leasing business platform of the Company. Currently, Haitong UT engages in a wide range of industries, including infrastructure, transportation & logistics, industrials, education, health care, construction & real estate and the chemical industry. Haitong UT leverages rich industrial experience and market channels and works with renowned domestic and overseas equipment manufacturers to provide comprehensive financing solutions and services for the business development of customers. In the past two years, Haitong UT has taken the initiatives to explore the business model of securities firm-featured financial leasing and has launched a diversified product portfolio which integrates equity investment with debt investment to provide more innovative structured financing solutions to customers.

Other segments mainly refer to the provision of comprehensive financial and information services to institutional customers, including warehouse receipt service, pricing service, market making service and services relating to risk management.

Section III SUMMARY OF THE COMPANY'S BUSINESS

2. Development stage and cyclical features of the industry in which the Company operates and its industry position during the Reporting Period

In the first half of 2018, as the Chinese government made full efforts to prevent and defuse major risks, the regulatory scrutiny in the industry remained and a series of important laws and regulations were introduced including new rules on asset management, share pledge business and internal control of investment banks, which had a profound influence on the development of the industry and provided new opportunities to the large comprehensive securities companies with sound risk control capacity, strong capital resources and leading products and service innovation capabilities, such as the Company, as a result of which the industry concentration is expected to further increase. With the release of restrictions on foreign control in the joint venture securities firms, the expansion of investment quota in Shanghai/Shenzhen-Hong Kong Stock Connect programmes, inclusion of A shares in the MSCI index, the further opening up of the capital market, the market valuation and the volatility will show more international features, characterised with more reasonable valuation and less fierce volatility. In the first half of 2018, the Company carefully analysed the new macro status and regulatory landscape, seized the new opportunities for development, adapted itself to the new characteristics of market development, leveraged on the advantages of conglomerate and internationalisation, and achieved good operating results. The principal businesses of the Company ranked in the forefront of the industry, and the Company as a whole maintained the first tier position in the industry.

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

For major changes in assets which accounted for over 5% of the total assets as at the end of the Reporting Period and range of such change during the Reporting Period exceeding 30%, see "*II. (III). Analysis on principal components of consolidated statement of financial position*" in Section IV of this Report for details.

Of which: off-shore assets was RMB172,186,682,871.20, accounting for 30.04% of the total assets.

Section III SUMMARY OF THE COMPANY'S BUSINESS

III. ANALYSIS ON THE COMPANY'S CORE COMPETITIVENESS DURING THE REPORTING PERIOD

During the course of its operations over the years, the Company has gradually built up its specific core competitiveness in following aspects:

1. Solid capital strength

From 2007 to 2017, the Company seized the market opportunities and rapidly enhanced its capital strength through several strategic equity financing and bond financing transactions. In the first half of 2018, the Company completed a series of domestic financing activities raising an aggregate amount of RMB36.0 billion through the issuance of public offering bonds to qualified investors, "margin financing and securities lending" ABS and beneficiary certificates. While the liquidity supervision indicators continued to satisfy the regulatory requirements, the Company properly arranged the replacement of matured debts with new debts and effectively satisfied the business capital requirements. In addition, the Company was also actively expanding overseas financing channels to ensure the healthy and orderly development of overseas business. Adequate capital has laid a solid foundation for the Company's business optimisation and transformation.

2. Outstanding comprehensive financial service platform

Starting from the Company's securities business, the Company has continuously expanded the scope of its financial products and services and extended the boundaries of financial services through establishment and acquisition of professional subsidiaries. The Company has developed into a financial service conglomerate with businesses covering brokerage, investment banking, asset management, private equity investment, alternative investment and financial leasing. The Company's brokerage business boasts a solid customer base; its investment banking business has high market influence; the assets under management(AUM) of actively managed assets business increases steadily; the scale and profit of its private equity investment business ranks top in the industry; the performance indicators of its Hong Kong business are in the forefront among all market players; its financial leasing business establishes an industry-leading position; and its research services business enjoys strong market influence. The integrated financial platform generates strong scale effect and cross-selling potentiality, which vigorously supports the business development and enables comprehensive financing services for customers.

Section III SUMMARY OF THE COMPANY'S BUSINESS

3. Extensive branch network and solid customer base

As at 30 June 2018, the Company has 331 securities and futures business departments (including 290 securities business departments and 41 futures business departments) spanning across 30 provinces, municipalities and autonomous regions in the PRC. The Company also established branches, subsidiaries and representative offices in 14 countries and regions in Asia, Europe, North America, South America and Oceania. With a nationwide network of locations and a strategic international presence, the Company has built a large and stable customer base. As at 30 June 2018, the Company had approximately 13.00 million domestic and overseas customers.

4. Market leading international business platform

The Company has established an industry-leading international business platform through the acquisition and consolidation of Haitong International Securities and Haitong Bank, the establishment of branch in Freed Trade Zone ("FTZ"), and acquired the first-mover advantages in the Asian-Pacific region, as well as the forward-looking strategic reserve in Europe and America. In the first half of 2018, Haitong International Securities continued to maintain its leading position in Hong Kong, and the principal businesses continued to maintain strong market competitiveness, among which: in respect of corporate financing business, Haitong International Securities ranked third among all the investment banks based in Hong Kong in terms of the number of IPO projects, and ranked fourth among all the investment banks based in Hong Kong in terms of the number of equity financing transactions. Haitong International Securities completed its first IPO project in U.S. market. In addition, Haitong International Securities ranked first among financial institutions in the world in terms of underwriting amount for the issuance of Asian (excluding Japan) USD high yield bonds, and ranked third in Hong Kong market in terms of the number of warrants issuance. Meanwhile, Haitong International Securities completed the acquisition and integration of the UK and US subsidiaries of Haitong Bank, and further optimised its overseas strategic layout.

Haitong Bank is an important part of the Company's globalisation strategy specialising in the local market in Iberia and with over 20 years' experience in the overseas markets. The Company aims at supporting cross-border business exchanges among China, Europe, South America and Africa, and expanding the Company's business to wider geographic region and prepare the Company for its accelerated globalisation in advance. In the first half of 2018, Haitong Bank focused on three areas, including corporate banking, investment banking and asset management. Its operating costs were controlled, and the business development basically embarked on a virtuous cycle. In February 2018, Standard & Poor's upgraded Haitong Bank's rating outlook to "stable".

The Company's FTZ branch, as one of the first securities institutions participants in the FTU system of the free trade zone, became the first PRC securities firm that completed the cross-border financing project under FT. In addition, it also has completed the first gold leasing business on the SGE International in the first half of 2018. These market leading, well-established and multi-jurisdiction international business platforms will help the Company seize the opportunities for the ever growing cross-border businesses, meet customers' demands for cross-border business and improve the Company's international influence.

Section III SUMMARY OF THE COMPANY'S BUSINESS

5. Prudential operational philosophy, effective compliance risk management and internal control system

The Company has adhered to the risk control philosophy of "prudence and even conservativeness" and has navigated through multiple market and business cycles, regulatory reforms and industry transformations and developments in the past 30 years of operations. Among the Chinese securities firms established in 1980s, the Company is the only large-scale securities firm that has been continuously operating under the same brand without state-owned capital injection or being acquired or restructured. The Company has effectively implemented a company-wide comprehensive risk management system to robustly implement the requirements for overall risk management and to effectively manage market risks, credit risks, liquidity risks and operational risks. The Company has also established effective risk isolation mechanism and appropriate precautionary mechanism across its business lines to prevent potential conflicts of interests. In addition, the Company has established an independent and centralised internal audit and compliance system to effectively monitor and supervise the compliance, authenticity, completeness, and effectiveness of its operations and transactions.

6. Continuously enhanced science and technology strength

The Company adheres to the science and technology guiding principle of "unified management, self-initiation and controllability, integration of business and leading development" and provides comprehensive support in executing corporate strategies and establishment of a benchmark investment bank in the PRC through unremitting efforts by way of enhancing the technological capabilities in three areas, namely production operations, software R&D and technology management. On the one hand, the Company keeps pace with the development trend of financial technology, moves ahead with strategic initiatives relating to, among others, financial cloud, big data and artificial intelligence, and fully supports the innovative development of each business. On the other hand, the Company increasingly improves the self-initiation and controllability of application systems, and is gaining benefits from the self-development of its own Internet finance system, compliance and risk management, and data services, etc. Taking Internet finance sector as an example, the "e-Haitong Cai" Internet finance platform of the Company now provides connectivity through mainstream terminals such as mobile phones, PCs and iPads. With the improvement of independent R&D capabilities, the Company has registered eight software copyrights in such areas as mobile phone securities system and counter business system and has applied for registration of four invention patents.

Section IV REPORT OF THE BOARD OF DIRECTORS

I. MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2018, the domestic development trend of regulatory scrutiny, deleveraging, promoting opening-up, seeking improvement while maintaining stability and the complicated international political and economic status brought both new opportunities and challenges to the operations and development of the Company. By seizing the momentum and actively adjusting based on the external factors, and following the operation guidelines of "remain true to our original aspiration, exert advantages and pursue progress while ensure stability" established at the beginning of the year, the Company leveraged on its traditional advantages in capital intermediary business, the differentiated advantages in financial leasing business and the first-mover advantages in overseas business, and continued to promote reform and innovation, enhance synergy at all levels, and fulfil the development potential and thus achieved good business performance and maintained its position in the traditional business market. As a result, the Company ranked among the top in the industry in terms of the key financial and business indicators. In the first half of 2018, the Company formulated its three-year development plan for 2018-2020 and further clarified its development strategy, key tasks and business targets for the next three years. The Company had reorganised the reporting structure of business segments to further highlight the customer-oriented development concept and had integrated the business idea transformation while adjusting the business segments; the Company orderly carried out the asset and liability management, commenced equity financing, and optimised its capital allocation. The Company strengthened talent selection and training, continued to drive the establishment of top-class young leadership teams, and enhanced the reserve of international talents. The Company continued to enhance independent IT control capability and further improved the application of IT systems in the corporate management according to the five-year scientific and technical plan while focusing on the implementation of big data strategy in the pattern of "1+3+N". The Company made steady progress on integration of overseas resources, and further clarified the regional and professional division of the overseas licensed businesses. Haitong International Securities further consolidated its market position and presence in Hong Kong and further exerted its role as the bridgehead for the Company's the international strategy of "based on Asia-Pacific and reaching the world". Haitong Bank's business is on the right track and gaining momentum fast.

Section IV REPORT OF THE BOARD OF DIRECTORS

II. OPERATIONS DURING THE REPORTING PERIOD

(I) Analysis on principal businesses

➢ *Wealth management business*

Market conditions:

In the first half of 2018, the trading volume of the mainland capital market was basically stable. According to Wind Info, the average daily trading volume of stocks and mutual funds was RMB482.7 billion, representing a year-on-year increase of 1.39%. The competition on the commission rate in the industry continued and the average commission rate of the industry continued to drop. The extensive application of Internet finance and fin-tech had a profound impact on the wealth management business. At the same time, the number of domestic high-net-worth population and the size of asset increased continuously, which will further promote the transformation of the industry to the wealth management business.

In the first half of 2018, due to factors such as rapid rise of the Hong Kong stock market at the beginning of the year and reform of the Hong Kong listing regime, trading in the Hong Kong stock market increased significantly, with an average daily trading volume of HKD126.6 billion, representing a year-on-year increase of 66.6%.

Operating measures and performance:

The Company continued to enhance the core capacities of wealth management business of securities firms, such as investment advisory services, trading services and product sales based on asset allocation, with an aim to promote the overall transformation from the brokerage business to the wealth management business. In the first half of 2018, the trading volume of stocks and funds of the Company amounted to RMB5,154.6 billion, representing a year-on-year increase of 9.6%. The number of customers of the Company grew steadily and the new customer accounts amounted to approximately 0.805 million, and the total customer accounts amounted to approximately 11.53 million. The market share of newly added accounts of Yimatong (一碼通) of the Company amounted to 11.8%.

Section IV REPORT OF THE BOARD OF DIRECTORS

Changes in Trading Volume of the Company in the First Half of 2018

	The Reporting Period	Last Corresponding Period
Trading volume of stocks (RMB100 million)	**43,664**	45,811
Trading volume of funds (RMB100 million)	**7,882**	1,229
Total (RMB100 million)	**51,546**	47,040

Source: internal statistics of the Company

(1) Retail and Internet finance businesses

During the Reporting Period, the Company continued to promote the reform and transformation of its branches, by adopting a customer-centred approach and implementing solid marketing and intensified services, to effectively improve the market competitiveness of the branches of the Company.

In respect of Internet finance, the Company continued to improve and optimise the functions of E-Haitong Cai financial service platform. New functions were launched such as smart account analysis, smart reminder, Tongcai wallet, smart stock selection, option trading; new services were offered including three-minute guidance for individual stocks, data centre, research reports of Haitong researcher and "Questions for Board Secretary"; data optimisation and experiences enhancement were conducted in respect of market quotations, trading, self-selected stocks and fund and positions. In addition, the Company improved content-based operation including market change news and messages feeding, hot issue interpretation, thematic content analysis and external cooperation. E-Haitong Cai was included in the List of Best Securities Company APPs and granted "Top Ten APPs of the Year" and "the Most Creative APP of the Year" sponsored by Sina Finance. It was also granted "the Best Intelligent Securities Firms for 2017" by the Securities Daily and "the Best Securities Trading APP for 2017" by the Cheetah Data, a third-party evaluation institution. As at the end of June 2018, the total number of devices that installed E-Haitong Cai reached 21.33 million and the net trading commission contribution of the APP reached 56%.

The Company maintained its leading position in the industry in terms of the Southbound Trading business. In the first half of the year, the number of new customer account of Southbound Trading increased by 4,501 accounts and reached 0.12 million accounts, with the trading volume of HKD111.0 billion and the market share of 6.17%.

Section IV REPORT OF THE BOARD OF DIRECTORS

(2) *Wealth management for high-net-worth customers*

In the first half of 2018, the Company's wealth management business for high-net-worth customers gradually transited from the agency sale of traditional financial products to comprehensive asset allocation. In spite of the extremely sluggish stock market and the bond market exposed to the impact of credit risk, the Company's quantitative products had an outstanding performance, the advantages of comprehensive asset allocation gradually stood out, and the Company achieved good customer satisfaction in spite of the market downturn. In addition, the Company's service system for high-net-worth customers improved continuously, businesses synergy became significantly strengthened.

(3) *Futures brokerage*

The Company maintained strong market competitiveness in the futures brokerage business. In the first half of 2018, Haitong Futures, as a controlled subsidiary of the Company, was listed on the NEEQ, which further improved its brand influence. The Company attained a market share of 8.04% in terms of trading volume of futures commissioned through the Company. Haitong Futures actively expanded the crude oil futures business and attained a market share of 6.66% in terms of trading volume, ranking among the forefront in the industry.

(4) *Financing business*

Based on the development strategy of "stabilise the size, adjust the structure and reduce the risk", the Company actively sorted out its existing businesses, and strengthened measures such as enhancing project review, promoting special fund account management, reinforcing risk monitoring, and strengthening capital gain management, to actively optimise the capital intermediary business layout. The business segment showed a stable and slightly reduced size, and stable and improved quality and steadily increased financial performance. As at the end of June 2018, the total size of the financing business of the Company reached RMB151.8 billion, down by RMB9.8 billion from the end of the previous year, and the overall maintenance ratio of collateral was 215%.

Section IV REPORT OF THE BOARD OF DIRECTORS

Changes in the Size of Financing Business in the First Half of 2018

	As at the end of the Reporting Period	As at the end of previous year
Balance of margin financing and securities lending business (RMB100 million)	**444.21**	480.33
Balance of stock pledge business (RMB100 million)[1]	**1,062.38**	1,120.69
Balance of stock repo transaction (RMB100 million)	**11.92**	15.75
Total (RMB100 million)	**1,518.51**	1,616.77

Source: SSE, SZSE, and internal statistics of the Company

➢ *Investment banking business*

Market conditions:

According to Wind Info, in the first half of 2018, the total fund raised in the domestic equity capital market (including IPO, secondary offering, rights issue, preference shares and convertible bonds) was RMB660.5 billion, representing a year-on-year decrease of 21%. As a result of increased scrutiny in review of IPO applications, the number of companies achieved listing on domestic stock exchanges was 63, representing a decrease of 184 as compared to the same period of last year. Among all the IPO applications, only 52% application were approved. For the bond market, bonds in a total amount of RMB1.99 trillion were underwritten, representing a year-on-year increase of 22%. The value of M&A transactions amounted to RMB1.39 trillion, representing a year-on-year increase of 11%. As at the end of June 2018, a total of 11,243 companies were listed on the NEEQ, down by 387 compared to the end of the previous year.

Thanking to the reform of the Hong Kong listing regime, the size of funds raised in the Hong Kong stock market increased notably in the first half of the year. The funds raised through IPO amounted to USD12,970 million, representing a year-on-year increase of 82.8%. The size of funds raised upon listing (including placement, public offering, rights issue, consideration issuance, exercise of warrants, and share option scheme) amounted to USD37,237 million, representing a year-on-year increase of 97.5%. In respect of US stock markets, the listing of PRC companies on the stock exchanges in the United States has significantly improved. In the first half of 2018, the Company completed 15 IPO projects for the relevant PRC enterprises to be listed in the stock exchanges in the United States, raising funds of USD3.9 billion and representing a 13-fold increase over the same period of last year.

1. Including funding from collective asset management schemes, targeted asset management schemes and proprietary funds.

Section IV REPORT OF THE BOARD OF DIRECTORS

Operating measures and performance:

Facing with a regulatory landscape characterised by continuous scrutiny, the Company strictly implemented the new internal control rules applicable to investment banks, enhanced project quality control, strengthened efforts in project reserve, and seized the market opportunity to steadily promote the implementation of high-quality projects.

(1) *Equity financing*

In the first half of 2018, the equity financing business segment of the Company proactively adapted to market and policy changes. On the one hand, it actively promoted the achievement transformation of the projects in the CSRC vetting and approval process, and completed seven IPO projects and secondary issuance projects. Among the pipeline projects, IPO applications were submitted for two premium companies. As at the end of the first half of 2018, the Company ranked in the forefront in the industry in terms of the number of IPO projects which are in CSRC vetting and approval process. On the other hand, the Company built a deep understanding of the national strategy, actively embraced the new economy, set up an innovation team to strengthen policy analysis and product research on the new economy, and optimised and increased project reserves. While consolidating the traditional advantages, the Company strengthened the expansion of innovative projects and reserved over 100 equity financing projects including enterprises with the four elements of new economy, several of which had great market influence and were industry representational. In the first half of 2018, the equity financing business adhered to the Company's risk control philosophy of "prudence and even conservativeness" and the new requirements of the Guidelines for Internal Control of Investment Banking Business of Securities Companies (《證券公司投資銀行類業務內部控制指引》) issued by the CSRC, the Company further strengthened its internal control to improve the "three-level quality control system", which consolidated the foundation for the long-term sound and stable development of this business segment under the new situation.

In respect of overseas equity financing, according to the data of Bloomberg, the Company ranked third among all the Hong Kong investment banks in terms of number of IPOs, and the total amount of fund raised amounted to US$593 million; the Company ranked fifth among all the Hong Kong investment banks in terms of number of equity financing projects (including IPO, placement and rights issue on the secondary market), with the total amount of fund raised of US$1,086 million. The Company also made great breakthrough in developing US market. The Company helped Puxin Education, the third largest extracurricular education service provider in China, complete the public offering in New York Stock Exchange as a joint bookrunner, which further improved the brand influence of the Company as an investment bank.

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(2) Debt financing

The Company made improvements in both quantity and quality for its debt financing business. According to Wind Info, in the first half of 2018, the Company completed domestic underwriting of 142 bonds as the lead underwriter, with the underwritten amount of RMB97.8 billion. The Company ranked first in the industry in terms of number of enterprise bonds underwritten and second in terms of underwritten amount; ranked fifth in the industry in terms of number of corporate bonds underwritten and fourth in terms of underwritten amount; and ranked second in terms of both number and amount of debt financial instruments for non-financial enterprises of brokerages. The Company successfully completed the issuance of such innovative bonds as coal price linked bonds, PPP special bonds and the Belt and Road ABS, and established a good reputation for innovative service capability in the market. The Company closely followed the market changes and enhanced the bonds risk management and risk investigation in the duration of the bonds. In the context of frequent market defaults, all the due bonds in the first half of the year underwritten by the Company as the lead underwriter were paid on schedule with no risk incidents occurred. The Company was recognised by all the mainstream investment institutions for its professional capability.

Changes in the Scale of Corporate Debt Financing in the First Half of 2018

		The Reporting Period	Last Corresponding Period
Corporate bond	Lead underwritten amount (RMB100 million)	**337.76**	280.67
	Number of transactions as lead underwriter	**45**	38
Enterprise bond	Lead Underwritten amount (RMB100 million)	**80.63**	81.80
	Number of transactions as lead underwriter	**9**	6
Others[1]	Lead Underwritten amount (RMB100 million)	**559.51**	411.63
	Number of transactions as lead underwriter	**88**	28

Source: Wind Info

With respect to overseas debt financing business, the Company ranked third among all the Hong Kong investment banks in terms of number and amount of bond financing, and the Company ranked first among international financial institutions in terms of underwriting amount for the issuance of Asian (excluding Japan) USD high yield bonds.

1. Others include securities corporate bonds, non-policy financial bonds, short-term commercial papers, medium-term notes, private placement financing instruments, ABS, and exchangeable bonds.

Section IV REPORT OF THE BOARD OF DIRECTORS

(3) *M&A financing*

The Company accelerated the implementation of the projects for M&A financing business and increased its project reserve. According to Wind Info, in the first half of 2018, the Company completed four domestic major asset restructuring projects, ranked the fourth and the second in terms of number and transaction amount of M&A, respectively. With regard to the number of enterprises and transaction amount for M&A transactions subject to first announcement, the Company was involved in nine transactions with a total transaction amount of RMB41 billion, ranked the fourth and the fifth in the industry in terms of the number of transactions and the transaction amount, respectively.

The Company has completed a number of M&A financing project in Europe and Latin America markets. The Company also made orderly progress in developing projects in the Belt and Road Countries, including helping China Gezhouba Group Overseas Investment Co., Ltd. (中國葛洲壩集團海外投資有限公司) complete the acquisition of Sistema Produtor Sao Lourenco, a San Norrenso water supply company in Sao Paulo, Brazil.

➢ *Asset management business*

Market conditions:

According to the data of the Securities Association of China, from 2011 to 2017, the net income of the entrusted customer asset management business of the securities companies increased from RMB2.1 billion to RMB31.0 billion, and the income contribution continually increased from 1.5% to nearly 10%. The asset management business has become a key business for the securities companies to develop. The newly promulgated asset management regulation further specified the requirements of eliminating guaranteed repayment, controlling classification, deleveraging, removing channel and returning to active management and will accelerate the restructuring of the asset management market into a new market landscape which enables the asset management and the fund segments of the securities companies to concentrate its resources and exert their strength on investment research, trading and product design, and further enjoy the profit of market growth.

Section IV REPORT OF THE BOARD OF DIRECTORS

Operating measures and performance:

The main platforms of the Company's asset management business include HT Asset Management, HFT Fund, Fullgoal Fund, eight private investment funds subsidiaries and the overseas asset management business.

As at the end of June 2018, the total asset under management ("AUM") of the Company was RMB1.03 trillion.

(1) *HT Asset Management*

According to the regulatory requirements of deleveraging and reducing channel, HT Asset Management continuously reduce the scale of its channel business and vigorously developed the active management business. As a result, both the management fee and performance-based compensation of the Company's active management business have increased. Nevertheless the overall size of asset management business has decreased, the net income therefrom increased by 17% on a year-on-year basis. The AUM of HT Asset Management was RMB314.8 billion, of which the AUM of the active management assets was RMB89.2 billion, with a year-on-year increase of 10%, representing the further improvement of the active management capability.

	As at the end of the Reporting Period		As at the end of Last Corresponding Period	
	AUM *(RMB100 million)*	**Net income *(RMB10 thousand)***	AUM *(RMB100 million)*	Net income *(RMB10 thousand)*
Collective asset management	**500**	**26,222**	500	13,147
Targeted asset management	**2,572**	**7,706**	5,277	16,110
Specialised asset management	**77**	**196**	7	25
Total	**3,148**	**34,124**	5,784	29,282

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(2) *Fund management company*

As at the end of the Reporting Period, the asset under management of HFT Fund reached RMB200.3 billion, of which the asset under management of the public funds amounted to RMB57.4 billion increased by 13% as compared to the beginning of the year. The product performance improved significantly. HFT Alpha hedge fund ranked first among the same type of funds. Eight equity and hybrid public funds were in the top quarter among the comparable funds. There were 12 fixed income public funds were in the top 9% among the comparable funds in terms of comprehensive investment performance. The asset under management of Fullgoal Fund reached RMB449.3 billion, including RMB208.6 billion of public funds, representing a growth of 11% as compared to the beginning of the year.

(3) *Private investment fund*

The PE fund subsidiaries of the Company enhanced the process management "offering, investment, management and withdrawal" (募投管退), completed the development and on-line trial operation of the integrated PE business system and promoted the centralised management of the middle and back end of the PE business. The Company also strengthened the management of the private investment projects of the PE fund subsidiaries, increased the frequency and intensity of post-investment tracking of invested projects, strengthened liquidity management and actively supported and promote the listing process of the project in the CSRC approval process and strived to improve the investment expertise, management standardisation and the market based approach of the operation of the PE business line.

(4) *Overseas asset management*

The AUM of the overseas asset management business of the Company was approximately US$8.1 billion[1]. Haitong International Securities has two funds ranking first among the same type funds and four funds ranking the top three in terms of cumulative rate of return, as rated by Lipper. Haitong International Securities was granted the awards of the Best China Offshore Fund Company (最佳中國離岸地區基金公司) and the Best Business Development Team (最佳業務拓展團隊) in Asia Pacific Region by Asia Investor. In the first half of the year, Haitong Bank completed the issuance of two Undertakings for Collective Investment in Transferable Securities (UCITS) funds.

(1) According to the exchange rates of Hong Kong dollars to U.S. dollars and Euro to U.S. dollars issued by State Administration of Foreign Exchange on 29 June 2018.

Section IV REPORT OF THE BOARD OF DIRECTORS

➢ *Trading and institutional client services*

Market conditions:

In the first half of 2018, the equity market and the debt market in China moved in different directions. The CSI 300 dropped by 12.9% while the China Bond New Composite Total Net Price Index gained by 1.85%. Since the second quarter of 2018, bonds defaults occurred frequently, the investors' risk aversion attitude rose. The sovereign and quasi-sovereign bonds and the credit bonds growing in divergent trends, the sovereign and quasi-sovereign bonds continuing to be strong, and the yield of the credit bonds continued to increase. In the stock market in Hong Kong, Hang Seng Index dropped by 3.2% as a result of the impact of external environment. As the official inclusion of A shares into MSCI index on 6 June 2018 and the deepening of regulatory reformation, the market showed the feature of institution player dominance and squeesing out of individual investors. The Company's trading and institutional client services will face a new development stage.

Operating measures and performance:

(1) Trading business

The Company steadily promotes the development of its Fixed Income, Currencies and Commodities (FICC) business. In the first half of 2018, the Company adopted the leveraged allocation strategy of enhancing low-risk bonds and high-yield bonds for its fixed income proprietary trend investment and achieved good returns. The Company orderly carried out the treasury bonds futures hedge, monetary market hedge and interest rate swap businesses. The Company's gold lease and proprietary gold trading business developed steadily. Haitong International Securities maintained its leading position in bonds market making and dealing in Asia. Its market making transactions have currently covered most of Asia offshore bonds markets, with the number of bilaterally quoted bonds exceeding 1,400. Haitong International Securities has become one of the largest fixed income market makers in Hong Kong and an important price setter of credit bonds in Asia Pacific region.

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Haitong International Securities also maintained industry leading position in Hong Kong derivatives market. In the first half of 2018, Haitong International Securities again achieved great results in ETF and individual stock options market making business. Its Warrant CBBC business coverage ranked first in the whole market, and its warrant net capital inflow amount ranked third in the whole market. Haitong International Securities has become a leader in Hong Kong CBBC and derivative warrant product market and is among the first echelon of issuers. The Alibaba Warrant, linked with Alibaba, a company listed on New York Stock Exchange, was approved by the Hong Kong Stock Exchange for offering and officially listed on the Hong Kong Stock Exchange on 26 June 2018.

(2) Institutional client business

The Company's research covers listed companies in Chinese mainland, Hong Kong, Macau, Taiwan, the United States, Japan, India, and South Korea and the Company continued to intensify and expand the domestic and overseas client base. The Company's services maintained the market leading advantages, comparatively strong market influence, and widely recognised quality of research reports. As at the end of June 2018, a total of 445 institutions in the PRC purchased research services from the Company. In the first half of 2018, the Company continued to reinforce its research services by organising seminars, workshops, and high-end forums, closely focusing on the market hot issues and interpreting the policy change, which received positive feedbacks from our institutional customers. The Company actively developed the WOFE market and respectively helped Schroeder and Aberdeen complete the issuance of their first WOFE product.

The Company enhanced the prime broker service driven policy and actively developed PE customers. In the first half of 2018, the total scale of PE business reached RMB531.3 billion, including RMB179.8 billion of custody business, representing a growth of 22.5% as compared to the end of last year. The number of PE customers served by the Company reached 2,060.

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➢ *Financial leasing business*

Market conditions:

According to third-party[1] data, from 2012 to 2017, the operating income of China's financial leasing industry soared from RMB63.5 billion to RMB329.0 billion, with a compound annual growth rate of 39.0%. Despite the rapid development of the financial leasing industry, it still had a lower position in the social financing system, and there was sufficient room for enhancing the penetration rate of the financial leasing industry. With the promotion of the real economy and the supply-side structural reform, the growth of financing demand of small and medium-sized enterprises, improvement to the industry's regulatory environment, and the implementation of incentive policies of the industry development, the financial leasing industry will achieve substantial development in the process of better serving the real economy by returning to the original function and purpose of leasing. In the first half of 2018, there were major changes in the environment for developing the financial leasing industry. The industry regulatory authority was changed from the Ministry of Commerce to the China Banking and Insurance Regulatory Commission (the "**CBIRC**"), and strict supervision and risk prevention became the keypoint of the industry development. The competition pattern of the industry will become more orderly.

Operating measures and performance:

As at the end of June 2018, the total assets of Haitong UT reached RMB70.0 billion. Both the headquarters and the branches were well prepared to move forward actively; the localised operation mode was further enhanced with the development of institutional business in parallel with the retail business. In the first half of 2018, the release proportion of retail business investment exceeded 50%; the establishment and development of the risk model were initiated; quantitative risk management capacity was improved; the public sentiment monitoring system was gradually transformed from manual detection to automatic system detection. As a result, a full-process and full-coverage customer risk monitoring system was realised, and the overall asset quality maintained at a rational level. Haitong UT continued to expand financing channels and actively developed various direct financing means, including medium-term bills, short-term financing and ABS, with the direct financing proportion exceeding 40%. It has successfully completed the formation of overseas syndicate and the listing of H-shares of Haitong UT is steadily pushed forward.

1 Statistics of Frost & Sullivan.

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(II) Details of principal line items in the consolidated statement of profit or loss

1. Composition of revenue

Unit: RMB'000

Items	**January to June 2018**	January to June 2017	Increase/ Decrease amount	Increase/ Decrease percentage
Commission and fee income	**5,347,240**	5,868,623	-521,383	-8.88%
Interest income	**8,862,881**	7,475,356	1,387,525	18.56%
Investment income and gains (net)	**1,868,675**	4,353,418	-2,484,743	-57.08%
Other income and gains	**2,910,777**	2,378,201	532,576	22.39%
Total revenue, gains and other income	**18,989,573**	20,075,598	-1,086,025	-5.41%

In the first half of 2018, the market fluctuated and the total revenue, gains and other income realised by the Group amounted to RMB18,990 million, representing a decrease of RMB1,086 million or 5.41% as compared to the corresponding period of last year.

Section IV REPORT OF THE BOARD OF DIRECTORS

Commission and fee income

Unit: RMB'000

Items	January to June 2018	January to June 2017	Increase/ Decrease amount	Increase/ Decrease percentage
Commission and fee income of securities brokerage business	**2,171,290**	2,346,717	-175,427	-7.48%
Commission and fee income of futures brokerage business	**605,347**	819,443	-214,096	-26.13%
Financial advisory and consultancy fee income	**610,382**	600,896	9,486	1.58%
Underwriting and sponsors fees	**1,022,195**	1,164,723	-142,528	-12.24%
Asset management fee income (including fund management income)	**897,721**	912,747	-15,026	-1.65%
Others	**40,305**	24,097	16,208	67.26%
Total commission and fee income	**5,347,240**	5,868,623	-521,383	-8.88%

Commission and fee income amounted to RMB5,347 million, representing a decrease of RMB521 million or 8.88% as compared to the corresponding period of last year, mainly due to the decrease in turnover in futures market and the decrease in commission and fee income in futures brokerage business.

Interest income

Interest income amounted to RMB8,863 million, representing an increase of RMB1,388 million or 18.56% as compared to the corresponding period of last year, mainly due to the increase of interest income from financial assets held under resale agreements.

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Investment income and gains (net)

Investment income and gains (net) amounted to RMB1,869 million, representing a decrease of RMB2,485 million or 57.08% as compared to the corresponding period of last year, mainly due to the volatility in the securities market in the first half of 2018 which contributed to decrease of investment gains.

Statement of the Principal Businesses of the Group

Unit: RMB'000

Item	Segment income	Segment expense	Segment Profit margin	Segment income movement as compared to last year	Segment expense movement as compared to last year	Segment profit margin movement as compared to last year
Wealth management business	7,796,034	5,034,785	35.30%	5.48%	-0.20%	Increasing by 3.68 percentage points
Investment banking business	1,663,911	1,214,747	26.99%	-21.34%	-18.12%	Decreasing by 2.87 percentage points
Asset management business	1,000,103	545,818	55.07%	4.98%	-17.42%	Increasing by 14.48 percentage points
Trading and institutional client business	3,875,288	3,659,684	1.63%	-34.53%	-13.21%	Decreasing by 29.82 percentage points
Financial leasing business	2,625,112	1,984,707	25.14%	38.88%	50.32%	Decreasing by 5.31 percentage points
Others	2,029,125	2,003,139	1.28%	12.27%	11.93%	Increasing by 0.29 percentage point

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2. *Composition of expenses*

Unit: RMB '000

Total expenses	January to June 2018	January to June 2017	Increase/Decrease amount	Increase/Decrease percentage
Staff costs	**2,554,605**	3,351,767	-797,162	-23.78%
Interest expenses	**6,443,120**	5,732,732	710,388	12.39%
Brokerage transaction fees and other services expenses	**874,917**	974,565	-99,648	-10.22%
Commission to account executives	**289,468**	309,563	-20,095	-6.49%
Depreciation and amortisation	**283,673**	217,648	66,025	30.34%
Impairment losses and net of reversal	**697,829**	706,694	-8,865	-1.25%
Other expenses	**3,308,268**	3,232,281	75,987	2.35%
Total	**14,451,880**	14,525,250	-73,370	-0.51%

In the first half of 2018, total expenses of the Group amounted to RMB14,452 million, representing a decrease of 0.51% as compared to the corresponding period of 2017 (RMB14,525 million). The structure of expenses changed, mainly due to the decrease in staff costs and increase in interest expenses. Interest expenses amounted to RMB6,443 million, representing an increase of RMB710 million or 12.39% as compared to the corresponding period of 2017, mainly due to the increase in interest on bond payables.

