中国银河证券股份有限公司
CHINA GALAXY SECURITIES CO., LTD.

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

Stock Code: 06881

Interim Report 2018

CONTENTS

DEFINITIONS

"A Share(s)"	domestic share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which is (are) listed on the SSE and traded in Renminbi
"Articles of Association"	the articles of association of the Company (as amended from time to time)
"Board" or "Board of Directors"	the board of Directors of the Company
"bp"	unit of measurement for the change in interest rate of bonds and notes, one bp equals to 1% of a percentage point
"CG Code"	Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Stock Exchange Listing Rules
"China" or "PRC"	the Peoples' Republic of China excluding, for the purpose of this interim report, Hong Kong, the Macau Special Administrative Region and Taiwan region
"Company"	China Galaxy Securities Co., Ltd. (中國銀河證券股份有限公司), a joint stock limited company incorporated in the PRC on 26 January 2007, H Shares of which are listed on the Hong Kong Stock Exchange (Stock Code: 06881), and A Shares of which are listed on the SSE (Stock Code: 601881)
"Company Law"	the Company Law of the PRC
"CSRC"	the China Securities Regulatory Commission (中國證券監督管理委員會)
"Director(s)"	director(s) of the Company
"End of the Reporting Period"	30 June 2018
"ETF"	exchange-traded funds
"Futures IB business"	the business activities in which securities firms, as commissioned by futures companies, introduce clients to futures companies to provide futures brokerage and other related services
"Galaxy Capital"	Galaxy Capital Management Company Limited(銀河創新資本管理有限公司), owned as to 100% by the Company and a wholly-owned subsidiary of the Company
"Galaxy Yuanhui Investment"	Galaxy Yuanhui Investment Co., Ltd. (銀河源匯投資有限公司), owned as to 100% by the Company and a wholly-owned subsidiary of the Company
"Galaxy Financial Holdings"	China Galaxy Financial Holdings Company Limited(中國銀河金融控股有限責任公司), which holds approximately 50.91% interests of the Company as at the End of the Reporting Period and is the controlling shareholder of the Company

"Galaxy Futures"	Galaxy Futures Company Limited(銀河期貨有限公司), owned as to approximately 83.32% by the Company and a non-wholly owned subsidiary of the Company
"Galaxy International Holdings"	China Galaxy International Financial Holdings Company Limited(中國銀河國際金融控股有限公司), owned as to 100% by the Company and a wholly-owned subsidiary of the Company
"Galaxy Investment"	China Galaxy Investment Management Company Limited (中國銀河投資管理有限公司), owned as to 100% by Galaxy Financial Holdings
"Galaxy Jinhui"	Galaxy Jinhui Securities Assets Management Co., Ltd.(銀河金匯證券資產管理有限公司), owned as to 100% by the Company and a wholly-owned subsidiary of the Company
"Group"	the Company and its subsidiaries
"H Share(s)"	overseas listed foreign share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which is (are) subscribed for and traded in HK dollars and listed on the Hong Kong Stock Exchange
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Huijin"	Central Huijin Investment Ltd. (中央匯金投資有限責任公司), which currently holds an equity interest of approximately 69.07% of Galaxy Financial Holdings
"IPO"	initial public offering
"Stock Exchange Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"margin and securities refinancing business"	a business in which securities firms can act as intermediaries to borrow funds or securities from China Securities Finance Corporation Limited and lend such funds and securities to their clients
"MOF bonds"	debt instruments issued by the Ministry of Finance of the PRC on behalf of the PRC government
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in the Appendix 10 to the Stock Exchange Listing Rules
"New OTC Board"	National Equities Exchange and Quotations for medium and small-sized enterprises
"QFII"	Qualified Foreign Institutional Investor
"Reporting Period"	the six-month period ended 30 June 2018

DEFINITIONS

"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"Securities Law"	the Securities Law of the People's Republic of China
"RQFII"	Renminbi Qualified Foreign Institutional Investor, a pilot program launched in the PRC which allows Hong Kong subsidiaries of PRC brokerage companies and fund houses to facilitate investments of offshore Renminbi into the PRC capital markets
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time)
"SSE"	the Shanghai Stock Exchange (上海證券交易所)
"SSE Listing Rules"	the Rules Governing the Listing of Securities on the Shanghai Stock Exchange (as amended from time to time)
"SSE Composite Index"	SSE Composite Index
"Supervisor(s)"	supervisor(s) of the Company
"Supervisory Committee"	the supervisory committee of the Company
"SZCI"	the Shenzhen Component Index
"SZSE"	the Shenzhen Stock Exchange (深圳證券交易所)
"US$" or "U.S. dollars" or "USD"	United States dollars, the lawful currency of the United States
"VaR"	value at risk

This interim report has been prepared in Chinese and English. In case of any discrepancy between the Chinese and English versions, the Chinese version shall prevail.

NAME OF THE COMPANY

Registered Chinese Name:	中國銀河證券股份有限公司
Registered English Name:	China Galaxy Securities Co., Ltd.

BOARD SECRETARY

Mr. Wu Chengming

JOINT COMPANY SECRETARIES

Mr. Wu Chengming, Ms. Mok Ming Wai

AUTHORIZED REPRESENTATIVES

Mr. Wu Chengming, Ms. Mok Ming Wai

HEADQUARTERS IN THE PRC

Registered address:	2-6/F, Tower C, Corporate Square, 35 Finance Street, Xicheng District, Beijing, PRC, 100033
Office address:	2-6/F, Tower C, Corporate Square, 35 Finance Street, Xicheng District, Beijing, PRC, 100033
Website of the Company:	www.chinastock.com.cn
Email address:	yhgf@chinastock.com.cn

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

20th Floor, Wing On Centre, 111 Connaught Road Central, Sheung Wan, Hong Kong

AUDITORS

Domestic:	Deloitte Touche Tohmatsu Certified Public Accountants LLP
International:	Deloitte Touche Tohmatsu

HONG KONG LEGAL ADVISOR

Latham & Watkins

STOCK CODE

Hong Kong Stock Exchange
H Share Stock Code: 06881

SSE
A Share Stock Code: 601881

SHARE REGISTRARS

Share Registrar for A Shares:	China Securities Depository and Clearing Corporation Limited
Share Registrar for H Shares:	Computershare Hong Kong Investor Services Limited

FINANCIAL HIGHLIGHTS

(Accounting data and financial indicators contained in this report are prepared in accordance with IFRSs)

MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

Items	January - June 2018	January-June 2017	Increase/ decrease from the same period of last year
Operating results (RMB'000)			
Revenue and other income	**7,491,941**	7,704,394	-2.76%
Profit before income tax	**1,719,873**	2,617,198	-34.29%
Profit for the year-attributable to owners of the Company	**1,311,046**	2,112,212	-37.93%
Net cash from/(used in) operating activities	**1,382,185**	(7,364,592)	N/A
Earnings per share (RMB per share)			
Basic earnings per share	**0.13**	0.21	-38.10%
Profitability ratio			
Weighted average return on net assets	**2.01%**	3.38%	decreased by 1.37 percentage points

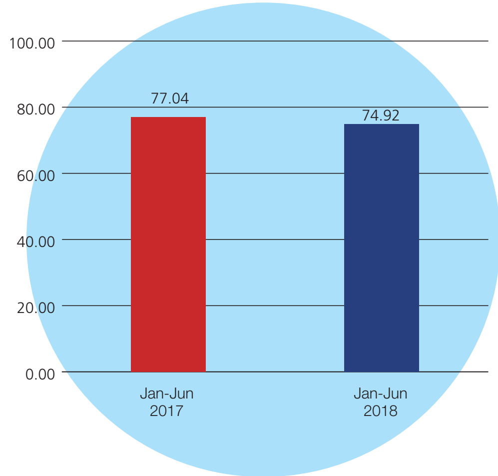
Items	As at 30 June 2018	As at 31 December 2017	Increase/ decrease from the end of last year
Scale indicators (RMB'000)			
Total assets	**263,172,620**	254,814,966	3.28%
Total liabilities	**198,250,068**	189,928,533	4.38%
Accounts payable to brokerage clients	**67,435,097**	64,787,132	4.09%
Equity attributable to owners of the Company	**64,525,698**	64,513,027	0.02%
Total share capital (in thousand shares)	**10,137,259**	10,137,259	0.00%
Net assets value per share attributable to owners of the Company (RMB per share)	**6.37**	6.36	0.02%
Gearing ratio [1]	**66.83%**	65.85%	increased by 0.98 percentage point

1 Gearing ratio = (total liabilities—accounts payable to brokerage clients)/(total assets—accounts payable to brokerage clients)

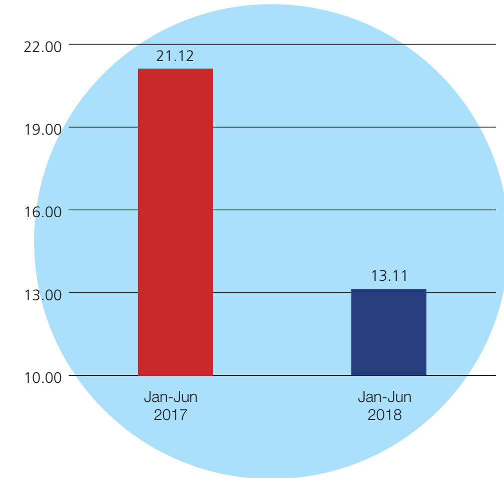
Description of differences on figures by domestic and foreign accounting standards:

There was no difference between the Company's net profits and net assets shown in the consolidated financial statements prepared under International Financial Reporting Standards and those shown in the consolidated financial statements prepared under China Accounting Standards for Business Enterprises.