In the first half of 2018, the Group achieved a net profit attributable to owners of the Company of RMB3,031 million, representing a year-on-year decrease of 24.67%; realised basic earnings per share of RMB0.26, representing a year-on-year decrease of 25.71%; the weighted average return on net assets was 2.56%, representing a year-on-year decrease of 1.01 percentage points.

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3. *Public welfare contributions*

During the first half of 2018, the Group contributed RMB2,759.8 thousands in total in public welfare areas including environmental protection, disaster relief donations, education subsidies and charity donations.

Breakdown of public welfare contributions for January to June 2018

Unit: RMB'000

Item	**Amount during the period**
Charity donations	2,759.8
Total	2,759.8

4. *Cash flow*

In the first half of 2018, the Group's cash and cash equivalents recorded a net increase of RMB691 million, in which:

(1) The net cash used in operating activities was RMB10,433 million, which was mainly due to the effect of the cash outflow of RMB17,954 million due to the change in the Group's working capital. The decrease of working capital of the Group was mainly attributable to:

- an operating cash outflow of RMB24,946 million due to the net increase in financial assets and liabilities measured at fair value through profit or loss;
- an operating cash outflow of RMB9,078 million due to the increase in financial lease receivables;
- an operating cash inflow of RMB10,138 million due to the increase in placements from banks and other financial institutions.

(2) Net cash used in investing activities was RMB1,998 million, mainly due to the increase in the debt instruments measured at fair value through other comprehensive income.

(3) Net cash from financing activities was RMB13,122 million mainly a cash inflow of RMB13,458 million due to the net increase of the Group's borrowings, bonds payable, and short-term financing bills payables.

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5. *Others*

***Details of material changes in the composition or sources of the Company's profits*.**

During the Reporting Period, there were no material changes in the composition or sources of the Company's profits.

Explanations on progress of business plans

Under the guidance of the overall strategy, the Company has adhered to prudent operations, focused on main development line, enhanced business collaboration, deeply explored comprehensive business demands of customers in such business lines as brokerage, investment banking, financing and private equity investment and improved the individual customer's magnitude of value; made up weakness and looked for a breakthrough in asset management and wealth management; steadily promoted subsidiaries' development and further improved subsidiaries' profit contribution. Besides, the Company has thoroughly promoted integration of international resources and continuously improved its IT management, HR management, compliance and risk management, financial and asset-liability management so as to promote the transformation of the Company from high-speed growth to high-quality growth, and further comprehensively improve the overall competitive strength of the Company. In the first half of 2018, the brokerage business line continued to play the role as a bedrock of the Company's income. The branch control and management has been enhanced; the financing business has demonstrated outstanding performance; the sales of proprietary products have achieved breakthroughs; multi-point linkage has been realised in institutional customer development, and the futures business has also maintained strong profitability. Regarding investment banking business line, active strategic adjustments were made for the equity financing business while bonds financing business was improved in both quantity and quality and project implementation was accelerated and project reserve was enriched for M&A financing business. In terms of asset management business line, the active management scale of its asset management subsidiary was increased while its mutual fund subsidiary maintained stable operations and the private fund subsidiary enhanced the "offering, investment, management and withdrawal" process management. In respect of overseas businesses, Haitong International Securities still maintained leading advantages in Hong Kong market while Haitong UT maintained rapid development trend with strong management control and Haitong Bank was on the virtuous development track. The construction of support and guarantee systems, such as compliance and risk control, HR, IT and research, was carried out steadily, providing strong support for management and laying a solid foundation for the sustainable and healthy development of the Company.

Section IV REPORT OF THE BOARD OF DIRECTORS

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

As at the end of June 2018, the total assets of the Group amounted to RMB573,220 million, representing an increase of RMB38,514 million or 7.20% compared with those as at the end of last year (RMB534,706 million); the total liabilities amount to RMB444,248 million, representing an increase of RMB39,236 million or 9.69% compared with those as at the end of last year (RMB405,012 million). The Group's financial assets measured at fair value through profit or loss represented 27% of its total assets, bank balances and cash, clearing settlement funds and deposits with exchanges in total represented 20% of its total assets, financial assets held under resale agreements represented 17% of its total assets, advances to customers on margin financing represented 10% of its total assets, while property and equipment and investment properties represented less than 1% of its total assets. The Group maintained reasonable asset structure and adequate liquidity.

Section IV REPORT OF THE BOARD OF DIRECTORS

Analysis on items of consolidated statement of financial position of the Company

Unit: RMB'000

	30 June 2018	Composition	31 December 2017	Composition	Increase/Decrease Amount	Increase/Decrease Percentage
Non-current assets	107,214,309		111,531,177		-4,316,868	-3.87%
Of which: Finance lease receivables	27,031,859	4.72%	22,212,628	4.15%	4,819,231	21.70%
Available-for-sale investments	–	–	31,725,358	5.93%	-31,725,358	-100.00%
Equity instruments at fair value through other comprehensive income	16,222,646	2.83%	–	–	16,222,646	N/A
Debt instruments at fair value through other comprehensive income	2,969,591	0.52%	–	–	2,969,591	N/A
Other loans and receivables	6,750,148	1.18%	8,098,697	1.51%	-1,348,549	-16.65%
Investments accounted for using equity method	8,344,845	1.46%	10,062,370	1.88%	-1,717,525	-17.07%
Financial assets held under resale agreements	18,213,933	3.18%	21,204,776	3.97%	-2,990,843	-14.10%
Property and equipment	2,972,959	0.52%	2,862,370	0.54%	110,589	3.86%
Loans and advances	3,408,232	0.59%	4,086,897	0.76%	-678,665	-16.61%
Goodwill	3,894,553	0.68%	3,863,520	0.72%	31,033	0.80%
Current assets	466,006,179		423,175,156		42,831,023	10.12%
Of which: Bank balances and cash	97,139,255	16.95%	99,358,329	18.58%	-2,219,074	-2.23%
Clearing settlement funds	8,328,608	1.45%	7,982,729	1.49%	345,879	4.33%
Financial assets at fair value through profit or loss	137,614,681	24.01%	98,904,357	18.50%	38,710,324	39.14%
Advances to customers on margin financing	58,868,580	10.27%	61,560,953	11.51%	-2,692,373	-4.37%
Accounts receivable	12,600,996	2.20%	7,442,000	1.39%	5,158,996	69.32%
Financial assets held under resale agreements	79,866,891	13.93%	75,345,093	14.09%	4,521,798	6.00%
Finance lease receivables	25,155,721	4.39%	21,323,548	3.99%	3,832,173	17.97%
Available-for-sale investments	–	–	9,503,398	1.78%	-9,503,398	-100.00%
Debt instruments at fair value through other comprehensive income	10,206,686	1.78%	–	–	10,206,686	N/A
Deposits with exchanges	7,849,660	1.37%	7,180,974	1.34%	668,686	9.31%
Derivative financial assets	1,576,800	0.28%	2,610,612	0.49%	-1,033,812	-39.60%
Other loans and receivables	15,839,011	2.76%	21,147,878	3.96%	-5,308,867	-25.10%
Total assets	573,220,488		534,706,333		38,514,155	7.20%

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	30 June 2018	Composition	31 December 2017	Composition	Increase/Decrease Amount	Percentage
Current liabilities	**295,463,866**		259,410,417		36,053,449	13.90%
Of which: Accounts payable to brokerage clients	**83,031,997**	**18.69%**	83,774,388	20.68%	-742,391	-0.89%
Financial assets sold under repurchase agreements	**39,996,224**	**9.00%**	32,645,727	8.06%	7,350,497	22.52%
Borrowings	**48,614,263**	**10.94%**	45,511,447	11.24%	3,102,816	6.82%
Placements from banks and other financial institutions	**15,550,000**	**3.50%**	5,450,000	1.35%	10,100,000	185.32%
Financial liabilities at fair value through profit or loss	**22,614,042**	**5.09%**	20,031,099	4.95%	2,582,943	12.89%
Derivative financial liabilities	**2,492,300**	**0.56%**	3,495,454	0.86%	-1,003,154	-28.70%
Other payables and accruals	**19,715,179**	**4.44%**	17,457,987	4.31%	2,257,192	12.93%
Short-term financing bills payables	**38,780,188**	**8.73%**	29,426,762	7.27%	9,353,426	31.79%
Customer accounts	**2,347,283**	**0.53%**	3,750,621	0.93%	-1,403,338	-37.42%
Tax liabilities	**1,230,859**	**0.28%**	2,198,613	0.54%	-967,754	-44.02%
Bonds payable	**19,852,395**	**4.47%**	14,739,105	3.64%	5,113,290	34.69%
Net current assets	**170,542,313**		163,764,739		6,777,574	4.14%
Non-current liabilities	**148,783,832**		145,601,612		3,182,220	2.19%
Of which: Bonds payable	**112,462,599**	**25.32%**	115,419,164	28.50%	-2,956,565	-2.56%
Long-term borrowings	**20,262,287**	**4.56%**	15,810,543	3.90%	4,451,744	28.16%
Financial assets sold under repurchase agreements	**–**	**–**	400,000	0.10%	-400,000	-100.00%
Financial liabilities at fair value through profit or loss	**2,175,020**	**0.49%**	712,400	0.18%	1,462,620	205.31%
Placements from banks and other financial institutions	**6,098,983**	**1.37%**	6,361,639	1.57%	-262,656	-4.13%
Total liabilities	**444,247,698**		405,012,029		39,235,669	9.69%
Total equity	**128,972,790**		129,694,304		-721,514	-0.56%

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

Section IV REPORT OF THE BOARD OF DIRECTORS

As at 30 June 2018, the total assets of the Group amounted to RMB573,220 million, representing an increase of RMB38,514 million or 7.20% as compared to the end of 2017; the total liabilities of the Group amounted to RMB444,248 million, representing an increase of RMB39,236 million or 9.69% as compared to the end of 2017.

As at 30 June 2018, non-current assets amounted to RMB107,214 million, representing a decrease of 3.87% as compared with the end of 2017, mainly due to the decrease in available-for-sale investments; current assets amounted to RMB466,006 million, representing an increase of 10.12% as compared with the end of 2017, mainly due to the increase in financial assets measured at fair value through profit or loss; current liabilities amounted to RMB295,464 million, representing an increase of 13.90% as compared with the end of 2017, mainly due to the increase in placements from banks and other financial institutions and short-term financing bills payables; net current assets amounted to RMB170,542 million, representing an increase of 4.14% as compared with the end of 2017; non-current liabilities amounted to RMB148,784 million, representing an increase of 2.19% as compared with the end of 2017, mainly due to the increase in long-term borrowings.

As at 30 June 2018, the Group's equity attributable to owners of the Company amounted to RMB116,999 million, representing a decrease of RMB756 million or 0.64% as compared with the end of 2017; excluding the influencing factors of accounts payable to brokerage customers, the Group's gearing ratio was 73.69%, representing an increase of 2.45 percentage points from the gearing ratio of 71.24% at the end of 2017. The Group's asset-liability structure remained relatively stable.

Section IV REPORT OF THE BOARD OF DIRECTORS

Borrowings and bond financing

As of 30 June 2018, the total borrowings and bond financing of the Group amounted to RMB239,972 million. Set out below is the breakdown of borrowings and bond financing of the Group as at the end of June 2018:

Unit: RMB'000

	30 June 2018	31 December 2017
Bonds payable	**132,314,994**	130,158,269
Borrowings	**68,876,550**	61,321,990
Short-term financing bills payables	**38,780,188**	29,426,762
Total	**239,971,732**	220,907,021

For the details of interest rate and maturities of borrowings and bonds financing, please refer to notes 36, 37 and 41 set out in the appended financial report.

As at 30 June 2018, the Group's borrowings, short-term financing bills payables and bonds payable due within one year amounted to RMB107,247 million, and the Group's net current assets, net of liabilities such as bonds payable, borrowings and short-term financing bills payables due within one year, amounted to RMB170,542 million. Therefore, liquidity risk exposure of the Group was immaterial.

Save as the liabilities disclosed in this Report, as at 30 June 2018, the Group had no outstanding mortgage, charges, bonds, other debt capital, liabilities under acceptance or other similar indebtedness, lease purchase and financial leasing commitment, guarantee or other material contingent liabilities.

(IV) Analysis on investment

1. Overall analysis on external equity investment

At the end of the Reporting Period, the investments accounted for using equity method of the Group was RMB8,345 million, with a reduction of RMB1,717 million as compared to the end of last year (RMB10,062 million), representing a decrease of 17.06%, mainly because of the reduction of the investments of subsidiaries of Haitong International Holdings. For details about the investments accounted for using equity method, please refer to Note 18 of the consolidated financial statements in this Report.

Section IV REPORT OF THE BOARD OF DIRECTORS

(1) Material equity investment

Unit: '000 Currency: RMB

Name of the company	Shareholding in the company	Book value at the end of the period	Profit and loss in the Reporting Period	Change in equity of owners in the Reporting Period
Fullgoal Fund	27.775%	844,338.2	97,101.4	-1,127.7

Notes:

1. Profit or loss in the Reporting Period refers to the impact on the consolidated net profit of the Company in the Reporting Period caused by such investment.

2. The change in equity of owners in the Reporting Period does not include the impact on the profit or loss in the Reporting Period.

(2) Material non-equity investment

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

(3) Financial assets measured at fair value

The financial assets measured at fair value of the Group mainly consist of financial assets measured at fair value through profit or loss of RMB148,137 million, financial assets measured at fair value through other comprehensive income of RMB29,399 million, and derivative financial instruments of RMB-915 million.

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(V) Analysis on principal holding subsidiaries and joint stock companies

1. HFT Fund, with a registered capital of RMB300 million, in which Haitong Securities holds 51% equity interest. As at 30 June 2018, the total assets of HFT Fund reached RMB1,656 million, and the net asset was RMB1,143 million. In the first half of 2018, HFT Fund realised an operating income of RMB295 million with a net profit of RMB74 million.

2. Fullgoal Fund, with a registered capital of RMB520 million, in which Haitong Securities holds 27.775% equity interest. As at 30 June 2018, the total assets of Fullgoal Fund reached RMB4,310 million, and the net asset was RMB3,040 million. In the first half of 2018, Fullgoal Fund realised an operating income of RMB1,185 million with a net profit of RMB350 million.

3. Haitong-Fortis PE, with a registered capital of RMB100 million, in which Haitong Securities holds 67% equity interest. As at 30 June 2018, the total assets of Haitong-Fortis PE reached RMB247 million, and the net asset was RMB169 million. In the first half of 2018, Haitong-Fortis PE realised an operating income of RMB72 million with a net profit of RMB35 million.

4. Haitong Futures, with a registered capital of RMB1.3 billion, in which Haitong Securities holds 66.667% equity interest. As at 30 June 2018, the total assets of Haitong Futures reached RMB20,255 million, and the net asset was RMB2,641 million. In the first half of 2018, Haitong Futures realised an operating income of RMB2,399 million with a net profit of RMB170 million.

5. Haitong International Holdings, with a registered capital of HKD8,850 million, in which Haitong Securities holds 100% equity interest. As at 30 June 2018, the total assets of Haitong International Holdings reached HKD287,461 million, in which the net asset attributable to the parent company was HKD12,570 million. In the first half of 2018, Haitong International Holdings realised an operating income of HKD4,053 million with a net profit of HKD1,123 million.

6. Haitong Capital, with a registered capital of RMB10,650 million, in which Haitong Securities holds 100% equity interest. As at 30 June 2018, the total assets of Haitong Capital reached RMB17,916 million, and the net asset attributable to the parent company was RMB14,240 million. In the first half of 2018, Haitong Capital realised an operating income of RMB573 million with a net profit of RMB438 million.

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7. Haitong Innovation, with a registered capital of RMB3.5 billion, in which Haitong Securities holds 100% equity interest. As at 30 June 2018, the total assets of Haitong Innovation reached RMB4,931 million, and the net asset was RMB4,802 million. In the first half of 2018, Haitong Innovation realised an operating income of RMB-151 million with a net profit of RMB-116 million.

8. HT Asset Management, with a registered capital of RMB2.2 billion, in which Haitong Securities holds 100% equity interest. As at 30 June 2018, the total assets of HT Asset Management reached RMB6,175 million, and the net asset was RMB3,337 million. In the first half of 2018, HT Asset Management realised an operating income of RMB266 million with a net profit of RMB155 million.

9. Shanghai Weitai Properties, with a registered capital of RMB10 million, in which Haitong Securities holds 100% equity interest. As at 30 June 2018, the total assets of Shanghai Weitai Properties reached RMB127 million, and the net asset was RMB8.9629 million. In the first half of 2018, Shanghai Weitai Properties realised an operating income of RMB21 million with a net profit of RMB-1.2436 million.

(VI) Structured entities controlled by the Company

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

No new special purpose entities controlled by the Company were established during the Reporting Period.

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

The Company has determined to include 22 structured entities (which are managed by the Company's subsidiaries) in its consolidated financial statements, considering the variable returns to which the companies in the consolidated financial statement are entitled and the risks to which they are exposed from such structured entities.

Section IV REPORT OF THE BOARD OF DIRECTORS

III. OTHER DISCLOSURES

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

✓ Not applicable

(II) Potential Risks and Prevention Measures

1. The risks to the Company during its operating activities and the measures taken

The risks that the Company encountered during its operating activities mainly include compliance risk, credit risk, market risk, operational risk, liquidity risk and reputation risk, which are mainly represented in the following aspects:

(1) Compliance risk

The compliance risk mentioned in the Measures for the Compliance Management of Securities Companies and Securities Investment Fund Management Companies (《證券公司和證券投資基金管理公司合規管理辦法》) refers to the risk that the securities fund management company may be investigated for legal liabilities, subject to regulatory measures, disciplinary actions, or suffers property loss or reputation loss due to the violation of laws, regulation and rules in the process of operations, management or practise of the securities fund management company or its staff.

The Company has established scientific and reasonable compliance management framework systems with clear responsibilities according to the compliance management regulatory requirements and the actual situation of the Company. The Compliance Officer is the senior management of the Company and is responsible for compliance management. The Compliance and Legal Department performs the duty of compliance management according to the regulations of the Company and the arrangement of the Compliance Officer. The Company has developed the Measures for the Compliance Management of Haitong Securities Co., Ltd. and the supporting compliance management systems, assigned compliance management personnel to strictly carry out the compliance management for each business line, striving to intensify the execution of various systems, mechanisms and processes via prior review, in-process monitoring and post-action inspection, assessment and investigation. In addition, the Company enhanced the policy communication and compliance promotion, aiming to create a business environment of "Full Compliance and Active Compliance".

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(2) *Credit risk*

Credit risk refers to the risk that the Company may suffer loss because the borrower, counterparty or debt issuer fails to perform the agreed financial obligations. The credit risk has certain correlation with the market risk. The credit risk exposure of the Company on possession and trading of certain financial products also changes while the market fluctuates. As such, the Company has adopted necessary monitoring and preventive measures in respect of market fluctuations, in order to effectively manage credit risk.

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

The Company's monetary funds are mainly deposited in state-owned commercial banks or joint-stock commercial banks with good reputation, and the clearing settlement funds are deposited in the China Securities Depository and Clearing Corporation Limited. Therefore, the Company's cash and cash equivalents are facing a relatively low credit risk. In terms of securities brokerage business, trading is settled under gross margining for the sake of credit risk avoidance. In terms of margin financing and securities lending business, stock repo transaction and stock pledged repo business, credit risk involved in the business are controlled through the establishment and enforcement of various strict systems and measures in such areas as due diligence, credit assessment, credit approval, daily mark-to-market, mandatory liquidation of positions and judicial recourse. The Company emphasises diversified investment in respect of credit type fixed income securities, with its existing investments comprised mainly of high credit rating products, and kept a close track of the operating conditions and credit rating changes of investees. Therefore, credit risks associated with the investment subjects are under well control. In terms of over-the-counter derivatives business, the Company established a sound regulation system covering customer access, subject securities management, counterparty credit management and risk handling procedure while conducted daily mark-to-market evaluation throughout the term of each over-the-counter derivative trade and managed credit risk by adopting robust pre-warning, stop loss policy and other measures.

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In addition to the aforesaid risk factors, several subsidiaries of the Group are also exposed to credit risk when carrying out financing business, investment business, leasing business, over-the-counter derivatives business and other businesses. Based on the Company's unified risk preference, the relevant subsidiaries have formulated systems, measures and procedures for credit risk control based on their business features and have set risk limits according to credit risk exposure which will be implemented after the examination and approval of the Company. According to the Group's overall planning for comprehensive risk management, the Company gradually enhanced and improved credit risk management of the Group from such aspects as system building, limit system, monitoring mechanism, information system and risk report.

(3) Market risk

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

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

In the first half of 2018, stock market in the PRC continued to decline after the slight rise at the beginning of January. Taking SSE Composite Index as an example, it opened at 3,314.03 points at the beginning of 2018 and closed at 2,847.42 points at the end of June, with a cumulative decline of 13.90%. In the same period, the SSE 50 Index declined 13.30%, CSI 300 Index declined 12.90%, the SME index declined 14.26%, and the GEM index declined 8.33%.

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

B. Interest rate risk. Interest rate risk refers to the risk resulting from market interest rate fluctuations. The Company's assets which are exposed to interest rate risk mainly include monetary deposits, bond investment and debt issuance, etc. In the first half of 2018, the ChinaBond Composite Full-price Index had wide fluctuations. It had an upward trend at the beginning and rose to the range topside at the end of April, and then declined modestly to the high point for the previous period. The ChinaBond Composite Full-price Index closed at 115.82 points in the middle of the year, with a rise of 2.16% from that at the end of last year. Compared with the end of last year, the yield to maturity of ChinaBond 5-year Treasury Bond reduced by about 49bp to 3.35%, and the yield to maturity of ChinaBond 10-year Treasury Bond reduced by about 41bp to 3.48% comparing with the end of the previous year. The Company managed interest rate risk by employing methods such as size control and investment portfolio re-balancing to achieve a reasonable allocation of assets, to match the maturities of liabilities and assets and by evaluating interest rate risk through regular measurement of indicators such as duration, convexity and DV01 of investment portfolios.

C. Exchange rate risk. Exchange rate risk refers to the risk resulting from changes in foreign exchange rates. With the international expansion of the Company, the exchange rate risk is becoming evident. Apart from the Company's overseas equity investments, the subsidiaries also increase the debts in foreign currencies by issuing foreign currency bonds and other means, resulting in the increased size of foreign currencies of the Group as a whole and difficulties in management. The Company continued to monitor and study the latest developments in the foreign exchange market and constantly optimised system construction and internal management, taking various measures to hedge and releasing exchange rate risks to support the Company's overseas business development. The Company also focused on the natural match between foreign currency assets and liabilities from the Group level to reduce the foreign exchange risk exposure. At the same time, the Company also adopted accounting treatments, for example, hedges of net investment in overseas operations and other means, to smooth the influence of foreign exposure on the Group's operating results. As at the end of the Reporting Period, the Group's exchange rate risk had no material impact on the financial statements.

Despite the above-mentioned risk factors, overseas investment businesses conducted by the Group are also exposed to relevant market risks. Fluctuations of each element of market risk around the world may affect the overall profit or loss of the Group. The Company includes subsidiaries' investment businesses into the overall market risk management system. In respect of investment businesses conducted by the subsidiaries of the Group, the respective subsidiaries formulated and implemented the corresponding risk limits and risk management policies upon examination and approval by the parent company. At the same time, the subsidiaries need to report to the parent company about the implementation of risk limits on a regular basis.

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(4) Operational risk

Operational risk refers to the risk associated with losses arising from the defects of the internal processes, misoperation or misconduct of employees, information system defects or external events. Among which information technology risk refers to the risk of losing the availability and integrity of information systems due to system interruption or slow operation and the risk of disclosure of confidential information in the information systems due to external attacks to the server. Information technology risk is an important component of the present operational risks. Information technology is critical to the business development and management of securities trading, settlement and service, etc. The Company will suffer losses due to unreliable system, default network technology and data error. In addition, the Company is also faced with the risk of being pursued for legal liability, being imposed regulatory measures, being given disciplinary sanctions, or suffering property or reputation loss due to its or its employees' violation of laws, regulations or norms in business operations or performance of duty.

The Company adheres to improving the internal control management mechanism, enhancing the operational processes, strengthening the inspection and audit, intensifying the implementation of the accountability system, to reduce the possibility of operational risks and actively and properly address the adverse effects brought by any such event. The Company has formulated a relatively sound internal control system to standardise its operational risk management in accordance with such regulatory provisions as the Guidelines for Internal Control of Securities Company issued by the CSRC as well as the internal management needs of the Company. The Company has formulated an internal control matrix covering the business lines of each department according to the Basic Standards for Enterprise Internal Control, conducted self-inspections on the implementation of the internal control matrix annually, and the audit department shall evaluate the implementation of the internal control matrix. The Company keeps improving its operational risk management level by establishing a group-wide information communication mechanism for major operational risk events and strengthening internal control management. However, there is no guarantee that the Company can completely avoid the operational risk events and losses which may result from operational errors and human acts of omission. Besides, the securities industry the Company engages in is an intelligence intensive industry. The staff's illegal and criminal acts will cause financial losses to the Company and damage the Company's reputation. The Company persists in the implementation of refined management, constantly improves the business process and gives more training to employees in terms of professional integrity and professional ethics and strives to manage and reduce operational risk events. The Company continued to step up efforts in developing information technology management and system, improved IT-related emergency response plans, and prevented information technology risk by taking multiple measures including regular or sporadic monitoring and special inspections, in order to monitor and control information technology in respect of system operation, applied R&D, information security, and technology management.

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(5) Liquidity risk

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

In respect of daily liquidity risk management, the Company has always adhered to the mindset of "proper and even conservative risk control" and successfully contained the liquidity risk exposure within a reasonable range through reasonable monitoring mechanism and control measures by adhering to the determined liquidity risk preferences and limits of risk indicators. In order to improve the level of refined management on liquidity risk, the Company reserved sufficient quality liquidity assets in strict compliance with relevant internal regulations and measures, which ensured smooth business development and timely repayment of matured liabilities of the Company. Additionally, the Company continued to improve the management and control system for daily liquidity and risk indicators, built a linkage system of capital and indicator combining with assets and liability, and improved a liquidity risk analysis framework including daily indicator position follow-up, monthly indicator assessment and forecast and department indicator disassemble, which enriched tools of liquidity risk management over different periods of time, and deeply strengthened the Company's scientific control over and forecast efficiency of liquidity risk.

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In respect of mid-term and long-term liquidity risk management, the Company continued to optimise its capital allocation structure, intensified analysis on the development trend of assets and liabilities and strengthened management and control over liquidity risks from the source. On the one hand, the Company actively carried out asset and liability management works and adjusted its liability term structure by timely analysing business development trend and potential need for mid-term and long-term funds to ensure a reasonable range of the maturity mismatch of assets and liabilities. On the other hand, the Company enhanced liquidity refined management system to ensure more reasonable liability structure and distribution of maturities and increase efficiency in the use of funds based on the safety and sufficiency of assets. During the Reporting Period, the Company valued maintaining good relationships with major commercial banks, ensured normalisation of operations, maintained good reputation, and kept financing channels open.

In respect of Group liquidity risk control, the Company steadily implemented the requirements on the liquidity risk management for the Group and subsidiaries. Firstly, the Company implemented classified management of subsidiaries from the risk lines and asset-liability management lines on the basis of liquidity risk management and promulgated Measures on (Group) Liquidity Risk Management of Haitong Securities Co., Ltd in the first half of the year to specify the overall strategy, framework, and control requirements of the Group liquidity risk management. Secondly, the Company issued the limit management requirements for the subsidiaries based on the liquidity risk indicators and the industry, location and risk features of the subsidiaries. Finally, the Company developed the group liquidity risk system based on the system of the parent company.

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(6) Reputation risk

Reputation risk refers to the risk resulting from negative comments to the Company by a party of stakeholder with respect to the Company's operations, management or other activities, or due to external events. Reputation event refers to the activity or event that incurred reputation risk of the Company. The formation of reputation events include but not limited to the mistaken, untrue and critical reports of the news media, the rumour and negative online public opinion against the Company, the acceptances of the interview of the media by the staff of the Company without prior authorisation while violating the statutory disclosure regulations, reputation events incurred by the improper opinions or behaviours of the Company' staff, the industry or trading partners, reputation events incurred by customer complaint, internal or external audit or compliance investigation by the regulatory authority because of the operation problem of the Company and other sudden reputation events that might have material negative impact on the Company.

As such, in order to effectively manage the reputation risk, the Company has adopted necessary monitoring and preventive measures. The Company has established a reputation risk forewarning system to monitor public opinions and to ensure that negative emergent events are responsively reported to the management of the Company. For those emergent events with significant negative impact on reputation, the Company's General Manager's Office shall report to competent superior authorities and regulatory bodies in accordance with the Measures for Reputation Management of Haitong Securities Co., Ltd., the Measures for Handling Emergency Events of Haitong Securities Co., Ltd. and Provisional Measures for Reporting Major Events of Haitong Securities Co., Ltd., and work with relevant departments to formulate communication strategy and unify publicity statement, after which the spokesman of the Company will make a public announcement or respond to the event. After the effect of the event ceases, relevant department will actively take measures to restore reputation, analyse and report on the process of handling the said Emergency event, and closely observe latest developments and new issues so as to prevent recurrence of public opinions. Meanwhile, the Company will enhance communication and contact with the media and restore the Company's image by publicizing the Company's positive image and through other measures. Before accepting interviews by the media, employees of the Company shall initiate media interview process through the office's system in accordance with Rules of Haitong Securities Co., Ltd. on Publicity Work, and shall only publish comments after obtaining approval from the Company upon examination while the interview transcripts shall be submitted to the General Manager's Office for record.

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2. *Reflection of main risk factors during the Reporting Period and countermeasures taken (or proposed to be taken) by the Company*

During the Reporting Period, the Company further promoted the construction of the comprehensive risk management and internal control system according to the Standards of Comprehensive Risk Management of Securities Companies (《證券公司全面風險管理規範》) and other regulatory requirements and internal systems. In respect of full coverage, the Company built a clearly arranged risk management framework covering various risks, different business lines and all departments/branches/subsidiaries, improved various risks management processes including risk identification, assessment, measurement, monitoring, reporting and response and continually enhanced prevention beforehand, in-process monitoring and follow-up inspections & disposal as to various risks. In respect of monitorability, the Company established a three-level indicator system covering supervising indicators, tolerance & limit indicators and business risk control indicators, conducted continuous monitoring and assessed extreme risks through various stress tests. In respect of measurability, the Company measured market risks, credit risks, liquidity risks and other risks, and continuously optimised the quantitative models and methods. In respect of analysis, the Company regularly prepared various reports, prepared non-periodical reports for significant risk events and included its subsidiaries into the scope of reports. In respect of the risk-response ability, according to the risk assessment and warning results, the Company chose proper countermeasures, established an effective response mechanism and formulated a specific emergency system. In addition, the Company provided support and guarantee for comprehensive risk management through the following measures: (i) attached great importance to the promotion of risk control culture and promoted the risk culture by holding various training classes and thematic meeting and advertising on periodicals; (ii) improved the construction of risk management system and constructed a multi-level system covering various risks, businesses and management & control elements under the guidance of the Comprehensive Risk Management Approaches of Haitong Securities; (iii) established comprehensive risk management systems in an all-round manner and actively promoted the data governance work; (iv) focused on the fostering of risk control specialists, developed recruitment plan, actively introduced talents, enhanced HR trainings, improved the skills and competence of the risk control specialists, established and improved talent fostering mechanism to continuously meet the regulatory requirements for the ratio of risk management staff and the needs of risk management; (v) increased resource investment in risk management, formulated a specialised budget for information system and increased input in risk management information system, which all provided guarantee for deepening and implementing the Group's risk management.

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During the Reporting Period, the specific performance of risk management factors mentioned above was as follows:

(1) Compliance risk

During the Reporting Period, the Company enhanced compliance management construction of the Group. The Board, Supervisory Committee and senior managements paid great attention to the compliance management works while the subordinate units continued to improve the compliance management level. In the first half of 2018, the Company satisfied the compliance requirements in its business operations. The businesses were carried out in a robust pattern with no major compliance risk. Faced with the regulatory trend of strict governance according to law, the Company actively studied the new regulatory rules and continuously enhanced the compliance management construction, in order to ensure and facilitate the sustainable, compliant and healthy development of the Company.

(2) Credit risk

As at the end of June 2018, the average maintenance guarantee ratio of our customers in margin financing and securities lending business was 237.44%, and the average performance guarantee ratio of our customers in stock repo transaction and stock pledged repo business were 193.46% and 215.94% respectively. The collaterals provided by the lenders were sufficient and the overall credit risk of the financing business were under control. In respect of the Company's investment in credit type fixed income securities, the ratio of high credit rating securities whose debts or issuers with ratings of AA or above was 99.43%. The Company's counterparties of over-the-counter derivatives business are mainly financial institutions including commercial banks, securities companies and asset management companies. The Company is faced with limited credit risk from counterparties since it strictly controls the business scale and adopts appropriate and practical risk mitigation measures during the operations of the aforesaid businesses.

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In the first half of 2018, Haitong International Securities closely monitored the four pre-warning limit indexes for the margin financing business while the overall credit risk of financing business was under control. In addition, Haitong International Securities continued to implement the five-tier classification management system, improved corresponding approval policies and post-loan management in line with the development of each business and conducted risk monitoring and review for all the financing projects. Regarding the over-the-counter derivatives business, Haitong International Securities employed the internal credit rating system of Standard & Poor's to evaluate the credit quality and examine and approve credit limits of its counterparties one by one according to the graded examination and approval authority. The credit risk of the current counterparties is under control.

In the first half of 2018, Haitong UT Capital implemented a whole-chain credit risk control system covering the periods before, during and after leasing, and improved relevant policies, systems, standards and requirements from such aspects as organisational structure, credit audit guidance, due diligence, risk pricing, credit review and approval, which enhanced the overall credit risk management level. During the Reporting Period, all credit risk indicators were within limits.

In the first half of 2018, Haitong Bank correspondingly revised its risk appetite and credit policies and formulated a series of plans to adjust its asset structure. During the Reporting Period, Haitong Bank continued to strengthen the post-loan management on stock credit assets. No new credit risk events occurred and the overall credit risk was under control.

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(3) *Market risk*

In the first half of 2018, the ratio of the Company's VaR to its net assets at the end of each month remained below 0.1%, the ratio of VaR of the parent company and major subsidiaries within the Group to the Group's net assets was also kept under 0.2% and the market risk was controllable and acceptable. However, the use of various financial instruments was still influenced by the regulatory environment, market environment and effectiveness of investment strategy. The effectiveness of management methods would be also restricted by the adverse changes of market liquidity.

In the first half of 2018, the scale of the Company's equity securities investment remained stable. Despite traditional trend investment, the Company actively conducted innovative businesses such as options market making and over-the-counter options. During the operation time of the above innovative businesses, the Company adhered to risk-neutral investment strategy and effectively controlled the relevant risk exposures.

Based on the trends of and the Company's judgement of the bond market and liquidity management needs, the Company flexibly adjusted allocation of non-equity securities. The scale of overall investment of non-equity securities of the Company remained stable and increased in the first half of 2018. The whole portfolio duration was under control and remained relatively stable at the end of each month. The duration at the end of the first half of 2018 was 2.61. In the first half of 2018, the Company maintained an overall sound market risk control over its fixed income investments.

(4) *Operational risk*

The Company has adhered to standard operation procedures in general while no major operational risk events occurred during the Reporting Period. The Company continued to strengthen the building and maintenance of the information technology system and conducted regular and sporadic inspections and maintenance strictly pursuant to the operation management procedure, thus ensuring the reliable, stable and safe operation of system. During the Reporting Period, there were no significant information technology risk events. The Company has constantly improved the construction of the internal control system, intensified the executive force of various rules and regulations and focused on improving every system and process. There were no operational risk events with material effect on the Company during the Reporting Period.