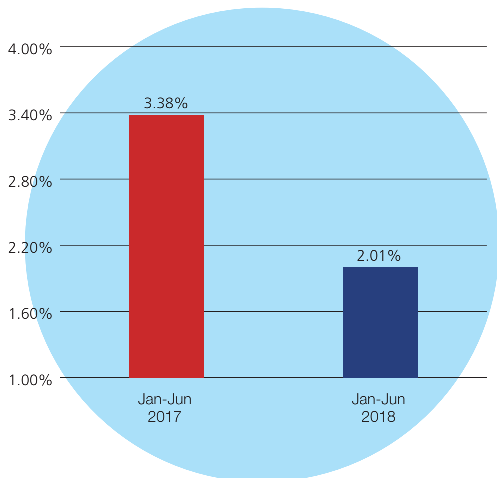
Revenue and other income (RMB100 million)



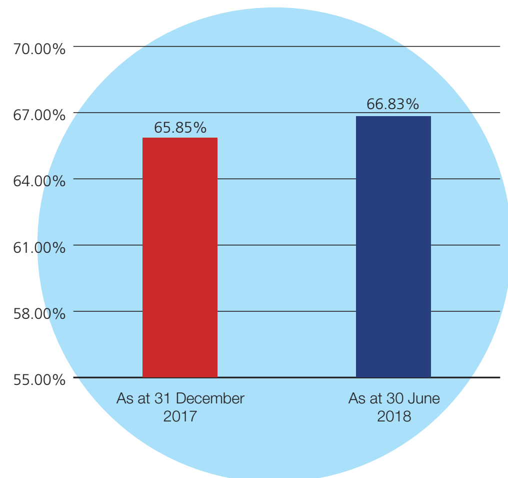
Profit for the period – attributable to owners of the Company (RMB100 million)



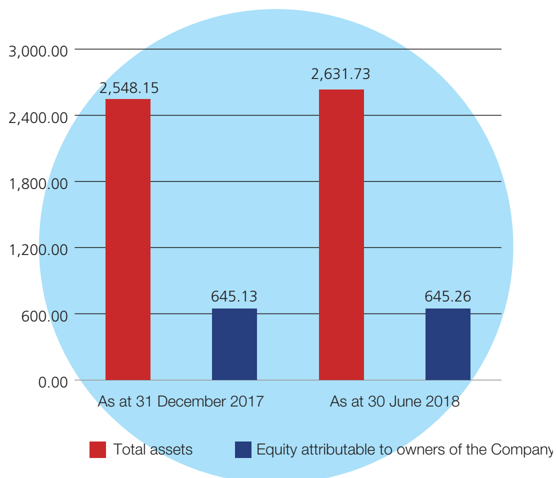
Weighted average return on net assets (%)



Gearing ratio (%)



Scale indicators (RMB100 million)



COMPANY BUSINESS OVERVIEW

I. DESCRIPTION OF PRINCIPAL BUSINESSES, OPERATIONAL MODEL AND INDUSTRY IN WHICH THE COMPANY OPERATES DURING THE REPORTING PERIOD

(I) Primary business types of the Group

The Group is positioned as a leading comprehensive financial services provider in the securities industry in China and provides comprehensive securities services, including brokerage, sales and trading, investment banking, investment management and overseas business.

The principal businesses of the Group include:

Brokerage, Sales and Trading	Investment Banking	Investment Management	Overseas Business
Brokerage and wealth management	Equity financing	Proprietary trading and other securities trading services	Brokerage and sales
Institutional sales and investment research	Debt financing	Private equity investment	Investment banking
Margin financing and securities lending and stocks pledge	Financial advisory	Alternative investment	Investment management
Asset management			Asset management

Brokerage, Sales and Trading

1. Brokerage and wealth management: The Group executes trades on behalf of clients in stocks, funds, bonds, derivatives and futures, and provides comprehensive wealth management services to its clients.

2. Institutional sales and investment research: The Group markets and sells securities products and services to institutional investor clients and provides professional research services to facilitate their investment decisions.

3. Margin financing and securities lending and stocks pledge: The Group provides guaranteed and collateralized margin financing and securities lending services, which provide financial leverage for its clients to meet their financing demands and vitalize their equity assets.

4. Asset management: The Group charges management and advisory fees through providing professional asset management services for individual and institutional clients in the form of collective asset management schemes, targeted asset management schemes and special asset management schemes.

Investment Banking

The Group charges underwriting commissions and sponsorship and advisory fees through underwriting stocks and bonds and providing financial advisory services.

Investment Management

The Group engages in proprietary trading and provides other securities trading services to enhance liquidity for clients and accommodates our clients' investment and financing needs. The Group also obtains investment income through conducting private equity investment and alternative investment.

Overseas Business

The Group provides brokerage and sales, investment banking, research and asset management services to global institutional clients, corporate clients and retail customers through Galaxy International Holdings, which is set up in Hong Kong, as an overseas business platform.

During the Reporting Period, there was no significant change to the principal businesses of the Company.

(II) Operational model of the Group

During the Reporting Period, the Company's business model was "Dual-wheel Drive and Coordinated Development".

"Dual-wheel Drive": One wheel is wealth management, which represents the integration and development of big brokerage and big asset management business to provide customers with comprehensive wealth management services. The other wheel is big investment banking to support the real economy and serve enterprises in financing. "Coordinated Development": In accordance with the Company's new management system of "centralized planning + line management", the Company strengthened its centralized planning and management, improved the development of its product, customer, transaction, data and service center, and strengthened the comprehensive business and management coordination mechanism in order to build its regional comprehensive financial service centers in full efforts.

To conform to the requirement of the opening up and development of the industry, the Company has timely adjusted its business development model and supporting management system to promote the coordination of its dual-wheel businesses, step up its overseas business development, and reshape the market position and public image of the Company, striving to achieve the strategic objective of "building a carrier securities broker and a modern investment bank" and become a leading comprehensive securities company in the industry.

(III) Development characteristics of the industry of the Group

1. Economic environment

In the first half of 2018, the external environment facing China remained complex and changing. In the world, the U.S. economy was under the momentum of recovery and the road to economic recovery for Europe was bumpy and long. Quantitative easing is expected to continue in Japan. In China, macroeconomy faced downward pressure, and regulation policies tended to be prudent. Economic development momentum experienced a faster transition, and the quality of economic development gradually improved.

2. Market environment

In the first half of 2018, as a result of market environment, capital tended to avert risks and key indexes dropped to varied degrees and trading volume shrank, with continuous decline of the commission rate. Early this year, the Hong Kong stock market continued its bull market from 2017. In January 2018, the Hang Seng Index hit a new high of 33,000 points. Since the second quarter of 2018, due to factors such as uneven macroeconomic performance of China and the escalation of trade frictions between China and the United States, the Hong Kong stock market experienced wide fluctuations.

3. Industry situation

In the first half of 2018, the supervision over the securities industry was strengthened. The IPO review was further enhanced, and new rules including those on equity pledge and asset management were successively launched. As a result of the policy environment and market conditions, the performance of the securities market deteriorated. According to the Securities Association of China ("SAC"), during the Reporting Period, the PRC securities industry realized revenue of RMB126.572 billion and net profit of RMB32.861 billion, representing a year-on-year decrease of 11.9% and 40.5%, respectively; as at the End of the Reporting Period, total assets and net assets of the PRC securities industry were RMB6.38 trillion and RMB1.86 trillion, respectively.

(IV) The position of the Group in the industry

The Group is a leading comprehensive financial service provider in the securities industry in China. Since its incorporation, the Group has maintained strong comprehensive competitiveness, with the Company remaining as a top securities company in the industry in terms of capital scale, profitability, business strength and risk management capability. According to the data in the financial statements of securities company's parent company published by the SAC, in the first half of 2018, the Company ranked eleventh in the industry in terms of operating income and net profit respectively, and ranked eighth, seventh, and sixth in the industry in terms of total assets, net assets and net capital, respectively.

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

As at 30 June 2018, total assets of the Group amounted to RMB263.173 billion, representing an increase of 3.28% as compared to the end of 2017. Among them, clearing settlement funds amounted to RMB14.242 billion, representing an increase of 13.58% as compared with the end of last year, which was mainly due to the increase in the clearing settlement funds of customers. Advances to customers amounted to RMB53.651 billion, representing a decrease of 10.68% as compared with the end of last year, which was mainly due to the reduction of the business scale of advances to customers. Financial assets purchased under resale agreements amounted to RMB43.829 billion, representing an increase of 14.57% as compared with the end of last year, which was mainly due to increase in the dealer-quoted securities repurchase scale. According to the requirement of IFRS 9-Financial Instruments, the Company adopted new standards for financial instruments since 1 January 2018, and the items to be listed in the statements and related to financial instruments had major changes. For details of the changes and their effects, please refer to "Note 3. Principal Accounting Policies to the Condensed consolidated financial statements".

Among them: overseas assets amounted to RMB9.657 billion, representing 3.67% of total assets.

III. ANALYSIS ON CORE COMPETITIVENESS DURING THE REPORTING PERIOD

(I) Brokerage business with significant scale advantages

The Company has a leading market position in its brokerage business. During the Reporting Period and according to the unaudited data of the SAC, the net income of the Company from the securities brokerage business ranked third in the industry in terms of individual securities companies with a market share of 4.70%; the net income from the financial products agency sales business ranked third in the industry in terms of individual securities companies with a market share of 13.80%. As at the End of the Reporting Period and according to the data of the SAC, the Company ranked second in the industry in terms of aggregate market value of securities in its client accounts, which amounted to RMB2.64 trillion and represented a market share of 7.23%. The Company ranked fourth in terms of the balance of clients' deposit account, which amounted to RMB51.502 billion and represented a market share of 4.65%. The huge client base and client assets of the Company provide significant growth potential for its businesses, and become a powerful driver for the development and innovation of its businesses such as margin financing and securities lending, capital-based intermediary bulk trades, institutional sales and cash management.