Section IV REPORT OF THE BOARD OF DIRECTORS

(5) Liquidity risk

The macro policy requirements of enhancing strict regulation, adjusting structure and preventing risk have brought challenges to the proprietary and financing businesses of the Company. Together with the various influence of the debt repayment and renewal practices, they became the main source of liquidity risk pressures suffered by the Company during the Reporting Period. Faced with the change of market environment and internal capital demand, the Company made active plan and acted from several aspects to continuously strengthen the control on liquidity risks via prior risk identification, in-process risk mitigation and ex post improvement. During the Reporting Period, the Company's sustained and sufficient capital reserves reduced the likelihood of the outbreak of liquidity risks and ensured its capability of stable operations in a complex market environment. In the first half of 2018, the daily average liquidity coverage ratio of the core liquidity monitoring indicators of the Company was 180.81% while the average daily NSFR was 142.18%, both of which were far higher than the regulatory requirement and pre-warning standard. In the meanwhile, the Company has constantly enhanced its ability to cope with liquidity risks by testing its financing channels and liquidity of high-quality liquid assets under pressure through liquidity emergency rehearsal.

In addition, the group level liquidity risk management were orderly carried out. The Company promulgated Measures on Group Liquidity Risk Management and developed scientific liquidity risk management strategies according to the business characteristics of the subsidiaries, thus realising unified management of liquidity risk across the Group. Facing an uncertain market environment in the future, the Company will continue to conduct asset-liability management actively and achieve higher capital utilisation efficiency on the basis of safety and liquidity, so as to safeguard the sound operations of the Company.

(6) Reputation risk

During the Reporting Period, no adverse negative news or publicity regarding the Company which would affect the public opinion of the Company. For the few negative news reports, the Company took responses step by step and effectively curbed the impact of negative news according to Measures on Reputation Risk Management of Haitong Securities Co., Ltd and Rules of Haitong Securities Co., Ltd. on Publicity Work, with no significant reputation risk incident happened.

During the Reporting Period, the Company maintained sound operations of its various businesses, reasonable assets allocation and healthy financial situation, while various risk control indicators including the net capital were compliant with the regulatory requirements. The Group's comprehensive risk management structure was clear while its subsidiaries operated soundly with controllable overall risk. The Group will continue to further enhance the system building, refine the internal control mechanisms, and improve the level of meticulous risk management.

Section V SIGNIFICANT EVENTS

I. BRIEFING OF THE GENERAL MEETINGS

Session of the meeting	Date of the meeting	Query index of the designated website for resolutions disclosure	Disclosure date of resolutions
2018 First Extraordinary General Meeting	1 March 2018	http://www.sse.com.cn http://www.hkexnews.hk	2 March 2018 1 March 2018
2017 Annual General Meeting	21 June 2018	http://www.sse.com.cn http://www.hkexnews.hk	22 June 2018 21 June 2018

Descriptions of the general meetings

During the Reporting Period, on 1 March 2018, the Company held 2018 First Extraordinary General Meeting at Pine City Hotel, in Shanghai, the PRC, and two resolutions were considered and approved at the meeting, including (1) the proposal regarding re-appointment of domestic auditing firm for the year 2017 and (2) the proposal regarding the proposed amendments to the Articles of Association, the Rules of Procedure for Board Meetings and the Rules of Procedure for the Supervisory Committee. The relevant announcement was published on the websites of the Shanghai Stock Exchange (http://www.sse.com.cn), the Hong Kong Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.htsec.com) on the date of the meeting, and published in the China Securities Journal, the Shanghai Securities News and the Securities Times on 2 March 2018.

On 21 June 2018, the Company held the 2017 Annual General Meeting at Hope Hotel, in Shanghai, the PRC and 17 resolutions were considered and approved, including (1) the report of the board of directors of the Company for the year 2017; (2) the report of the supervisory committee of the Company for the year 2017; (3) the annual report of the Company for the year 2017; (4) the final accounts report of the Company for the year 2017; (5) the profit distribution proposal of the Company for the year 2017; (6) the proposal regarding renewal of engagement of auditing firm for the year 2018; (7) the proposal regarding investment asset allocation of equity and non-equity products of the Company; (8) the proposal regarding projected routine related party transactions of the Company in 2018; (9) the proposal regarding the grant of general mandate to authorise, allot or issue A shares and/or H shares; (10) the proposal regarding compliance of the Company with conditions of non-public issuance of A shares; (11) the proposal regarding the plan of the non-public issuance of A shares of the Company; (12) the proposal regarding the proposal in respect of the non-public issuance of A shares of the Company; (13) the proposal regarding the feasibility report on the use of proceeds raised from the non-public issuance of A shares of the Company; (14) the proposal regarding the report on the use of proceeds from previous fund raising activities and the audit report; (15) the proposal on the dilution of current returns as a result of the non-public issuance of A shares of the Company and remedial measures; (16) the proposal regarding the authorisation granted to the board of directors of the Company and the delegation by the board of directors to the management personnel to deal with the matters relating to the non-public issuance of A shares of the Company; (17) the proposal regarding the shareholders' return plan for the three years from 2018 to 2020 of the Company. In particular, resolutions numbered 1 to 8, 15 and 17 were ordinary resolutions, while resolutions numbered 9 to 14 and 16 were special resolutions. The relevant announcement was were published on the websites of the Shanghai Stock Exchange (http://www.sse.com.cn), the Hong Kong Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.htsec.com) on the date of the meeting, and published in the China Securities Journal, the Shanghai Securities News and the Securities Times on 22 June 2018.

Section V SIGNIFICANT EVENTS

II. PROPOSAL ON PROFIT DISTRIBUTION OR CONVERSION OF CAPITAL RESERVE FUNDS INTO SHARE CAPITAL

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

The Company's 2017 profit distribution proposal was considered and approved by its shareholders at the 2017 Annual General Meeting held on 21 June 2018. It was resolved that a cash dividend of RMB0.23 per share (inclusive of tax) (representing cash dividends of RMB2.30 for every 10 shares (inclusive of tax)) would be distributed to the shareholders of the Company whose names appear on the register of members of the Company on the record date on the basis of a total share capital of 11,501,700,000 A Shares and H Shares in issue as at 31 December 2017, totalling cash dividends of RMB2,645,391,000.00 (inclusive of tax). The Company distributed cash dividends of RMB1,861,190,171.40 to holders of A Shares in respect of total share capital of 8,092,131,180 A Shares and cash dividends of HKD957,954,501.41 to holders of H Shares in respect of total share capital of 3,409,568,820 H Shares. The Company published announcements relating to the implementation of 2017 profit distribution in the China Securities Journal, the Shanghai Securities News, the Securities Times, and the respective websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company. On 1 August 2018, the profit distribution proposal was fully implemented.

(II) Profit distribution proposal and proposal on conversion of capital reserve funds into share capital for the first half of 2018

The Company had no profit distribution proposal or proposal on conversion of capital reserve funds into share capital for the first half of 2018.

III. PERFORMANCE OF UNDERTAKINGS

Undertakings Made by the Company's ***De Facto*** Controller, Shareholders, Related Parties, Acquirers, the Company and Other Related Undertakers during the Reporting Period or Subsisting in the Reporting Period

✓ Not applicable

Section V SIGNIFICANT EVENTS

IV. APPOINTMENT AND DISMISSAL OF ACCOUNTING FIRMS

The Company convened the 2017 Annual General Meeting on 21 June 2018, and the resolution regarding the renewal of engagement of auditing firm for the year 2018 was considered and approved at this meeting. Therefore, shareholders of the Company approved to reappoint BDO China Shu Lun Pan Certified Public Accountants LLP (Special General Partnership) as its external auditor in 2018 for a term of one year, who will be responsible for provision of relevant domestic audit services in accordance with the PRC GAAP; and to reappoint Deloitte Touche Tohmatsu (Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP (Special General Partnership)) as the Company's external auditor in 2018 for a term of one year, who will be responsible for provision of relevant audit and review services in accordance with IFRS.

Explanations on change of accounting firms during the audit period

✓ Not applicable

Explanations of the Company on "non-standard audit report" of accounting firm

✓ Not applicable

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

✓ Not applicable

V. BANKRUPTCY AND RESTRUCTURING RELATED MATTERS

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

VI. MATERIAL LITIGATION AND ARBITRATION

During the Reporting Period, the Company was not involved in any material litigation or arbitration with a disputing amount over RMB10 million and accounting for more than 10% of the absolute value of the Company's net assets as audited in the latest financial statements, which shall be disclosed in accordance with the requirements under the Shanghai Stock Exchange Listing Rules.

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

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

In addition, on 23 May 2017, the Company received an Advance Notice of Administrative Penalty (Chu Fa Zi [2017] No. 59) from the CSRC. For further information, please refer to the announcement of the Company dated 24 May 2017. The Company's employees involved in the event have proposed statements and defences according to the procedures prescribed, and further decision is pending.

VIII. EXPLANATIONS ON THE CREDIT-WORTHINESS OF THE COMPANY, ITS CONTROLLING SHAREHOLDER, AND *DE FACTO* CONTROLLER DURING THE REPORTING PERIOD

The Company did not have any shareholder who directly held more than 5% of its equity interest or any *de facto* controller. During the Reporting Period, there was no failure to comply with any effective court judgement or settle any material debts that have fallen due.

Section V SIGNIFICANT EVENTS

IX. SHARE INCENTIVE SCHEME, EMPLOYEE STOCK OWNERSHIP PLAN OR OTHER EMPLOYEE INCENTIVES OF THE COMPANY AND THEIR EFFECTS

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

On 23 August 2002, Haitong International Securities, a subsidiary of Haitong International Holdings, approved the adoption of the share option scheme. The 2002 share option scheme has expired on 22 August 2012. The share options granted under the scheme prior to the expiration of the 2002 share option scheme will remain valid and enforceable under the terms of the 2002 share option scheme.

At the 2014 annual general meeting of Haitong International Securities, the Resolution on Establishing Share Option Scheme of Haitong International Securities Group Limited was considered and passed. At the extraordinary general meeting of Haitong International Securities held on 8 June 2015, the adoption of a new share option scheme was considered and approved, which would be valid and effective for a period of 10 years commencing from the date of adoption. Under such new share option scheme, no more than 212,924,439 shares shall be issued in total.

Haitong International Securities adopted a share award scheme on 19 December 2014, which would be valid for a period of 10 years commencing from the date of adoption. Under such scheme, the total of award shares authorised to be granted shall not exceed 217,248,566. As at 30 June 2018, a total of 19,122,233 award shares were granted by Haitong International Securities under the share award scheme, of which, 6,028,091 award shares have been vested, and 1,239,218 award shares have lapsed.

For further details of the above mentioned share option schemes and share award schemes, please refer to the 2018 interim report of Haitong International Securities.

Section V SIGNIFICANT EVENTS

X. MATERIAL RELATED PARTY TRANSACTIONS

(I) Related party transactions relevant to routine operations

During the Reporting Period, the Company conducted routine related party transactions in strict compliance with the proposal regarding projected routine related party transactions of the Company in 2018 considered and approved at the 2017 Annual General Meeting. Details of the implementation were as follows:

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

	Related party transaction volume in the first half of 2018 *(RMB'0000)*	Proportion in same type of transaction (%)
Fees and commission income	228.1	0.04
Fees and commission expenses	12.73	0.01
Cash exchange	20,000	0
Interest rate swaps transaction	46,000	0
Interest rate swaps	46,000	0
Dividend payable	2,145	0.79
Accounts payable	6.46	0
Accounts receivable	253.17	0.02

2. Related Party transactions with Shanghai Shengyuan Real Estate (Group) Co., Ltd.

	Related party transaction volume in the first half of 2018 *(RMB'0000)*	Proportion in same type of transaction (%)
Interest income	0.17	0.00
Fees and commission income	0.03	0.00
Business and management fees	4.15	0.00
Account from securities agency trading	6.03	0.00

Section V SIGNIFICANT EVENTS

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

	Related party transaction volume in the first half of 2018 *(RMB'0000)*	Proportion in same type of transaction *(%)*
Interest income	27.58	0.00
Interest expense	4,390.51	0.68
Fees and commission income	9,701.15	1.81
Fees and commission expenses	271.50	0.23
Account from securities agency trading	254.47	0.00
Short-term loan	20,000.00	0.53
Interest rate swaps	16,000.00	0.00
Bank savings	36,480.03	0.37
Short-term financial bills payable	10,290.63	0.27
Interest payable	246.47	0.08
Accounts receivable	6.01	0.00
Long-term loan	166,901.00	5.36
Repurchase transaction amount	3,470,930.00	–
Cash transaction amount	263,000.00	–
Loan transaction amount	195,000.00	–
Interest rate swaps transaction amount	16,000.00	–

(II) Related party transactions in relation to the acquisition or disposal of assets or equity interests

During the Reporting Period, the Company was not involved in any related party transactions in relation to the acquisition or disposal of assets or equity interests.

Section V SIGNIFICANT EVENTS

(III) Material related party transactions relating to external joint investment

During the Reporting Period, the Company was not involved in any material related party transactions relating to external joint investment.

(IV) Related party debts and liabilities

During the Reporting Period, the Company was not involved in any related party debts and liabilities.

XI. MATERIAL CONTRACTS AND THEIR PERFORMANCE

1. Custody, contracting and leasing matters

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

2. Guarantees

Unit: Yuan Currency: RMB

External guarantees provided by the Company (excluding the guarantees for subsidiaries)	
Total amount of guarantees incurred in the Reporting Period (excluding the guarantees provided for subsidiaries)	0
Total balance of guarantees at the end of the Reporting Period (A) (excluding the guarantees provided for subsidiaries)	0
Guarantees provided by the Company and its subsidiaries for its subsidiaries	
Total amount of guarantees provided for subsidiaries during the Reporting Period	0
Total guarantee balance provided for subsidiaries at the end of the Reporting Period (B)	27,771,213,885
Total amount of guarantees provided by the Company (including those for subsidiaries)	
Total amount of guarantees (A+B)	27,771,213,885
Percentage of total guarantee over the net assets of the Company	23.7
Including:	
Amount of guarantees provided to shareholders, de facto controllers and their related parties (C)	0
Amount of debt guarantees directly or indirectly provided for the parties guaranteed with the gearing ratio exceeding 70% (D)	20,557,771,400
Amount of the portion of total guarantee exceeding 50% of net assets (E)	0
Total amount of the above three types of guarantees (C+D+E)	20,557,771,400
Explanations on outstanding guarantee which may undertake joint and several liability for repayment	Bearing the principal, interests and other related expenses of bonds

Section V SIGNIFICANT EVENTS

Explanations on guarantees

1. On 29 August 2017, the Resolution on Provision of Joint and Several Guarantee for Offshore Debt Financing by Wholly-owned Offshore Subsidiary was considered and passed at the 25th meeting of the sixth session of the Board. On 14 May 2018, the Company signed Loan Agreement as a guarantor and provided joint and several guarantee in respect of the syndicated loans of USD600 million for Haitong International Holdings, its wholly-owned offshore subsidiary. As at 30 June 2018, Haitong International Holdings had not drawn down the loan, therefore the Company's guarantee liability had not actually incurred.

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

3. On 29 August 2016, the Resolution on Providing Additional Guarantees for the Net Assets of HT Asset Management and Increasing Capital Contribution to HT Asset Management was considered and passed at the 18th meeting of the sixth session of the Board, in which, the Company was approved to provide additional guarantees of no more than RMB4,000 million for the net assets of HT Asset Management. The Company provided guarantees up to RMB4,000 million for the net assets of HT Asset Management and undertook to provide cash within the abovementioned amount unconditionally to HT Asset Management when it needs cash to carry out business. The guarantees for the net assets are effective from the date of approval by the Board. HT Asset Management has, in respect of these guarantees, received the Letter on No-objection to the Issuance of Net Capital Guarantee Commitment Letter by Haitong Securities Co., Ltd. to Shanghai Haitong Securities Asset Management Co., Ltd. (Hu Zheng Jian Ji Gou Zi [2016] No. 325) from Shanghai Securities Regulatory Bureau of the CSRC.

4. On 9 February 2015, at the First 2015 Extraordinary General Meeting, the First 2015 A Shareholders' Class Meetings and the First 2015 H Shareholders' Class Meetings, the Company considered and approved the Resolution on Increase in Quota of External Guarantee, in which, the Company was approved to provide joint and several guarantees for the offshore wholly-owned subsidiary(ies) of the Company for the issue of offshore debt financing instruments on a one-off or multiple issuances or multi-tranche issuances basis, through public or non-public issuance, and the aggregate size of the offshore corporate debt financing instruments should not exceed 50% of the net assets of the Company as at the end of the latest period.

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On 5 June 2015, the Company held the sixth meeting of the sixth session of the Board, at which the Company considered and approved the Resolution on Provision of Joint and Several Guarantee for Issuance of EUR Bonds by Wholly-owned Offshore Subsidiary. Due to actual condition of such issuance, it has been completed in two tranches, and two Deeds of Guarantee were signed. The Company signed the first Deed of Guarantee on 18 May 2016, pursuant to which, the Company provided joint and several guarantee for the issuance of EUR bonds with an amount of EUR100 million and a rate of 1.6% which expires in 2021 by Haitong International Finance Holdings 2015 Limited (a wholly-owned offshore subsidiary of the Company).

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

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

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

Section V SIGNIFICANT EVENTS

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

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

6. On 13 April 2015, the Company held the third meeting of the sixth session of the Board, at which the company considered and approved the Resolution on Provision of Joint and Several Guarantee for Issuance of U.S. Dollar Bonds by Wholly-owned Offshore Subsidiary. The Company provided joint and several guarantee for the issuance of USD bonds with an amount of USD670 million and a rate of 3.5% which expires in 2020 by Haitong International Finance Holdings 2015 Limited (a wholly-owned offshore subsidiary of the Company).

7. In October 2013, the Company issued the first tranche of offshore bonds (USD900 million) and the issuer is Haitong International Finance Holdings Limited, an indirect wholly-owned subsidiary of the Company. In order to enhance the repayment security of the first phase of offshore bonds and lower the coupon rate, according to the authorisation of the Company's 2013 First Extraordinary General Meeting, the authorised persons of the Company confirmed that guarantee would be provided for the first phase of offshore bonds by Bank of China Singapore Branch by way of opening standby letter of credit. Meanwhile, according to the resolution of the 21st meeting of the fifth session of the Board, the Company issued to Bank of China a letter of counter-guarantee regarding the standby letter of credit for the issuance of first phase of offshore bonds. The amount of counter-guarantee included the principal, interest and other relevant expenses of the issued first phase of offshore bonds. The guarantee is with joint and several liabilities and it ends on the date which is six months from the expiry of the standby letter of credit.

8. The Resolution on Providing Guarantee for the Net Assets of Shanghai Haitong Securities Asset Management Co., Ltd. was considered and approved at the 12th meeting of the fifth session of the Board, whereby the Company was approved by the Board to provide, at any time, guarantees of no more than RMB1,500 million for the net assets of HT Asset Management, to ensure that it maintained adequate net capital. On 9 June 2013, Shanghai Securities Regulatory Bureau of the CSRC issued the Letter on No-objection to the Issuance of Net Capital Guarantee Commitment Letter by Haitong Securities Co., Ltd. to Shanghai Haitong Securities Asset Management Co., Ltd. (Hu Zheng Jian Ji Gou Zi [2013] No.145), consenting the Company's provision of guarantee commitment of RMB800 million to HT Asset Management. The Company has deducted net capital of RMB800 million and correspondingly increased net capital of HT Asset Management by RMB800 million.

Notes: During the Reporting Period, the external guarantees provided by the Company's subsidiary Haitong Bank (not including those guarantees for subsidiaries) amounted to EUR23,107,328 and based on the median exchange rate for Inter-bank Foreign Exchange Market on 29 June 2018 of EUR 1 to RMB7.6515, such amount is equivalent to RMB176,805,724. As at the end of the Reporting Period, the total balance of external guarantees (not including those guarantees for subsidiaries) was EUR161,181,295, equivalent to RMB1,233,278,682 based on the median exchange rate for Inter-bank Foreign Exchange Market on 29 June 2018 of EUR 1 to RMB7.6515.

During the Reporting Period, the new internal guarantees provided by the Company's subsidiary Haitong International Securities amounted to USD130,000,000, which is equivalent to RMB860,158,000 according to median exchange rate the central parity rate of USD1 to RMB6.6166 used by the for Inter-bank Foreign Exchange Market interbank foreign exchange market on 29 June 2018. Based on the median exchange rate central parity rate of HK$1 to RMB0.8431 and USD1 to RMB6.6166 published by the China Foreign Exchange Trading System on 29 June 2018, the total balance of internal guarantee provided by Haitong International Securities amounted to RMB67,692,846,650 as at the end of the Reporting Period.

3. Other material contracts

During the Reporting Period, there were no other discloseable material contracts of the Company that have not been disclosed.

Section V SIGNIFICANT EVENTS

XII. POVERTY ALLEVIATION WORKS OF THE LISTED COMPANY

The year 2018 kicks off efforts to implement the decisions of the 19th National Congress of the Communist Party of China, and to ensure success in the three critical battles against potential risk, poverty, and pollution, which are important for decisively bringing to completion the building of a moderately prosperous society in all respects. The Company continues to follow and implement the requirements of the Opinions of the CSRC on Serving the State's Strategy of Poverty Alleviation by the Functioning of Capital Market, and actively performs our social responsibilities and spares no effort in the work of poverty alleviation via poverty relief through "one company to one county" and "urban to rural Party organisations" pair-up, capital market industries supporting and poverty alleviation through social charity, etc.

1. Plans for targeted poverty alleviation

The Company has formulated a set of relatively complete poverty alleviation plans through the poverty alleviation practises in 2016 and 2017. The keynote of poverty alleviation of the Company remains unchanged and still focuses on the following three aspects in 2018. Firstly, the Company builds all-round cooperative relationship with the local governments of state-level underprivileged counties by entering into framework agreements for poverty relief through "one company to one county" pair-up, promotes the sustainable development and stable growth of regional economies, and helps the underprivileged to relieve from poverty, striving to assist the local governments in completing local economy transformation in 2018 and 2019, thus achieving the goal of targeted poverty alleviation. Secondly, taking advantage of its professional financial services and financial resources, the Company focuses on financial poverty alleviation to promote stable developments of local economy by using multi-level financing functions of the capital markets. Thirdly, the Company cooperated with urban and rural party organisations in poverty-stricken villages and towns in the suburbs of Shanghai, and achieved good social benefits by helping to develop the economy, provide financial services, condolences to the needy, improve the village appearance and contribute to cultural construction.

2. Summary of targeted poverty alleviation during the Reporting Period

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

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

Section V SIGNIFICANT EVENTS

The Company continued to dedicate poverty alleviation funds of RMB1 million to each pair-up local government for implementing the "Haitong Passing on Love" public welfare programme of donating recycled computers to those in need, the "Haitong Preaching Love" training programme for rural teachers, and the "In Haitong We Love" insurance programme. In the first quarter of 2018, the Company held poverty alleviation meetings and pair-up cooperation plus symposiums on pair-up cooperation with Lixin and Ningdu counties, strengthened dialogue and exchanges, and summarised the effects of poverty alleviation. This set the direction for poverty alleviation throughout the year. In the first half of 2018, the Company donated RMB2.25 million to the photovoltaic power station project in Wuyu Village, Zhaizi Township, Xi County, Shanxi Province to support the development of local economy; implemented the "Haitong Preaching Love" training programme for rural teachers by assisting a total of 50 rural teachers from seven provinces to receive training in Shanghai, performed the "Haitong Passing on Love", "Fullgoal Passing on Love" public welfare programme of donating recycled computers into practise with Fullgoal Fund to those in need, donated RMB368.7 thousand medical fees to the local Red Cross for helping 20 children with congenital heart diseases, and put the "In Haitong We Love" insurance programme into effect in Lixin County.

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

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

In the first half of 2018, the Company completed Lixin County Chunlei Agricultural Company bond, Shucheng Rural Commercial Bank's tier two capital Bond, and Ningdu City Investment Company corporate bond and various debt financing schemes. In addition, the Company also completed other projects including the listing on NEEQ of Gansu Jinxin New Material Technology Co., Ltd. Furthermore, Haitong Futures and Jinping County Government of Yunnan Province launched the special rubber related "insurance+futures" project and carried out targeted poverty alleviation.

Section V SIGNIFICANT EVENTS

(3) Actively carrying out urban and rural Party organisations' pair-up and providing intellectual support for building beautiful villages in Shanghai

The Company continued conducting poverty relief in Langxia Town of Jinshan District, Guangming Village in Xuanqiao Town of Pudong New Area and Fu'an Villiage in Jianshe Town of Chongming District in Shanghai through urban and rural Party organisations pair-up activities. The senior executives of the Company visited the local underprivileged on a regular basis, held various art and cultural activities including talent show for intelligence promotion, provided education on inclusive finance to the local investors, improved the ability of local residents to guard against financial risks, and further promoted those pair-up activities.

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

While creating economic benefits, the Company also committed to fulfilling corporate social responsibilities through donations to education, poverty alleviation, loving charity and other public welfare activities. The Youth League Committee of the Company organised the league members from the entire system to carry out the "Realising the 30-year Dream for Public Good" Haitong Youth Volunteer activity, calling on young employees to uphold the spirit of Lei Feng and radiate the vitality of youth. All departments, branches, and subsidiaries of the Company also become actively involved in charitable activities and organised various public benefit activities including caring pickup services to support the college entrance examination, targeted donations for education, professional training on poverty alleviation, public benefit fair, dispatching employees to reside in villages for support, and revitalising rural donations. Repaying and devoting to the society have become a consensus among Haitong employees and blended in its culture.

Section V SIGNIFICANT EVENTS

3. Performance of targeted poverty alleviation

Unit: 0'000 Currency: RMB

Indicators	Quantity and status
I. Summary	
Including: 1. Capital input	235
2. In-kind input	/
3. Number of reduction in registered underprivileged population through help and support (unit: person(s))	/
II. Itemised Input	
1. Poverty alleviation through industrial development	
Including: 1.1 Type of industrial poverty alleviation projects	☐ Agriculture and forestry development poverty alleviation ☐ Tourism poverty alleviation ☐ E-commerce poverty alleviation ☐ Asset income poverty alleviation ☐ Technology poverty alleviation ✓ Others
1.2 Number of industrial poverty alleviation projects (unit: project(s))	1
1.3 Amount invested in industrial poverty alleviation projects	225
1.4 Number of reduction in registered underprivileged population through help and support (unit: person(s))	/
2. Healthcare poverty alleviation	
Including: 2.1 Invested amount of medical and healthcare resources in poverty-stricken areas	1
3. Social poverty alleviation	
Including: 3.1 Contributions to poverty alleviation cooperation between the east and west	/
3.2 Contributions to fixed-point poverty alleviation work	1
3.3 Poverty alleviation charity fund	8

Section V SIGNIFICANT EVENTS

4. Staged progress in fulfilling the social responsibility of targeted poverty alleviation

When performing the social responsibilities of targeted poverty alleviation, the Company actively exerted the resource and professional advantages in the capital market as a securities company and continuously provided professional financial services for the pair-up counties in the poor area, focusing on the poverty alleviation and economic improvement of the poor counties. The Company provided comprehensive financial supports by giving play to the group advantages and focused on the combination of ambition and education development with poverty alleviation; With an aim to further expand the financial channels of the local enterprises and simulate the inherent poverty alleviation dynamics of the poor areas, great achievements have been made in poverty alleviation.

As at the first half of 2018, different progresses in capital market financing projects have been achieved by the three pair-up counties. Anhui Lixin County Chunlei Agricultural Development Co., Ltd. has received No Objection Letter from Shanghai Stock Exchange for its corporate bonds issuance, and it is now seeking for the third party guarantee institution to provide credit enhancement for the bonds. Once the credit enhancement is completed, the issuance would be commenced. The second-time equity offering by the NEEQ-listed enterprise Jiangxi Yongtong Technology Co., Ltd. in Ningdu County, Jiangxi was finished by the end of 2017, while RMB38.70 million was raised. Ningdu County City Investing Company has published the audit report for the last 3 years issued for its corporate bonds issuance, and it is now seeking for guarantee and rating. Shucheng Rural Commercial Bank has filed with the local regulatory authorities for its secondary capital bonds issuance, and it is now coordinating and communicating with CBRC Liuan branch.

Section V SIGNIFICANT EVENTS

5. Further plans for targeted poverty alleviation

In the second half of 2018, the Company will continue to take targeted poverty alleviation as its social responsibility, and, with an aim to provide services in respect of the transition and development of underprivileged areas and pull the underprivileged out of poverty, leverage on its own advantages to make achievements in terms of poverty alleviation through "one company to one county" pair-up, capital market industries supporting, urban and rural Party organisations pair-up and poverty alleviation through social charity, specifically the following aspects: Firstly, the Company shall fully support the poverty alleviation and deconstruction of poverty-stricken counties. In strict accordance with the requirements of the Central Government, the CSRC and the China Securities Association, the Company will further expand the financing channels of local enterprises, assist local governments to attract investment, cultivate management talents who are familiar with financial business, and provide strong financial support for the pair-up national poverty counties getting rid of poverty as soon as possible. Secondly, the Company shall implement advantages of the Group, integrate financial resources through investment banking, M&A, NEEQ, bond financing, futures, leasing, investment, etc. providing multi-channel, multi-variety and all-round financial services to poor areas, and improve financing efficiency, reduce financing costs, and continuously enhance the self-development ability of poverty areas. Thirdly, the Company shall strengthen leadership over poverty alleviation work and improve the quality and effectiveness of poverty alleviation work, and further improve the working mechanism and summarise work experience. The Company shall complete the implementation of the "Haitong – Love Flying" training programme for rural teacher and provide financial aid for the study of 30 poor university students in Shigatse, implement "Love at Haitong" public benefit insurance programme, and make greater contributions to serving the country's strategy of getting rid of poverty.

XIII. CONVERTIBLE CORPORATE BONDS

During the Reporting Period, the Company and its subsidiaries did not issue any convertible corporate bonds.

Section V SIGNIFICANT EVENTS

XIV. ENVIRONMENTAL INFORMATION

(I) Description of environmental protection of the companies and their key subsidiaries listed by which are the key pollutant discharging units identified by the Environmental Protection Department

✓ Not applicable

(II) Description of the environmental protection of companies other than the key pollutant discharging units

✓ Not applicable

(III) Description of reasons for non-disclosure of environmental information by companies other than key pollutant discharging units

After inspection, the Company and its subsidiaries are not listed as key pollutant discharging units by the environmental protection authorities.

The Company is in strictly compliance with the environmental protection laws and regulations such as the Environmental Protection Law of the PRC, the Law of Water Pollution Prevention and Control of the PRC, and the Law of Prevention and Control of Air Pollution of the PRC. During the Reporting Period, the Company was not imposed any penalties due to violations of environmental protection laws. The Company's impact on the environment is mainly the consumption of paper, water and electricity resources during the operation process, which would be a minimal impact on the environment. Specific related matters will be disclosed in the Company's 2018 Social Responsibility Report.

(IV) Description of the follow-up progress or changes in the environmental information disclosed during the Reporting Period

✓ Not applicable

Section V SIGNIFICANT EVENTS

XV. CORPORATE GOVERNANCE

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

During the Reporting Period, the Company convened a total of 17 meetings, including one annual general meeting, one extraordinary general meeting, three Board meetings, two Supervisory Committee meetings, three meetings of the Audit Committee, two meetings of independent non-executive Directors on annual report, one meeting of the Nomination, Remuneration and Assessment Committee, three meetings of the Development Strategy and Investment Management Committee, and one meeting of the Compliance and Risk Management Committee.

During the Reporting Period, based on the relevant requirements and contents of the Measures for the Administrative Measures on Compliance of Securities Companies and Securities Investment Fund Management Companies (Zheng Jian Hui Ling No. 133), the Company amended the Articles of Association, the Rules of Procedure of the Board and the Rules of Procedure of the Supervisory Committee and relevant amendments were considered and approved by 2018 First Extraordinary General Meeting held on 1 March 2018. For details, please refer to the circular of the Company dated 15 January 2018. According to Regulations on the Supervision and Administration of Securities Companies, amendments to important provisions in Article of Association are subject to the approval from securities regulatory authorities. The Company has received the Letter of Approval for Haitong Securities Co., Ltd. to Amend Important Provisions of the Articles of Association (Hu Zheng Jian Xu Ke [2018] No. 33) from Shanghai Securities Regulatory Bureau of the CSRC, pursuant to which, the amended Articles of Association, the Rules of Procedure for Board Meetings and the Rules of Procedure for the Supervisory Committee have become effective. For details, please refer to the overseas regulatory announcement published by the Company on 23 April 2018.

(I) Shareholders and General Meetings

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

Section V SIGNIFICANT EVENTS

(II) Directors and the Board

The Company adheres to the Articles of Association in engaging or changing Directors, and the constitution of the Board and the qualifications of Directors are in line with relevant provisions of laws and regulations. As at 30 June 2018, the Board comprised 13 Directors, including two executive Directors, six non-executive Directors, and five independent non-executive Directors. All Directors are able to perform their duties in due diligence and protect the interests of the Company and all shareholders. The Board has established Development Strategy and Investment Management Committee, Audit Committee, Compliance and Risk Management Committee, and Nomination, Remuneration and Assessment Committee. Each committee has specific work allocations and clear accountabilities and operates in high efficiency. Except for the development strategy and investment management committee, which is chaired by the Chairman of the Board, each of the other three committees is chaired by an independent non-executive Director.

The Audit Committee was established under the Board, which is in line with the provisions of the CSRC, SSE and those in Chapter 3 of Hong Kong Listing Rules. The audit committee comprises seven members, including Mr. Zhang Ming (chairman of committee), Mr. Liu Cheeming, Mr. Lam Lee G., Mr. Feng Lun, Mr. Xu Jianguo, Mr. Wu Yuezhou and Ms. Zhang Xinmei. The Audit Committee is mainly responsible for communication, supervision and reviewing works for the Company's internal and external audit, and provides specialist advices to the Board. The Audit Committee has reviewed and confirmed the Company's interim results and interim report for the six months ended 30 June 2018 without objection on accounting policies and practises adopted by the Company.

(III) Supervisors and Supervisory Committee

As at 30 June 2018, the Supervisory Committee comprised 11 Supervisors, including five employee representative Supervisors and six non-employee representative Supervisors. The qualification of Supervisors and composition of Supervisory Committee are in compliance with applicable laws and regulations. All Supervisors, holding themselves accountable to the shareholders, perform their obligations in due diligence, monitor the legality and compliance of the performance of duties by the Company's finance department, Board members and senior management and provide recommendations and suggestions to the Board and senior management regarding relevant matters.

(IV) Senior Management

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

Section V SIGNIFICANT EVENTS

(V) Stakeholders

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

(VI) Information Disclosure and Investor Relationship Management

During the Reporting Period, the Company was able to disclose relevant information in a manner that is true, accurate, complete, timely and fair and in strict compliance with the applicable laws, regulations and regulatory documents in the PRC and Hong Kong where its shares are listed. The Company can strictly comply with relevant provisions of Corporate Insider Registration System, strengthen the management of the Company's inside information and well organise the insider registration. The Company managed its investor relations in a manner of integrity and professionalism. The Company's senior management relationship in investors services in person and the Company has designated a dedicated investor relations service team. In addition, the Company utilised various forms of communication, including setting up a hotline for investors, holding online interactions, e-mails, telephone conferences, on-site receptions, results briefing, investor presentation, road shows, E-interactive platform launched by SSE etc., to strengthen its communication with its domestic and foreign investors, thereby further enhancing the Company's transparency. Upon the publication of its 2017 annual report, the Company convened a seminar for global analysts and investors, with nearly 70 institutes as well as the Chairman, Secretary to the Board and CFO of the Company attended the seminar. Mr. Zhou Jie, Chairman of the Company, led 2018 semi-annual report road show for Hong Kong and the U.S. institute investors and visited 23 institutes, having an in-depth exchange of views with institute investors with respect to the Company's development strategy and operating conditions. During the Reporting Period, the Company received more than 150 domestic and foreign investors who participated in surveys.