(II) Having the largest channel network currently in operation in the industry

As at the End of the Reporting Period, the Company had 472 securities brokerage branches in central cities in 31 provinces, autonomous regions and municipalities across China, covering developed regions and regions with development potential. Currently, it is the securities company with the largest number of branches in China. Its overseas branches (including Hong Kong) and 32 futures brokerage branches provide clients with extended services. A reasonable strategic layout helps the Company obtain high-end clients in developed regions, benefit from the rapid economic growth and urbanization in developing regions so as to grasp overseas business opportunities. At the same time, it can provide clients with convenient local services and help build brand advantages, enhance the sense of belonging and trust of clients and promote coordinated marketing opportunities. To enhance its branch network's marketing capabilities, the Company also fully utilizes various information technologies such as Internet, e-mails, mobile terminals, text message, and call centers to create a comprehensive multi-channel marketing service and trading system.

(III) Possessing one of the largest client bases in the industry

The Company has a large, stable and ever-growing client base. As at the End of the Reporting Period, the Company had 10,150,000 brokerage clients, representing an increase of 810,000 clients or 8.67% as compared with the same period of 2017. The investment banking business has served over 350 corporate clients. Benefitted from its client base, the Company has significant potential for cross-selling among its business lines, which helps it rapidly capture opportunities for the development of new businesses.

(IV) Leading investment banking expertise

The investment banking business system of the Company has been improving. For the equity financing business, the Company has earned the trust and recognition from clients for its consistently high-quality and distinctive services. For the bond financing business, based on its experience in the relevant industries and products as well as its in-depth understanding of investors' needs, the Company has developed professional pricing capability.

(V) Unique advantages from its history, brand and shareholders

The history of its securities brokerage and investment banking businesses can be traced back to the early 1990s from the former securities divisions of major financial institutions in the PRC, namely, Industrial and Commercial Bank of China, China Construction Bank, Bank of China, Agricultural Bank of China, China Life Insurance and China Economic Development Co., which were subsequently consolidated into China Galaxy Securities Company Limited. "China Galaxy Securities" gradually became a well-known brand in the securities industry. After the establishment of the Company in 2007, it acquired the securities brokerage and investment banking businesses, as well as the related assets from China Galaxy Securities Company Limited (中國銀河證券有限責任公司). Its controlling shareholder is Galaxy Financial Holdings, and its de facto controller is Huijin, a wholly state-owned company authorized by the State Council to make equity investments in major state-owned financial enterprises. The history, brand and shareholder background of the Company have enhanced its clients' confidence in it and enabled it to consolidate and expand its client base as well as capture more business opportunities.

(VI) Advanced IT system with prudent and effective risk management

The Company owns an advanced IT system. During the Reporting Period, the Company emphasized on promoting the building of five focuses including "focuses on customers, products, services, data and transactions", shifting from centralized transactions to centralized operation and achieving the data, process and platform management for the Company's businesses, customers and products, thus improving the ability of centralized management of its business. It launched the "China Galaxy Securities APP 3.0", realized the integration of the Company's APP and the access to the Internet and maintained the leading status of the Company's APP within the securities brokerage industry for building an Internet brand for the Company. It strengthened its own research and development, actively promoted quantitative trading and the construction of PB trading platform, so as to serve professional and private customers and meet customers' professional and personalized trading needs. The Company continued to deepen the comprehensive risk management and improve the risk control and management platform in order to enhance the Company's ability for risk control and management. It actively promoted the statement consolidation management, gradually strengthened the vertical management of its subsidiaries and optimized the management mechanism for authorization and risk appetite. It strengthened the risk control warning system, analyzed risks and potential risks of various types of businesses, with gradual strengthening of risk data accumulation and management accordingly, so as to enhance the level of refined risk management.

I. OVERALL OPERATION OF THE COMPANY

In the first half of 2018, as a result of the concerns about external market and tight supply of liquidity in the PRC, the performance of securities companies weakened in general. All businesses in the industry were under pressure. While traditional brokerage business was affected by the continuous decline in commission rate and the continuous shrinkage in the size of equity financing in investment banking business, the capital intermediary business, including asset management business and credit business, was affected by the strict regulation environment, with deleveraging as the key theme. The Company promoted the reform of management system in an orderly manner. Its brokerage business continued to maintain a steady position in the industry, and investment banking business reform started to produce results. Asset management business recorded a good momentum of development, and investment business was materially affected by the fluctuation in the market. The subsidiaries of the Company generally recorded positive results of operation. As at the End of the Reporting Period, the Group's total assets amounted to RMB263.173 billion and equity attributable to owners of the Company amounted to RMB64.526 billion. During the Reporting Period, the Group achieved income and other revenue of RMB7.492 billion, representing a year-on-year decrease of 2.76%; net profit attributable to owners of the Company amounted to RMB1.311 billion, representing a year-on-year decrease of 37.93%; and weighted average return on net assets was 2.01%, representing a year-on-year decrease of 1.37 percentage points.

II. ANALYSIS OF MAJOR BUSINESS

The business of the Group includes brokerage, sales and trading business, investment banking business, investment management business and overseas business.

(i) Brokerage, sales and trading business

During the Reporting Period, the revenue and other income from the securities brokerage business of the Group amounted to RMB5.799 billion, representing an increase of 10.38% as compared with the same period of last year.

1. Brokerage, sales and trading business

(1) Securities brokerage

Under the guidance of its strategy of "Dual-wheel Drive and Coordinated Development", the Company's securities brokerage business accelerated transformation towards wealth management. During the Reporting Period, the Company's securities trading business recorded net income of RMB1.709 billion, ranking No. 3 among standalone securities companies according to unaudited data of the Securities Association of China. The Company selected and introduced high-quality financial products and continued to maintain its leading financial product sales capability in the industry. During the Reporting Period, the Company recorded net income from agency sales of financial products of RMB368 million, representing a year-on-year increase of 35.64% and ranking No. 3 in the industry. As at the End of the Reporting Period, the Company had financial products in the total value of RMB101.220 billion, representing a year-on-year increase of 6.93%. During the Reporting Period, the Company sold financial products in the value of RMB70.660 billion, representing a year-on-year increase of 62.52%. The Company vigorously promoted professional strategy trading business including the APAMA quantitative trading platform, Prime Broker (PB) system and bulk gold (金大宗) and strengthened communication with and understanding of clients. During the Reporting Period, the Company obtained a total of 1,141 institution and product clients with total assets of RMB38.662 billion, and the turnover of professional strategy trading business was RMB600 billion. With the increase in the percentage of trading of institutional clients of 1.3 percentage points, the client trading structure was significantly optimized. The Company's futures IB business strived to meet customers' needs for investing in futures market. As at the End of the Reporting Period, a total of 155 securities branches obtained the qualifications for futures IB business, resulting in a total of 33,000 customers and total client balance of RMB1.556 billion as at the End of the Reporting Period. The Company's brokerage business including options, Hong Kong Stock Connect and New OTC Board recorded steady development. As at the End of the Reporting Period, the Company's stock options brokerage business had 23,000 customers, representing a year-on-year increase of 7.17% and a market share of 8.26%. During the Reporting Period, the number of accounts of the Company trading through the Hong Kong Stock Connect was 108,300 in total, with the transaction amount of the Hong Kong Stock Connect amounting to RMB34.102 billion; the number of qualified investors with accounts in the Company for trading listed shares amounted to 8,839, representing a market share of 4.07%.

Subject to the management and control of risks in the credit business on a voluntary basis, the Company continuously strengthened its business development and pushed forward for the steady development of various businesses. As for the margin financing and securities lending business, first, the Company strengthened differentiated rate management to mitigate the effects of the downward trend of the rate of margin financing and securities lending business; second, the Company expanded the channels of supply of financing and securities to realize sharing of internal resources and complementary advantages; third, the Company further strengthened the control of concentration risks and took the initiative to prevent and minimize the risk of margin financing and securities lending business. As at the End of the Reporting Period, the balance of the Company's margin financing and securities lending business amounted to RMB50.258 billion, with a market share of 5.47%. As for the share pledge business, first, the Company conducted a timely review and improvement of its internal rules and workflows in accordance with the requirements of the new rules on share pledge and in light of its practical business experience; second, the Company carried out in-depth investigation of its existing projects in view of the market and regulatory environment, and actively introduced high-quality projects to realize reasonable project exchange in an orderly manner; third, the Company improved its interest rate determination mechanism and further strengthened its pricing power. As at the End of the Reporting Period, the balance of the share pledge business of the Company amounted to RMB51.871 billion, representing an increase of RMB2.467 billion or 5% from that at the end of last year.

The Company strengthened the planning and management for its institutional sales and investment research business so as to comprehensively improve the quality of the research business and enhance the institutional customer service and management in multiple dimensions. The investment research business established a working mechanism on research and planning in order to improve standards and strengthen trainings, and the quality of the research reports showed a significant improvement. For the institutional sales business, the Company, in an effective response to customer needs, actively explored new business areas such as private equity funds, trust companies and asset management companies and conducted business innovations in respect of custody and third-party business. The Company had established business cooperative relationship with 84 fund company clients, which covered all important fund companies in the market. In addition, the Company's institutional sales business covered 14 QFII and RQFII clients, 23 insurance asset management companies, 35 asset management departments of insurance companies and 4 insurance group clients. The Company had one new insurance client who had signed leasing agreements for trading units. The Company continued to promote the development of wholly foreign owned enterprise (WFOE) business. Fullerton Absolute Return China A Strategy Series 1 Private Fund, launched for sale on 5 January 2018, was the first foreign-funded private equity fund issued to domestic qualified investors, and the Company has also become the first domestic broker that has completed a set of preparation work for issuance of foreign private equity fund.

(2) Futures brokerage

In the first half of 2018, strict supervision over the futures industry continued in the PRC. The futures market was stable in general. However, as affected by the environmental protection policies and the trade war between China and the United States, the trading volume in the futures market during the Reporting Period decreased by 4.93% year-on-year. By adhering to customer orientation, Galaxy Futures strengthened market development and planning for new products and established a new futures product promotion group to conduct and provide in-depth development and services for enterprises through multiple channels. During the Reporting Period, Galaxy Futures obtained 4,900 new customers, representing an increase of 4.04% from that in 2017. As at the End of the Reporting Period, customer balance increased by 12.6% from that at the end of 2017. Galaxy Futures attached great importance to the development of innovative business and actively applied to stock exchanges for the trial projects of "OTC Option" and "Insurance + Futures". During the Reporting Period, Galaxy Futures realized revenue and other income of RMB410 million, representing a decrease of 1.33% as compared with the same period of last year; daily average balance of clients amounted to RMB15.113 billion, representing a decrease of 14.99% as compared with the same period of last year; the accumulated futures turnover amounted to RMB3.70 trillion, representing a decrease of 9.31% as compared with the same period of last year; soybean, white sugar and SSE 50 ETF options trading volume ranked Nos. 1, 5 and 6, respectively, in the market. As at the End of the Reporting Period, Galaxy Futures had 62 asset management products with the assets under management of RMB2.92 billion, of which 36 were proprietary asset management products with the assets under management of RMB674 million.

(3) Asset management

In the first half of 2018, under the background of "deleveraging and strengthening supervision", many policies were launched for the industry. In particular, the guiding opinions on the new rules on asset management were issued and took effect, whereby the asset management industry faced new situations of "consistent regulatory standards, breaking rigid payment in the industry, removing multiple layers and curtailing channel business". As a result, the year-on-year growth of the size of the securities asset management industry continued to slow down, and business growth gradually returned to the traditional asset management business. The Company conducted thorough assessment of and carefully adapted to the new situations by taking active measures and sticking to the new model of "Dual-wheel Drive and Coordinated Development". The Company further strengthened compliance management and risk prevention, and actively developed active management product business leveraging its own advantages. First, the Company continued to consolidate and improve the investment management of its existing predominant products including fixed income products; second, the Company vigorously promoted the development of financing products including asset-backed securities (ABS); third, the Company actively explored and invested in innovative areas, and established diversified presence in asset management product lines including fund of funds (FOF) and QDII, with the objective of meeting customers' comprehensive investment needs in terms of investment product system, asset allocation and overall financial service solutions. During the Reporting Period, the Company's asset management business realized revenue and other income of RMB453 million, representing an increase of 9.23% as compared with the same period of last year, ranking No. 9 in the industry and among top ten in the industry for the first time. As at the End of the Reporting Period, the size of the assets under management by Galaxy Jinhui amounted to RMB291.682 billion, representing a decrease of 4.88% as compared with the same period of last year, of which the size of assets under active management was RMB73.881 billion, representing an increase of 9.08% as compared with the same period of last year. The size of collective wealth management products was RMB42.751 billion, representing a decrease of 2.55% as compared with the same period of last year; the size of targeted asset management business was RMB240.595 billion, representing a decrease of 5.91% as compared with the same period of last year; the size of ABS was RMB8.336 billion, representing an increase of 17.92% as compared with the same period of last year.

(ii) Investment banking business

During the Reporting Period, the Group's investment banking business recorded revenue and other income of RMB430 million, representing an increase of 116.35% as compared to the same period of last year. According to the data of WIND Information, the aggregate underwriting amount of the Company's liabilities amounted to RMB54.863 billion and ranked twelfth, representing an increase of twenty places as compared to the same period of last year.

(1) Equity financing and financial advisory

In the first half of 2018, under the background of strict supervision, the size of the PRC's equity financing in the capital market significantly shrank in the first half of 2018. According to WIND, in the first half of 2018, the proceeds from IPOs on the SSE and the SZSE amounted to RMB92.287 billion, representing a decrease of 26.40% as compared with the same period of last year; and the size of equity re-financing was RMB617.255 billion, representing a decrease of 17.92% as compared with the same period of last year. The Company actively promoted the transformation of investment banking business by closely following key national strategies, improving services provided to real economy, leveraging its advantages in channels and network to develop regional markets, key customers and providing whole business chain integrated services. During the Reporting Period, the Company successfully completed two IPO projects and one merger and acquisition and reorganization project. The pass rate was 100%. In addition, the Company made progress in areas including large and middle-size project reserve, early project cultivation, innovative enterprise services and integrated financial advisory services.

(2) Bond financing

In the first half of 2018, the domestic yield curve of interest rate bonds steeply descended, and the yield of credit bonds declined in general, showing an obvious difference in credit spreads. According to WIND, the credit bonds issued in the domestic market amounted to RMB6,492.251 billion in total in the first half of 2018, representing an increase of 26.61% as compared with the same period of last year. A total of 4,553 bonds were issued, representing an increase of 24.20% as compared with the same period of last year. However, under the background of de-leveraging, corporate financing channels were tightened, and a number of credit defaults occurred. Investors had a low willingness for subscription. During the Reporting Period, the Company strived to improve its ability to design bond financing products, undertook a number of green bonds, accelerated the promotion of poverty alleviation bond projects, and completed the first venture investment medium-term notes to support the financing of small and micro enterprises and lower their financing cost. In addition, the Company strengthened its cooperation with large financial institutions and leveraged its large branch network to establish a multi-level sales channel and further improved its sales capability. During the Reporting Period, the Company underwrote bonds of RMB49.412 billion in total, ranking No. 12 in the market, twelve places up from the corresponding period of 2017. In particular, the amount of bonds underwritten by the Company (according to the Securities Association of China) ranked No. 7, seven places up from the corresponding period of 2017. The amount of non-policy financial bonds underwritten by the Company ranked No. 3, ten places up from the corresponding period of 2017.

(3) New OTC Board

In the first half of 2018, 320 enterprises became listed on and 705 enterprises were delisted from the New OTC Board of the PRC, resulting in a decrease in the number of enterprises listed on the New OTC Board. The proceeds from targeted financing on the New OTC Board was RMB36.496 billion, representing a decrease of 27.19% as compared with the same period of last year. Trading, investment and financing on the New OTC Board had been thin, and most shares had poor liquidity. The New OTC Board Constituent Index dropped by 20.11%, and the New OTC Board Market Making Index dropped by 14.87%, both showing a general downward trend. Under the existing environment of increasingly strict capital market supervision and slowing development of the New OTC Board, the Company's New OTC Board business was positioned as cultivating IPO and merger and acquisition opportunities and serving "four-new" enterprises (being those with new technologies, new industries, new business forms and new models). Furthermore, the Company strictly prevented risks and controlled guidance costs, and closely followed market trends to improve undertaking standards. During the Reporting Period, the Company completed two projects for recommended listing on the New OTC Board and eight projects for issue of shares on the New OTC Board, and market-making trading for 48 shares, ranking No. 44 in the market. 42% of the enterprises to which the Company provided market-making services were innovative enterprises, higher than the market average of 32%. The Company ceased market-making for 6 shares. As at the End of the Reporting Period, the size of investment in the market-making business was RMB436 million.

(iii) Investment management business

(1) Proprietary trading and other securities trading services

During the Reporting Period, the Group's proprietary trading and other securities trading services recorded revenue and other income of RMB151 million, representing a decrease of 86.52% as compared with the same period of last year, mainly because the fair value of the Company's equity assets had major fluctuations.

In the first half of 2018, the domestic stock market continued to decline due to the adverse impacts of international and domestic factors, and the Company held a large number of products in proprietary equity investment business, which were issued to targeted investors in previous years and recorded poor performance in general during the Reporting Period, and therefore, the fair value of the Company's equity assets had major fluctuations. In view of the changes in the market, the Company adjusted its investment strategies, changed its investment philosophy, and adopted index enhanced investment strategy based on active and quantitative researches for actively adjusting positions to optimize position structure and control the risk of proprietary equity trading business.

For the proprietary bond investment business, the Company kept a close eye on economic policies and macroeconomic variables, estimated future interest rate trends, and took the opportunities for allocation and bands through lowering leveraging and financing cost and maintaining low duration of assets. The Company captured the opportunities for the convertible bonds expansion and selected high-quality subjects to raise excess yields. It expanded new investment business comprising mainly derivative arbitrage and quantitative trading and realized the breakthrough of zero investment in commodities. As at the End of the Reporting Period, the number of investors of the Company in the dealer-quoted bond repurchase business (the product "Daily Profits" (天天利)) increased to over 480,700, with the outstanding balance amounting to RMB6.023 billion, continuing to rank No. 1 in the market.

For the proprietary derivate investment business, the Company was able to overcome fluctuations, sluggishness and other difficulties in the market. The Company's listed funds, as its traditionally dominant business, participated in the market making assessment by the Shanghai Stock Exchange, and more than 90% of the funds of the Company were assigned ratings of A or above. For the dealer-quoted repurchase business on the Shenzhen Stock Exchange (the product "Jin Zi Lai" ("金自來")), the Company has substantially established a business model serving an extensive range and growing number of customers. The Company carried out customized OTC options business for institutional clients, and entered into framework agreements including the Master Agreement 2014 for OTC Derivatives Trading in the China Securities and Futures Market (《中國證券市場金融衍生品交易主協議(2014年版)》 and the Supplemental Agreement 2014 for OTC Derivatives Trading in the China Securities and Futures Market (中國證券市場金融衍生品交易主協議(2014年版)補充協議) with 112 institutional clients. It ranked No. 1 among institutions in the quotation system OTC derivative market in the first quarter of 2018 and No. 5 in terms of new business obtained in April 2018.