(VII) Building of Compliance System

During the Reporting Period, the Company strictly complied with the requirements of the CSRC and taking into account its actual situation, continuously improved its compliance management system. The Company's Chief Compliance Officer strictly performed compliance management duties according to applicable laws. None of the shareholders, Directors nor senior management of the Company had violated the stipulated duties and procedures, nor given direct instructions to the Chief Compliance Officer or interfered with his work. The Company provided human resource, material resource, financial resource and technical support to its general compliance officer to fully carry out his duties to ensure effective compliance management. During the Reporting Period, the Company implemented strict compliance management on each business line, strengthened the prior compliance review, in process monitoring and ex post inspection, and enhanced the promotion of compliance culture. By adhering to the compliance concept that "everyone is responsible for compliance, compliance shall start from the management, compliance creates value, and compliance is the foundation for the survival of the company", the Company actively fostered the new frontline environment of "everyone being responsible and active for compliance".

Section V SIGNIFICANT EVENTS

XVI. DESCRIPTION OF OTHER SIGNIFICANT EVENTS

(I) Descriptions, Reasons and Impact of Changes to Accounting Policies, Accounting Estimates and Accounting Methods as Compared to the Last Accounting Period

1. The implementation of New Standards of Financial Instruments.

In 2017, the Ministry of Finance revised and issued "Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments", "Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets", "Accounting Standards for Business Enterprises No. 24 – Hedge Accounting" and "Accounting Standards for Business Enterprises No. 37 – Presentation and Reporting of Financial Instrument" (the "New Standards of Financial Instruments").

The New Standards of Financial Instruments have been implemented from 1 January 2018. The Company did not restate the information during the comparable period of 2017 and the difference adjustments caused by the adoption of New Standards of Financial Instruments were included in retained earnings at the beginning of the period and other comprehensive income.

2. The implementation of Standards of Revenue

In 2017, the Ministry of Finance revised "Accounting Standards for Business Enterprises No. 14 – Revenue" (revised in 2017). The revised standards stipulate that the retained earnings at the beginning of the period and other related items in the financial statements shall be adjusted based on the cumulative effects when the Standards were implemented for the first time, while the information for the comparable period shall not be adjusted.

The implementation of the standards would not lead to major changes in the way the Company's revenue was recognised, and would not have significant impact on the financial statements.

(II) Material Accounting Errors Requiring Retrospection and Restatement, Amount Corrected, Reasons and Impact during the Reporting Period

✓ Not applicable

(III) Others

1. Proposed Non-Public Issuance of A Shares

On 26 April 2018 and 21 June 2018, the Company held the 29th meeting of the sixth session of the Board and 2017 Annual General Meeting, respectively, at which, relevant resolutions in relation to the proposed non-public issuance of A shares (the "Proposed Non-public Issuance of A Shares") under the general mandate (among other things) were considered and approved.

Section V SIGNIFICANT EVENTS

According to such resolutions, the Company proposed to issue no more than 1,618,426,236 A Shares to no more than 10 (inclusive) specific target subscribers, which is expected to raise gross proceeds of up to RMB20.0 billion. The class of shares under the Proposed Non-public Issuance of A Shares is domestic listed ordinary Shares denominated in Renminbi (A Shares), with a nominal value of RMB1.00 each. The target subscribers for the Proposed Non-public Issuance of A Shares shall not exceed 10 (inclusive) target subscribers satisfying the relevant requirements of the CSRC. Final target subscribers will be determined, upon obtaining the approval from the CSRC for the Proposed Non-public Issuance of A Shares, and in accordance with relevant laws and regulations, by the Board and its authorised person(s) under the authorisation granted at the 2017 Annual General Meeting, based on the prices offered by the target subscribers in the price inquiry process and the principle of price priority. The issuance price shall not be lower than 90% of the average trading price of A Shares for the 20 consecutive trading days preceding the pricing benchmark date (exclusive), or the latest audited net assets per share attributable to owners of the Company before the issuance, whichever is higher. The total amount of proceeds to be raised from the Proposed Non-public Issuance of A Shares is expected to be no more than RMB20.0 billion. After deducting the issuance expenses, the Company intends to utilise all proceeds to increase its capital, enlarge the business scale, replenish working capital, so as to enhance the competitive strengths of the Company and improve its risk bearing abilities. The use of proceeds of the Proposed Non-public Issuance of A Shares are as follows:

No.	Projects to be invested with the proceeds	Proposed amounts of proceeds to be applied
1	To develop capital-based intermediary business	No more than RMB10 billion
2	To increase FICC investment and improve liquidity of the Company	No more than RMB4 billion
3	To develop information system	No more than RMB1 billion
4	To increase capital injection in domestic and overseas subsidiaries	No more than RMB4 billion
5	Other working capital	No more than RMB1 billion
	Total	No more than RMB20 billion

At present, the Proposed Non-public Issuance of A Shares is in progress. For further information in relation to the Proposed Non-public Issuance of A Shares, please refer to the announcements of the Company dated 26 April 2018 and 21 June 2018, as well as the circular dated 31 May 2018.

Section V SIGNIFICANT EVENTS

2. *Capital Increase in Subsidiaries*

(1) *Haitong Futures completed capital increase in Haitong Resources, a risk management subsidiary of Haitong Futures*

According to the Proposal on Increase of Registered Capital of Haitong Resources by Haitong Futures approved at the 28th meeting of the sixth session of the Board on 12 January 2018, Haitong Futures contributed additional capital of RMB300 million to its wholly-owned subsidiary Haitong Resources on 26 April 2018. After the capital increase, the registered capital of Haitong Resources reached RMB500 million.

(2) *Haitong Futures proposed to issue 1.5 million shares to its existing shareholders by private placement*

The second extraordinary general meeting of Haitong Futures for 2018 was held on 21 March 2018, and at the meeting the Share Issuance Plan was considered and approved, based on which it was intended to issue 1.5 million shares to the existing shareholders. Currently, the share issuance plan is subject to amendments due to the change of issuance conditions and the amendment is still in process.

(3) *HFT Fund increased the capital of Fortune HFT*

According to the Proposal of Capital Increase of Shanghai Fortune HFT Asset Management Co., Ltd. by HFT Fund approved at the 19th meeting of the sixth session of the Board on 28 October 2016, HFT Fund increased the capital of its wholly-owned subsidiary Fortune HFT by RMB20 million by means of cash contribution in the first half of 2018. As at 30 June 2018, the registered capital of Fortune HFT amounted to RMB200 million, and HFT Fund held 100% of its equity interest.

3. *Acquisition of, New incorporation of and Changes in Subsidiaries*

(1) In April 2018, Haitong UT, through its wholly-owned subsidiary Haitong UT Leasing Irish Holding Corporation Limited, incorporated Haitong UT Leasing Irish Finance Limited in Ireland, as its wholly-owned subsidiary.

(2) The cancellation of industrial and commercial registration of Haitong Kunlun Equity Investment Management (Shanghai) Co., Ltd. (海通昆侖股權投資管理（上海）有限公司), the controlling subsidiary of Haitong M&A Capital Management (Shanghai) Co., Ltd. (海通併購資本管理（上海）有限公司), was completed on 19 April 2018.

(3) The cancellation of industrial and commercial registration of Haitong Zhongtou Financial Services (Shanghai) Limited Liability Company (海通眾投金融服務（上海）有限責任公司), the wholly-owned subsidiary of Haitong Capital, was completed on 8 May 2018.

Section V SIGNIFICANT EVENTS

4. *Other Matters of Subsidiaries*

(1) *Shares of Haitong Futures were listed on NEEQ on 6 March 2018*

Haitong Futures, a controlling subsidiary of the Company, obtained the approval in respect of listing on the NEEQ on 29 December 2017 and completed the listing on 6 March 2018.

(2) *Launch of listing of Haitong UT*

As considered and approved at the 23rd meeting of the sixth session of the Board held on 29 March 2017 and 2016 Annual General Meeting held on 6 June 2017, Haitong UT proposed to spin off and be listed on the Main Board of the Hong Kong Stock Exchange separately through offering of foreign shares listed overseas (H shares). On 21 June 2017, Haitong UT obtained the notice of acceptance of application for administrative licence issued by the CSRC. On 27 June 2017, Haitong UT submitted the listing application (Form A1) to the Hong Kong Stock Exchange through the joint sponsors to apply for the listing and approval of trading of H shares of Haitong UT on the Main Board of the Hong Kong Stock Exchange (hereinafter referred to as "**the Listing Application**"). The Listing Application has been renewed on 28 February 2018 after expiring in six months from the date of the listing application. At present, the listing of Haitong UT H shares is in progress.

According to the relevant regulations and guidelines of the CSRC and the Hong Kong Stock Exchange, in order to avoid horizontal competition, reduce related/connected transactions, and safeguard the interests of shareholders in the future, Haitong UT intends to directly or indirectly acquire or hold, via its Hong Kong subsidiary, the 25% equity interest in Haitong UniTrust Financial Leasing (Shanghai), Haitong UniFortune, and Gui'an UT respectively held by Haitong UT Capital. In accordance with the reorganisation plan, in November 2017, Haitong UT Capital transferred its 25% equity interest in Haitong UniFortune held by it to Haitong UT Holdings, a wholly-owned subsidiary of Haitong UT Capital. In January 2018, Haitong UT Capital transferred its 25% equity interest in Haitong UniTrust Financial Leasing (Shanghai) to Haitong UT Holdings. In June 2018, Haitong UT Capital transferred its 25% equity interest in Gui'an UT to Haitong UT Holdings.

(3) *Bonds issuance by Haitong UT*

In January 2018, Haitong UT issued the fifth tranche asset-backed special programme with a total amount of RMB1,114 million.

In February 2018, Haitong UT issued the first tranche PPN for 2018 with a total amount of RMB600 million and the maturity of 3 years.

Section V SIGNIFICANT EVENTS

In March 2018, Haitong UT issued the first tranche short-term financing bill for 2018 with a total amount of RMB1.25 billion, issued the first tranche ultra-short-term financing bill for 2018 with a total amount of RMB1 billion and the maturity of 270 days, and issued the first tranche mid-term notes for 2018 with a total amount of RMB1 billion and the maturity of 3 years.

In April 2018, Haitong UT issued the second tranche mid-term notes for 2018 with a total amount of RMB800 million and the maturity of 3 years, and issued Haitong UT No.1 asset-backed special programme with a total amount of RMB1,004 million.

In May 2018, Haitong UT issued the second tranche ultra-short-term financing bill for 2018 with a total, amount of RMB1 billion and the maturity of 270 days.

In June 2018, Haitong UT issued Haitong UT No.2 asset-backed special programme with a total amount of RMB1.5 billion, issued the second tranche PPN for 2018 with a total amount of RMB500 million and the maturity of 3 years.

(4) HT Asset Management completed the issuance of the first tranche subordinated debt for 2018

On 4 April 2018, HT Asset Management completed the issuance of the first tranche subordinated bond for 2018 with a total amount of RMB1 billion, the nominal interest rate of 6.05%, the maturity of 3+2 years, and the options for the issuer to adjust the nominal interest rate and for the investors to sell back to the issuer can be exercised at the end of the third interest-bearing year.

(5) Bonds issuance by Haitong Bank

Haitong Bank issued USD130 million of other Tier 1 capital bonds (AT 1) in March 2018, further consolidating the capital base. Haitong Bank Brazil issued EUR1.84 million, EUR684,000, EUR55.475 million and EUR12.22 million of local bonds (private placement) in January, February, May and June 2018, respectively, all for a period of two years; In May 2018, Haitong Bank Brazil issued a local bond of EUR1.808 million (private placement) with a term of five years, and a local bond of EUR87,000 (private placement) with a term of one year. Haitong Bank Ireland issued a total of EUR683,000 of local bonds (private placement) in February 2018, with a term of eight years; and a local bond of EUR1.999 million (private placement) in June for a period of four years.

(6) Fullgoal Fund increased capital by converting statutory surplus reserve

On 19 April 2018, the 2017 annual general meeting of Fullgoal Fund reviewed and approved the increase of its registered capital, and approved to transfer the statutory surplus reserve of RMB220 million into capital, and increase the registered capital to RMB520 million without any change to their original shareholding percentages.

Section VI CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS

I. CHANGES IN SHARE CAPITAL

(I) Table of changes in shares

1. Table of changes in shares

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

2. Particulars about changes in shares

Nil

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

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

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

Nil

(II) Changes in restricted shares

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

II. PARTICULARS ABOUT SHAREHOLDERS

(I) Total number of shareholders:

Total number of holders of ordinary shares as at the end of the Reporting Period (accounts)	267,725 (of which 267,572 were holders of A Shares and 153 were holders of H Shares)

Section VI CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS

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

Unit: Share

	Shareholdings of the top ten shareholders						
					Particulars of shares pledged or frozen		
Name of shareholders (Full name)	Changes in the number of shares during the Reporting Period	Number of shares held as at the end of the Reporting Period	Percentage (%)	Number of shares held subject to trading moratorium	Particulars of shares	Number of shares	Nature of shareholders
HKSCC Nominees Limited	-172,400	3,408,695,162	29.64%	–	Unknown	–	Foreign legal person
China Securities Finance Corporation Limited	30,000	563,578,259	4.90%	0	Nil	0	Others
Bright Food (Group) Co., Ltd.	0	402,150,000	3.50%	0	Nil	0	State-owned legal person
Shanghai Haiyan Investment Management Company Limited	0	400,709,623	3.48%	0	Nil	0	State-owned legal person
Shenergy Group Company Limited	0	322,162,086	2.80%	0	Nil	0	State-owned legal person
Shanghai Electric (Group) Corporation	302,000	265,600,893	2.31%	0	Nil	0	State
CITIC Securities Company Limited	223,370,279	247,132,718	2.15%	0	Nil	0	Others
Shanghai Jiushi (Group) Co., Ltd.	0	235,247,280	2.05%	0	Nil	0	State-owned legal person
Shanghai Bailian Group Co., Ltd.	0	214,471,652	1.86%	0	Nil	0	Domestic non state-owned legal person
Yunnan International Co., Ltd. – JuLi No. 15 Single Fund Trust	0	187,702,412	1.63%	0	Nil	0	Others

Section VI CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS

Unit: Share

Shareholdings of the top ten shareholders not subject to trading moratorium

Name of shareholders	Number of circulating shares held not subject to trading moratorium	Type and number of share: Type	Type and number of share: Number
HKSCC Nominees Limited	3,408,695,162	Foreign shares listed overseas	3,408,695,162
China Securities Finance Corporation Limited	563,578,259	RMB denominated ordinary shares	563,578,259
Bright Food (Group) Co., Ltd.	402,150,000	RMB denominated ordinary shares	402,150,000
Shanghai Haiyan Investment Management Company Limited	400,709,623	RMB denominated ordinary shares	400,709,623
Shenergy Group Company Limited	322,162,086	RMB denominated ordinary shares	322,162,086
Shanghai Electric (Group) Corporation	265,600,893	RMB denominated ordinary shares	265,600,893
CITIC Securities Company Limited	247,132,718	RMB denominated ordinary shares	247,132,718
Shanghai Jiushi (Group) Co., Ltd.	235,247,280	RMB denominated ordinary shares	235,247,280
Shanghai Bailian Group Co., Ltd.	214,471,652	RMB denominated ordinary shares	214,471,652
Yunnan International Co., Ltd. – JuLi No. 15 Single Fund Trust	187,702,412	RMB denominated ordinary shares	187,702,412

Notes:

1. Among the H Shareholders of the Company, HKSCC Nominees Limited held the H Shares on behalf of the non-registered shareholders.

2. In the table above, the shares held by HKSCC Nominees Limited are foreign shares listed overseas (H Shares) and the shares held by other shareholders are RMB denominated ordinary A Shares.

3. The nature of shareholders of A Shares represents that of accounts registered by such shareholders in Shanghai Branch of China Securities Depository and Clearing Corporation Limited.

4. As the shares of the Company are subject of margin financing and securities lending, the number of shares held by a shareholder is calculated based on the aggregated number of shares and interests held by such shareholder through ordinary securities accounts and credit securities accounts.

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

✓ Not applicable

Section VI CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS

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

As at 30 June 2018, to the best knowledge of the Directors, having made all reasonable enquiries, the following parties (other than the Directors, Supervisors and chief executive of the Company) had an interest or short position in the shares or underlying shares, which is required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and has been entered in the register kept by the Company according to Section 336 of the SFO:

No.	Name of substantial shareholders	Type of share	Nature of interests	Number of shares held (shares)	Percentage of total issued shares of the Company (%)	Percentage of total issued A Shares/ H Shares of the Company (%)	Long position (Note 2)/short position (Note 3)/ interests in lending pool
1.	Maunakai Capital Partners (Hong Kong) Limited	H Share	Investment manager	272,590,000	2.36	7.99	Long position
2.	BSA Strategic Fund I	H Share	Beneficial owners	272,590,000	2.36	7.99	Long position
3.	Insight Capital Management (Hong Kong) Limited	H Share	Investment manager	223,415,200	1.94	6.55	Long position
4.	Insight Phoenix Fund	H Share	Investment manager	223,415,200	1.94	6.55	Long position
5.	Shi Jing	H Share	Founder of discretionary trust	228,000,000	1.98	6.69	Long position
6.	Wickhams Cay Trust Company Limited	H Share	Trustee (Note 1)	228,000,000	1.98	6.69	Long position
7.	Abhaya Limited	H Share	Interests in controlled corporation (Note 1)	228,000,000	1.98	6.69	Long position
8.	Heyday Trend Limited	H Share	Beneficial owners (Note 1)	228,000,000	1.98	6.69	Long position
9.	BlackRock, Inc.	H Share	Interests in controlled corporation	212,029,026	1.84	6.22	Long position
		H Share	Interests in controlled corporation	14,455,542	0.13	0.42	Short position

Note 1: Heyday Trend Limited holds 228,000,000 H Shares of the Company. Abhaya Limited holds 228,000,000 H shares of the Company respectively through its wholly-owned Heyday Trend Limited. Abhaya Limited is wholly owned by Wickhams Cay Trust Company Limited. Shi Yuzhu is a director of Abhaya Limited and other directors in Abhaya Limited are used to taking orders from Shi Yuzhu. Therefore, Both Wickhams Cay Trust Company Limited and Shi Yuzhu are deemed to have interests in the 228,000,000 H Shares held by Abhaya Limited.

Section VI CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS

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

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

Save as disclosed above, as at 30 June 2018, the Company was not aware of any other person (other than the Directors, Supervisors and chief executive of the Company) having any interests or short positions in the shares or underlying shares of the Company which are required to be recorded in the register pursuant to Section 336 of the SFO.

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

As at 30 June 2018, according to the information obtained by the Company and so far as the Directors are aware, the following Director(s), Supervisor(s) and chief executive of the Company had the interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporation (within the meaning as defined under the Part XV of the SFO), which shall be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which are taken or deemed to have under such provisions of the SFO) or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or would be required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange:

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

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

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

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

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

III. CHANGES OF CONTROLLING SHAREHOLDERS OR DE FACTO CONTROLLERS

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

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

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

Section VII PREFERENCE SHARES

During the Reporting Period, the Company did not have any matters relating to preference shares.

SECTION VIII PARTICULARS ABOUT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

I. CHANGES IN SHAREHOLDING

(I) Changes in shareholding of current and resigned Directors, Supervisors and senior management during the Reporting Period

✓ Not applicable

(II) Share incentives granted to Directors, Supervisors and senior management during the Reporting Period

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

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

Name	Position	Particulars of changes
Ji Yuguang	Deputy General Manager	Resignation
Li Chuqian	Chief Financial Officer	Resignation
Zhang Xinjun	Chief Financial Officer	Appointment

Description of changes in Directors, Supervisors and senior management of the Company

Changes in Senior Management

Reference is made to the announcement of the Company dated 25 January 2018, Mr. Ji Yuguang ceased to act as a deputy general manager of the Company due to age reason. After he ceased to be a deputy general manager of the Company, Mr. Ji Yuguang no longer held any other position in the Company.

On 27 March 2018, the Resolution on Appointment of Chief Financial Officer was considered and approved at the 29th meeting of the sixth session of the Board. As Mr. Li Chuqian ceased to act as the Chief Financial Officer due to age reason, the Board appointed Mr. Zhang Xinjun as the Chief Financial Officer in accordance with the PRC Company Law and the Articles of Association. Mr. Zhang Xinjun's qualification has been approved by the securities regulatory authorities and he took his term of office on the date of such approval. For further information about Mr. Zhang Xinjun, please refer to the Overseas Regulatory Announcement of the Company dated 27 March 2018.

SECTION VIII PARTICULARS ABOUT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

III. OTHER INFORMATION

(I) Dealings in securities by Directors, Supervisors and relevant employees

The Company has adopted the standards as set out in the Model Code as the code of conduct of the Company regarding securities transactions by the Directors, Supervisors and relevant employees. The Company, having made enquiries to all Directors and Supervisors, confirmed that they had been in compliance with the requirements of the abovementioned Model Code, during the period from 1 January 2018 to 30 June 2018. The Company has not found any relevant employee violating the said guidelines.

(II) Material changes in relevant information of Directors and Supervisors

Mr. Liu Cheeming, an independent non-executive Director, ceased to serve as an independent non-executive director of Starhub Ltd. since April 2018 and has served as an independent non-executive director of DBS Bank (Hong Kong) Limited. since June 2018.

Mr. Chen Bin, a non-executive Director, ceased to serve as a director of Shanghai Tobacco Group Zhabei Tobacco, Sugar & Wine Co., Ltd. since January 2018, and ceased to serve as a director of Shanghai Tobacco Auction Firm Co., Ltd. since May 2018.

Mr. Li Lin, a Supervisor, ceased to serve as chief financial officer of Bright Food (Group) Co., Ltd. since July 2018 and has been appointed as its vice president.

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

(III) Particulars about service contracts with Directors and Supervisors

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

SECTION VIII PARTICULARS ABOUT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(IV) Employees and remuneration policy

As at the end of the Reporting Period, the Group had 10,197 employees, of whom 5,674 were from the Company, and 4,523 were from subsidiaries.

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

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

(V) Employee training

In the first half of 2018, the Company has further optimised the systematic construction of training by launching the "Spark Plan", "Prairie Fire Plan" and "Lighthouse Plan" for reserve cadres, new cadres, and unit leaders, respectively. The Company has initiated the international talent reserve training, enhanced the depth and breadth of the special training for the "Dandelion Plan", and orderly carried out a series of activities such as Haitong Wealth Lecture Hall, Reading Sharing Meeting, and Management Book List, to promote the continuous growth of the backbone team, maximising the support delivered by training for the Company's talent development strategy and performance improvement.

SECTION VIII PARTICULARS ABOUT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(VI) Election of new session of Board and Supervisory Committee

Reference is made to the announcement of the Company dated 28 December 2017. The terms of the sixth session of the Board and the Supervisory Committee of the Company expired on 30 December 2017. As the nomination of candidates for the Directors and the Supervisors of the seventh session of the Board and the Supervisory Committee has not been completed, and the election process of the Board and the Supervisory Committee is still in preparation, in order to ensure the continuity of the work of the Board and the Supervisory Committee, the election of the sixth session of the Board and the Supervisory Committee will be postponed, and the terms of each special committee of the Board and senior management are extended accordingly. Before the completion of the election process, all the members of the sixth session of the Board, the Supervisory Committee and the senior management of the Company will continue to perform their obligations and duties in accordance with relevant laws, regulations and the Articles of Association of the Company.

SECTION IX CORPORATE BONDS

I. BASIC INFORMATION OF CORPORATE BONDS

According to the Proposal regarding the General Mandate to Issue Onshore Debt Financing Instruments considered and approved at the 15th meeting of the sixth session of the Board on 30 March 2016 and the 2015 annual general meeting on 26 May 2016, the Company applied for and obtained the Letter of Approval for Haitong Securities Co., Ltd. to Publicly Issue Corporate Bonds to Qualified Investors (Zheng Jian Xu Ke [2017] No.2388) from the Shanghai Stock Exchange and the CSRC. Relevant resolutions were published on China Securities Journal, Shanghai Securities News, Securities Times and the website of Shanghai Stock Exchange (http://www.sse.com.cn) on 31 March 2016 and 27 May 2016, respectively. The Letter approved the Company to publicly issue corporate bonds with an aggregate nominal amount not exceeding RMB20.0 billion to qualified investors. Based on the aforesaid resolutions and regulatory approvals, during the Reporting Period, the Company issued three tranches of corporate bonds.

Unit: 100 million Currency: RMB

Name of Bonds	Abbreviation	Code	Date of issuance	Maturity date	Balance of bonds	Interest rate	Method to repay principal and pay interest	Venue of trading
2013 Corporate Bonds (Tranche 1) of Haitong Securities Co., Ltd.	13 Haitong 02	122281	25 November 2013	25 November 2018	23.5	6.15%	Simple annualised interest rate	Shanghai Stock Exchange
2013 Corporate Bonds (Tranche 1) of Haitong Securities Co., Ltd.	13 Haitong 03	122282	25 November 2013	25 November 2023	23.9	6.18%	Simple annualised interest rate	Shanghai Stock Exchange
2013 Corporate Bonds (Tranche 2) of Haitong Securities Co., Ltd.	13 Haitong 05	122312	14 July 2014	14 July 2019	45.5	5.45%	Simple annualised interest rate	Shanghai Stock Exchange
2013 Corporate Bonds (Tranche 2) of Haitong Securities Co., Ltd.	13 Haitong 06	122313	14 July 2014	14 July 2024	8	5.85%	Simple annualised interest rate	Shanghai Stock Exchange
2017 Corporate Bonds (Tranche 1) of Haitong Securities Co., Ltd.	17 Haitong 01	143231	11 August 2017	11 August 2020	50	4.63%	Simple annualised interest rate	Shanghai Stock Exchange
2017 Corporate Bonds (Tranche 1) of Haitong Securities Co., Ltd.	17 Haitong 02	143232	11 August 2017	11 August 2022	10	4.80%	Simple annualised interest rate	Shanghai Stock Exchange
2017 Corporate Bonds (Tranche 2) of Haitong Securities Co., Ltd.	17 Haitong 03	143301	22 September 2017	22 September 2027	55	4.99%	Simple annualised interest rate	Shanghai Stock Exchange
2017 Corporate Bonds (Tranche 3) of Haitong Securities Co., Ltd.	17 Haitong 04	143336	25 October 2017	25 October 2020	5	4.77%	Simple annualised interest rate	Shanghai Stock Exchange
2018 Corporate Bonds (Tranche 1) of Haitong Securities Co., Ltd.	18 Haitong 01	143480	08 March 2018	08 March 2021	30	5.15%	Simple annualised interest rate	Shanghai Stock Exchange
2018 Corporate Bonds(Tranche 2) of Haitong Securities Co., Ltd.	18 Haitong 02	143529	22 March 2018	22 March 2021	30	5.14%	Simple annualised interest rate	Shanghai Stock Exchange
2018 Corporate Bonds (Tranche 3) of Haitong Securities Co., Ltd.	18 Haitong 03	143632	10 May 2018	10 May 2021	30	4.70%	Simple annualised interest rate	Shanghai Stock Exchange

As at 30 June 2018, the outstanding balance of the publicly issued corporate bonds totalled RMB31.09 billion.

SECTION IX CORPORATE BONDS

Payment of Interest and Repayment of Principal of Corporate Bonds

The 2013, 2017 and 2018 corporate bonds issued publicly carry interest payable annually in arrears, and the interest payable for the last period will be paid in arrears together with principal upon maturity; no additional interest will be accrued upon payment date of interest for each period and upon repayment date of principal. The repayment of principal and payment of interest of the bonds shall be duly handled via the registration institutions and relevant institutions.

Further Description of Corporate Bonds

The Company's existing non-public issuance of corporate bonds and subordinated bonds at the end of Reporting Period are represented in the following table. During the Reporting Period, subordinated bonds of RMB20.0 billion was redeemed, and the total balance of the two types of bonds was RMB30.5 billion as at the end of the Reporting Period. Please refer to Note 41 of the consolidated financial statements in this Report for more details on corporate bonds.

Unit: 100 million Currency: RMB

Name of Bonds	Abbreviation	Code	Term	Date of issuance	Maturity date	Balance of bonds	Interest rate	Method to repay principal and pay interest	Venue of trading
2015 Subordinated Bonds (Tranche 1)	15 Haitong C1	123212	5 years (3+2)	08 April 2015	08 April 2018	–	5.50%	Simple annualised interest rate	Shanghai Stock Exchange
2015 Subordinated Bonds (Tranche 2)	15 Haitong C3	125993	5 years (3+2)	12 June 2015	12 June 2018	–	5.38%	Simple annualised interest rate	Shanghai Stock Exchange
2016 Subordinated Bonds (Tranche 1)	16 Haitong C1	145179	3 years	17 November 2016	17 November 2019	40	3.30%	Simple annualised interest rate	Shanghai Stock Exchange
2016 Subordinated Bonds (Tranche 1)	16 Haitong C2	145180	5 years	17 November 2016	17 November 2021	20	3.40%	Simple annualised interest rate	Shanghai Stock Exchange
2017 Subordinated Bonds (Tranche 1)	17 Haitong C1	145411	3 years	16 March 2017	16 March 2020	45	4.80%	Simple annualised interest rate	Shanghai Stock Exchange
2016 Non-public Issuance of Corporate Bonds (Tranche 1)	16 Haitong 01	135484	4 years (3+1)	18 May 2016	Option of redemption	150	3.60%	Simple annualised interest rate	Shanghai Stock Exchange
2016 Non-public Issuance of Corporate Bonds (Tranche 1)	16 Haitong 02	135485	5 years	18 May 2016	18 May 2021	50	3.80%	Simple annualised interest rate	Shanghai Stock Exchange

1. 15 Haitong C1 carries right of redemption at the end of the third year, and the issuer chose to exercise the "right of redemption" and the subordinated bonds was fully redeemed on 8 April 2018. The notes to the exercise of right of redemption and the results of repayment were published on the website of the Shanghai Stock Exchange.

2. 15 Haitong C3 carries right of redemption at the end of the third year, and the issuer chose to exercise the "right of redemption" and the subordinated bonds was fully redeemed on 12 June 2018. The notes to the exercise of right of redemption and the results of repayment were published on the website of the Shanghai Stock Exchange.

SECTION IX CORPORATE BONDS

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

Bond trustee	Name	CITIC Securities Company Limited
	Office address	22nd Floor, CITIC Securities Tower, No.48 Liangmaqiao Road, Chaoyang District, Beijing
	Contact persons	Song Yilan, Chang Wei
	Tel	010-60836030
Bond trustee	Name	Shanghai AllBright Law Offices
	Office address	12th Floor, Shanghai Tower, No.501 Yincheng Middle Road, Pudong New Area, Shanghai
	Contact persons	Pei Zhenyu, Lv Xijing, Xiao Wenyan
	Tel	021-20511217
Credit-rating agency	Name	China Chengxin Securities Ratings Co., Ltd. (中誠信證券評估有限公司)
	Office address	8th Floor, No.760 Xizang South Road, Shanghai

III. USE OF PROCEEDS FROM ISSUANCE OF CORPORATE BONDS

As at 30 June 2018, the said proceeds from issuance of bonds of the Company were fully used to pay its due debts or replenish the working capital of the Company to meet the Company's needs for business operations, which were consistent with the committed use, the usage plan and other agreements as described in the prospectus. The Company has raised aggregated proceeds RMB9,000 million from the Tranches 1, Tranches 2 and Tranches 3 of corporate bonds issued in 2018, and such proceeds were fully used to pay its matured subordinated bonds and income certificates. Given that the bonds issued in tranches within the validity period of the same approval document use the same special account for proceeds, proceeds in the above special accounts have been used up with a zero balance.

According to notice issued by the CSRC requiring bonds issuer to conduct self-inspection, during April 2018, the Company engaged BDO China SHU LUN PAN CPAs ("BDO", as special partner) to conduct special inspection on the deposit and usage of proceeds raised from bonds of the Company as of 31 December 2017. And BDO prepared an Inspection Report (XIN KUAI JI BAO ZI [2018] No. ZA12954) accordingly. The Company deposits and uses the raised proceeds, and releases relevant information in a timely, accurate and complete manner strictly subject to applicable regulations, and does not violate any such proceeds management regulations.

SECTION IX CORPORATE BONDS

IV. INFORMATION ON THE RATING OF CORPORATE BONDS

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

From March to May 2018, CCXR approved the credit ratings of AAA for the three tranches of corporate bonds publicly issued by the Company to qualified investors in 2018 (Xin Ping Wei Han Zi [2018] No.G010-F1-X, G010-F2, G010-F3).

On 28 April 2018, the Company announced CCXR's follow-up ratings reports on various bonds issued by the Company on the website of the Shanghai Stock Exchange. According to the reports, credit ratings of publicly issued corporate bonds (Tranches 1 and 2) in 2013 remained at AAA (Xin Ping Wei Han Zi [2018] Gen Zong No. 052); credit rating of subordinated bonds (Tranche 2) in 2015 remained at AA+ (Xin Ping Wei Han Zi [2018] Gen Zong No. 053); credit rating of non-publicly issued subordinated bonds (Tranche 1) in 2016 remained at AA+ (Xin Ping Wei Han Zi [2018] Gen Zong No. 054); credit ratings of publicly issued corporate bonds (Tranches 1, 2 and 3) in 2017 remained at AAA (Xin Ping Wei Han Zi [2018] Gen Zong No. 055); credit rating of non-publicly issued corporate bonds (Tranche 1) in 2016 remained at AAA (Xin Ping Wei Han Zi [2018] Gen Zong No. 056); credit rating of non-publicly issued subordinated bonds (Tranche 1) in 2017 remained at AA+ (Xin Ping Wei Han Zi [2018] Gen Zong No. 057); credit ratings of publicly issued corporate bonds (Tranche 1 and 2) in 2018 remained at AAA (Xin Ping Wei Han Zi [2018] Gen Zong No. 058), and the corporate rating of subject of debt issuance remained at AAA.

SECTION IX CORPORATE BONDS

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

1. Repayment plan

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

2. Other relevant information

The Resolution on the General Mandate to Issue Onshore Debt Financing Instruments was considered and approved at the Annual General Meeting on 26 May 2016, which stipulated repayment supporting measures, i.e., "authorising the Board and permitting the Board to re-authorise the authorised persons, jointly or separately, in respect of the issuances of the Corporate Onshore Debt Financing Instruments to adopt at least the following measures when there is an anticipated failure to repay the principal and interest of the onshore debt financing instrument or an actual failure to repay the principal and interest of the onshore debt financing instrument on due dates: ①ceasing to distribute dividends to the Shareholders; ②suspending the implementation of capital expenditure projects such as material external investments, acquisitions and mergers; ③reducing or ceasing to pay the wages and bonus of the Directors and senior management of the Company; ④freezing the job transfer of the key responsible personnel."

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

SECTION IX CORPORATE BONDS

VI. MEETINGS CONVENED FOR HOLDERS OF CORPORATE BONDS

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

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

As the Bond Trustee of the Company, CITIC Securities and AllBright Law Offices had no conflict of interest in the course of performing its duties, conducted an ongoing track and supervision of the performance of the obligations agreed in the prospectus and agreements by the Company and focused on the credit status, inside and outside credit enhancement mechanisms and implementation of repayment supporting measures of the Company on an ongoing basis.

On 14 March 2018, in response to the fact that new borrowings of the Company excessed 20% of the net assets as at the end of last year, CITIC Securities and AllBright Law Offices issued interim reports of entrusted management affairs in respect of relevant entrusted bonds.