(2) Private equity investment

As economic growth and corporate development slowed, the number of mature private equity investment projects dropped, and it had become far more difficult to obtain financing. As a result, the market has increasingly higher expectations for the professional competence of investment institutions. The Company's private equity investment management business was still at a stage of initial development in terms of experience and size. Its financing channels had yet to mature and stabilize and had weak influence in the market. There existed a huge gap between the Company and industry leaders, and the Company faced hard challenges in the establishment of a private equity fund platform and subsequent fund raising. The Company actively expanded project channels, established a fundraising platform, and explored a fund business model of sustainable and steady growth. By focusing on key breakthroughs in health care fund, high-end manufacturing fund, merger and acquisition fund and mezzanine fund, the Company fanned out from a point to an area and strived to realize widespread application and shorten the gap between Galaxy Capital and top-tier players in the industry in terms of registered capital and the size of assets under management. The Company strictly controlled project risks and laid the foundation for substantial business growth in the future. In addition, the Company increased its investment in Guangdong Galaxy Yueke Fund and strengthened its in-depth strategic partnership with Yueke Group. During the Reporting Period, Galaxy Capital realized revenue and other income of RMB20 million, representing a decrease of 60.78% as compared with the same period of last year.

(3) Alternative asset investment

The governance mechanism and risk control workflow of Galaxy Yuanhui Investment gradually improved, and it had established steady presence in equity investment in the primary market, other equity investments and financial products. Its investees recorded strong operational performance, which substantially met the expectations. Its equity investments covered semiconductors, chips, smart hardware, big data, LED and new energy equipment, all of which represents industrial investment. For post-investment management, the Company kept a close eye on the development of investees and the contingent risks of investment projects and adopted the relevant measures accordingly in a timely manner. During the Reporting Period, Galaxy Yuanhui Investment realized revenue and other income of RMB52 million, representing a year-on-year increase of 333.33%. It made new equity investments of RMB170 million, of which RMB80 million was invested in 4 primary market equity investment projects and RMB30 million was invested in 2 secondary market equity investment projects. It made 37 new cash management investments. In view of market analysis and the operation status of projects, it divested from two secondary market products and two non-standard products.

(iv) Overseas business

Due to factors including strengthened United States dollars and strong recovery of the U.S. economy, international capital flew out of emerging markets on a large scale and the Hong Kong stock market recorded weak performance. As at the End of the Reporting Period, the Hang Seng Index closed at 28,955 points, down by 3% as compared to the end of 2017. Facing the unfavorable environment, Galaxy International Holdings strengthened its business innovations and continued to enrich its production line, thereby enhancing its profitability. During the Reporting Period, the Company's overseas business realized revenue and other income of RMB268 million, representing a year-on-year increase of 33.04%. The Company continued to promote internationalization process, actively practiced China's "Belt and Road" initiative, and attached great importance to the investment, development and interconnection in the ASEAN market. On 18 January 2018, the Company completed the acquisition, through Galaxy International Holdings, of 50% equity interest in CIMB Securities International Pte. Ltd. (later renamed as CGS-CIMB Securities International Pte. Ltd. ("CGS-CIMB Securities")). Its business currently covers eight countries/regions including Singapore, Thailand, Indonesia, Hong Kong, Korea, India, the United Kingdom and the United States, which has further enlarged and optimized the international business presence of the Company. The Company strengthened the consolidation of business acquired overseas, which has enhanced the synergies among its business and produced positive results. Currently, various businesses of CGS-CIMB Securities are operating steadily and the Company's internationalization process has taken a solid step.

III. OUTLOOK AND FUTURE PLANS

In the second half of 2018, facing the challenges brought by the reduced size of market transactions and the declined commission rate, as well as the deep and significant changes in the industry structure and investor structure, the Company will promote its transformation and development by practicing the new business model of "Dual-wheel Drive and Coordinated Development".

For operation, based on maintaining stability while making progress for traditional big brokerage business, the Company will closely center around its new business model to establish a wealth management platform targeting retail customers, improve its professional strategy trading comprehensive service capability, develop industrial customers through business collaboration, and accelerate and deepen its online business. The Company places big investment banking business in a key position for its strategic business transformation. By focusing on China's major strategies, key regions and important industries, the Company will strive to enlarge its customer base, strengthen product competitiveness and facilitate financing, so as to play a pioneering role in its transformation and development and promote synergies across its entire business chain. For the big asset management business, while continuing to expand its business scale, the Company will further improve the quality of its business and customers. With active management products as the main direction of development, the Company will focus on improving its active management capability, enhance the collaboration with other principal activities, highlight its professional advantages and improve asset management capabilities and performance. For the proprietary investment business, the Company will focus on expanding the scope of investment and strive to realize win-win collaboration with customers and facilitate the coordinated development of other principal activities by leveraging its proprietary investment business and capital and credit resources. The Company will further improve its international business system and support Galaxy International Holdings and CGS-CIMB Securities in becoming better and stronger through strategic positioning, management integration, business collaboration and personnel selection, in order to build an international business platform covering ASEAN, affecting Asia, connecting European and American markets to meet cross-border business needs of domestic and overseas customers and gradually improve the international influence and competitiveness of the Company.

For management, the Company will, using financial technology innovations as means and through "+ Internet", confer power to its traditional business through big data and intelligentization, comprehensively facilitate the construction of five major centers including customer center, product center, trading center, service center and data center, and improve its overall operation. The Company will continue to explore the building of its branches into regional integrated financial service centers and enhance their competitiveness. It will strive to enhance core competitiveness by adopting measures such as replenishing capital through multiple channels, reforming assessment and incentive mechanism, strengthening compliance risk control, building an efficient logistics service system supporting business operation and facilitating internal mechanism development.

IV. ANALYSIS OF FINANCIAL STATEMENTS

Liquidity, financial resources and share capital structure

During the Reporting Period, the Group continuously maintained its profitability and realized capital preservation and appreciation. As at 30 June 2018, net assets attributable to owners of the Company amounted to RMB64.526 billion, representing an increase of RMB13 million or 0.02% as compared with RMB64.513 billion as at the end of 2017, which was mainly due to an increase in profits of RMB1.311 billion in the first half of the year, as well as the reduction of final dividend distribution of RMB1.216 billion for the year of 2017.

Asset structure was constantly improved and asset quality and liquidity remained satisfactory. As at 30 June 2018, total assets of the Group, excluding clients' funds, amounted to RMB195.738 billion, representing an increase of RMB5.710 billion or 3.00% as compared with the total assets of RMB190.028 billion as at the end of 2017 on a comparable basis mainly due to the increase in size of dealer-quoted securities repurchase transactions. In particular, cash and bank balances accounted for 6% of the total assets. Investment assets, which mainly consisted of investments in high liquidity financial assets, accounted for 40% of the total assets. Margin financing and securities lending business declined slightly as affected by the market, with advances to its customers accounting for 27% of the total assets. Dealer-quoted securities repurchase transactions and securities-based lending transactions accounted for 22% of the total assets.

The gearing ratio of the Group increased slightly. As at 30 June 2018, the own gearing ratio of the Company was 66.83%, representing an increase of 0.98 percentage point as compared with 65.85% as at the end of 2017 (Note: Gearing ratio = (total liabilities-accounts payable to brokerage clients)/(total assets-accounts payable to brokerage clients)). Operating leverage rate of the Company was 3.03 times, representing an increase of 2.98% as compared with 2.95 times as at the end of 2017 (Note: Operating leverage = (total assets-accounts payable to brokerage clients)/equity attributable to owners of the Company). The increase in leverage ratio was mainly attributable to the issuance of bonds by the Company for financing.

The Company adopted various measures to raise short-term capital, including issuing short-term corporate bonds, short-term subordinated bonds, transfer of income right of margin financing and securities lending business, and income certificates. Meanwhile, the Company also raised long-term capital by various means, including issuance of long-term corporate bonds, based on the market conditions and its own needs. At present, the Company has obtained comprehensive credit lines from various commercial banks and can use the above debt financing instruments to raise funds based on its business needs.

Excluding the effects of changes in customers' margins, the net increase in cash and cash equivalents of the Company during the Reporting Period was RMB-1.506 billion, representing an increase of RMB136 million as compared with RMB-1.642 billion for the same period in 2017. The net cash flow from the operating activities of the Company during the Reporting Period was RMB1.382 billion, representing an increase of RMB8.747 billion as compared with RMB-7.365 billion for the same period in 2017, which was mainly due to the increase in securities brokerage fee and the increase in dealer-quoted securities repurchase; the net cash flow from the investing activities of the Company during the Reporting Period was RMB-1.577 billion, representing a decrease of RMB3.314 billion as compared with RMB1.737 billion for the same period in 2017, which was mainly due to the increase in investment in financial assets held for trading; the net cash flow from the financing activities of the Company during the Reporting Period was RMB-1.312 billion, representing a decrease of RMB5.297 billion as compared with RMB3.985 billion for the same period in 2017, which was mainly due to the repayment of corporate bonds in the first half of 2018.

Profitability analysis of the Company during the Reporting Period

In the first half of 2018, the Group realized revenue and other income of RMB7.492 billion, representing a decrease of 2.76% as compared to the same period of last year, of which brokerage business realized revenue and other income of RMB5.799 billion, representing an increase of 10.38% as compared to the same period of last year; futures business realized revenue and other income of RMB410 million, representing a decrease of 1.44% as compared to the same period of last year; proprietary trading and other securities trading services realized revenue and other income of RMB151 million, representing a decrease of 86.52% as compared to the same period of last year; investment banking business realized revenue and other income of RMB430 million, representing an increase of 116.35% as compared to the same period of last year; asset management business realized revenue and other income of RMB453 million, representing an increase of 9.23% as compared to the same of last year; private equity investment business realized revenue and other income of RMB20 million, representing a decrease of 60.78% as compared to the same period of last year; alternative asset investment business realized revenue and other income of RMB52 million, representing an increase of 333.33% as compared to the same period of last year; overseas business realized revenue and other income of RMB268 million, representing an increase of 33.04% as compared to the same period of last year. In the first half of 2018, expenses paid by the Group amounted to RMB5.770 billion, representing an increase of 13.42% as compared to the same of last year.

In the first half of 2018, the Group realized net profits attributable to owners of the Company of RMB1.311 billion, representing a decrease of 37.93% as compared to the same period of last year; the Group realized earnings per share of RMB0.13, representing a decrease of 38.10% as compared to the same period of last year; and the weighted average return on net assets amounted to 2.01%, representing a decrease of 1.37 percentage points as compared to the same period of last year.

Asset structure and quality

As at 30 June 2018, total assets of the Group amounted to RMB263.173 billion, representing an increase of 3.28% as compared to the end of 2017. Monetary fund amounted to RMB58.855 billion, representing 22.36% of the total assets. Clearing settlement funds amounted to RMB14.242 billion, representing 5.41% of the total assets. Advances to customers amounted to RMB53.651 billion, representing 20.39% of the total assets. Financial assets at fair value through profit and loss amounted to RMB46.717 billion, representing 17.75% of the total assets. Financial assets purchased under resale agreements amounted to RMB43.829 billion, representing 16.65% of the total assets. Other debt investments amounted to RMB16.130 billion, representing 6.13% of the total assets. The Group's assets were highly liquid with reasonable structure, which maintained high asset quality.

As at 30 June 2018, total liabilities of the Group amounted to RMB198.250 billion. Excluding securities brokerage services, the Group's own liabilities amounted to RMB130.815 billion, of which the Group's own current liabilities and own long-term liabilities amounted to RMB74.029 billion and RMB56.786 billion, representing a share of 56.59% and 43.41%, respectively. The Group's own liabilities are mainly comprised of short-term financing payables of RMB15.374 billion, representing a share of 11.75%; financial assets sold under repurchase agreements of RMB22.197 billion, representing a share of 16.97%; and bond payables, including long-term subordinated bonds, long-term corporate bonds and long-term financing instrument, of RMB76.352 billion, representing a share of 58.37%. The gearing ratio of the Group was 66.83%, which represented a reasonable liabilities structure. The Group did not have any unpaid due debts and its business was in sound condition with good long-term and short-term solvency.

V. STRUCTURED ENTITIES CONTROLLED BY THE COMPANY

As at 30 June 2018, the Group consolidated 39 structured entities, including asset management schemes and partnerships. For asset management schemes with the Group as the manager and partnerships with the Group as a general partner or the investment manager, it identifies the controlling right over certain asset management schemes and certain partnerships and incorporates them into the consolidation after considering the investment decision-making right owned in them, the exposure to variable returns and other factors. As at 30 June 2018, the total assets of the above structured entities incorporated into the consolidation were RMB13.683 billion.

VI. MAJOR FINANCING CHANNELS, MEASURES ADOPTED FOR MAINTAINING LIQUIDITY LEVEL AND RELEVANT MANAGEMENT POLICIES, FINANCING CAPABILITY AND CONTINGENT LIABILITIES (IF ANY) AND THEIR EFFECTS ON THE FINANCIAL POSITION

The Company maintained a long-term and stable financial policy, focusing on liquidity management of assets and guaranteeing a smooth financing channel. Currently, the Company raised short-term funding primarily by means of inter-bank lending, issuance of short-term corporate bonds and financing instrument. Meanwhile, the Company may also finance long-term capital through issuance of long-term corporate bonds, long-term subordinated bonds and other ways approved by the competent authorities according to market environment and its own needs. At present, the Company has obtained consolidated credit line from several commercial banks and may employ the foregoing debt financing instruments in a comprehensive manner for raising funds according to its own business needs.

As at the End of the Reporting Period, line of credit granted to the Group amounted to approximately RMB326.368 billion; the cap of borrowing for national inter-bank lending business approved by the People's Bank of China amounted to RMB20 billion; cap for dealer-quoted bond repurchase transactions in interbank bond market amounted to RMB7.62 billion.

VII. ESTABLISHMENT AND DISPOSAL OF SECURITIES BRANCHES AND BRANCH OFFICES

As at the End of the Reporting Period, the Company had 36 branch offices and 472 securities branches.

1. Establishment of branch offices and securities branches

During the Reporting Period, the Company completed the establishment of a securities branch in Renmin East Road, Chenzhou and a securities branch in Jinye Road, Xi'an in accordance with the "Approval on the Establishment of 45 Branches by China Galaxy Securities Co., Ltd." (Jing Zheng Jian Xu Ke [2017] No. 53) issued by CSRC Beijing Bureau in 2017. The remaining 43 new securities branches were already established by the end of 2017 (Note: The completion date of establishment shall be the date on which the initial license was obtained).

2. Relocation of branch offices and securities branches

The Company has constantly adjusted and optimized the branch layout. During the Reporting Period, the Company relocated 17 branches within the same city, including 3 branch offices and 14 securities branches (Note: The completion date of relocation shall be the date on which the license for the new address was obtained).

(1) Relocation of branch offices

No.	Province/ autonomous region/ municipality	Branch offices	Existing addresses
1	Chongqing	Chongqing branch office	3/F, Block B, No. 108, Minzhu Road, Yuzhong District, Chongqing
2	Henan Province	Henan branch office	No. 76-16, Huanghe Road, Jinshui District, Zhengzhou
3	Tibet Autonomous Region	Tibet branch office	No. 32, 4/F, Block 2, Taihe International Culture Square, No. 7, Jinzhu Middle Road, Chengguan District, Lhasa

(2) Relocation of securities branches

No.	Province/ autonomous region/ municipality	Original names of securities branches	Existing name of securities branches	Existing addresses
1	Beijing	Beijing Guangqumen Street Securities Branch	Beijing Zhushikou Street Securities Branch	Room 110, 1/F, No. 2, Dongdajie, Zhushikou, Dongcheng District, Beijing
2	Shanghai	Shanghai Zhongyuan Road Securities Branch	Shanghai Shijie Road Securities Branch	No. 95-1 Lin, Shijie Road, Yangpu District, Shanghai
3	Chongqing	Chongqing Shanan Street Securities Branch	Chongqing Hanyu Road Securities Branch	No. 18-40, Hanyu Road, Shapingba District, Chongqing
4	Guangdong Province	Foshan Nanhai Guiping West Road Securities Branch	Foshan Nanhai Guilan North Road Securities Branch	Street Shop 106, Block 1, Yineng International Plaza, No. 2, Guilan North Road, Guicheng Avenue, Nanhai District, Foshan
5	Jiangsu Province	Zhenjiang Huangshan South Road Securities Branch	Zhenjiang Zhengdong Road Securities Branch	4/F, Block 4, No.39, Zhengdong Road, Zhenjiang
6	Shandong Province	Jinan Jingqi Road Securities Branch	Jinan Luoyuan Street Securities Branch	Room 05 & 06, 13/F, No. 102, Luoyuan Street, Lixia District, Jinan (Place of business: Unit L112-2, No. 106, Luoyuan Street)
7	Shandong Province	Liaocheng Dongchang West Road Securities Branch	Liaocheng Dongchang West Road Securities Branch	No. 111, Dongchang West Road, Dongchangfu District, Liaocheng, Shandong Province
8	Hubei Province	Wuhan Hanyang Avenue Securities Branch	Wuhan Longyang Avenue Securities Branch	13/F, Tower 9 (Time Centre), Blocks 9, 10, 11, Lot B, Hanyang Ren Xin Hui, No. 56, Longyang Avenue, Hanyang District, Wuhan
9	Hubei Province	Zaoyang Xiangyang Road Securities Branch	Zaoyang Securities Branch	2/F, Yulongju Office Building, Middle Section of Renmin Road, Zaoyang
10	Hunan Province	Loudi Yuetang Street Securities Branch	Loudi Leping Avenue Securities Branch	8 & 9/F, No. 266, Leping Avenue East, Louxing District, Loudi, Hunan Province
11	Henan Province	Zhengzhou Nanyang Road Securities Branch	Zhengzhou Nanyang Road Securities Branch	Heli Building, No. 76-16, Huanghe Road, Jinshui District, Zhengzhou
12	Henan Province	Luoyang Jinguyuan Road Securities Branch	Luoyang Taikang Road Securities Branch	105, Block 3, Yuanhua International Urban Apartment, No. 30, Taikang Road, Luolong District, Luoyang City, Henan Province
13	Jiangxi Province	Nanchang Yanjiang Middle Road Securities Branch	Nanchang Honggutan New Area Securities Branch	Room 101-104, 201-204, 301-304, 1# Commercial and Residential Building, Shimao Skyscrapers, No. 1850, Honggu Middle Avenue, Honggutan New Area, Nanchang, Jiangxi Province
14	Tibet Autonomous Region	Lhasa Chaoyang Road Securities Branch	Lhasa Jinzhu Middle Road Securities Branch	No. 32, 4/F, Block 2, Taihe International Culture Square, No. 7, Jinzhu Middle Road, Chengguan District, Lhasa

VIII. BOND FINANCING OF THE COMPANY

During the Reporting Period, details of the Company's newly issued bonds are set out as follows. Such bonds are listed on the SSE.