On 28 April 2018, CITIC Securities issued the report of entrusted management affairs for 2017 in respect of two tranches of 2013 Corporate Bonds, 2015 Subordinated Bonds (tranche 2), three tranches of 2017 Corporate Bonds and two tranches of 2018 Corporate Bonds of the Company.

On 16 May 2018, AllBright Law Offices issued the report of management affairs for 2017 in respect of 2016 Non-public Issued Corporate Bonds (tranche 1) and 2017 Non-publicly Issued Subordinated Bonds (tranche 1).

The abovementioned reports were all disclosed on the website of Shanghai Stock Exchange.

SECTION IX CORPORATE BONDS

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

Unit: 100 million Currency: RMB

Key indicators	As at the end of this Reporting Period	As at the end of last year	Movement at the end of the Reporting Period as compared with the end of the last year (%)	Reasons for changes
Liquidity ratio	1.92	2.05	-6.34	/
Quick ratio	1.92	2.05	-6.34	/
Gearing ratio (%)	73.69	71.24	Increased by 2.45 percentage points	/
Loan repayment ratio (%)	100	100	0	/

	During the Reporting Period (January to June)	During the last corresponding period	Movement for the Reporting Period compared with last corresponding period (%)	Reasons for changes
EBITDA interest coverage multiple	1.76	2.20	-20.00	/
Interest payment ratio (%)	100	100	0	/

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

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

SECTION IX CORPORATE BONDS

IX. OVERDUE DEBTS

✓ Not applicable

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

Name of Bonds	Abbreviation	Code	Date of issuance	Date of payment of interest and repayment of principal	Information on payment of interest and repayment of principal
2015 Subordinated Bonds (Tranche 1)	15 Haitong C1	123212	08 April 2015	09 April 2018	Redeemed
2015 Subordinated Bonds (Tranche 2)	15 Haitong C3	125993	12 June 2015	12 June 2018	Redeemed
2016 Non-publicly Issued Corporate Bonds (Tranche 1)	16 Haitong 01	135484	18 May 2016	18 May 2018	Interest paid in full on time
2016 Non-publicly Issued Corporate Bonds (Tranche 1)	16 Haitong 02	135485	18 May 2016	18 May 2018	Interest paid in full on time
2017 Subordinated Bonds (Tranche 1)	17 Haitong C1	145411	16 March 2017	16 March 2018	Interest paid in full on time

1. The Company paid the interest of 2016 Non-publicly Issued Corporate Bonds (Tranche 1) in a timely manner.

2. The Company paid the interest of 2017 Non-publicly Issued Subordinated Bonds (Tranche 1) in a timely manner.

XI. BANKING FACILITIES OF THE COMPANY DURING THE REPORTING PERIOD

During the Reporting Period, the Company obtained aggregate credit facilities of various types of nearly RMB500,000 million from a total of approximately hundreds of banks. The utilised credit facilities was about RMB180,000 million, with over RMB300,000 million remained.

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

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

SECTION IX CORPORATE BONDS

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

On 7 March 2018, the Company released an announcement on the website of the Shanghai Stock Exchange, announcing its accumulative new borrowings in the year has exceeded 20% of the net assets as at the end of the previous year. As at 28 February 2018, the Company has (on a consolidated basis) outstanding borrowings of RMB296,017 million (unaudited), and accumulative new borrowing of RMB30,058 million (unaudited, accounting 23.23% of the net assets as at the end of the previous year). The Company's new borrowings in the year is in compliance with all relevant laws and regulations and belongs to the normal business activity of the Company. At present, the Company has a sound financial situation, fulfils its obligations of principal repayment and interest payment on maturity for each liability, and the new borrowings does not adversely affect the operations and solvency of the Company.

SECTION X FINANCIAL REPORT

I. The 2018 Interim Financial Report has been reviewed by Deloitte Touche Tohmatsu with the auditor's review report attached hereto.

II. The Interim Financial Report (attached).

Section XI DOCUMENTS AVAILABLE FOR INSPECTION

I. The text of this Report with signature of the legal representative of the Company.

II. The text of the interim financial report with signatures and seals of the legal representative of the Company and the chief financial officer and the person responsible for the accounting affairs.

III. The text of the auditor's review report from Deloitte Touche Tohmatsu.

IV. Original of all documents and announcement of the Company publicly disclosed on newspapers designated by the CSRC during the Reporting Period.

V. Other relevant materials.

Section XII INFORMATION DISCLOSURE OF SECURITIES COMPANY

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

(I) Administrative licensing of business departments during the Reporting Period

New business departments	Relocation of branches	Relocation of business departments
0	0	7

Administrative licensing of relocation of business departments during the Reporting Period

No.	Name of business department before relocation	Name of business department after relocation	New address	License obtained on
1	Business Department of Haitong Securities Co., Ltd. in Fuqian Road, Fenyi, Xinyu	Business Department of Haitong Securities Co., Ltd. in Fuqian Road, Fenyi, Xinyu	Building 101/320/370-374, Block A, North Side of Qianyang Road (Dream Times Square)/East Side of Fuqian Road, Fenyi County, Xinyu, Jiangxi	7 February 2018
2	Business Department of Haitong Securities Co., Ltd. in Erhe South Road, Dali	Business Department of Haitong Securities Co., Ltd. in Yuhua Road, Dali	No. 13, Yuhua Road, Xiaguan Town, Dali, Dali Bai Autonomous Prefecture, Yunnan	26 April 2018
3	Business Department of Haitong Securities Co., Ltd. in Fuhua Third Road, Shenzhen	Business Department of Haitong Securities Co., Ltd. in Jintian Road, Shenzhen	1603-1605, Building 1, Huanggang Business Centre/Excellence Century Centre, Southeast of the Junction of Fuhua 3rd Road and Jintian Road, Fushan Community, Futian Subdistrict, Futian District, Shenzhen	4 May 2018
4	Business Department of Haitong Securities Co., Ltd. in Fucheng Avenue, Funing, Yancheng	Business Department of Haitong Securities Co., Ltd. in Shanghai Road, Funing, Yancheng	Store (C), 1F, 05 & 06, Building 1, Jincheng Times Square, Groups 2 & 3, Cuiwan Village, Fucheng Town, Funing County, Yancheng	25 May 2018
5	Business Department of Haitong Securities Co., Ltd. in Development Avenue, Suqian	Business Department of Haitong Securities Co., Ltd. in Huanghe South Road, Suqian	Room C104, Podium, Building 6, Jintian Lake Spring, Huanghe South Road, Sucheng District, Suqian	25 May 2018
6	Business Department of Haitong Securities Co., Ltd. in Jianguo Street, Wuwei	Business Department of Haitong Securities Co., Ltd. in Qilian Avenue, Wuwei	No. 612, Qilian Avenue, Liangzhou District, Wuwei, Gansu	4 June 2018
7	Business Department of Haitong Securities Co., Ltd. in Bayi South Street, Jinhua	Business Department of Haitong Securities Co., Ltd. in Huixi Street, Jinhua	No.196, Huixi Street, Chengbei Subdistrict, Wucheng District, Jinhua, Zhejiang	26 June 2018

Section XII INFORMATION DISCLOSURE OF SECURITIES COMPANY

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

No.	Date	Contents
1	March 2018	Shanghai Securities Regulatory Bureau of the CSRC issued the Reply of Approval on Qualification of Zhang Xinjun as Manager-level Senior Management of Securities Company (Hu Zheng Jian Xu Ke [2018] No. 30) to the Company, approving qualification of Zhang Xinjun as manager-level senior management of securities company.

II. RESULT OF CLASSIFICATION OF THE COMPANY BY REGULATORY AUTHORITY

In 2018, the Company was rated as Grade AA under Category A company in classification and evaluation of securities firms.

Shanghai, the PRC
29 August 2018

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF
HAITONG SECURITIES CO., LTD.
(Incorporated in the People's Republic of China with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Haitong Securities Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 114 to 212, which comprise the condensed consolidated statement of financial position as of 30 June 2018 and the related condensed consolidated statement of profit or loss, condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-months period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 August 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018

		Six months ended 30 June	
	NOTES	**2018** ***RMB'000*** **(unaudited)**	2017 *RMB'000* (unaudited) (restated)
Commission and fee income	*6*	**5,347,240**	5,868,623
Interest income	*7*	**8,862,881**	7,475,356
Investment income and gains (net)	*8*	**1,868,675**	4,353,418
		16,078,796	17,697,397
Other income and gains	*9*	**2,910,777**	2,378,201
Total revenue, gains and other income		**18,989,573**	20,075,598
Depreciation and amortisation	*10*	**(283,673)**	(217,648)
Staff costs		**(2,554,605)**	(3,351,767)
Commission to account executives		**(289,468)**	(309,563)
Brokerage transaction fees and other services expenses	*11*	**(874,917)**	(974,565)
Interest expenses	*12*	**(6,443,120)**	(5,732,732)
Impairment losses, net of reversal	*13*	**(697,829)**	(706,694)
Other expenses		**(3,308,268)**	(3,232,281)
Total expenses		**(14,451,880)**	(14,525,250)
Share of results of associates and joint ventures		**(36,307)**	260,055
Profit before income tax		**4,501,386**	5,810,403
Income tax expense	*14*	**(1,042,017)**	(1,293,469)
Profit for the period		**3,459,369**	4,516,934
Attributable to:			
Owners of the Company		**3,030,926**	4,023,478
Non-controlling interests		**428,443**	493,456
Including: Perpetual notes		**24,707**	19,951
		3,459,369	4,516,934
Earnings per share (Expressed in RMB per share)			
– Basic	*15*	**0.26**	0.35
– Diluted	*15*	**0.26**	0.35

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Profit for the period	**3,459,369**	4,516,934
Other comprehensive income/(expense):		
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gains on defined benefit obligations	**4,299**	–
Fair value loss on equity instruments measured at fair value through other comprehensive income	**(689,252)**	–
Income tax impact	**172,313**	–
Subtotal	**(512,640)**	–
Items that may be subsequently reclassified to profit or loss:		
Exchange differences arising on translation of foreign operations	**(195,160)**	(260,714)
Fair value gain on hedges of net investments in foreign operations	**101,392**	–
Fair value gain/(loss) on:		
Available-for-sale investments		
Net fair value changes during the period	**–**	2,424,274
Reclassification adjustment to profit or loss on disposal	**–**	(1,524,973)
Reclassification adjustment to profit or loss upon Impairment	**–**	78,826
Income tax relating to components of other comprehensive income	**–**	(323,849)
Debt instruments measured at fair value through other comprehensive income		
Net fair value changes during the period	**(133,429)**	–
Reclassification adjustment to profit or loss on disposal	**5,311**	–
Reclassification adjustment to profit or loss for expected credit losses	**29,352**	–
Income tax relating to components of other comprehensive income	**43,997**	–
Share of other comprehensive income of associates and joint venture, net of related income tax	**(41,175)**	(14,891)
Subtotal	**(189,712)**	378,673
Other comprehensive (expense)/income for the period (net of tax)	**(702,352)**	378,673
Total comprehensive income for the period	**2,757,017**	4,895,607
Attributable to:		
Owners of the Company	**2,281,030**	4,867,151
Non-controlling interests	**475,987**	28,456
Including: Perpetual notes	**24,145**	21,601
	2,757,017	4,895,607

The accompanying notes presented on pages 122 to 212 form part of these unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	NOTES	2018/6/30 RMB'000 (unaudited)	2017/12/31 RMB'000 (audited)
Non-current assets			
Property and equipment	16	2,972,959	2,862,370
Investment properties		256,886	16,864
Goodwill	17	3,894,553	3,863,520
Other intangible assets		516,037	494,053
Investments accounted for using equity method	18	8,344,845	10,062,370
Finance lease receivables	19	27,031,859	22,212,628
Available-for-sale investments	20	–	31,725,358
Financial assets at fair value through profit or loss	26	10,522,275	952,338
Equity instruments at fair value through other comprehensive income	21	16,222,646	–
Debt instruments at fair value through other comprehensive income	23	2,969,591	–
Loans and advances	24	3,408,232	4,086,897
Deferred tax assets	47	2,917,070	2,851,450
Other loans and receivables	22	6,750,148	8,098,697
Financial assets held under resale agreements	25	18,213,933	21,204,776
Deposits with exchanges	27	1,098,036	1,347,701
Restricted bank balances and cash	28	738,744	675,568
Other assets	30	1,356,495	1,076,587
Total non-current assets		107,214,309	111,531,177
Current assets			
Advances to customers on margin financing	31	58,868,580	61,560,953
Accounts receivable	32	12,600,996	7,442,000
Finance lease receivables	19	25,155,721	21,323,548
Other receivables and prepayments	33	6,270,410	5,544,270
Available-for-sale investments	20	–	9,503,398
Debt instruments at fair value through other comprehensive income	23	10,206,686	–
Loans and advances	24	466,155	751,375
Held-to-maturity investments		–	78,718
Other loans and receivables	22	15,839,011	21,147,878
Financial assets held under resale agreements	25	79,866,891	75,345,093
Placements to banks and other financial institutions		39,664	679,092
Financial assets at fair value through profit or loss	26	137,614,681	98,904,357
Derivative financial assets	45	1,576,800	2,610,612
Deposits with exchanges	27	7,849,660	7,180,974
Clearing settlement funds	34	8,328,608	7,982,729
Deposits with central banks	35	3,359,447	3,445,696
Deposits with other banks	35	823,614	316,134
Bank balances and cash	28	97,139,255	99,358,329
Total current assets		466,006,179	423,175,156
Total assets		573,220,488	534,706,333

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	NOTES	2018/6/30 RMB'000 (unaudited)	2017/12/31 RMB'000 (audited)
Current liabilities			
Borrowings	36	48,614,263	45,511,447
Deposits from other banks		206,754	293,733
Short-term financing bills payables	37	38,780,188	29,426,762
Placements from banks and other financial institutions	38	15,550,000	5,450,000
Accounts payable to brokerage clients	39	83,031,997	83,774,388
Customer accounts	40	2,347,283	3,750,621
Bonds payable	41	19,852,395	14,739,105
Other payables and accruals	42	19,715,179	17,457,987
Contract liabilities		457,461	–
Provisions	43	115,831	167,343
Tax liabilities		1,230,859	2,198,613
Financial liabilities at fair value through profit or loss	44	22,614,042	20,031,099
Derivative financial liabilities	45	2,492,300	3,495,454
Financial assets sold under repurchase agreements	46	39,996,224	32,645,727
Deposits from central banks		459,090	468,138
Total current liabilities		295,463,866	259,410,417
Net current assets		170,542,313	163,764,739
Total assets less current liabilities		277,756,622	275,295,916

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	NOTES	2018/6/30 RMB'000 (unaudited)	2017/12/31 RMB'000 (audited)
Equity			
Share capital	49	11,501,700	11,501,700
Capital reserve		56,357,980	56,357,980
Investment revaluation reserve		–	2,071,805
Investment revaluation reserve of financial assets measured at fair value through other comprehensive income ("FVTOCI reserve")	50	752,037	–
Translation reserve		(587,446)	(445,275)
General reserves		18,046,215	17,971,724
Retained profits		30,928,590	30,297,545
Equity attributable to owners of the Company		116,999,076	117,755,479
Non-controlling interests		11,973,714	11,938,825
Including: Perpetual notes		1,240,366	1,264,427
Total equity		128,972,790	129,694,304
Non-current liabilities			
Deferred tax liabilities	47	547,688	867,320
Bonds payable	41	112,462,599	115,419,164
Long-term borrowings	36	20,262,287	15,810,543
Long-term payables	48	5,849,317	4,813,699
Financial assets sold under repurchase agreements	46	–	400,000
Financial liabilities at fair value through profit or loss	44	2,175,020	712,400
Placements from banks and other financial institutions	38	6,098,983	6,361,639
Other payables and accruals	42	1,387,938	1,216,847
Total non-current liabilities		148,783,832	145,601,612
Total equity and non-current liabilities		277,756,622	275,295,916

This unaudited condensed consolidated financial statements on pages 122 to 212 was approved by the Board of Directors on 29 August 2018 and signed on its behalf by:

周杰	瞿秋平	張信軍
Chairman of Board	*Executive Director and General Manager*	*Chief Financial Officer*

The accompanying notes presented on pages 122 to 212 form part of these unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to owners of the Company								Non-controlling interests			
	Share capital *RMB'000*	Capital reserve *RMB'000* *(Note a)*	Investment revaluation reserve *RMB'000*	FVTOCI reserve *RMB'000*	Translation reserve *RMB'000*	General reserves *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*	Share of net assets of subsidiaries *RMB'000*	Perpetual Notes *RMB'000*	Total *RMB'000*	Total equity *RMB'000*
Unaudited												
At 31 December 2017 (audited)	11,501,700	56,357,980	2,071,805	–	(445,275)	17,971,724	30,297,545	117,755,479	10,674,398	1,264,427	11,938,825	129,694,304
Adjustment (see Note 3)	–	–	(2,071,805)	1,359,762	–	46,329	262,836	(402,878)	(26,989)	–	(26,989)	(429,867)
At 1 January 2018 (restated)	11,501,700	56,357,980	–	1,359,762	(445,275)	18,018,053	30,560,381	117,352,601	10,647,409	1,264,427	11,911,836	129,264,437
Profit for the period	–	–	–	–	–	–	3,030,926	3,030,926	403,736	24,707	428,443	3,459,369
Other comprehensive (expense)/ income for the period	–	–	–	(607,725)	(142,171)	–	–	(749,896)	48,106	(562)	47,544	(702,352)
Total comprehensive (expense)/ income for the period	–	–	–	(607,725)	(142,171)	–	3,030,926	2,281,030	451,842	24,145	475,987	2,757,017
Shares issued under convertible bond (Note 41) and share option schemes of a subsidiary	–	–	–	–	–	–	–	–	11,416	–	11,416	11,416
Appropriation to general reserve	–	–	–	–	–	28,162	(28,162)	–	–	–	–	–
Cash dividend recognised as distribution (Note 53)	–	–	–	–	–	–	(2,645,391)	(2,645,391)	–	–	–	(2,645,391)
Distribution to non-controlling interests and perpetual notes holders	–	–	–	–	–	–	12,456	12,456	(375,733)	(49,826)	(425,559)	(413,103)
Share-based payments of a subsidiary	–	–	–	–	–	–	–	–	17,380	–	17,380	17,380
Purchase of shares held under the share award scheme of a subsidiary	–	–	–	–	–	–	–	–	(18,966)	–	(18,966)	(18,966)
Others	–	–	–	–	–	–	(1,620)	(1,620)	–	1,620	1,620	–
At 30 June 2018	11,501,700	56,357,980	–	752,037	(587,446)	18,046,215	30,928,590	116,999,076	10,733,348	1,240,366	11,973,714	128,972,790
Unaudited												
At 1 January 2017 (audited)	11,501,700	56,338,470	784,435	–	(675,698)	15,849,581	26,331,639	110,130,127	10,571,548	1,256,726	11,828,274	121,958,401
Profit for the period	–	–	–	–	–	–	4,023,478	4,023,478	473,505	19,951	493,456	4,516,934
Other comprehensive income/ (expense) for the period	–	–	759,007	–	84,666	–	–	843,673	(466,650)	1,650	(465,000)	378,673
Total comprehensive income for the period	–	–	759,007	–	84,666	–	4,023,478	4,867,151	6,855	21,601	28,456	4,895,607
Contribution from non-controlling interests (Note b)	–	–	–	–	–	–	–	–	8,104	–	8,104	8,104
Perpetual notes related expenses	–	(1,229)	–	–	–	–	–	(1,229)	–	(1,673)	(1,673)	(2,902)
Appropriation to general reserve	–	–	–	–	–	9,278	(9,278)	–	–	–	–	–
Cash dividend recognised as distribution (Note 53)	–	–	–	–	–	–	(2,530,374)	(2,530,374)	–	–	–	(2,530,374)
Distribution to non-controlling interests and perpetual notes holders	–	–	–	–	–	–	–	–	(154,681)	(37,354)	(192,035)	(192,035)
Share options granted by a subsidiary	–	–	–	–	–	–	–	–	(15,500)	–	(15,500)	(15,500)
At 30 June 2017	11,501,700	56,337,241	1,543,442	–	(591,032)	15,858,859	27,815,465	112,465,675	10,416,326	1,239,300	11,655,626	124,121,301

Notes:

a. Capital reserve of the Group represents primarily (i) the share premium arisen from the issuance of the Company's shares and (ii) the difference between the considerations paid or received over the proportionate share of net assets attributable to the changes of the Group's equity interest in subsidiaries without loss of control.

b. Contribution from non-controlling interests comprise the contribution under rights issued by a listed subsidiary, the conversion of convertible bonds issued by a listed subsidiary and the exercise of share options issued by a listed subsidiary.

The accompanying notes presented on pages 122 to 212 form part of these unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
		(restated)
OPERATING ACTIVITIES		
Profit before income tax	**4,501,386**	5,810,403
Adjustments for		
Interest expenses	**5,160,107**	5,732,732
Share of results of associates and joint ventures	**36,307**	(260,055)
Depreciation and amortisation	**283,673**	217,648
Impairment losses, net of reversal	**697,829**	706,694
Share-based payment of a subsidiary	**17,380**	(8,926)
Losses on disposal of property and equipment and other intangible assets	**4,134**	1,217
Foreign exchange losses, net	**926**	243,678
Losses on partial disposal of an associate	**5,398**	268
Net realised gains and income arising from FVTPL	**(205,012)**	–
Interest income from debt debt instruments at fair value through other comprehensive income	**(232,104)**	–
Net gains arising from equity instruments at fair value through other comprehensive income	**(2,000)**	–
Net gains arising from debt instruments at fair value through other comprehensive income	**(27,657)**	–
Net gains arising from available-for-sale investments	**–**	(1,763,047)
Gain on other bond investments and held-to-maturity investments	**–**	(863,448)
Fair value change of financial instruments at fair value through profit or loss	**511,861**	259,555
Others	**41,735**	–
Operating cash flows before movements in working capital	**10,793,963**	10,076,719
(Increase)/decrease in deposits with exchanges	**(419,029)**	1,210,556
Decrease in loans and advances	**768,529**	65,315
Decrease in advances to customers on margin financing	**2,633,877**	6,286,219
Decrease/(increase) in other loans and receivables	**1,386,978**	(2,471,859)
Increase in accounts receivables and other receivables and prepayments	**(6,487,872)**	(73,506)
(Increase)/decrease in financial assets held under resale agreements	**(1,744,001)**	2,115,186
Decrease/(increase) in placements to banks and other financial institutions	**638,117**	(20,572)
Increase in financial assets at fair value through profit or loss and derivative financial assets	**(28,520,716)**	(11,939,942)
Decrease in restricted bank deposits	**1,045,296**	419,655
Decrease in cash held on behalf of clients	**1,004,562**	9,534,439
Increase in finance lease receivables	**(9,078,113)**	(396,756)
Decrease/(increase) in deposit with central banks	**6,410**	(193,022)
Decrease in deposit from other banks	**(86,979)**	(11,668)
(Decrease)/increase in deposit from central banks	**(9,048)**	26,568
Decrease in customer accounts	**(1,403,338)**	(95,561)
Increase/(decrease) in accounts payable to brokerage clients and other payables and accruals	**545,230**	(9,446,307)
Increase in contract liabilities	**457,461**	–
Increase/(decrease) in financial liabilities at fair value through profit or loss and derivative financial liabilities	**3,574,873**	(9,249,410)
Increase in financial assets sold under repurchase agreements	**7,701,816**	7,029,221
Increase/(decrease) in placements from banks and other financial institutions	**10,138,437**	(64,925)
(Decrease)/increase in provisions	**(106,172)**	112,153
Cash (used in)/from operations	**(7,159,719)**	2,912,503
Income taxes paid	**(2,064,057)**	(2,068,036)
Interest paid	**(1,208,956)**	(993,554)
NET CASH USED IN OPERATING ACTIVITIES	**(10,432,732)**	(149,087)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

		Six months ended 30 June	
	NOTES	**2018** *RMB'000* **(unaudited)**	2017 *RMB'000* (unaudited)
INVESTING ACTIVITIES			
Dividends received from associates and other investments		**101,693**	55,656
Dividends received from equity instruments at fair value through other comprehensive income		**2,000**	–
Purchases of property and equipment and other intangible assets		**(404,650)**	(235,989)
Purchases of investment properties		**(240,620)**	–
Proceeds on disposal of property and equipment		**9,526**	7,916
Purchase of investments accounted for using equity method		**(30,000)**	(1,894,014)
Proceeds from partial disposal of an associate		**1,607,596**	216,686
Net decrease in available-for-sale investments		**–**	13,143,698
Purchases of			
financial assets at fair value through profit or loss		**(2,228,640)**	–
debt instruments at fair value through other comprehensive income		**(16,031,087)**	–
Proceeds from disposal of			
financial assets at fair value through profit or loss		**2,401,173**	–
debt instruments at fair value through other comprehensive income		**12,814,730**	–
Net cash flows from acquisition of subsidiaries		**–**	(746,965)
Proceeds for other loan and receivables and held to maturity		**–**	14,113,330
Other cash received from investing activities		**–**	80,086
NET CASH (USED IN)/FROM INVESTING ACTIVITIES		**(1,998,279)**	24,740,404
FINANCING ACTIVITIES			
Dividends paid		**(326,670)**	(137,410)
Proceeds from short term bonds, non-convertible bonds and others		**63,190,478**	44,500,825
Borrowings raised		**43,640,927**	34,779,194
Interest paid for borrowings and bonds		**(5,170,144)**	(5,601,598)
Interest paid for perpetual notes		**(49,826)**	(38,583)
Proceeds from share issued upon exercise of share options of a subsidiary		**9,525**	8,104
Repayment of borrowings, short-term financing bills payables, non-convertible bonds and others		**(88,117,989)**	(97,344,111)
Issuance cost paid for short-term bonds, non-convertible bonds and others		**(35,202)**	(56,768)
Other expenses for perpetual notes		**–**	(1,673)
Purchase of shares held under the share award scheme		**(18,966)**	–
NET CASH FROM/(USED IN) FINANCING ACTIVITIES		**13,122,133**	(23,892,020)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**691,122**	699,297
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		**31,820,863**	34,330,647
Effect of foreign exchange rate changes		**(21,766)**	(255,806)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	29	**32,490,219**	34,774,138
Total interest paid		**(6,428,926)**	(6,633,733)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. GENERAL INFORMATION

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

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

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

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

2. BASIS OF PREPARATION

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

The condensed consolidated financial statements of the Group should be read in conjunction with its 2017 annual financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

3. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the IASB, which are mandatorily effective for the annual period beginning on or after 1 January 2018 for the presentation of the Group's condensed consolidated financial statements.

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payments Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of the Annual Improvements to IFRSs 2014-2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

In addition, the Group has applied Amendments to IFRS 9 *Prepayment Features with Negative Compensation* in advance of the effective date, i.e. 1 January 2019.

The new and amendments to IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Group has various type of revenue and income as disclosed in Note 6,7 and 9. Interest income, a significant component of the Group's revenue is not within the scope of IFRS 15.

For the other revenue and income, the Group has applied IFRS 15 retrospectively with the cumulative effect of initial applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other component of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 Revenue.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers (continued)

3.1.1 Key change in accounting policies resulting from application of IFRS 15

IFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contract, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers (continued)

3.1.1 Key change in accounting policies resulting from application of IFRS 15 (continued)

Contract with multiple performance obligations (including allocation of transaction pricing)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, except for the allocation of discounts and variable consideration.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or service transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

Variable consideration

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers (continued)

3.1.1 Key change in accounting policies resulting from application of IFRS 15 (continued)

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

3.1.2 Summary of effects arising from initial recognition of IFRS 15

The Group has various types of revenue and income as disclosed in note 6, 7 and 9. Interest income, a significant component of the Group's revenue, is not within the scope of IFRS 15. The Group has assessed the impact of IFRS 15 on the other revenue and concluded that there is no significant impact on retained profits or consolidated financial statements of the Group except that the advances received for bulk trading business amounting to RMB209,625,000 should be reclassified as contract liabilities on 1 January 2018 from initial application of IFRS 15.

The following table summarise the impacts of applying IFRS 15 on the Group's condensed consolidated statement of financial positions as at 30 June 2018 and its condensed consolidated statement of profit or loss and other comprehensive income for the current interim period for each of the line items affected. Line items that were not affected by the changes have not been included.

	As reported	**Adjustments**	**Amounts without Application of IFRS 15**
	RMB'000	*RMB'000*	*RMB'000*
Current liabilities			
Other payables and accruals	19,655,773	457,461	20,113,234
Contract liabilities	457,461	(457,461)	–

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.2 *Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments*

In the current period, the Group has applied IFRS 9 Financial Instruments and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and other items (for example, lease receivables, loan commitments and financial guarantee contracts) and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

In addition, the Group applied the hedge accounting prospectively.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 Financial Instruments: Recognition and Measurement.

3.2.1 *Key changes in accounting policies resulting from application of IFRS 9*

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 Business Combinations applies.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments (continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 (continued)

Classification and measurement of financial assets (continued)

Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method, and foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in OCI and accumulated under the heading of investment revaluation reserve of financial assets at fair value through other comprehensive income ("FVTOCI reserve"). Impairment allowance are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in OCI are reclassified to profit or loss.

Equity instruments designated as at FVTOCI

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "Investment income and gains (net)" line item in profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "Investment income and gains (net)" line item.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 3.2.2.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments (continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 (continued)

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9, including loans and advances, other loans and receivables, financial assets held under resale agreements, advances to customers on margin financing, accounts receivable, placements to banks and other financial institutions, deposits with other banks, debt instruments measured at FVTOCI, finance lease receivables, other receivables, loan commitments and financial guarantee contracts. The amount of ECL is updated at the end of each reporting period to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for accounts receivable. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate aging groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments (continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 (continued)

Impairment under ECL model (continued)

Significant increase in credit risk (continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- available, reasonable and valid information about past events, current conditions and future economic forecasts;
- information on macroeconomic conditions, business and financial conditions of the debtor, internal actual default rate and expected probability of default, external credit rating and internal credit rating, overdue situation and external market pricing;
- expected relative change of the risk of default of financial instruments over the duration, rather than the absolute change of risk of default.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

For loan commitments and financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of a default occurring on the loan to which a loan commitment relates; for loan commitments and financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.2 *Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments (continued)*

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 (continued)

Impairment under ECL model (continued)

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as 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, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 Leases.

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For undrawn loan commitments, the ECL is the present value of the difference between the contractual cash flows that are due to the Group if the holder of the loan commitments draws down the loan, and the cash flows that the Group expects to receive if the loan is drawn down.

For ECL on financial guarantee contracts or on loan commitments for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments (continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 (continued)

Impairment under ECL model (continued)

Measurement and recognition of ECL (continued)

Except for investments in debt instruments that are measured at FVTOCI, loan commitments and financial guarantee contracts, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of account receivables, finance lease receivables, other receivables and prepayments, loans and advances, other loans and receivables, financial assets held under resale agreements, advance to customers on margin financing, placements to banks and other financial institutions, deposit with central banks, and deposits with other banks, where the corresponding adjustments is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the FVTOCI reserve without reducing the carrying amounts of these debt instruments.

For financial guarantee contracts and loan commitments, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with IFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets, finance lease receivables, loan commitments and financial guarantee contracts for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. The results of the assessment and the impact thereof are detailed in Note 3.2.2.

Classification and measurement of financial liabilities

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained profits upon derecognition of the financial liability.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments (continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 (continued)

Hedge accounting

The Group has elected to adopt the new general hedge accounting in IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments (continued)

3.2.2 Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

	Notes	Available-for-sale	Held-to-maturity	Financial assets at FVTPL required by IAS 39/IFRS 9	Financial assets designated as FVTPL under IAS 39	Equity instruments at FVTOCI	Debt instruments at FVTOCI	Amortised cost (previously classified as loans and receivables)	Finance leasing receivables	Loan commitments and financial guarantee contracts	Deferred tax assets/liabilities
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Closing balance at 31 December 2017 – IAS 39		41,228,756	78,718	79,656,640	20,200,055	–	–	326,168,162	43,536,176	14,484	1,984,130
Effect arising from initial application of IFRS 9:											
Reclassification:											
From available-for-sale	*(a)*	(41,228,756)	–	19,519,675	–	16,911,899	3,398,557	1,398,625	–	–	–
From held-to-maturity	*(c)*	–	(78,718)	78,718	–	–	–	–	–	–	–
From financial assets at FVTPL – required by IAS 39	*(b)*	–	–	13,677,113	(20,200,055)	–	6,522,942	–	–	–	–
From loans and receivables	*(d)*	–	–	7,100,383	–	–	–	(7,100,383)	–	–	–
Re-measurement:											
Impairment under ECL model	*(e)*	–	–	–	–	–	–	(469,712)	(14,165)	217	115,569
Re-allocation to general reserve	*(f)*	–	–	–	–	–	–	–	–	–	–
Re-allocation of NCI	*(f)*	–	–	–	–	–	–	–	–	–	–
Other		–	–	–	–	–	(1,913)	–	–	–	–
Opening balance at 1 January 2018		–	–	120,032,529	–	16,911,899	9,919,586	319,996,692	43,522,011	14,701	2,099,699

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments (continued)

3.2.2 Summary of effects arising from initial application of IFRS 9 (continued)

(a) Available-for-sale investments

From AFS equity investments to FVTOCI

The Group elected to present in OCI for the fair value changes of some of its equity investments previously classified as available-for-sale. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of IFRS 9, RMB16,911,899,000 were reclassified from available-for-sale investments to equity instruments at FVTOCI. The fair value gains of RMB1,643,441,000 relating to those investments previously carried at fair value continued to accumulate in FVTOCI reserve.

From AFS equity investments to FVTPL

At the date of initial application of IFRS 9, the Group's equity and other investments of RMB19,357,494,000 were reclassified from available-for-sale investments to financial assets at FVTPL. The fair value gains of RMB804,930,000 (after tax) relating to those investments previously carried at fair value were transferred from investment revaluation reserve to retained profits.

From AFS debt investments to FVTPL

Bond investments with a fair value of RMB162,181,000 were reclassified from available-for-sale investments to financial assets at FVTPL. This is because even though the Group's business model is to hold financial assets in order to collect contractual cash flows, the cash flows of these investments do not meet the IFRS 9 criteria as solely payments of principal and interest on the principal amount outstanding. Related fair value losses of RMB5,589,000 (after tax) were transferred from the AFS reserve to retained profits as at 1 January 2018.

From AFS debt investments to amortised cost

At the date of initial application of IFRS 9, certain investments in bond investments of RMB1,398,625,000 were reclassified from available-for-sale to amortised cost since the Group's business model is to hold these investments for collection of contractual cash flows, and the cash flows represent solely payments of principal and interest on the principal amount outstanding. The directors of the Company considered that the fair value of these debt investments was approximate to their amortised cost.

From AFS debt investments to FVTOCI

Bonds investments with a fair value of RMB3,398,557,000 were reclassified from available-for-sale investments to debt instruments at FVTOCI, as these investments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling of these assets and the contractual cash flows of these investments are solely payments of principal and interest on the principal amount outstanding. Related fair value gains of RMB1,351,000 continued to accumulate in the FVTOCI reserve as at 1 January 2018.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.2 *Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments (continued)*

3.2.2 *Summary of effects arising from initial application of IFRS 9 (continued)*

(b) Financial assets at FVTPL and/or designated at FVTPL

From financial assets at FVTPL to financial assets at FVTOCI

At the date of initial application of IFRS 9, the Group's debt investments of RMB6,522,942,000 were reclassified from financial assets held for trading to financial assets at FVTOCI. This is because on the transition date, the management of the Group made an assessment on the business model of these debt investments, and concluded that the purpose of these investments is for liquidity management purpose, and the objective of business model is achieved by both collection contractual cash flows and selling the financial assets, and the contractual terms of the financial asset give rise on specified date to cash flows that are solely payments of principal and interest to the principal amount outstanding. The fair value losses of RMB6,919,000 (after tax) relating to those debt investments previously carried at retained profits were adjusted to FVTOCI reserve as at 1 January 2018.

Remaining investments are equity securities held for trading and derivatives which are required to be classified as FVTPL under IFRS 9. There was no impact on the amounts recognised in relation to these assets from the application of IFRS 9.

(c) Held-to-maturity investments

From held-to-maturity investments to financial assets at FVTPL

At the date of initial application of IFRS 9, unlisted debt securities previously classified as held-to-maturity investments are reclassified and measured at FVTPL upon application of IFRS 9. This is because on the transition date, the management of the Group made an assessment on the business model of these debt investments, and concluded that the Group intended to hold within a business model whose objective is achieved by selling of these assets. In addition, the management of the Group considered that the fair value of these debt investments is approximate to their carrying value.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments (continued)

3.2.2 Summary of effects arising from initial application of IFRS 9 (continued)

(d) Loans and receivables

From loans and receivables to financial assets at FVTPL

Loans and receivables of RMB7,100,383,000 previously classified as loans and receivables was reclassified to FVTPL upon the application of IFRS 9 because its cash flows do not represent solely payments of principal and interest on the principal amount outstanding. At the date of initial recognition, the management of the Group considered that the fair value of these loans and receivables is approximate to their carrying value.

(e) Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all accounts receivable and other receivables and prepayments. To measure the ECL, accounts receivable, other receivables and prepayments and bank and cash have been grouped based on shared credit risk characteristics and its aging. The Group collectively used a provision matrix with appropriate aging groupings to assess level of provision rate.

Loss allowances for other financial assets at amortised cost mainly comprise of financial assets held under resale agreements and placements to banks and other financial institutions are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition, except for advances to customers on margin financing, finance lease receivables and loans and advances which are measured on lifetime ECL basis as those credit risk had increased significantly since initial recognition.

As at 1 January 2018, the additional credit loss allowance of RMB500,484,000 has been recognised against retained profits for the Group. The additional loss allowance is charged against the respective asset.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.2 *Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments (continued)*

3.2.2 *Summary of effects arising from initial application of IFRS 9 (continued)*

(e) *Impairment under ECL model (continued)*

All loss allowances for financial assets including loans and advances, finance lease receivables, other loans and receivables, bank balances and cash, deposits with other banks, advances to customers on margin financing, financial assets held under resale agreements, placements to banks and other financial institutions, other receivables, accounts receivable, loan commitment and financial guarantee contracts as at 31 December 2017 reconcile to the opening loss allowance as at 1 January 2018 is as follows:

	Loans and advances *RMB'000*	Finance lease receivables *RMB'000*	Other loans and receivables *RMB'000*	Bank balance and cash *RMB '000*	Deposits with other banks *RMB'000*	Debt instruments at FVTOCI *RMB'000*	Advances to customers on margin financing *RMB'000*	Financial assets held under resale agreements *RMB'000*	Placements to banks and other financial institutions *RMB'000*	Other receivables *RMB'000*	Accounts receivable *RMB'000*	Loan commitments and financial guarantee contracts *RMB'000*
At 31 December 2017 – IAS 39	918,203	1,482,043	518,295	–	–	–	328,476	344,314	120,061	465,907	116,068	14,484
Re-classification	(5,128)	–	(40,057)	–	–	–	–	–	–	–	–	–
Amounts remeasured through opening retained profits	5,787	14,165	302,793	1,681	65	16,391	5,451	103,375	1,311	44,313	4,935	217
FVTOCI reserve	–	–	–	–	–	(16,391)	–	–	–	–	–	–
At 1 January 2018	918,862	1,496,208	781,031	1,681	65	–	333,927	447,689	121,372	510,220	121,003	14,701

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments (continued)

3.2.2 Summary of effects arising from initial application of IFRS 9 (continued)

(f) Transfer to general reserve and impact to Non-controlling interests

The accumulated impact on the retained profits recognised upon the application of IFRS 9 should further transfer to the general reserve and the total impact on the retained profit and FVTOCI should also have impact to the equity attributable to the company and Non-controlling interests. RMB51,646,000 was transferred to general reserve based on main-land company law and RMB22,787,000 was transferred to Non-controlling interests.

(g) Hedge accounting

At the date of the initial application, hedging relationships that qualified for hedge accounting in accordance with IAS 39 are regarded as continuing hedging relationship if all qualifying criteria under IFRS 9 are met, after taking into account any rebalancing of the hedging relationship on transition. Consistent with prior periods, the Group has continued to designate certain foreign currency bond as the hedging instrument for net investments in foreign operations. As such, the adoption of the hedge accounting requirements of IFRS 9 had not resulted in adjustments to comparative figures.

(h) Interests in joint ventures

The net effects arising from the initial application of IFRS 9 resulted in a decrease in the carrying amounts of interests in joint ventures of RMB22,000 with corresponding adjustments to retained profits by RMB22,000.

Except as described above, the application of other amendments to IFRSs in the current interim period has had no material effect on the amounts reported and/or discloses set out in these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.2 *Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments (continued)*

3.2.3 *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 and financial liabilities upon transition to IFRS 9 on 1 January 2018:

	31/12/2017 *RMB'000* (audited)	IFRS 9 *RMB'000*	**1/1/2018** ***RMB'000*** **(Restated)**
Non-current assets			
Investments accounted for using equity method	10,062,370	(22)	**10,062,348**
Finance lease receivables	22,212,628	(7,227)	**22,205,401**
Available-for-sale investments	31,725,358	(31,725,358)	**–**
Financial assets at fair value through profit or loss	952,338	14,616,200	**15,568,538**
Equity instruments at FVTOCI	–	16,911,899	**16,911,899**
Debt instruments at FVTOCI	–	1,586,828	**1,586,828**
Loans and advances	4,086,897	(4,888)	**4,082,009**
Other loans and receivables	8,098,697	93,778	**8,192,475**
Financial assets held under resale agreements	21,204,776	(24,417)	**21,180,359**
Current assets			
Advances to customers on margin financing	61,560,953	(5,451)	**61,555,502**
Accounts receivable	7,442,000	(4,935)	**7,437,065**
Finance lease receivables	21,323,548	(6,938)	**21,316,610**
Other receivables and prepayments	5,544,270	(350,114)	**5,194,156**
Available-for-sale investments	9,503,398	(9,503,398)	**–**
Debt instruments at FVTOCI	–	8,332,758	**8,332,758**
Loans and advances	751,375	(46,795)	**704,580**
Held-to-maturity investments	78,718	(78,718)	**–**
Other loans and receivables	21,147,878	(5,498,270)	**15,649,608**
Financial assets held under resale agreements	75,345,093	(78,958)	**75,266,135**
Placements to banks and other financial institutions	679,092	(1,311)	**677,781**
Financial assets at fair value through profit or loss	98,904,357	5,559,634	**104,463,991**
Deposits with other banks	316,134	(65)	**316,069**
Bank balances and cash	99,358,329	(325,323)	**99,033,006**
Current liabilities			
Provisions	167,343	217	**167,560**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

4. KEY SOURCES AND CRITICAL ACCOUNTING JUDGEMENT

The preparation of the condensed consolidated financial statements requires management to make judgment, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results in the future may differ from those reported as a result of the use of estimation and assumptions about future conditions.

The key sources of estimation uncertainty used in the condensed consolidated financial statement for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017, except for the following new significant judgement and key sources of estimation uncertainty related to the application of IFRS 9:

Determination on classification of financial assets

Classification and measurement of financial assets depends on the result of whether the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of assets is evaluated and their performance measured, the risks that affect the performance of assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortized cost or FVTOCI that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the assets was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Measurement of ECL

The following significant judgements are required in applying the accounting requirements for measuring the ECL:

Significant increase of credit risk

As explained in note 3, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward looking information. Refer to note 55 for more details.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

4. KEY SOURCES AND CRITICAL ACCOUNTING JUDGEMENT (continued)

Measurement of ECL (continued)

Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Assets move from 12-month to lifetime ECLs when there is a significant increase in credit risk, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used

The Group uses various models and assumptions in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 55 for more details on ECL.

Forward-looking information

When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Refer to note 55 for more details.

Probability of default (PD)

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. Refer to note 55 for more details.

Loss given default (LGD)

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. Refer to note 55 for more details.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

5. SEGMENT REPORTING

Information reported to the chief operating decision maker (the "CODM"), being the board of directors of the Company, for the purposes of resource allocation and assessment of segment performance focuses on the nature of products sold and services provided by the Group, which is also consistent with the Group's basis of organization, whereby the businesses are organized and managed separately as individual strategic business units that offers different products and serves different markets. With changes in environment of security market and constant development of various business activities, the Group will make adjustments to business segments in order to facilitate implementation of the Group's strategic planning and satisfy internal management in the meantime. The Group's business segments are classified in accordance with the requirements of International Financial Reporting Standards, and are based on the internal organization structure, management requirements and internal reporting system. The reporting segments are determined based on business segments. A business segment is a component of the Group with all the following conditions satisfied: (1) such component is able to generate revenue and expenses in the ordinary course of the Group, (2) management of the Group periodically evaluates the operating results of these reporting segments to make decisions about resources to be allocated to the segments and assess their performance; (3) the Group has access to such component's accounting information including financial position, operating results and cash flows. If two or more business segments have similar economic characteristics or a similar business model, they may be combined as one business segment. Based on its strategic planning and internal management requirements, the Group determines six business segments: wealth management, investment bank, assets management, transaction and institution, finance lease and others. Classification of reporting segments is consistent with that of business segments.

Segment information is measured in accordance with the accounting policies and measurement criteria adopted by each segment when reporting to management, which are consistent with the accounting and measurement criteria in the preparation of the condensed consolidated financial statements.

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

(1) Wealth Management Segment engages in provision of a full range of financial services and investment solutions to retail and high net-worth clients. Services provided include brokering and dealing in securities and futures, investment consulting, wealth management as well as financial services such as margin financing, security lending, stock pledge, etc.;

(2) Investment Banking Segment engages in provision of sponsoring and underwriting services to enterprises and government clients for their fund raising activities in equity and debt capital markets, and also engages in provision financial consulting services for enterprises for their corporate actions such as merger and assets restructuring services as well as provision of services related to the National Equities Exchange and Quotations;

(3) Asset Management Segment engages in provision of investment management services on diversified and comprehensive investment products including asset management, fund management, and private equity management to individual, corporate and institutional clients;

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

5. SEGMENT REPORTING (continued)

(4) Trading and Institution Segment engages in provision of stock sales and trading, prime brokerage, stock lending, and stock research in financial markets across the world to global institutional clients, and also engages in provision of market-making services for fixed income, currency and commodity products, futures and options, and derivatives on major exchanges around the world. At the same time, through investment funds and private equity projects, we enhance the synergistic advantages of all business divisions of the group, and focus on exploring investment opportunities with reasonable capital returns, so as to expand customer relations and promote the overall growth of the group's business;

(5) Financial Leasing Segment engages in provision of innovative financial solutions, including finance lease, operating lease, factoring, entrustment loans and relevant consulting to individuals, enterprises and government clients;

(6) Others Segment engages in provision of other comprehensive financial and information services to institutions clients, including warehouse receipts pledge service, pricing service, market-making service and services related to risk management.

Segment profit/loss represents the profit earned by/loss measured by each segment without allocation of income tax expenses. This is the measure reported to CODM for the purposes of resource allocation and performance assessment.

Share of result of associates and joint ventures are allocated to segment profit/loss while the corresponding investments in associates and joint ventures are not allocated to each segment.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

5. SEGMENT REPORTING (continued)

The segment information provided to the chief operating decision maker for the six months ended 30 June 2018 and the six months ended 30 June 2017 are as follows:

Operating and Reportable segment

For the six months ended 30 June 2018 (unaudited)

	Wealth management *RMB'000*	Investment banking *RMB'000*	Asset management *RMB'000*	Trading and institution *RMB'000*	Financial leasing *RMB'000*	Others *RMB'000*	Consolidated total *RMB'000*
Segment revenue and results							
Revenue and net investment gain	7,675,843	1,598,308	981,523	3,651,251	2,111,400	60,471	16,078,796
Other income and gains	120,191	65,603	18,580	224,037	513,712	1,968,654	2,910,777
Segment revenue	7,796,034	1,663,911	1,000,103	3,875,288	2,625,112	2,029,125	18,989,573
Segment expenses	5,043,785	1,214,747	545,818	3,659,684	1,984,707	2,003,139	14,451,880
Segment results	2,752,249	449,164	454,285	215,604	640,405	25,986	4,537,693
Share of results of associates and joint ventures	–	–	96,451	(152,416)	19,658	–	(36,307)
Profit before income tax	2,752,249	449,164	550,736	63,188	660,063	25,986	4,501,386

For the six months ended 30 June 2017 (unaudited)

	Wealth management *RMB'000*	Investment banking *RMB'000*	Asset management *RMB'000*	Trading and institution *RMB'000*	Financial leasing *RMB'000*	Others *RMB'000*	Consolidated total *RMB'000*
Segment revenue and results							
Revenue and net investment gain	7,320,003	2,101,825	906,688	5,786,742	1,445,773	136,366	17,697,397
Other income and gains	71,113	13,498	45,968	132,170	444,425	1,671,027	2,378,201
Segment revenue	7,391,116	2,115,323	952,656	5,918,912	1,890,198	1,807,393	20,075,598
Segment expenses	5,053,852	1,483,633	660,988	4,216,858	1,320,343	1,789,576	14,525,250
Segment results	2,337,264	631,690	291,668	1,702,054	569,855	17,817	5,550,348
Share of results of associates and joint ventures	–	–	95,025	159,402	5,628	–	260,055
Profit before income tax	2,337,264	631,690	386,963	1,861,456	575,483	17,817	5,810,403

The Group operates mainly in three principal geographical areas, the mainland China (excluding Hong Kong), Hong Kong (representing the location of majority of the income from external customers and non-current assets of the Group) and Europe (the operation area of Group's subsidiary). No single customers contribute more than 10% of income to the Group's income for six months ended 30 June 2018 and 2017.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

6. COMMISSION AND FEE INCOME

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Commission and fee income of securities brokerage business	**2,171,290**	2,346,717
Commission and fee income of futures brokerage business	**605,347**	819,443
Financial advisory and consultancy fee income	**610,382**	600,896
Underwriting and sponsor's fees	**1,022,195**	1,164,723
Asset management fee income (including fund management income)	**897,721**	912,747
Others	**40,305**	24,097
	5,347,240	5,868,623

7. INTEREST INCOME

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Bank interest income	**1,520,141**	1,529,436
Interest income from loans and advances	**544,552**	469,851
Interest income from finance leases	**1,689,926**	1,311,028
Interest income from advances to customers on margin financing	**2,021,665**	2,128,228
Interest income from financial assets held under resale agreements	**2,682,483**	1,999,320
Other interest income	**404,114**	37,493
	8,862,881	7,475,356

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

8. INVESTMENT INCOME AND GAINS (NET)

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Net gains arising from available-for-sale investments	**–**	1,763,047
Dividend income from equity instruments at fair value through other comprehensive income	**2,000**	–
Net gains arising from debt instruments at fair value through other comprehensive income	**27,657**	–
Net gains arising from financial assets/liabilities at fair value through profit or loss	**2,124,173**	2,246,302
Fair value change of financial instruments at fair value through profit or loss	**(511,861)**	(259,555)
Interest income from debt investments at fair value through other comprehensive income	**232,104**	–
Net losses from disposal of shares of associates	**(5,398)**	–
Net gains arising from other loan and receivables and others	**–**	603,624
	1,868,675	4,353,418

9. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Non-recurring government grants (Note)	**380,807**	492,106
Rental income from investment properties	**6,883**	6,181
Rental income from operating lease	**73,872**	21,598
Foreign exchange losses	**(926)**	(243,678)
Income arising from commodity trading and others	**2,450,141**	2,101,994
	2,910,777	2,378,201

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

10. DEPRECIATION AND AMORTISATION

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Depreciation for property and equipment	**193,566**	152,204
Depreciation for investment properties	**597**	597
Amortisation of other intangible assets	**79,107**	64,595
Amortisation of prepaid lease payments	**10,403**	252
	283,673	217,648

11. BROKERAGE TRANSACTION FEES AND OTHER SERVICES EXPENSES

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Securities and futures dealing and broking expenses	**830,130**	929,612
Services expenses for underwriting and financial advisory, etc.	**44,787**	44,953
	874,917	974,565

12. INTEREST EXPENSES

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Interest on borrowings wholly repayable within five years:		
– Bank loans and overdrafts	**1,171,358**	1,507,337
– Placement from banks and other financial institutions	**79,085**	163,404
– Financial assets sold under repurchase agreements	**751,319**	866,927
– Accounts payable to brokerage clients	**163,436**	115,356
– Placement from China Securities Finance Corporation Ltd.	**223,028**	18,869
– Bond payables	**3,988,749**	2,932,046
– Others	**66,145**	128,793
	6,443,120	5,732,732

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

13. IMPAIRMENT LOSSES, NET OF REVERSAL

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Impairment loss in respect of accounts receivable	**2,721**	798
Impairment loss in respect of available-for-sale investments	**–**	78,826
Impairment loss in respect of debt instruments at fair value through other comprehensive income	**29,352**	–
Impairment loss in respect of loans and advances	**143,673**	142,351
Impairment loss in respect of finance lease receivables (Note 19)	**412,544**	204,658
Impairment loss in respect of advances to customers on margin financing	**51,108**	71,812
Impairment loss in respect of financial assets held under resale agreements included	**109,195**	116,023
Impairment (reversal)/loss in respect of other loans and receivables (Note 22)	**(107,953)**	42,393
Impairment loss in respect of other receivables	**56,398**	2,267
Other impairment loss in respect of bank balance and cash, deposits with other banks, placements to banks and other financial institutions, loan commitments and financial guarantee contracts, etc.	**791**	47,565
	697,829	706,693

14. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current tax:		
PRC Enterprise Income Tax and other jurisdictions	**913,771**	1,133,329
Hong Kong Profits Tax	**167,596**	226,853
	1,081,367	1,360,182
Adjustments to current income tax in relation to prior years:		
PRC Enterprise Income Tax and other jurisdictions	**14,936**	17,046
	14,936	17,046
Deferred tax (Note 47)	**(54,286)**	(83,759)
	1,042,017	1,293,469

Under the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate is 25% from 1 January 2008.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 June 2018

15. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Earnings for the purpose of basic earnings per share:		
Profit for the period attributable to owners of the Company	**3,030,926**	4,023,478
Effect of dilutive potential ordinary shares:		
Adjustment to the share of profit of subsidiaries based on dilution of their earnings per share (Notes i, ii)	**(22,197)**	(43,375)
Earnings for the purpose of diluted earnings per share	**3,008,729**	3,980,103
Number of shares for basic and diluted earnings per share:		
Number of shares in issue (in thousand)	**11,501,700**	11,501,700
Basic earnings per share (Expressed in RMB per share)	**0.26**	0.35
Diluted earnings per share (Expressed in RMB per share)	**0.26**	0.35

Notes:

(i) As disclosed in Note 41, a subsidiary of the Company issued convertible bonds. Diluted earnings per share takes into account the potential impacts to the Group's share of profits of the subsidiary, assuming outstanding convertible bonds were fully converted to ordinary shares of that subsidiary on the first day of the period.

(ii) Subsidiaries of the Company operated various share option or share awards schemes. Diluted earnings per share takes into account the potential impacts to the Group's share of profits of these subsidiaries when additional shares have to be issued to relevant employees.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

16. PROPERTY AND EQUIPMENT

	Leasehold land and buildings *RMB'000*	Leasehold improvements *RMB'000*	Electronic equipment *RMB'000*	Transportation equipment *RMB'000*	Furniture, fixtures and equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Unaudited							
COST							
As at 1 January 2018	1,246,460	906,216	1,166,343	1,603,132	192,224	40,512	5,154,887
Additions during the period	182,095	21,522	64,460	2,708	22,454	8,712	301,951
Disposals during the period	(20)	–	(64,549)	(4,087)	(22,148)	–	(90,804)
Transfer during the period	–	10,429	–	–	–	(10,429)	–
Exchange difference	(1,093)	(3,867)	318	18,053	(3,409)	–	10,002
As at 30 June 2018	1,427,442	934,300	1,166,572	1,619,806	189,121	38,795	5,376,036
ACCUMULATED DEPRECIATION							
As at 1 January 2018	426,150	741,634	818,887	144,748	130,716	–	2,262,135
Provided for the period	19,804	42,147	79,926	33,453	18,236	–	193,566
Eliminated on disposals	–	–	(57,311)	(3,823)	(20,271)	–	(81,405)
Exchange difference	3	568	(136)	333	(2,369)	–	(1,601)
As at 30 June 2018	445,957	784,349	841,366	174,711	126,312	–	2,372,695
ALLOWANCE FOR IMPAIRMENT LOSSES							
As at 1 January 2018 & 30 June 2018	30,382	–	–	–	–	–	30,382
CARRYING VALUES							
As at 30 June 2018	951,103	149,951	325,206	1,445,095	62,809	38,795	2,972,959

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

16. PROPERTY AND EQUIPMENT (continued)

	Leasehold land and buildings *RMB'000*	Leasehold improvements *RMB'000*	Electronic equipment *RMB'000*	Transportation equipment *RMB'000*	Furniture, fixtures and equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
COST							
As at 1 January 2017	1,107,723	837,242	1,053,021	455,378	192,538	32,817	3,678,719
Additions during the year	143,394	53,784	174,746	1,166,215	21,588	51,396	1,611,123
Disposals during the year	(5,125)	–	(74,928)	(16,596)	(17,722)	(418)	(114,789)
Transfer during the year	4,898	18,474	17,457	–	668	(41,497)	–
Exchange difference	(4,430)	(3,284)	(3,953)	(1,865)	(4,848)	(1,786)	(20,166)
As at 31 December 2017	1,246,460	906,216	1,166,343	1,603,132	192,224	40,512	5,154,887
ACCUMULATED DEPRECIATION							
As at 1 January 2017	392,003	674,977	719,594	121,203	124,721	–	2,032,498
Provided for the year	34,182	69,796	173,796	39,192	22,595	–	339,561
Eliminated on disposals	–	–	(70,401)	(15,381)	(14,972)	–	(100,754)
Exchange difference	(35)	(3,139)	(4,102)	(266)	(1,628)	–	(9,170)
As at 31 December 2017	426,150	741,634	818,887	144,748	130,716	–	2,262,135
ALLOWANCE FOR IMPAIRMENT LOSSES							
As at 1 January 2017 & 31 December 2017	30,382	–	–	–	–	–	30,382
CARRYING VALUES							
As at 31 December 2017	789,928	164,582	347,456	1,458,384	61,508	40,512	2,862,370

Transportation equipment of the Group includes aircraft held for operating lease businesses. At 30 June 2018, the cost of aircraft amounted to RMB1,448,638,000 (31 December 2017: RMB1,430,597,000), accumulated depreciation amounted to RMB50,646,000 (31 December 2017: RMB24,089,000), and the carrying values of aircraft amounted to RMB1,397,992,000 (31 December 2017: RMB1,406,508,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

17. GOODWILL

Cost and carrying values

	2018/6/30 RMB'000 (unaudited)	2017/12/31 RMB'000 (audited)
At beginning of the period/year	3,863,520	4,118,734
Additional amount in respect of business combination	–	4,618
Exchange adjustments	31,033	(259,832)
At end of the period/year	3,894,553	3,863,520

18. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	2018/6/30 RMB'000 (unaudited)	2017/12/31 RMB'000 (audited)
Associates:		
Cost of unlisted investments in associates	3,666,986	4,053,890
Share of post-acquisition profits and other comprehensive income, net of dividends received	781,143	826,779
Subtotal for associates	4,448,129	4,880,669
Joint ventures:		
Cost of unlisted investments in joint ventures	4,026,789	5,210,136
Share of post-acquisition loss and other comprehensive expenses, net of dividends received	(130,073)	(28,435)
Subtotal for joint ventures	3,896,716	5,181,701
Total	8,344,845	10,062,370

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

18. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (continued)

Details of material investments accounted for using equity method:

Name of entity	Place of establishment	Principal activities	Proportion of ownership interest 2018/6/30	Proportion of ownership interest 2017/12/31
Joint ventures				
Haitong Freedom Multi-Tranche Bond Fund (Note i)	Cayman Islands	Investment holding	29.61%	38.63%
上海彤關投資管理合夥企業 (有限合夥) Shanghai Tong Guan Investment Management Limited Partnership*	PRC	Investing in equity; Investment management services	50.00%	50.00%
貴安恒信融資租賃(上海)有限公司	PRC	Finance leasing	40%	40%
Associates				
富國基金管理有限公司 Fullgoal Fund Management Co. Ltd.*	PRC	Provision of fund trading distribution services	27.775%	27.775%
吉林省現代農業和新興產業投資基金有限公司 Jilin Modern Agricultural and Emerging Markets Investment Fund Limited*	PRC	Investing in securities	35.71%	35.71%
西安航天新能源產業基金投資有限公司 Xi'an Aerospace and New Energy Industry Fund*	PRC	Investing in securities	37.06%	37.06%
上海文化產業股權投資基金合夥企業(有限合夥) Shanghai Cultural Industries Investment Fund (Limited Partnership)*	PRC	Investing in securities	42.83%	42.83%
上海併購股權投資基金合夥企業(有限合夥) Shanghai Equity Investment Fund Limited Partnership*	PRC	Investing in securities	33.68%	33.68%
海通(吉林)現代服務業創業投資基金合夥企業(有限合夥) Haitong (Jilin) Modern Service Industry Investment Fund Limited Partnership*	PRC	Investing in securities	34.71%	34.71%

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

18. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (continued)

Name of entity	Place of establishment	Principal activities	Proportion of ownership interest 2018/6/30	2017/12/31
Associates (continued)				
海通齊東(威海)股權投資基金合夥企業(有限合夥) Haitong Qidong (Weihai) Equity Investment Fund Limited Partnership*	PRC	Investing in equity; Investment management services	33.46%	33.96%
海通興泰(安徽)新興產業投資基金(有限合夥) Haitong Xingtai (Anhui) Emerging Industry Investment Fund Limited Partnership*	PRC	Investing in equity;	28.16%	28.16%
廣東南方媒體融合發展投資基金(有限合夥) Guangdong South Media Integration Fund Limited Partnership*	PRC	Investing in equity; Investment management services	27.76%	27.76%
海通(吉林)股權投資基金合夥企業(有限合夥) Haitong (Jilin) Equity Investment Fund Limited Partnership*	PRC	Private equity funds investment	27.02%	27.02%
西安軍融電子衛星基金投資有限公司 Xi'an Civil-Military Integration Satellite Investment Fund Co., Ltd*	PRC	Investment management services	35.72%	35.72%
嘉興海通旭初股權投資基金合夥企業(有限合夥) Jiaxing Haitong Xuchu Equity Investment Fund Limited Partnership*	PRC	Investing in equity; Investment management services	19.4%	–

* The English translated name is for identification only.

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

18. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (continued)

Note:

(i) As of 30 June 2018 and 31 December 2017, the Group held the interests of non-participating shares of Haitong Freedom Multi-Tranche Bond Fund (referred as the "Fund" for the purpose of this paragraph) as disclosed above. The non-participating shares provide the Group with the share of returns from the Fund but not any decision-making power nor any voting right in daily operation of the Fund. As of 30 June 2018 and 31 December 2017, the Group held 50% of the management shares in the Fund and the other 50% management shares are held by an independent third party. The management shareholders are empowered to make all the key financing and operating decisions in the Fund and require unanimous consent of the parties sharing control. The arrangement of sharing of control is contractually agreed by both parties. As such, the interests of the Group in the Fund are classified as a joint venture.

There is no unfilled capital commitment to the Fund. The current carrying amount of RMB3,036 million (31 December 2017: RMB4,440 million) for Haitong Freedom Multi-Tranche Bond Fund in the unaudited condensed consolidated statement of financial position represent the Group's maximum exposures from these investments.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

19. FINANCE LEASE RECEIVABLES

	2018/6/30 **RMB'000** **(unaudited)**	2017/12/31 RMB'000 (audited)
Minimum finance lease receivables		
– Not later than one year	**28,476,904**	24,140,952
– Later than one year and not later than five years	**30,434,770**	25,036,034
– Later than five years	**60,490**	63,982
Gross amount of finance lease receivables	**58,972,164**	49,240,968
Less: unrealized finance income	**(4,973,926)**	(4,222,749)
Present value of minimum finance lease receivables	**53,998,238**	45,018,219
Less: Allowance for impairment losses	**(1,810,658)**	(1,482,043)
Carrying amount of finance lease receivables	**52,187,580**	43,536,176
Present value of minimum finance lease receivables		
– Not later than one year	**26,075,059**	22,070,701
– Later than one year and not later than five years	**27,867,791**	22,889,023
– Later than five years	**55,388**	58,495
Total	**53,998,238**	45,018,219
Analyzed as:		
Current assets	**25,155,721**	21,323,548
Non-current assets	**27,031,859**	22,212,628
	52,187,580	43,536,176

Movement of allowance for impairment losses:

	2018/06/30 **RMB'000** **(unaudited)**
As at 31 December 2017	**1,482,043**
Effect arising from adoption of IFRS 9	**14,165**
As at 1 January 2018	**1,496,208**
Addition during the period (Note 13)	**412,544**
Recoveries of finance lease receivables previously written off	**6,823**
Amounts written off during the period	**(104,917)**
As at June 30, 2018	**1,810,658**

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For the six months ended 30 June 2018

19. FINANCE LEASE RECEIVABLES (continued)

	2017/12/31 *RMB'000* (audited)
As at the beginning of the year	1,312,060
Addition during the year	393,139
Recoveries of finance lease receivables previously written off	18,657
Amounts written off during the year	(241,813)
At end of the year	1,482,043

Stage analysis on allowance for impairment losses

	12m ECL *RMB'000*	**Lifetime ECL not credit-impaired** *RMB'000*	**Lifetime ECL credit-impaired** *RMB'000*	**Total** *RMB'000*
As at 30 June 2018	**1,007,477**	**469,011**	**334,170**	**1,810,658**

20. AVAILABLE-FOR-SALE INVESTMENTS

	2017/12/31 *RMB'000* (audited)
Debt securities	4,959,363
Equity	7,756,085
Funds	5,018,028
Others	23,495,280
	41,228,756
Analysed as:	
Listed in Hong Kong	56,115
Listed outside Hong Kong (primarily in Mainland China)	4,661,374
Unlisted	36,511,267
	41,228,756
Analysed as:	
Listed equity securities	2,315,782
Unlisted equity securities	5,440,303
	7,756,085
Analysed for reporting purpose as:	
Current assets	9,503,398
Non-current assets	31,725,358
	41,228,756

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For the six months ended 30 June 2018

21. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018/06/30 *RMB'000* (unaudited)
China Securities Finance Corporation Limited ("CSFCL") (Note i)	**15,956,075**
Other equity investments	**266,571**
	16,222,646

Note:

As the above equity instruments are not held for trading purpose, the Group has designated these investments as equity instruments at fair value through other comprehensive income at the date of initial application of IFRS 9.

(i) This is the investment into a fund managed by China Securities Finance Corporation Limited (the "CSFCL"). As of 30 June 2018, the cost of the investment was RMB15 billion, and the company determined the fair value on the basis of the report provided by the CSFCL. CSFCL executes unified operation and investment management, while all the investors including the Company share investment risks as well as potential income in proportion to their contributions.

22. OTHER LOANS AND RECEIVABLES

	2018/6/30 *RMB'000* (unaudited)	2017/12/31 *RMB'000* (audited)
Trust products	–	623,000
Structured products	–	5,251,181
Debt investments	**13,296,573**	11,906,618
Factoring receivable	**8,787,716**	10,776,874
Entrusted loans and other loans	**1,151,847**	1,207,197
Less: Allowance for doubtful debts	**(646,977)**	(518,295)
	22,589,159	29,246,575
Analysed for reporting purpose as:		
Current assets	**15,839,011**	21,147,878
Non-current assets	**6,750,148**	8,098,697
	22,589,159	29,246,575

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

22. OTHER LOANS AND RECEIVABLES (continued)

Movement of allowance for impairment losses:

	2018/6/30
As at 31 December 2017	518,295
Effect arising from the adoption of IFRS 9	262,736
As at 1 January 2018	781,031
Reversal during the period (Note 13)	(107,953)
Effect of exchange rate	(26,101)
As at the end of the period	646,977

Stage analysis on allowance for impairment losses

	12m ECL *RMB'000*	Lifetime ECL not credit-impaired *RMB'000*	Lifetime ECL credit-impaired *RMB'000*	Total *RMB'000*
As at 30 June 2018	310,407	161,808	174,762	646,977

23. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018/6/30 *RMB'000* (unaudited)
Unlisted Bond investment	8,690,251
Listed Bond investment	4,486,026
	13,176,277
Analysed for reporting purpose as:	
Current assets	10,206,686
Non-current assets	2,969,591
	13,176,277

The Group hold the debt instrument for the purpose of collecting the interests of the bonds and sell the bonds under the favourable market environment.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

24. LOANS AND ADVANCES

	2018/6/30 *RMB'000* (unaudited)	2017/12/31 *RMB'000* (audited)
Customer loans and advances	4,739,897	5,756,475
Less: Loans loss impairment	(865,510)	(918,203)
	3,874,387	4,838,272
Analysed for reporting purpose as:		
Current assets	466,155	751,375
Non-current assets	3,408,232	4,086,897
	3,874,387	4,838,272

Movement of allowance for impairment losses:

	2018/06/30 *RMB'000* (unaudited)
As at 31 December 2017	918,203
Effect arising from adoption of IFRS 9	659
As at 1 January 2018	918,862
Addition during the period	143,673
Amounts written off during the period	(163,691)
Effect of exchange difference	(33,334)
As at June 30, 2018	865,510

Stage analysis on allowance for impairment losses

	12m ECL *RMB'000*	Lifetime ECL not credit-impaired *RMB'000*	Lifetime ECL credit-impaired *RMB'000*	Total *RMB'000*
As at June 30, 2018	9,304	12,085	844,121	865,510

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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25. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	2018/6/30 *RMB'000* (unaudited)	2017/12/31 *RMB'000* (audited)
Analysed by collateral type:		
Stock (Note)	74,674,017	76,442,210
Bonds	23,155,333	20,101,753
Fund	–	220
Structured products	808,337	350,000
Less: Allowance for doubtful debts	(556,863)	(344,314)
	98,080,824	96,549,869
Analysed by market:		
Stock Exchange	84,626,764	81,599,830
Inter-bank	13,660,923	14,944,353
Over the counter ("OTC")	350,000	350,000
Less: Allowance for doubtful debts	(556,863)	(344,314)
	98,080,824	96,549,869
Analysed for reporting purpose as:		
Current assets	79,866,891	75,345,093
Non-current assets	18,213,933	21,204,776
	98,080,824	96,549,869

Movement of allowance for impairment losses:

	2018/06/30 *RMB'000* (unaudited)
As at 31 December 2017	344,314
Effect arising from adoption of IFRS 9	103,375
As at 1 January 2018	447,689
Addition during the period	109,195
Amounts written off during the period	(497)
Effect of exchange difference	476
As at 30 June 2018	556,863

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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25. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (continued)

Stage analysis on allowance for impairment losses

	12m ECL *RMB'000*	Lifetime ECL not credit-impaired *RMB'000*	Lifetime ECL credit-impaired *RMB'000*	Total *RMB'000*
As at 30 June 2018	72,081	113,158	371,624	556,863

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

As of 30 June 2018, the fair value of the collateral was RMB186,629,034,000 (31 December 2017: RMB215,587,946,000).