Unit: RMB100 million

Name	Issue size	Use of funds	Value date	Maturity	Period	Interest rate
Non-public issuance of 2018 Corporate Bonds (First Trance) (Type one)	35.00	Replenish of working capital of the Company	2018/1/17	2020/1/17	730 days	5.55%
Non-public issuance of 2018 Corporate Bonds (First Trance) (Type two)	15.00	Replenish of working capital of the Company	2018/1/17	2021/1/17	1,096 days	5.65%
Non-public issuance of 2018 Corporate Bonds (Second Trance) (Type one)	12.00	Replenish of working capital of the Company	2018/2/12	2020/2/12	730 days	5.60%
Non-public issuance of 2018 Corporate Bonds (Second Trance) (Type two)	10.00	Replenish of working capital of the Company	2018/2/12	2021/2/12	1,096 days	5.70%
Public issuance of 2018 Corporate Bonds (First Trance)	25.00	Replenish of working capital of the Company	2018/3/14	2021/3/14	1,096 days	5.15%
Non-public issuance of 2018 Subordinated Bonds (First Trance) (Type one)	8.00	Replenish of working capital of the Company or repayment of the Company's interest-bearing debts	2018/4/19	2020/4/19	731 days	5.20%
Non-public issuance of 2018 Subordinated Bonds (First Trance) (Type two)	32.00	Replenish of working capital of the Company or repayment of the Company's interest-bearing debts	2018/4/19	2021/4/19	1,096 days	5.30%
Non-public issuance of 2018 Subordinated Bonds (Second Trance) (Type one)	55.00	Replenish of working capital of the Company or repayment of the Company's interest-bearing debts	2018/5/24	2020/5/24	731 days	5.38%

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

On 18 January 2018, Galaxy International Holdings and CIMB Group Sdn Bhd ("CIMB Group") completed the acquisition of 50% equity interests of CIMB Securities International Pte. Ltd., and the name of the joint venture changed to CGS-CIMB Securities International Pte. Ltd. Galaxy International Holdings paid SG$150,268,429, representing 90% of the original consideration of SG$166,964,921 under the sale and purchased agreement; while the balance consideration of SG$16,696,492 shall be payable upon completion of the deferred reorganisation steps as agreed or the purchaser shall be entitled to set-off against such sum for any claims under the terms of the sale and purchased agreement if these deferred reorganisation steps are not fulfilled by 17 January 2020 (or by such date as the parties may agree); the consideration will be subject to completion audit adjustments as agreed between the parties and in accordance with the sale and purchased agreement.

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

X. ANALYSIS ON MAJOR CONTROLLED COMPANIES AND INVESTEES

1. Galaxy Futures has a registered capital of RMB1.2 billion, in which the Company holds an equity interest of 83.32%. Its major business scope is to act as agent for the transactions of all domestic futures varieties, to provide investment consultancy and assets management and other services. According to the China Accounting Standards for Business Enterprises and as at the End of the Reporting Period, the total assets and net assets of Galaxy Futures were RMB18.724 billion and RMB1.987 billion, respectively. During the Reporting Period, it achieved an operating income and a net profit of RMB400 million and RMB132 million, respectively.

2. Galaxy Capital has a registered capital of RMB1.0 billion, in which the Company holds an equity interest of 100%. Its major business scope is to utilize proceeds from fund raising activities for project investment and investment management. According to the China Accounting Standards for Business Enterprises and as at the End of the Reporting Period, the total assets and net assets of Galaxy Capital were RMB1.494 billion and RMB1.113 billion, respectively. During the Reporting Period, it achieved an operating income and a net profit of RMB20 million and RMB2 million, respectively.

3. Galaxy International Holdings has a registered capital of HK$3.261 billion, in which the Company holds an equity interest of 100%. Its major business scope is to provide securities and futures broker, investment banking research, asset management, wealth management and loan services in regions and countries including Hong Kong, Singapore, Indonesia and Thailand through a number of wholly owned subsidiaries and joint ventures. According to the China Accounting Standards for Business Enterprises and as at the End of the Reporting Period, the total assets and net assets of Galaxy International Holdings were equivalent to RMB9.598 billion and RMB3.226 billion, respectively. During the Reporting Period, it achieved an operating income and a net profit of RMB184 million and RMB66 million, respectively.

4. Galaxy Jinhui has a registered capital of RMB1.0 billion, in which the Company holds an equity interest of 100%. Its major business scope is securities assets management. According to the China Accounting Standards for Business Enterprises and as at the End of the Reporting Period, the total assets and net assets of Galaxy Jinhui were RMB2.300 billion and RMB1.258 billion, respectively. During the Reporting Period, it achieved an operating income and a net profit of RMB404 million and RMB48 million, respectively.

5. Galaxy Yuanhui has a registered capital of RMB1.5 billion, in which the Company holds an equity interest of 100%. Its major business scope is proprietary investment business (including equity investment or bond investment), or to invest in other investment funds related to equity investment and bond investment. According to the China Accounting Standards for Business Enterprises and as at the End of the Reporting Period, the total assets and net assets of Galaxy Yuanhui were RMB1.595 billion and RMB1.566 billion, respectively. During the Reporting Period, it achieved an operating income and a net profit of RMB52 million and RMB28 million, respectively.

XI. NUMBER OF EMPLOYEES, REMUNERATION AND TRAINING PLAN

As at the End of the Reporting Period, the Group had 9,774 employees (including sales account managers), of which 8,688 were employees of the Company (including sales account managers).

In terms of remuneration and incentive measures, Company has progressively improved a competitive remuneration mechanism covering all employees. The remuneration of employees of the Company comprises basic remuneration, allowances, performance-based bonus and welfare benefits. The basic remuneration is a relatively fixed part in the composition of remuneration. The allowances include allowances for management positions and for professional and technical personnel, which are supplemental to the basic remuneration. The performance-based bonus will be distributed based on the results of performance assessment. The Company has provided social insurance, housing provident fund and other statutory benefits to its employees according to the relevant requirements of the PRC. Meanwhile, the Company has also provided welfare benefits, such as annuity fund and supplementary medical insurance, to its employees.

In terms of trainings for employees, the Company has adhered to the management model that combines project management with quota management, and the mechanism that administrates different business lines separately. The Company has reasonably distributed training resources, enhanced training efficiency, and put more efforts on training so as to achieve the objective of the overall appreciation of human capital. The Company actively organized different types of trainings to employees of all business lines and at all levels, and strengthened overall qualities, professional level, and execution and innovation abilities of professional staff of all business lines.

XII. RISK MANAGEMENT

Since its establishment, the Company has been committed to promote the philosophy that risk management creates value. It gradually promoted comprehensive risk management through identification, evaluation, monitoring, analysis and response to various kinds of risks, thus solidifying the foundation for the Company's sustainable, steady and healthy development. In the first half of 2018, the Company adopted effective measures and actively responded to risks so as to comprehensively prevent the occurrence of significant risks and ensure the smooth commencement of operating activities.

(I) Major risks affecting the operation of the Company

The operating activities of the Company expose to risks mainly including market risk, credit risk, liquidity risk, operational risk, etc.

(1) Market risk

Market risk is originated from the fluctuation of the fair value or future cash flows in respect of financial instruments held by the Company resulting from the changes in securities price, interest rate and currency rate, including securities price risk, interest rate risk and currency rate risk.

① Securities price risk is the risk that the Company may suffer losses as a result of the fluctuation of the fair value of future cash flows of financial instruments due to the changes in securities prices (other than changes resulting from interest rate risk or currency risk).

Securities price risk mainly relates to the Company's proprietary investment and market making businesses. In order to control securities price risks, the Company mainly adopts the following measures: firstly, constructing securities portfolios and using financial derivatives for effective risk hedging; secondly, implementing unified management of risk exposure, identifying and dealing with risks in time through risk monitoring, assessment and reporting; thirdly, carrying out risk quota management to control exposure scale, concentration ratio and loss quota, and making adjustment timely based on the development of market and businesses and risk tolerance of the Company; fourthly, using quantitative methods such as the VaR of the proprietary investment portfolio and combining with other methods such as sensitivity analysis and stress testing to assess the relative and absolute risk of portfolios.

During the Reporting Period, the A share market fluctuated and went downwards, and the Company's equity investment business was materially and adversely affected, turning into loss from profit as at the beginning of the year. Given the loss on equity investments, the Company conducted a series of measures to stop and reduce loss, mainly including suspending investment in additional shares issued to targeted investors and incorporating additional negotiable shares issued into strategy management, improving position structure and hedging risks. As at the End of the Reporting Period, VaR of the Company was approximately RMB173 million, meeting the Company's risk appetite.

② Interest rate risk refers to the risks resulting from the change in interest rate. The assets of the Company exposed to interest rate risks mainly include bank deposits, clearing settlement fund, refundable deposits and debt equities, etc. The Company used sensitivity analysis as the main instrument for monitoring interest rate risks. Meanwhile, the Company reduced the interest rate risks of portfolios by allocating the duration and convexity of its investment portfolios of fixed income. During the Reporting Period, the overall risk of the Company was within an acceptable range.

③ Currency rate risk is originated from the fluctuation of the fair value or future cash flows of financial instruments resulting from the change of currency rates of other countries. Given that the Company settles most of its transactions in RMB and the proportion of foreign currency assets, liabilities and proceeds of the Company in its total assets, liabilities and proceeds is small, the currency risk actually encountered by the Company is not significant. Nevertheless, with the gradual expansion of overseas businesses as well as the progress in the internationalization of RMB, the currency risks of the Company will appear gradually. The Company will conduct further studies and adopt reasonable and effective measures to mitigate any impact of currency risks.

(2) Credit risk

Credit risk refers to the potential possibility of incurring losses resulting from the failure of the borrower or counterparty to timely fulfill its contractual obligations, and it also includes the possibility of incurring losses due to changes in the market value of the debts of the borrower or counterparty resulting from the changes in the credit rating and performance capability of such borrower or counterparty. The Company managed credit risk mainly by evaluating credit risk in advance and following up and monitoring credit risk afterward, and gradually promoting the establishment and application of tools such as internal credit rating and risk management system for financing businesses. On one hand, the Company established the guidance for risk management of financing businesses to determine the standards for evaluating the admission of counterparty and business transaction factors to prepare for risk evaluation in advance; on the other hand, the Company closely monitored the risk movement of collateral, controlled concentration risk and conducted stress tests. In addition, the Company continuously traced its clients' financial conditions, operation standard and other significant events that would affect their credit within the duration of business, and identified, reported and dealt with credit risk in time.