26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018/6/30 ***RMB'000*** **(unaudited)**	2017/12/31 *RMB'000* (audited)
Debt securities (Note i)	**83,633,333**	63,166,764
Equity securities (Note ii)	**17,916,019**	15,858,852
Funds	**26,988,527**	14,497,368
Others	**19,599,077**	6,333,711
	148,136,956	99,856,695
Analysed for reporting purpose as:		
Current assets	**137,614,681**	98,904,357
Non-current assets (Note iii)	**10,522,275**	952,338
	148,136,956	99,856,695

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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

Notes:

(i) As at 30 June 2018, the Group has entered into securities lending arrangement with clients that resulted in the transfer of financial assets at fair value through profit or loss with a total fair value of RMB7,407,000 (31 December 2017: RMB12,005,000) to external clients. Since the arrangement will be settled by the securities with the same quantity lent, the economic risks and benefits of those securities are not transferred and it does not result in derecognition of the financial assets.

(ii) Included in the Group's listed equity securities are amounts of approximately RMB923,123,000 and RMB1,732,080,000 as at 30 June 2018 and 31 December 2017, respectively, which are restricted shares with a legally enforceable restriction on these securities that prevents the Group to dispose of within the specified period. The fair values of these securities have taken into account the relevant features including the restrictions.

(iii) For financial assets in connection with structured products with the maturity more than one year, they are classified as non-current assets as they are not expected to be settled within one year.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

27. DEPOSITS WITH EXCHANGES

	2018/6/30 RMB'000 (unaudited)	2017/12/31 RMB'000 (audited)
Deposits with stock exchanges		
– Shanghai Stock Exchange	395,178	653,424
– Shenzhen Stock Exchange	69,133	76,223
– National Equities Exchange and Quotations	2,901	4,200
– Stock Exchange of Hong Kong Limited	1,265	1,254
Subtotal	468,477	735,101
Deposits with futures, other derivatives and commodity exchanges		
– Shanghai Futures Exchange	2,262,073	2,545,406
– Dalian Commodity Exchange	1,309,289	1,681,289
– Zhengzhou Commodity Exchange	555,993	337,627
– China Financial Futures Exchange	1,817,451	1,552,040
– Shanghai Gold Exchange	1,361	31,173
– HKFE Clearing Corporation Limited	4,707	8,754
– The Chinese Gold & Silver Exchange Society	578	573
– Collateral deposits placed with overseas stock exchange and brokers	994,203	1,240,906
Subtotal	6,945,655	7,397,768
– Guarantee fund paid to Shanghai Stock Exchange	29,296	24,155
– Guarantee fund paid to Shenzhen Stock Exchange	26,890	22,741
– Deposit with China Securities Finance Corporation Ltd.	1,287,892	188,382
– Deposit with Shanghai Clearing House	21,730	–
– Guarantee fund paid to the SEHK Options Clearing House Ltd.	11,120	15,740
– Guarantee fund paid to Hong Kong Securities Clearing Company Ltd.	78,182	76,375
– Guarantee fund paid to Securities and Futures Commission Placements from banks and other financial institutions	295	293
– Others	78,159	68,120
Subtotal	1,533,564	395,806
Total	8,947,696	8,528,675
Analysed for reporting purpose as:		
Current assets	7,849,660	7,180,974
Non-current assets	1,098,036	1,347,701
	8,947,696	8,528,675

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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28. BANK BALANCES AND CASH

	2018/6/30 *RMB'000* (unaudited)	2017/12/31 *RMB'000* (audited)
General accounts	28,217,612	29,820,328
Cash held on behalf of clients (Note i)	69,662,064	70,213,569
Less: allowance for impairment losses	(1,677)	–
	97,877,999	100,033,897
Less: non-current restricted bank deposits (Note ii)	(738,744)	(675,568)
	97,139,255	99,358,329

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

Notes:

(i) The Group received and held money deposited by clients in the course of the conduct of the regulated activities. The Group has recognised the corresponding amount in accounts payable to brokerage clients (Note 39). The Group currently does not have a legally enforceable right to offset these payables with deposit placed.

(ii) The non-current restricted bank deposits are restricted for fund management risk reserve purpose, pledged bank deposit and margin deposits over one year.

29. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of the following:

	2018/6/30 *RMB'000* (unaudited)	2017/12/31 *RMB'000* (audited)
Bank balances and cash – general account	28,217,612	29,820,328
Less: Restricted bank deposits (Note)	(1,061,088)	(2,106,384)
Deposits with other banks	823,813	316,134
Deposits with central banks other than legal reserve	3,336,076	3,415,915
Clearing settlement funds – House accounts	1,173,806	374,870
	32,490,219	31,820,863

Note:

The current restricted bank deposits are margin deposits for notes receivable, margin deposits for borrowings and other pledge of bank deposits within one year.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

30. OTHER ASSETS

	2018/6/30 RMB'000 (unaudited)	2017/12/31 RMB'000 (audited)
Foreclosed assets	26,837	29,099
Prepaid lease payments	819,116	829,519
Others	510,542	217,969
	1,356,495	1,076,587

31. ADVANCES TO CUSTOMERS ON MARGIN FINANCING

	2018/6/30 RMB'000 (unaudited)	2017/12/31 RMB'000 (audited)
Loans to margin clients (Note)	59,249,304	61,889,429
Less: Allowance for doubtful debts (Note)	(380,724)	(328,476)
	58,868,580	61,560,953
Analysed for reporting purpose as:		
Current assets	58,868,580	61,560,953
	58,868,580	61,560,953

Movement of allowance for impairment losses:

	2018/06/30 RMB'000 (unaudited)
As at 31 December 2017	328,476
Effect arising from adoption of IFRS 9	5,451
As at 1 January 2018	333,927
Addition during the period	51,108
Amounts written off during the period	(6,248)
Effect of exchange difference	1,937
As at June 30, 2018	380,724

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31. ADVANCES TO CUSTOMERS ON MARGIN FINANCING (continued)

Stage analysis on allowance for impairment losses:

	12m ECL *RMB'000*	Lifetime ECL not credit-impaired *RMB'000*	Lifetime ECL credit-impaired *RMB'000*	Total *RMB'000*
As at 30 June 2018	42,830	11,151	326,743	380,724

Note:

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

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

Loans to margin clients as at 30 June 2018 and 31 December 2017 were secured by the customers' securities to the Group as collateral with undiscounted market value of approximately RMB180,045,952,000 and RMB209,005,831,000 respectively.

As at 30 June 2018 and 31 December 2017, included in the Group's accounts payable to brokerage clients were approximately RMB5,384,345,000 and RMB5,383,646,000 cash collateral received from clients for securities lending and margin financing arrangement.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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32. ACCOUNTS RECEIVABLE

	2018/6/30 *RMB'000* (unaudited)	2017/12/31 *RMB'000* (audited)
Accounts receivable from:		
– Cash clients	506,521	377,293
– Brokers, dealers and clearing house	10,433,324	6,021,541
– Advisory and financial planning	14,563	22,787
– Asset and fund management	631,842	793,758
– Clients for subscription of new shares in IPO	846,800	–
– Others	291,136	342,689
	12,724,186	7,558,068
Less: allowance for doubtful debts on accounts receivable	(123,190)	(116,068)
	12,600,996	7,442,000

Movement of allowance for doubtful debts:

	2018/06/30 *RMB'000* (unaudited)
As at 31 December 2017	116,068
Effect arising from adoption of IFRS 9	4,935
As at 1 January 2018	121,003
Addition during the period	2,721
Recoveries of accounts receivable previously written off	45
Amounts written off during the period	(579)
As at 30 June 2018	123,190

Aging analysis:

	2018/6/30 *RMB'000* (unaudited)	2017/12/31 *RMB'000* (audited)
Between 0 and 3 months	11,818,440	6,746,631
Between 4 and 6 months	330,331	226,884
Between 7 and 12 months	343,517	315,730
Over 1 year	108,708	152,755
	12,600,996	7,442,000

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33. OTHER RECEIVABLES AND PREPAYMENTS

	2018/6/30	2017/12/31
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Interest receivable	**3,261,487**	3,703,899
Dividend receivable	**41,663**	3,614
Other receivables and prepayments (Note ii)	**3,533,878**	2,302,664
	6,837,028	6,010,177
Less: allowance for doubtful debts on other receivables (Note i)	**(566,618)**	(465,907)
	6,270,410	5,544,270

Movement of allowance for doubtful debts:

	2018/06/30
	RMB'000
	(unaudited)
As at 31 December 2017	**465,907**
Effect arising from adoption of IFRS 9	**44,313**
As at 1 January 2018	**510,220**
Addition during the period	**56,398**
As at 30 June 2018	**566,618**

Notes:

(i) Included in the allowance for doubtful debts of the Group mainly represents a gross receivable of RMB440,894,000 from an independent third party. In the opinion of the directors of the Company, the recoverability of the receivable is remote and a full provision was made in prior year. As of 30 June 2018, accumulated amounts of RMB109,106,000 (2017: RMB109,106,000) of the above receivable has been recovered. During the six months ended 30 June 2018, no recoveries were made.

(ii) The other receivables and prepayments mainly represent short-term rental deposits placed with landlords under operating leases, other prepaid expenses for daily operation and other receivable and prepayments items such as prepaid taxes.

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34. CLEARING SETTLEMENT FUNDS

	2018/6/30 *RMB'000* (unaudited)	2017/12/31 *RMB'000* (audited)
Clearing settlement funds held with clearing houses for:		
House accounts	1,173,806	374,870
Customers	7,154,802	7,607,859
	8,328,608	7,982,729

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

35. DEPOSITS WITH CENTRAL BANK AND OTHER BANKS

	2018/6/30 *RMB'000* (unaudited)	2017/12/31 *RMB'000* (audited)
Deposits with central banks other than legal reserve	3,336,076	3,415,915
Legal reserve	23,371	29,781
	3,359,447	3,445,696
Deposits with other banks	823,813	316,134
Less: allowance for impairment losses	(199)	–
	4,183,061	3,761,830

Deposits with central banks other than legal reserve is repayable on demand. Legal reserve deposits are non-interesting bearing.

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36. BORROWINGS

	2018/6/30 *RMB'000* **(unaudited)**	2017/12/31 *RMB'000* (audited)
Secured borrowings:		
Short-term borrowings (Note)	**5,213,215**	4,995,954
Long-term borrowings (Note)	**19,993,409**	21,657,134
Unsecured borrowings:		
Short-term borrowings	**32,506,162**	25,716,876
Long-term borrowings	**11,163,764**	8,952,026
	68,876,550	61,321,990
Current liabilities:		
Short-term borrowings	**37,719,377**	30,712,830
Long-term borrowings due within one year	**10,894,886**	14,798,617
	48,614,263	45,511,447
Non-current liabilities:		
Long-term borrowings	**20,262,287**	15,810,543
	68,876,550	61,321,990
Analysis by maturity:		
Less than 1 year	**48,614,263**	45,511,447
1-2 year	**14,300,132**	11,021,793
2-5 year	**5,547,882**	4,788,750
Over 5 years	**414,273**	–
	68,876,550	61,321,990

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36. BORROWINGS (continued)

Note:

Bank loans of approximately to RMB200.67 million (31 December 2017: RMB200.67 million) are secured by RMB200 million deposit and margin deposit of RMB0.02 million.

Bank loans amounted to RMB1,350 million (31 December 2017: RMB1,700 million), of which RMB708 million (31 December 2017: RMB1,181 million) are secured by listed shares held by the Group as security for advances to customers on margin financing with the customers' consents. The fair value of these shares are approximately RMB1,647 million (31 December 2017: RMB10,826 million). The remaining loans are secured by the unlisted debt investments held by the Group and presented in "financial assets designed at fair value through profit or loss" to the consolidated statement of financial position. The fair value of these shares are approximately RMB909 million (31 December 2017: RMB1,194 million).

Bank loans of RMB2,529 million (31 December 2017: RMB2,006 million) are secured by an investment funds of RMB3,282 million at fair value (31 December 2017: RMB2,599 million) which is the dealing price of that fund derived from the net asset values of that fund with reference to observable quoted price of underlying investment portfolio in active markets.

Bank loans of non-current portion approximately to RMB5,431 million (31 December 2017: RMB4,678 million) are secured by the shares of Haitong UT Capital and Haitong Bank respectively.

Non-current and current portion bank loan of RMB13,129 million (31 December 2017: RMB13,796 million) are secured by finance lease receivables of RMB22,730 million (31 December 2017: RMB21,589 million), margin deposit of RMB10.22 million and operating leasing assets at carrying value of 1,148 million (31 December 2017: Nil).

Non-current portion bank loan of RMB2,078 million (31 December 2017: RMB2,051 million) is secured by debt securities with fair value of approximately RMB1,932 million (31 December 2017: RMB2,032 million).

Bank loans of RMB489 million (31 December 2017: 515 million) are secured by shares and land-use right of Shanghai Weitai Property Management Co., Ltd, a subsidiary of the company.

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37. SHORT-TERM FINANCING BILLS PAYABLES

	2018/6/30	2017/12/31
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Analysed as:		
Inter-bank (Note i)	**6,245,031**	5,595,758
Other (Note ii)	**32,535,157**	23,831,004
	38,780,188	29,426,762

Notes:

(i) On 16 October 2017, the Group's wholly owned subsidiary Haitong Unitrust Finance & Leasing Corporation issued super short-term commercial paper in principal amount of RMB1,000 million which carries a fixed annual interest rate of 4.88% with a maturity period of 9 months

On 23 October 2017, the Group's wholly owned subsidiary Haitong Unitrust Finance & Leasing Corporation issued super short-term commercial paper in principal amount of RMB1,000 million which carries a fixed annual interest rate of 4.95% with a maturity period of 9 months.

On 15 November 2017, the Group's wholly owned subsidiary Haitong Unitrust Finance & Leasing Corporation issued super short-term commercial paper in principal amount of RMB1,000 million which carries a fixed annual interest rate of 5.25% with a maturity period of 9 months.

On 1 March 2018, the Group's wholly owned subsidiary Haitong Unitrust Finance & Leasing Corporation issued super short-term commercial paper in principal amount of RMB1,000 million which carries a fixed annual interest rate of 5.27% with a maturity period of 9 months.

On 23 March 2018, the Group's wholly owned subsidiary Haitong Unitrust Finance & Leasing Corporation issued short-term commercial paper in principal amount of RMB1,250 million which carries a fixed annual interest rate of 5.00% with a maturity period of 1 year.

On 30 May 2018, the Group's wholly owned subsidiary Haitong Unitrust Finance & Leasing Corporation issued super short-term commercial paper in principal amount of RMB1,000 million which carries a fixed annual interest rate of 5.32% with a maturity period of 9 months.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

37. SHORT-TERM FINANCING BILLS PAYABLES (continued)

Notes: (continued)

(ii) Other short-term financing bills payables mainly represent the short-term income certificates issued by the Company and the subsidiary of the Group with maturities ranged from 7 days to 12 months. The coupon rate of the outstanding products were between 3.02% and 5.70% per annum.

In addition, as at 30 June 2018, the outstanding medium term notes issued by the Group's subsidiaries are as follows:

On 8 December 2017, the Group's subsidiary Haitong International Securities Group Limited ("HISGL") issued a medium term note in principal amount of HKD360 million (equivalent to RMB304 million) at par which carries a coupon rate of 5.36% with a maturity period of 1 year.

On 17 January 2018, the Group's subsidiary HISGL issued medium term notes in principal amount of HKD780 million (equivalent to RMB658 million) which carries a coupon rate of 1.25% with a maturity period of 1 year.

On 6 February 2018, the Group's subsidiary HISGL issued medium term notes in principal amount of HKD541 million (equivalent to RMB455 million) which carries coupon rate of 2.80% with a maturity period of 1 year.

On 12 February 2018, the Group's subsidiary HISGL issued medium term notes in principal amount of HKD200 million (equivalent to RMB169 million) which carries a coupon rate of 2.65% with a maturity period of 1 year.

On 13 February 2018, the Group's subsidiary HISGL issued medium term notes in principal amount of HKD275 million (equivalent to RMB232 million) which carries a coupon rate of 1.20% with a maturity period of 1 year.

On 13 February 2018, the Group's subsidiary HISGL issued medium term notes in principal amount of RMB500 million which carries a coupon rate of 5.20% with a maturity period of 1 year.

On 6 March 2018, the Group's subsidiary HISGL issued medium term notes in principal amount of HKD1,300 million (equivalent to RMB1,096 million) which carries coupon rate of 0% with a maturity period of 6 months.

On 13 March 2018, the Group's subsidiary HISGL issued medium term notes in principal amount of RMB150 million which carries a coupon rate of 5.30% with a maturity period of 1 year.

On 4 April 2018, the Group's subsidiary HISGL issued medium term notes in principal amount of HKD1,500 million (equivalent to RMB1,264 million) which carries a coupon rate of 0% with a maturity period of 6 months.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

37. SHORT-TERM FINANCING BILLS PAYABLES (continued)

Notes: (continued)

(ii) (continued)

On 10 April 2018, the Group's subsidiary HISGL issued medium term notes in principal amount of RMB314.5 million which carries a coupon rate of 5.20% with a maturity period of 1 year.

On 10 April 2018, the Group's subsidiary HISGL issued medium term notes in principal amount of HKD450 million (equivalent to RMB379 million) which carries a coupon rate of 2.70% with a maturity period of 1 year.

On 10 April 2018, the Group's subsidiary HISGL issued medium term notes in principal amount of HKD354 million (equivalent to RMB298 million) which carries a coupon rate of 2.00% with a maturity period of 1 year.

On 11 April 2018, the Group's subsidiary HISGL issued medium term notes in principal amount of USD30 million (equivalent to RMB198 million) which carries a coupon rate of 3.50% with a maturity period of 1 year.

On 2 May 2018, the Group's subsidiary HISGL issued medium term notes in principal amount of HKD335 million (equivalent to RMB282 million) which carries a coupon rate of 2.10% with a maturity period of 1 year.

On 18 May 2018, the Group's subsidiary HISGL issued medium term notes in principal amount of HKD1,000 million (equivalent to RMB843 million) which carries a coupon rate of 0% with a maturity period of 6 months.

On 23 May 2018, the Group's subsidiary HISGL issued medium term notes in principal amount of RMB1,090 million which carries coupon rate of 5.20% with a maturity period of 1 year.

On 23 May 2018, the Group's subsidiary HISGL issued medium term notes in principal amount of HKD1,500 million (equivalent to RMB1,265 million) which carries a coupon rate of 0% with a maturity period of 1 year.

On 1 September 2017, the Group's wholly owned subsidiary Unican Limited issued medium term notes in principal amount of USD120 million (equivalent to RMB740 million) which carries a fixed annual interest of 3.20% with a maturity period of 1 year.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

38. PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2018/6/30 *RMB'000* (unaudited)	2017/12/31 *RMB'000* (audited)
Placements from banks	12,648,983	6,811,639
Placements from China Securities Finance Corporation Ltd.	9,000,000	5,000,000
	21,648,983	11,811,639
Analysed for reporting purpose as:		
Current liabilities	15,550,000	5,450,000
Non-current liabilities	6,098,983	6,361,639
	21,648,983	11,811,639

39. ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

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

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

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

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

40. CUSTOMER ACCOUNTS

	2018/6/30 *RMB'000* (unaudited)	2017/12/31 *RMB'000* (audited)
Demand deposits – corporate	153,255	473,690
Time deposits – corporate	1,477,359	2,425,291
Demand deposits – individual	482	1,885
Time deposits – individual	716,187	849,755
	2,347,283	3,750,621
Analysed for reporting purpose as:		
Current	2,347,283	3,750,621

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

41. BONDS PAYABLE

	2018/6/30 *RMB'000* (unaudited)	2017/12/31 *RMB'000* (audited)
Convertible bonds (Note i)	**3,287,809**	3,231,864
Non-convertible bonds (Note ii)	**82,438,995**	73,616,916
Subordinated notes (Note iii)	**12,699,244**	31,844,619
Asset backed securities (Note iv)	**17,217,594**	7,470,071
Others (Note v)	**16,671,352**	13,994,799
	132,314,994	130,158,269
Analysed for reporting purpose as:		
Current liabilities	**19,852,395**	14,739,105
Non-current liabilities	**112,462,599**	115,419,164
	132,314,994	130,158,269

Notes:

(i) The Group's subsidiary HISGL issued convertible bonds in principal amount of HKD1,164 million (equivalent to RMB981 million) and HKD3,880 million (equivalent to RMB3,271 million) in 2014 and 2016 respectively and these convertible bonds bear interest at a fixed rate with a maturity period of 5 years.

The values of the liability component and the equity conversion component were determined at the issuance of the bonds. Please refer to HISGL's announcements on 4 November 2014, 12 October 2016 and 25 October 2016 for details of the bonds.

As at 30 June 2018, the conversion prices of convertible bonds issued by HISGL in 2014 and 2016 are HKD4.44 equivalent to RMB3.74 per share (31 December 2017: HKD4.61 equivalent to RMB3.85 per share) and HKD6.27 equivalent to RMB5.29 per share (31 December 2017: HKD6.53 equivalent to RMB5.46 per share) respectively. As at 31 December 2017, the conversion prices of convertible bond issued by HISGL in 2013 was HKD2.76 equivalent to RMB2.31 per share per share.

During the current period, convertible bonds issued by the HISGL in 2013 with a principal amount of HKD2 million were converted into ordinary shares of HISGL and accordingly all convertible bonds issued in 2013 were converted as at 30 June 2018. The bond has then been cancelled and there are no longer any outstanding units.

During the six-month period 30 June 2018, no convertible bonds issued by HISGL in 2014 and 2016 were converted into ordinary shares of HISGL.

As at 30 June 2018, the number of outstanding shares of HISGL convertible under the convertible bonds issued in 2014 and 2016 are 30,855,855 (31 December 2017: 29,718,004) and 618,819,776 (31 December 2017: 594,180,704) respectively. As at 31 December 2017, the number of outstanding shares of HISGL convertible under the convertible bond issued in 2013 were 724,638.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

41. BONDS PAYABLE (continued)

Notes: (continued)

(ii) On 25 November 2013, the Company issued non-convertible bonds with a principal amount of RMB12,000 million at par. Those bonds carry fixed interest rate with maturity terms of three years, five years and ten years, respectively. The principle amounts are RMB7,260 million (due for payment), RMB2,350 million and RMB2,390 million and bear interest rate at 6.05%, 6.15% and 6.18% per annum, respectively. The bonds with maturity terms of three years have been repaid.

On 14 July 2014, the Company issued non-convertible bonds with a principal amount of RMB11,000 million at par. Those bonds carry fixed interest rate with maturity terms of three years, five years and ten years, respectively. The principal amounts are RMB5,650 million, RMB4,550 million and RMB800 million and bear interest rate at 5.25% per annum, 5.45% per annum and 5.85% per annum, respectively.

On 18 May 2016, the Company issued non-convertible bonds with a principal amount of RMB20,000 million at par. Those bonds carry fixed interest rate with maturity terms of four years and five years, respectively. The principal amounts are RMB15,000 million and RMB5,000 million and bear interest rate at 3.6% and 3.8% per annum, respectively. The Company has an option to redeem all or some of the four-year bonds in the end of the third year.

From 9 August 2017 to 11 August 2017, the Company issued non-convertible bonds with a principal amount of RMB6,000 million at par. Those bonds carry fixed interest rate with maturity terms of three years and five years respectively. The principle amounts are RMB5,000 million and RMB1,000 million and bear interest rate at 4.63% and 4.80% per annum respectively.

From 20 September 2017 to 22 September 2017, the Company issued non-convertible bonds with a principal amount of RMB5,500 million at par which carries a fixed annual interest rate of 4.99% with a maturity period of 10 years.

From 23 October 2017 to 25 October 2017, the Company issued non-convertible bonds with a principal amount of RMB500 million at par which carries a fixed annual interest rate of 4.77% with a maturity period of 3 years.

On 8 March 2018, the Company issued non-convertible bonds with a principal amount of RMB3,000 million at par. Those bonds carry fixed interest rate at 5.15% per annum with maturity terms of three years.

On 22 March 2018, the Company issued non-convertible bonds with a principal amount of RMB3,000 million at par. Those bonds carry fixed interest rate at 5.14% per annum with maturity terms of three years.

On 10 May 2018, the Company issued non-convertible bonds with a principal amount of RMB3,000 million at par. Those bonds carry fixed interest rate at 4.7% per annum with maturity terms of three years.

On 3 December 2015, Haitong Capital Investment Co., Ltd. (海通開元投資有限公司, a subsidiary of the Company) issued unguaranteed bonds with a principal amount of RMB2,000 million. Among which, notes amounting to RMB1,400 million carries a fixed interest rate of 4.25% per annum with a maturity period of five years and notes amounting to RMB600 million carries a fixed interest rate of 3.9% per annum with a maturity period of three years.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

41. BONDS PAYABLE (continued)

Notes: (continued)

(ii) (continued)

On 11 September 2014, the Group's wholly owned subsidiary Haitong International Finance 2014 Limited issued listed guaranteed bonds in principal amount of USD600 million (equivalent to RMB3,970 million) which is guaranteed by HISGL.

On 29 January 2015, the Group's wholly owned subsidiary Haitong International Finance 2015 Limited issued guaranteed bonds with a principal amount of USD700 million (equivalent to RMB4,631 million) which is guaranteed by HISGL.

On 29 October 2013, the Group's subsidiary Haitong International Finance Holdings Limited issued credit enhanced bonds with a principal amount of USD900 million (equivalent to RMB5,955 million),which is listed on the Hong Kong Exchanges and Clearing Limited. The bond carries a fixed interest rate at 3.95% per annum with a maturity period of 5 years. The par value will be fully redeemed till maturity date. The bond is jointly and severally guaranteed by the Company and the Company will issue Counter Guarantee to the Bank of China regarding to the Standby Letter of Credit of the overseas bonds, at the amount of the principals, interests and other expenses.

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

On 21 April 2015, the Group's wholly owned subsidiary Haitong International Finance Holdings 2015 Limited issued guaranteed bonds with a principal amount of USD670 million (equivalent to RMB4,433 million) which is guaranteed by the Company and the bond is listed on the Hong Kong Exchanges and Clearing Limited. The bond carries a fixed interest rate of 3.5% per annum with a maturity period of 5 years. The bond is jointly and severally guaranteed by the Company.

On 18 and 26 May 2016, the Group's wholly owned subsidiary Haitong International Finance Holdings 2015 Limited issued guaranteed bonds in principal amount of EUR 220 million (equivalent to RMB1,683 million). The bond carries a fixed annual interest rate of 1.6% with a maturity period of 5 years. The bond is guaranteed by the Company.

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

41. BONDS PAYABLE (continued)

Notes: (continued)

(ii) (continued)

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

On 20 March 2018, the Group's wholly owned subsidiary Haitong Unitrust Finance & Leasing Corporation issued medium term note with a principal amount of RMB1,000 million which carries a fixed annual interest rate of 5.77% per annum with a maturity period of 3 years.

On 24 April 2018, the Group's wholly owned subsidiary Haitong Unitrust Finance & Leasing Corporation issued medium term note with a principal amount of RMB800 million which carries a fixed annual interest rate of 5.23% per annum with a maturity period of 3 years.

On 28 September 2016, the Group's wholly owned subsidiary Unican Limited issued medium term note in principal amount of USD64 million (equivalent to RMB423 million) and a maturity period of 29 months. Note amounting to USD24 million (equivalent to RMB158 million) carries a fixed annual interest rate of 2.90%, and note amounting to USD40 million (equivalent to RMB265 million) carries a fixed interest rate of 3.00% per annum.

On 21 June 2017, the Group's wholly owned subsidiary Haitong Unitrust Finance & Leasing Corporation issued corporate bonds with a principal amount of RMB1,500 million, which is listed on the Hong Kong Exchanges and Clearing Limited. The bond carries a fixed interest rate of 4.95% per annum with a maturity period of 3 years. The par value will be fully redeemed till maturity date.

On 21 July 2017, the Group's wholly owned subsidiary Haitong Unitrust Finance & Leasing Corporation issued corporate bonds with a principal amount of RMB1,000 million, which is listed on the Hong Kong Exchanges and Clearing Limited. The bond carries a fixed interest rate of 4.7% per annum with a maturity period of 3 years. The par value will be fully redeemed till maturity date.

On 16 May 2016, the Group's subsidiary HISGL issued a medium term note with a principal amount of RMB194 million at par which carries a coupon rate of 5.28% per annum with a maturity period of 3 years. As at 30 June 2018, the outstanding loan balance of the medium term note is RMB194 million.

On 13 June 2016, the Group's subsidiary HISGL issued a medium term note with a principal amount of RMB200 million at par which carries a coupon rate of 5.00% with a maturity period of 3 years. As at 30 June, 2018, the outstanding loan balance of the medium term note is RMB199 million.

During 2009 to 2018, the Group's wholly owned subsidiaries Haitong Bank issued a series of debt securities. The balance as at 30 June 2018 was EUR 278 million with maturity up to 2 years (equivalent to RMB2,129 million).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

41. BONDS PAYABLE (continued)

Notes: (continued)

(iii) On 17 November 2016, the Company issued two series of subordinated notes with a total principal amount of RMB6,000 million at par. Among which, notes amounting to RMB4,000 million carries a fixed interest rate of 3.30% per annum with a maturity period of three years and notes amounting to RMB2,000 million carries a fixed interest rate of 3.40% per annum with a maturity period of five years.

On 16 March 2017, the Company issued private placement subordinated note with a principal amount of RMB4,500 million at par which carries a fixed interest rate of 4.80% per annum with a maturity period of 3 years.

On 9 November 2015, Shanghai Haitong Securities Asset Management Company Limited, the subsidiary of the Group issued subordinated note in principal amount of RMB1,000 million at par which carries a fixed annual interest rate of 4.95% with a maturity period of 5 years.

On 4 April 2018, Shanghai Haitong Securities Asset Management Company Limited, the subsidiary of the Group issued subordinated note with a principal amount of RMB1,000 million at par which carries a fixed interest rate of 6.05% per annum with a maturity period of 5 years.

On 15 December 2015, the Haitong Futures Co., Ltd issued subordinated note with a principal amount of RMB500 million at par which carries a fixed interest rate of 4.94% per annum with a maturity period of 6 years. The issuer's redemption rights are attached at the end of the third year.

(iv) On 17 November 2017, the Company issued asset-backed security with a principal amount of RMB2,000 million at par which carries a fixed interest rate of 5.20% per annum with a maturity period of 1.5 years. The assets transferred were advances to customers on margin financing. As at 30 June 2018, subordinated asset-backed security of RMB100 million were held by the Company.

On 16 January 2018, the Company issued asset-backed security with a principal amount of RMB4,750 million at par which carries a fixed interest rate of 5.65% per annum with a maturity period of 1.5 years. The assets transferred were advances to customers on margin financing.

On 19 January 2018, the Company issued asset-backed securities with a principal amount of RMB2,850 million at par which carries a fixed interest rate of 5.60% per annum with a maturity period of 1.5 years. The assets transferred were advances to customers on margin financing.

On 7 May 2015, Haitong Unitrust Finance & Leasing Corporation issued asset-backed securities with two tranches: senior tranche with a principal amount of RMB1,348 million, coupon rate of 5.60%-6.55% per annum, and a maturity period of 51 months, and the principle amount is repaid by instalments; junior tranche with principal amount of RMB14 million and a maturity period of 51 months. Haitong Unitrust Finance & Leasing Corporation holds all junior tranches of the asset-backed securities.

On 22 April 2016, Haitong Unitrust Finance & Leasing Corporation issued asset-backed securities with two tranches: senior tranche with principal amount of RMB1,140 million, coupon rate of 4.50% and a maturity period of 35 months; junior tranche with principal amount of RMB60 million and a maturity period of 35 months. Haitong Unitrust Finance & Leasing Corporation holds all junior tranche asset-backed securities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

41. BONDS PAYABLE (continued)

Notes: (continued)

(iv) (continued)

On 15 November 2016, Haitong Unitrust Finance & Leasing Corporation issued asset-backed securities with two tranches: senior tranche with principal amount of RMB1,425 million, coupon rate of 3.72% and a maturity period of 36 months; junior tranche with principal amount of RMB75 million and a maturity period of 36 months. Haitong Unitrust Finance & Leasing Corporation holds all junior tranche asset-backed securities.

On 4 August 2017, Haitong Unitrust Finance & Leasing Corporation issued asset-backed notes with two tranches: senior tranche with a principal amount of RMB1,567 million, coupon rates of 5.40% per annum and a maturity period of 35 months; junior tranche with principal amount of RMB83 million and a maturity period of 35 months, Haitong Unitrust Finance & Leasing Corporation holds all junior tranches of the asset-backed securities.

On 22 November 2017, Haitong Unitrust Finance & Leasing Corporation issued asset-backed medium-term notes with two tranches: senior tranche with principal amount of RMB1,360 million, coupon rate of 5.80% per annum and a maturity period of 34 months; junior tranche with principal amount of RMB70 million and a maturity period of 37 months, Haitong Unitrust Finance & Leasing Corporation holds all junior tranche asset-backed medium- term notes.

On 17 January 2018, Haitong Unitrust Finance & Leasing Corporation issued asset-backed securities with two tranches: senior tranche with principal amount of RMB1,070 million, coupon rates of 5.90%, 6.09% and 6.20%; and a maturity period of 32 months; junior tranche with principal amount of RMB44 million and a maturity period of 32 months. Haitong Unitrust Finance & Leasing Corporation holds senior tranche asset-backed securities of RMB270 million and all junior tranche asset-backed securities.

On 27 April 2018, Haitong Unitrust Finance & Leasing Corporation issued asset-backed securities with two tranches: senior tranche with principal amount of RMB960 million, coupon rates of 5.60%, 5.80% and 6.00%; and a maturity period of 32 months; junior tranche with principal amount of RMB44 million and a maturity period of 32 months. Haitong Unitrust Finance & Leasing Corporation holds all junior tranche of the asset-backed securities.

On 15 June 2018, Haitong Unitrust Finance & Leasing Corporation issued asset-backed securities with two tranches: senior tranche with a principal amount of RMB1.425 billion, coupon rate of 5.49%, 4.75% and 5.84%, and a maturity period of 32 months; junior tranche with principal amount of RMB75 million and a maturity period of 32 months. Haitong Unitrust Finance & Leasing Corporation holds all junior tranche asset-backed securities.

(v) According to SAC's letter on approving the pilot of OTC income certificate business (SAC [2014]285), the Group was authorized to conduct income certificate business. The long-term income certificates issued by the Group with maturities ranging from 13 months to 24 months. The coupon rate of the outstanding products were between 4.55% and 5.50% per annum. Those products which will be settled within one year from period end are classified as the current portion of bonds payable.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

42. OTHER PAYABLES AND ACCRUALS

	2018/6/30 *RMB'000* (unaudited)	2017/12/31 *RMB'000* (audited)
Payable to employees (Note i)	3,767,214	4,890,342
Other tax payable	433,137	412,433
Dividends payable	2,713,653	19,198
Risk reserve	369,245	313,969
Client settlement payables	3,356,195	3,961,916
Pending payable to clearing house	345,538	746,067
Commission and fee payables	34,265	32,111
Finance lease guarantee deposits	1,608,501	1,118,493
Deferred revenue	111,393	80,067
Interest payables	3,107,910	3,376,692
Amounts due to brokers	2,006,800	496,369
Notes payable	253,352	156,223
Others	2,995,914	3,070,954
	21,103,117	18,674,834
Analysed for reporting purpose as:		
Current liabilities	19,715,179	17,457,987
Non-current liabilities (Note i)	1,387,938	1,216,847
	21,103,117	18,674,834

Note:

(i) The Group set up a detailed plan for the payment of employees' bonus accrued based on the performance of preceding year. A balance of RMB518,596,000 (31 December 2017: RMB508,082,000) of the Group is planned to be settled after one year and classified as non-current liabilities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

43. PROVISIONS

	2018/6/30 RMB'000 (unaudited)	2017/12/31 RMB'000 (audited)
Contingencies (Note i)	102,907	167,343
ECL impairment for loan commitments	12,924	–
	115,831	167,343

Note:

(i) These provisions are intended to cover certain contingencies related to the Group's activities, including contingencies related to ongoing tax processes, guarantees and commitments assumed, ongoing litigation related to legal dispute with staff.

44. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018/6/30 RMB'000 (unaudited)	2017/12/31 RMB'000 (audited)
Held for trading	6,562,035	7,739,121
Consolidation of structured entities	3,422,630	1,342,318
Structured products (Note i)	10,881,915	10,260,931
Gold lending (Note ii)	802,140	327,600
Gold option (Note iii)	3,120,342	1,073,529
	24,789,062	20,743,499
Analysed for reporting purpose as:		
Current liabilities	22,614,042	20,031,099
Non-current liabilities	2,175,020	712,400
	24,789,062	20,743,499

Notes:

(i) As at 30 June 2018 and 31 December 2017, included in the Group's financial liabilities designated at fair value through profit or loss are the issued structured notes by subsidiaries of the Group which arise from selling structured products generally in the form of notes or certificates with the underlying investments related to listed equity investments in active markets, unlisted debt instruments, unlisted investment, funds and unlisted equity or partnership investments.

The risk of economic exposure on these structured products is primarily hedged using financial assets at fair value through profit or loss as detailed in Note 26 (iii). These structured products are designated as fair value through profit or loss as the risks to which the Group is a contractual party are managed on a fair value basis as part of the Group's trading portfolio and the risk is reported to key management personnel on this basis.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

44. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Notes: (continued)

(ii) As at 30 June 2018, included in the Group's financial liabilities designated at fair value through profit or loss are gold lending contracts with counterparties.

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

(iii) The Group entered into a number of option contracts in relation to fair value of gold bullions. These contracts as a combination intend to enable the Group to pay a fixed cash flow despite the volatilities of fair value of gold bullions. These contracts were designated at fair value through profit or loss.

45. DERIVATIVE INSTRUMENTS

	2018/6/30 (unaudited)		2017/12/31 (audited)	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Stock index futures contracts (Note i)	–	–	–	–
Treasury futures contracts(Note ii)	–	–	–	–
Commodity futures contracts	–	–	68,037	–
Interest rate swap contracts(Note iii)	1,159,162	1,419,779	1,532,748	1,602,469
Equity swap (Note iv)	75,422	203,008	63,514	236,272
Equity linked note	262	581	–	–
Forward contracts	103,665	82,866	93,772	119,347
Options (Note v)	205,234	748,480	532,825	1,528,251
Embedded equity instruments	–	44	–	86
Debts linked note	–	–	265,955	–
Foreign exchange swap	11,082	30,724	18,990	6,597
Credit default swap	21,973	6,818	34,771	2,432
Total	1,576,800	2,492,300	2,610,612	3,495,454

Notes:

(i) Stock index futures

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in stock index futures ("SIF") were settled daily and the corresponding payments or receipts were included in "clearing settlement funds" as at 30 June 2018 and 31 December 2017. Accordingly, the net position of the SIF contracts in derivative instruments was nil at the end of reporting period. The contract value of the outstanding stock index futures contracts that the Group held for the market risk of the securities lent or to be lent to clients not using hedge accounting is RMB13,637,000 (31 December 2017: RMB299,927,000) with fair value loss RMB974,940 (2017: fair value gain RMB3,251,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

45. DERIVATIVE INSTRUMENTS (continued)

Notes: (continued)

(ii) Treasury futures contracts

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in treasury futures ("TF") were settled daily and the corresponding payments or receipts were included in "clearing settlement funds" as at 30 June 2018 and 31 December 2017. Accordingly, the net position of the TF contracts in derivative instruments was nil at the end of reporting period.

	2018/6/30 (unaudited)	
Contract	**Contract value** *RMB'000*	**Fair value** *RMB'000*
T1809	**1,883,793**	**(17,778)**
T1809	**(1,535,440)**	**15,883**
TF1809	**1,722,963**	**(14,606)**
Total	**2,071,316**	**(16,501)**
Plus: settlement		**16,501**
Net position of TF contracts		**–**

	2017/12/31 (audited)	
Contract	Contract value *RMB'000*	Fair value *RMB'000*
T1803	93,175	(232)
T1803	96,902	(97)
TF1803	4,315,418	(11,497)
Total	4,505,495	(11,826)
Plus: settlement		11,826
Net position of TF contracts		–

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

45. DERIVATIVE INSTRUMENTS (continued)

Notes: (continued)

(iii) Interest rate swap contracts

Under the daily mark-to-market and settlement arrangements, any gains or losses of the Group's position in interest rate swap ("IRS") were settled daily in Mainland China market and the corresponding payments or receipts were included in "clearing settlement funds" as at 30 June 2018. Accordingly, the net position of the IRS contracts in derivative instruments was nil at the end of reporting period. As at 30 June 2018, under the daily mark-to-market and settlement arrangement, the contract values of the Group's IRS contracts are approximately RMB12,610,000,000.(31 December 2017: RMB10,790,030,000).

For IRS contracts in mainland China and Hong Kong market not under the daily mark-to-market and settlement arrangement are presented gross at the end of reporting period.As at 30 June 2018, for IRS contracts not under the daily mark-to-market and settlement arrangement, the contract values of those IRS contracts of the Group are approximately RMB30,360,521,000. (31 December 2017: RMB36,634,430,000).

	2018/6/30 (unaudited)		
	Contract value	**Assets**	**Liabilities**
	RMB'000	***RMB'000***	***RMB'000***
IRS – settled in Shanghai Clearing House	**12,610,000**	**4,048**	**–**
IRS – non-centralised settlement	**30,360,521**	**1,159,162**	**(1,419,779)**
Total	**42,970,521**	**1,163,210**	**(1,419,779)**
Plus: settlements		**(4,048)**	**–**
Net position of IRS contracts		**1,159,162**	**(1,419,779)**

	2017/12/31 (audited)		
	Contract value	Assets	Liabilities
	RMB'000	RMB'000	RMB'000
IRS – settled in Shanghai Clearing House	10,790,000	–	(7,433)
IRS – non-centralised settlement	36,634,430	1,532,748	(1,602,469)
Total	47,424,430	1,532,748	(1,609,902)
Plus: settlements		–	7,433
Net position of IRS contracts		1,532,748	(1,602,469)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

45. DERIVATIVE INSTRUMENTS (continued)

Notes: (continued)

(iv) Equity swap

At 30 June 2018, the notional amount of the equity swap held by the Group was approximately RMB874,990,000 (31 December 2017: RMB1,038,712,000).

(v) Options

As at 30 June 2018, the notional principal amounts of the Group's options purchased or written in Mainland China were approximately RMB25,884,000,000 with a net fair value loss of RMB506,646,000 (31 December 2017: RMB168,659,532,000 with a net fair value loss of RMB485,968,000). The notional principal amounts of the Group's listed options purchased or written outside Mainland China were approximately RMB17,971,393,000 with a net fair value loss of RMB36,600,000 (31 December 2017: RMB10,879,819,000 with a net fair value loss of RMB 509,458,000).

46. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	2018/6/30 *RMB'000* (unaudited)	2017/12/31 *RMB'000* (audited)
Analysed as collateral type:		
Stock	**2,385,973**	1,504,889
Bonds	**33,534,931**	17,264,988
Loans and advances to customers on margin financing	**400,000**	9,900,000
Others	**3,675,320**	4,375,850
	39,996,224	33,045,727
Analysed by market:		
Stock exchanges	**4,561,886**	3,732,338
Inter-bank market	**31,359,018**	13,532,650
OTC	**4,075,320**	15,780,739
	39,996,224	33,045,727
Analysed for reporting purpose as:		
Current liabilities	**39,996,224**	32,645,727
Non-current liabilities	**–**	400,000
	39,996,224	33,045,727

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

46. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS (continued)

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

As at 30 June 2018

	Financial assets at fair value through profit or loss *RMB'000*	Debt instrument at fair value through other comprehensive income *RMB'000*	Advances to customers on margin financing *RMB'000*	Financial assets held under resale agreements *RMB'000*	Others *RMB'000*	Total *RMB'000*
Carrying amount of transferred assets	**36,491,560**	**1,551,182**	**431,800**	**20,356**	**7,028,249**	**45,523,147**
Carrying amount of associated liabilities	**33,266,067**	**899,984**	**400,000**	**20,312**	**5,409,861**	**39,996,224**
Net position	**3,225,493**	**651,198**	**31,800**	**44**	**1,618,388**	**5,526,923**

As at 31 December 2017

	Financial assets at fair value through profit or loss *RMB'000*	Available-for-sale investments *RMB'000*	Advances to customers on margin financing *RMB'000*	Financial assets held under resale agreements *RMB'000*	Others *RMB'000*	Total *RMB'000*
Carrying amount of transferred assets	21,981,730	2,446,013	10,414,800	782,529	7,975,151	43,600,223
Carrying amount of associated liabilities	14,719,892	1,693,275	9,900,000	760,161	5,972,399	33,045,727
Net position	7,261,838	752,738	514,800	22,368	2,002,752	10,554,496

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

47. DEFERRED TAXATION

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

	2018/6/30 ***RMB'000*** **(unaudited)**	2017/12/31 *RMB'000* (audited)
Deferred tax assets	**2,917,070**	2,851,450
Deferred tax liabilities	**(547,688)**	(867,320)
	2,369,382	1,984,130

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

	Financial assets/ liabilities at fair value through profit or loss *RMB'000*	Accelerated depreciation *RMB'000*	Derivative assets *RMB'000*	Accrued but not paid expenses *RMB'000*	Available-for-sale investments *RMB'000*	Debt instrument at fair value through other comprehensive income *RMB'000*	Equity instrument at fair value through other comprehensive income *RMB'000*	Derivative liabilities *RMB'000*	Financial assets at amortized cost *RMB'000*	Others *RMB'000*	Total *RMB'000*
At 1 January 2017	(30,315)	(16,560)	(52,227)	958,323	(125,663)	–	–	37,739	1,139,148	305,895	2,216,340
(Charge) credit to profit or loss	(41,242)	(2,630)	49,004	(7,738)	5,547	–	–	(4,425)	305,995	29,969	334,480
Charge to other comprehensive income	–	–	–	–	(475,647)	–	–	–	–	–	(475,647)
Effects of exchange rate	(72)	1,081	3,043	(4,734)	(2,008)	–	–	–	(68,390)	(19,963)	(91,043)
At 31 December 2017	(71,629)	(18,109)	(180)	945,851	(597,771)	–	–	33,314	1,376,753	315,901	1,984,130
Tax impact arising from adoption of IFRS 9	(185,459)	–	–	–	597,771	(17,524)	(399,798)	–	100,709	19,870	115,569
At 1 January 2018	**(257,088)**	**(18,109)**	**(180)**	**945,851**	**–**	**(17,524)**	**(399,798)**	**33,314**	**1,477,462**	**335,771**	**2,099,699**
Credit (charge) to profit or loss (Note 14)	**162,160**	**(15,370)**	**(10,681)**	**(217,762)**	**–**	**(506)**	**–**	**81,822**	**(20,221)**	**74,844**	**54,286**
Credit to other comprehensive income	**–**	**–**	**–**	**–**	**–**	**43,997**	**172,313**	**–**	**–**	**–**	**216,310**
Effects of exchange rate	**(58)**	**(156)**	**13**	**243**	**–**	**(168)**	**–**	**–**	**(3,591)**	**2,804**	**(913)**
At 30 June 2018	**(94,986)**	**(33,635)**	**(10,848)**	**728,332**	**–**	**25,799**	**(227,485)**	**115,136**	**1,453,650**	**413,419**	**2,369,382**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

48. LONG-TERM PAYABLES

	2018/6/30 RMB'000 (unaudited)	2017/12/31 RMB'000 (audited)
Deposits from lessees	4,979,040	3,779,786
Deferred revenue	451,949	383,359
Others	418,328	650,554
	5,849,317	4,813,699

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

49. SHARE CAPITAL

	Listed A shares		Listed H shares		Total	
	Number of shares '000	Amount RMB'000	Number of shares '000	Amount RMB'000	Number of shares '000	Amount RMB'000
Registered, issued and fully paid at RMB1.0 per share:						
At 31 December 2017 and at 1 January 2018 (audited), and at 30 June 2018 (unaudited)	8,092,131	8,092,131	3,409,569	3,409,569	11,501,700	11,501,700

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

50. FVTOCI RESERVE

	2018/06/30 *RMB'000* (unaudited)
As at 31 December 2017	2,071,805
Effect arising from adoption of IFRS 9	(712,043)
As at 1 January 2018	1,359,762
Debt instrument measured at fair value through other comprehensive income	(53,910)
Equity instrument measured at fair value through other comprehensive income	
Net fair value changes during the period	(689,252)
Income tax impact	172,313
Share of revaluation loss of associates and joint ventures	(41,175)
Actuarial gains on defined benefit obligations	4,299
As at 30 June 2018	752,037

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

51. OPERATING LEASE ARRANGEMENTS

The Group as lessee

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

At 30 June 2018 and 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases in respect of rented premises falling due as follows:

	2018/6/30	2017/12/31
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within one year	**366,595**	341,560
In the second to fifth year, inclusive	**556,628**	452,982
Over five years	**34,559**	31,703
	957,782	826,245

The Group as lessor

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

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

	2018/6/30	2017/12/31
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within one year	**172,598**	165,688
In the second to fifth year, inclusive	**599,611**	592,912
Over five years	**272,648**	344,599
	1,044,857	1,103,199

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

52. CAPITAL COMMITMENT

	2018/6/30	2017/12/31
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Capital expenditure in respect of acquisition of property and equipment:		
– Contracted but not provided	**83,811**	90,390

53. DIVIDENDS

	2018/6/30	2017/12/31
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Dividends recognised as distribution	**2,645,391**	2,530,374

Pursuant to the resolution of annual general meeting 2018 and 2017, the Company declared 2017 and 2016 final dividend of RMB0.23 (taxes inclusive) and RMB0.22 (taxes inclusive) per share respectively, RMB2,645,391,000 (taxes inclusive) and RMB2,530,374,000 (taxes inclusive) in total respectively, satisfied by cash.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

54. RELATED PARTY TRANSACTIONS

In addition to the joints and associates of the Group set out in note 18 above, the name and the relationship of other related parties are set out as below:

Name of the related party	Relationship of the related party
BNP Paribas Investment Partners BE Holding SA	Holds more than 10% of the shares of the Group's subsidiary
BNP Paribas (China) Limited	Note A
BNP Paribas Investment Partners Japan Ltd	Note A
BNP Paribas Investment Partners Singapore Ltd	Note A
BNP Paribas Wealth Management Bank	Note A
BNP Paribas Investment Partners Switzerland Ltd	Note A
BNP Paribas SA	Note A
BNP Paribas Investment Partners Hong Kong Ltd	Note A
Shinhan BNP Paribas Asset Management (Hong Kong)Co., Ltd	Note A
BNP Paribas Investment Ltd (Asia)	Note A
Liaoning Energy Investment (Group) Co., Ltd	Holds more than 10% of the shares of the Group's subsidiary
Shanghai Shengyuan Real-Estate (Group) Co., Ltd	Holds more than 10% of the shares of the Group's subsidiary
China-Belgium Direct Equity Investment Fund	A fund managed by the subsidiary
Haitong (Jilin) Cultural Industries Investment Fund (Limited Partnership)	An associated entity with the Group's subsidiary
Xi'an Hai Chuang Zhi Xing Venture Investment Limited Partnership	An associated entity with the Group's subsidiary

Note A: Subsidiaries of a BNP Paribas Investment Partners BE Holding SA.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

54. RELATED PARTY TRANSACTIONS (continued)

The Group's major transactions with related parties are as follows.

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Commission and fee income:		
– Jilin Modern Agricultural and Emerging Markets Investment Fund Limited	**24,365**	10,505
– Xi'an Aerospace and New Energy Industry Fund	**9,790**	10,037
– Shanghai Equity Investment Fund Limited Partnership	**30,730**	30,230
– Haitong (Jilin) Modern Service Industry Investment Fund Limited Partnership	**2,774**	2,943
– China-Belgium Direct Equity Investment Fund	**25,077**	70,408
– Fullgoal Fund Management Co. Ltd.	**35,354**	29,422
– Shanghai Cultural Industries Investment Fund (Limited Partnership)	**9,315**	15,973
– Haitong (Jilin) Equity Investment Fund Limited Partnership	**1,132**	1,200
– Entities related to BNP Paribas (Note A)	**2,281**	6,042
– Haitong Xingtai (Anhui) Emerging Industry Investment Fund (Limited Partnership)	**9,456**	17
– Guangdong South Media Integration Fund Limited Partnership	**3,944**	4,129
– Xi'an Jun Rong Satellite Fund Investment Limited	**2,014**	–
– Others (Note B)	**71**	–
Commission and fee expense:		
– Entities related to BNP Paribas (Note A)	**127**	–

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

Note B: Others include the related party transactions with Haitong Qidong (Weihai) Equity Investment Fund Limited Partnership, Liaoning Energy Investment(Group)Co.,Ltd. and Shanghai Shengyuan real estate (Group) Co., Ltd..

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

54. RELATED PARTY TRANSACTIONS (continued)

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Investment income:		
– Shanghai Equity Investment Fund Limited Partnership	**3,049**	517
– Fullgoal Fund Management Co. Ltd.	**1,639**	–
Interest income:		
– Liaoning Energy Investment(Group)Co.,Ltd.	**1,143**	–
– Gui'an UniTrust Financial Leasing (Shanghai) Co., Ltd	**855**	–
– Xi'an Aerospace and New Energy Industry Fund	**132**	–
– Jilin Modern Agricultural and Emerging Markets Investment Fund Limited	**98**	–
– Xi'an Jun Rong Satellite Fund Investment Limited	**43**	–
– Others (Note A)	**65**	–
Interest expense:		
– Entities related to BNP Paribas	**–**	1,135
Administration expense:		
– Entities related to BNP Paribas	**–**	355
– Shanghai Shengyuan real estate (Group) Co., Ltd.	**41**	–
Interest rate swap:		
– Entities related to BNP Paribas	**460,000**	–

Note A: Others include the related party transactions with Haitong Xingtai (Anhui) Emerging Industry Investment Fund (Limited Partnership), Shanghai Equity Investment Fund Limited Partnership, Haitong Qidong (Weihai) Equity Investment Fund Limited Partnership, Shanghai Shengyuan real estate (Group) Co., Ltd., Shanghai Cultural Industries Investment Fund (Limited Partnership), China-Belgium Direct Equity Investment Fund, Shanghai Tong Guan Investment Management Limited Partnership, Fullgoal Fund Management Co. Ltd. and Guangdong South Media Integration Fund Limited Partnership.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

54. RELATED PARTY TRANSACTIONS (continued)

The Group had the following material balances with the related parties as at 30 June 2018 and 31 December 2017:

	2018/6/30 ***RMB'000*** **(unaudited)**	2017/12/31 *RMB'000* (audited)
Accounts receivable from:		
– Fullgoal Fund Management Co. Ltd.	**9,882**	–
– Entities related to BNP Paribas	**2,532**	2,133
– Jiaxing Haitong Xuchu Equity Investment Fund Limited Partnership	**2**	–
– Xi'an Jun Rong Satellite Fund Investment Limited	**2,135**	–
– Gui'an UniTrust Financial Leasing (Shanghai) Co., Ltd	**852**	–
– Shanghai Equity Investment Fund Limited Partnership	**31,560**	–
Financial assets held under resale agreements:		
– Gui'an UniTrust Financial Leasing (Shanghai) Co., Ltd	**456,000**	–
Accounts payable to:		
– Entities related to BNP Paribas	**21,515**	10,146
Advance received from:		
– Haitong (Jilin) Modern Service Industry Investment Fund Limited Partnership	**2,689**	–
– Haitong Xingtai (Anhui) Emerging Industry Investment Fund (Limited Partnership)	**9,980**	–
– Jilin Modern Agricultural and Emerging Markets Investment Fund Limited	**10,500**	–
– Xi'an Aerospace and New Energy Industry Fund	**10,060**	–
Short-term financing bills payables:		
– Haitong Xingtai (Anhui) Emerging Industry Investment Fund	**2,800**	(14,000)
– Shanghai Cultural Industries Investment Fund (Limited Partnership)	**9,610**	–
– Gui'an UniTrust Financial Leasing (Shanghai) Co., Ltd	**46,781**	–

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

54. RELATED PARTY TRANSACTIONS (continued)

The Group had the following material balances with the related parties as at 30 June 2018 and 31 December 2017: (continued)

	2018/6/30 RMB'000 (unaudited)	2017/12/31 RMB'000 (audited)
Accounts payable to brokerage clients:		
– Fullgoal Fund Management Co. Ltd.	20	20
– Haitong Qidong (Weihai) Equity Investment Fund Limited Partnership	489	3,579
– Jilin Modern Agricultural and Emerging Markets Investment Fund Limited	10,711	2,015
– Haitong (Jilin) Modern Service Industry Investment Fund Limited Partnership	–	56
– Haitong Xingtai (Anhui) Emerging Industry Investment Fund Limited Partnership	–	33
– Shanghai Equity Investment Fund Limited Partnership	11	18
– Shanghai Shengyuan real estate (Group) Co., Ltd.	60	3
– Shanghai Cultural Industries Investment Fund (Limited Partnership)	10	10
– Liaoning Energy Investment (Group) Co.,Ltd.	119,829	–
– Shanghai Tong Guan Investment Management Limited Partnership	1,444	–
– Xi'an Aerospace and New Energy Industry Fund	2,563	–
– Xi'an Jun Rong Satellite Fund Investment Limited	12	–

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

	Six months ended 30 June	
	2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Short-term benefits:		
– Fees, salaries, commission and bonuses	29,750	22,065
Post-employment benefits:		
– Employer's contribution to pension schemes/annuity plans	2,429	2,144
Total	32,179	24,209

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

55. FINANCIAL RISK MANAGEMENT

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

The condensed consolidated financial statements do not include all financial risk management information and disclosure and should be read in conjunction with the consolidated financial statements for the year ended 31 December 2017.

During the current six-month period, except for the following changes on credit risk management policies, there has been no changes in the other risk management policies.

Credit risk

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's financial assets exposed to credit risk mainly include loans and advances, advance to customers on margin financing, accounts receivable, other loans and receivables, finance lease receivables, other receivables, deposit with other banks, debt securities measured at FVTOCI, financial assets held under resale agreements, placements to banks and other financial institutions and bank balances.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

55. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Credit risk management

The Company has established policies and procedures on calculating and making impairment provision, which is aligned with the objective of credit risk management of financial instrument. The Company established coordination mechanism among business departments, risk management department and financial department and clarified responsibilities of each department, so as to make sure that the assessment on the credit risk of financial instruments is reasonable, and the measurement on the expected credit losses of financial instruments is accurate.

Below are the duties of the management of the Company regrading to the credit risk management,

- Establish an organizational structure with clear responsibilities and procedures, and formulate policies, regulations and systems for the credit risk management of financial instruments based on business strategies and risk appetite, and adjust them in a timely manner;

- Organize and implement an evaluation of the impairment of financial instruments on the balance sheet date, and ensure the effectiveness of implementation of verifying, developing and maintaining the impairment calculation model;

- Assess the status and financial impact of the impairment of financial instruments of the Company and report to the board of directors;

- Review and confirm the decision regarding to the major impairment events of the Company;

- Establish a performance assessment system covering the effectiveness of the credit management of financial instruments;

- Establish comprehensive information technology system and data quality control mechanism in respect of calculation of impairment of financial instrument; and

- Other responsibilities granted by the board of directors regarding to credit risk management.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

55. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Significant increase in credit risk

As explained in note 3, the Company monitors all financial assets, except for accounts receivable, that are subject to impairment allowances to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

At the end of each reporting period, the Company should evaluate if there is a significant increase in credit risk on all financial assets, except for accounts receivable since the initial recognition. A comprehensive assessment will be performed with several aspects will be taken into consideration based on the nature of the instrument and risk factor of the debtor. When performing evaluation on the significant increase in credit risk, the Company should take below factors into consideration, including but not limited to:

- Significant degradation of the obligor's actual or expected internal credit risk level or significant decrease of behaviour scores for assessing credit risks;
- Actual or expected significant changes in external credit rating on the obligor or the debts;
- Significant changes in values of collaterals pledged for the debt, which may reduce obligor's economic incentive to make repayments within the term specified in the contract or affect probability of default incurred; for example, the obligor's performance guarantee ability is weakened due to decline in values of pledged securities, the obligor fails to provide supplement collaterals as specified in the contract within a reasonable time or the obligor may have stronger incentive to be in arrears with the debt.
- Actual or expected adverse changes in the obligor's business, financial or economic status, which may result in significant changes in the obligor's debt solvency;
- Overdue information of interests or principals;
- Significant changes in external market index for credit risks of specific financial instrument or alike financial instrument with the same expected life; for example, the obligor's credit spread, credit default swap price for the obligor or other market information related to the obligor;
- Actual or expected significant changes in quality of credit supports provided by the guarantor, which may reduce obligor's economic incentive to make repayments within the term specified in the contract; for example, if the guarantor will no longer provide financial support for the obligor, that may result in bankruptcy or receivership of the obligor, or increase in probability of these liabilities default when the obligor makes limited payment of operating funds (such as salaries or payments to key suppliers) so as to arrange the payment obligations of financial liabilities at a lower priority.
- Actual or expected significant changes in quality of credit enhancement or support for creditor's rights issued in securitization, which may result in ability decrease of relevant subordinated interest to absorb expected credit losses.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

55. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Incorporation of forward-looking information

The Company uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Company considers the opinions of experts who use external and internal information to generate an expectation of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes but not limited to macro-economic factors (i.e. growth rate of GDP, growth rate of generalized money injection, growth rate of stock index, change of foreign currency exchange rate and etc.), industry policies and industry environment and etc. The Company may use the forward-looking information to adjust the parameters of possibility of default, loss given default and exposure at default.

Measurement of ECL

The key inputs used for measuring ECL are:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

As explained above these figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on multiple risk categorization methods such as, credit rating models and five-category asset classification model, and assessed using tools tailored to the various categories of counterparties and exposures. These models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account factors which could affect the realisation of collateral (i.e., concentration, market liquidity and trading restrictions), sale discounts, cross-collateralisation and seniority of claims, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the respective assets.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the credit exposure that are permitted by the current contractual terms, such as amortization profiles, early repayment or overpayment, changes in utilization of undrawn commitments and credit mitigation actions taken before default. The Group uses EAD models that reflect the risk characteristics of the portfolios.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

55. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Credit quality

The Group monitors credit risk per class of financial instruments. The table below outlines the classes identified, as well as the financial statement line item and the note that provides an analysis of the items included in the financial statement line for each class of financial instrument.

Class of financial instruments	Financial statement line	Note
Margin Loan Business	Advances to customers on margin financing	31
Stock repurchase & bond reverse repo business	Financial assets held under resale agreements	25
Financial leasing business	Finance lease receivables	19
Accounts receivable	Accounts receivable, Other receivables and prepayments	32,33
Debt investment at FVTOCI	Debt instruments at FVTOCI	23
Commercial banking business	Loans and advances	24
Bank and Cash	Bank balances and cash, Placements to banks and other financial institutions, Deposits with central banks and other banks	28,35
Other loans and receivables	Other loans and receivables	22
Loan commitments and financial guarantee contracts	Provision	43

Fair value of financial assets and liabilities

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

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

- Level 1 fair value measurements are quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

55. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial assets and liabilities (continued)

Financial instruments not measured at fair value

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

	As at 30 June 2018		As at 31 December 2017	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Financial assets				
Held-to-maturity financial assets	**–**	**–**	78,718	78,867
Financial liabilities				
Non-convertible bonds	**126,897,926**	**130,096,298**	125,252,866	120,751,828

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

Financial instruments measured at fair value on a recurring basis

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

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

55. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial assets and liabilities (continued)

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

	Financial assets/ Financial liabilities	Classified as	Fair value as at 30 June 2018	Fair value as at 31 December 2017	Fair value hierarchy
1)	Listed options	Derivative instruments	161,355 (Assets) 74,239 (Liabilities)	466,542 (Assets) 1,024,867 (Liabilities)	Level 1
			144 (Assets) 156 (Liabilities)	–	Level 2
2)	Unlisted options	Derivative instruments	34,964 (Assets) 665,044 (Liabilities)	81,119 (Assets) 503,386 (Liabilities)	Level 2
			8,771 (Assets) 9,041 (Liabilities)	–	Level 3
3)	Equity linked notes and Debt linked notes	Derivative instruments	262 (Assets) 581 (Liabilities)	265,955 (Assets)	Level 2
4)	Commodity forward contracts	Derivative instruments	–	1,992 (Assets) 12,729 (Liabilities)	Level 2
5)	Foreign exchange Forward contracts	Derivative instruments	103,665 (Assets) 82,866 (Liabilities)	91,779 (Assets) 106,618 (Liabilities)	Level 2

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

55. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial assets and liabilities (continued)

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

	Financial assets/ Financial liabilities	Classified as	Fair value as at 30 June 2018	Fair value as at 31 December 2017	Fair value hierarchy
6)	Interest rate, foreign exchange and credit default swap contracts	Derivative instruments	1,087,618 (Assets) 1,353,349 (Liabilities)	1,586,509 (Assets) 1,611,497 (Liabilities)	Level 2
			104,599 (Assets) 103,972 (Liabilities)	–	Level 3
7)	Embedded equity instruments	Derivative instruments	44 (Liabilities)	86 (Liabilities)	Level 2
8)	Equity swap contracts	Derivative instruments	90,397 (Liabilities)	48,678 (Assets) 236,272 (Liabilities)	Level 2
			75,422 (Assets) 112,611 (Liabilities)	–	Level 3
9)	Commodity future	Derivative instruments	–	68,037 (Assets)	Level 2
10)	Listed equity investments (non-restricted shares), funds investments and debt investments	Financial assets at fair value through profit or loss	23,480,139	28,267,897	Level 1
			39,635,843	30,268,711	Level 2
		FVTOCI	4,486,026	–	Level 1
		Financial liabilities at FVTPL	3,371,007	1,907,402	Level 1
			2,917,734	5,043,836	Level 2
		Available-for-sale investments	–	2,924,764	Level 1
			–	838,903	Level 2
11)	Unlisted equity investments (non-restricted shares)	Financial assets at fair value through profit or loss	1,099,566	1,298,449	Level 2
			4,200,705	480,774	Level 3
		FVTOCI	266,571	–	Level 3

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

55. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial assets and liabilities (continued)

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

	Financial assets/ Financial liabilities	Classified as	Fair value as at 30 June 2018	Fair value as at 31 December 2017	Fair value hierarchy
12)	Unlisted debt investments	Available-for-sale	–	661,518	Level 2
		investments	–	4,803,296	Level 3
		Financial assets at fair value	36,636,712	22,462,756	Level 2
		through profit or loss	154,815	334,930	Level 3
		FVTOCI	24,186,904	–	Level 2
			459,422	–	Level 3
		Financial liabilities at FVTPL	273,295	865,380	Level 2
		Available-for-sale	–	1,459,899	Level 2
		investments	–	557,782	Level 3
13)	Unlisted fund investments	Financial assets at fair value	23,418,485	10,409,472	Level 2
		through profit or loss	175,556	–	Level 3
		Available-for-sale	–	4,554,965	Level 2
		investments	–	429,422	Level 3
14)	Investments in wealth investment products, trust and other products (investing in equity or debt other than unlisted private equity)	Financial assets at fair value	17,740,286	6,333,710	Level 2
		through profit or loss	45,009	–	Level 3
		Available-for-sale investments	–	23,495,280	Level 2

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

55. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial assets and liabilities (continued)

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

	Financial assets/ Financial liabilities	Classified as	Fair value as at 30 June 2018	Fair value as at 31 December 2017	Fair value hierarchy
15)	Restricted shares and funds	Available-for-sale investments	–	1,731,046	Level 3
		Financial assets at fair value through profit or loss	1,182,838	–	Level 3
16)	Financial liabilities arising from consolidation of structured entities	Financial liabilities at FVTPL	3,422,630	1,342,318	Level 2
17)	Structured notes issued	Financial liabilities at FVTPL	10,593,204	10,183,435	Level 2
			288,710	–	Level 3
18)	Gold lending business	Financial liabilities at FVTPL	802,140	327,600	Level 2
19)	Gold options	Financial liabilities at FVTPL	3,120,342	1,073,529	Level 2
20)	Investments in structure products	Financial assets at fair value through profit or loss	367,000	–	Level 3

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

55. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial assets and liabilities (continued)

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

Valuation methods for financial instruments

For Level 1 financial instruments, fair values are unadjusted quotes in active markets for identical assets.

For Level 2 financial instruments, valuations are generally calculated based on the fair value of the underlying investments which are debt securities or publicly traded equity instruments in each portfolio or obtained from third party pricing services agent such as China Central Depository & Clearing Co., Ltd. which are based on the discounted cash flow model. All significant inputs are observable, directly or indirectly from the market.

For Level 3 financial instruments, the management obtains valuation quotations from counterparties or uses valuation techniques to determine the fair value, including discounted cash flow analysis, net asset value, market comparison approach and option pricing model, etc. The fair value of these financial instruments may be based on unobservable inputs which may have significant impact on the valuation of these financial instruments, and therefore, these assets and liabilities have been classified by the Group as level 3. The unobservable inputs which may have impact on the valuation include weighted average cost of capital, liquidity discount, price to book ratio, etc.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 June 2018

55. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial assets and liabilities (continued)

Reconciliation of Level 3 fair value measurements of financial assets and financial liabilities

	Available-for sale investments *RMB'000* (unaudited)	Financial assets at fair value through profit or loss *RMB'000* (unaudited)	Equity instruments at FVTOCI *RMB'000* (unaudited)	Debt instruments at FVTOCI *RMB'000* (unaudited)	Financial liabilities at fair value through profit or loss *RMB'000* (unaudited)	Derivative assets *RMB'000* (unaudited)	Derivative liabilities *RMB'000* (unaudited)
As at 31 December 2017	7,521,547	815,704	–	–	274,655	–	–
Effect of adoption of IFRS 9	(7,521,547)	6,694,885	268,457	558,205	–	–	–
As at 1 January 2018	–	7,510,589	268,457	558,205	274,655	–	–
Transfer in	–	108,433	–	–	72,780	188,792	225,624
Purchase/(disposal)	–	(516,156)	–	(76,702)	(21,051)	–	–
Transfer out	–	(909,815)	–	–	(40,912)	–	–
Total losses and gains							
– other losses and gains	–	(67,127)	(1,886)	(22,081)	3,238	–	–
As at 30 June 2018	–	6,125,924	266,571	459,422	288,710	188,792	225,624
31 December 2017							
As at 1 January 2017	4,022,968	3,634,383	–	–	1,909,546	–	–
Transfer in	4,361,651	563,555	–	–	213,220	–	–
Purchase/(disposal)	779,468	–	–	–	–	–	–
Transfer out	(1,218,923)	(3,188,027)	–	–	(1,721,563)	–	–
Total losses and gains							
– other losses and gains	(423,617)	(194,207)	–	–	(126,548)	–	–
As at 31 December 2017	7,521,547	815,704	–	–	274,655	–	–

56. COMPARATIVE FIGURES

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