As at the End of the Reporting Period, 62.07% of the credit bonds held by the Company had a credit rating of AAA, 37.93% had a credit rating of AAA-, AA+, AA and no bond was rated AA or below. There was no default from counterparties. During the Reporting Period, there were 923 cases of compulsory close position operation in the margin financing and securities lending business with the size reaching RMB689 million, all of which were operated in accordance with the standardized procedures stipulated in business rules and contracts. After compulsory close position operation, a total amount of RMB156 million due from customers was recorded. For the dealer-quoted securities repurchase transactions, an amount of RMB110,000 due from customers was recorded after compulsory close position operation. There was no actual loss incurred by securities-based lending transactions. The overall credit risk of the Company was under control.

(3) Operational risk

Operational risk refers to the risk of incurring losses resulting from the inadequacy or defect of internal operating procedures, personnel or systems, or from such external events. In order to manage operational risk effectively, the Company established a well-developed internal control system, regularly carried out effective assessment of internal control and compliance management throughout the Company. The operational risk management team specially set up by the risk management department was in charge of designing, maintaining and constantly developing the management structure of operational risk and monitoring, measuring and reporting the operational risks faced by the Company, and effectively identifying and managing the operational risks by operating the risk management tools, policy-making and construction of IT system, training and assessment to maintain the operational risks at a proper level so as to provide a healthy internal operational environment for business development.

During the Reporting Period, the overall operational risk of the Company was under control.

(4) Liquidity risk

Liquidity risk refers to the risk resulting from inability to timely obtain sufficient funds at rational costs to repay debts due, fulfill other payment obligations and satisfy the demands for capital in the ordinary course of business.

As for liquidity risk, the Company formulated the risk evaluation and measurement methods based on the "Guidance for Securities Companies on Liquidity Risk Management", including but not limited to analysis on the mismatch of maturity of assets and liabilities, source and diversification of financing, liquidity assets with good quality and market liquidity, forecast of static and dynamic cash flow and cash flow gap, monitoring of internal and external liquidity indicators, and carrying out stress test for liquidity.

To cope with and manage liquidity risk effectively, the Company strengthened the real-time monitoring and management of usage of large amounts of funds in order to achieve centralized fund allocation and unified liquidity risk management, adjusted and configured the scale and maturity structure of assets and liabilities to build up a multi-level liquidity reserve system, constructed an integrated fund and liquidity risk management system and achieved the target of our liquidity portfolio through accessing the money market, capital market and bank credit. Meanwhile, the Company continued to improve internal funding valuation pattern, and increase fund utilization rate, so as to support the healthy and stable development of the business on the basis of balancing the safety, liquidity and profitability.

During the Reporting Period, the overall liquidity risk of the Company was under control and all liquidity indicators were satisfactory.

(II) Actions and measures taken or proposed to be taken by the Company

The Company always attached great importance to risk management, continuously deepen the establishment of the comprehensive risk management system, strengthened the risk management methods and tools, speeded up the construction of the information system for risk management, carried out risk management throughout the whole process, and actively promoted the combined financial statements management system to support and ensure the reform and transformation and business development of the Company.

(1) Deepening the establishment of the comprehensive risk management system

With a "top-down approach", the Board and the management of the Company attached great importance to risk management. In view of external regulatory requirements and internal management needs, the Company organized and deepened various risk management work, continued to improve risk management environment, strengthened and improved risk management. The Company achieved preliminary result in the establishment of a comprehensive risk management system. By setting clear risk management strategy, formulating/amending risk appetite and risk management rules at all levels, strengthening the management of authority and risk limit, enhancing the building of a risk control and reporting system, implementing risk management culture promotion and training, the Company incorporated risk management throughout its full business process, which has played an increasingly important role in its day-to-day operation and management.

(2) Strengthening the risk management methods and tools

By enhancing the risk management methods and tools, the Company fully identified the risks in a timely manner, prudentially evaluated all kinds of risks, constantly monitored risks, actively responded to various risks, and timely and comprehensively reported risks. The Company continuously enhanced risk evaluation and measurement methods, developed and applied a series of risk management methods and tools, to evaluate and report risks in a quantitative method: enhancing such market risk evaluation techniques such as sensitivity analysis, scenario analysis, VaR, and pressure tests, etc.; carrying out credit risk evaluation method including internal credit rating; gradually establishing basic tools for operational risks such as loss database, key risk indicators, risk control and self-evaluation; adopting liquidity risk evaluation measures such as financing capability analysis, asset realization analysis, dynamic and static cash flow forecasts, and stress tests; and exploring and considering risk-correlated overall risk summary techniques.

(3) Speeding up the construction of the information system for risk management

Based on the principle of "fast effect in the short term and expandable in the long term", the Company constructed the risk management system cluster with uniform structure, clear layers and well-developed functions to vigorously support the implementation of comprehensive risk management system. The idea of "integrated design, use in advance in case of urgent demands, planning the implementation as a whole and crushing one by one" was adopted for the integrated construction, and the data integration and governance were used as basis and the demands for risk management were used as a guide to design the overall structure of the risk management system and to cooperate in synchronization in completing the transformation of relevant production system and supporting system. As at the End of the Reporting Period, the Company had completed the establishment and operation of the market risk measuring system, internal credit rating system and operational risk management system (phase 1) and financing risk monitoring system has started trial operation. Liquidity risk management system has started trial operation after completing the development of all functions. The construction of statement consolidation management system (phase 1) has completed the development of core function and passed the inspection results by phases. All kinds of risk management system have been stably advanced.

(4) Adopting a risk management throughout the whole process

The Company adopted risk management throughout its whole business process, including risk assessment, risk control procedure design, risk control indicator design and indicator setting, risk management supporting system design and related construction of risk monitoring information system before conducting business, pre-assessment and review, risk measurement, independent control and risk reporting in conducting business, and post-risk assessment and risk handling so that risk management effectively covers the whole business process.

(5) Actively promoting the combined financial statements management system

Starting with statement consolidation management, the Company vigorously promoted the overall risk management of the Group. The Company has established a designated working group to vigorously promote statement consolidation management in terms of management mechanism, rules and workflow, personnel allocation and system building. The Company's risk management, planning and finance, and information technology departments collaborated with its branches and, starting with statement consolidation management, established a statement consolidation data and information communication mechanism between the Company and its subsidiaries, completed the consolidated statements for each quarter, and vigorously promoted the development of a statement consolidation management system. The comprehensive vertical risk management for the Company and its subsidiaries has been further implemented.

(III) RISK CONTROL INDICATORS OF NET CAPITAL AND LIQUIDITY RISK MANAGEMENT

The Company has a sound organizational system for risk control indicator management. Management and monitoring of risk control indicators, stress test, internal audit review and other related work are carried out by designated staff of related departments. In 2018, the Company has conducted dynamic monitoring of routine net capital and liquidity risk control indicators using the risk control indicator dynamic monitoring system. The operation of the system is more stable with more prompt and accurate information assess and realizes real-time and dynamic monitoring and pre-warning of the Company's net capital and liquidity risk control indicators. In order to prevent any shock and impact on risk control indicators at the end of the period due to various factors such as maturity of large debts, effective measures have been promptly taken, such as short-term borrowings and issuance of long-term bonds through earlier calculation and predicting net capital and liquidity risk control indicators at the end of the period, so as to prevent the possible risk of exceeding the limit of risk control indicators. The dynamic monitoring in the first half of 2018 showed that all of the Company's net capital and liquidity risk control indicators continued to conform to regulatory provisions. Based on the market and business development needs, we carried out stress test mechanism and sensitivity analysis on both regular and ad hoc basis to analyze the conditions which may appear in the future and their impact on the net capital and liquidity risk control indicator of the Company, and formulated the relevant response measures to ensure that all risk control indicators reached the target levels.

In 2018, the Company initiated the development and planning of future strategies and defined the strategic target of "building a carrier securities broker and a modern investment bank" by strengthening the management of liabilities and assets as well as the match management of assets and liabilities, so as to ensure the safety of the Company's liquidity, the reasonable pricing of assets and optimization of asset allocation for striving to enhance the Company's management level of assets and liabilities. The Company established a dynamic top-up mechanism and made long-term top-up plans for net capital. The Company raised short-term capital to increase its liquidity coverage rate by way of issuing income certificates and the transfer of income right of margin financing and securities lending business, etc. It replenished the long-term available stable fund to increase the net stable fund rate through the issuance of long-term corporate bonds and subordinated bonds. The Company adhered to prudent financial principles so as to ensure a dynamic balance between the business development and risk resistance capability of the Company. The Company made proper capital allocation and debt financing arrangements. When the capital adequacy target continued to fall or there were potentially significant adverse factors, the Company could start the financing programme at an appropriate time based on the market conditions to guarantee the capital adequacy. From April to May 2018, the Company issued long-term subordinated bonds of a total of RMB9.5 billion for replenishing net supplement capital and enhancing its net capital strength.

During the Reporting Period, the Company's relevant risk control indicators, including its net capital, have continuously complied with relevant regulatory requirements. As at the End of the Reporting Period, the major risk control indicators of the Company are as follows:

Item	**30 June 2018**	31 December 2017
Net capital (RMB)	**55,599,973,880.13**	50,746,807,591.89
Net assets (RMB)	**62,934,185,206.50**	63,195,254,061.45
Risk Coverage Rate (%)	**269.97**	242.39
Net Capital/Net Assets (%)	**88.35**	80.30
Net Capital/Liabilities (%)	**45.68**	43.74
Net Assets/Liabilities (%)	**51.71**	54.46
Proprietary Equity Securities and Securities Derivatives Held/Net Capital (%)	**27.47**	32.94
Proprietary Non-Equity Securities and Securities Derivatives Held/Net Capital (%)	**104.12**	96.53
Capital Leverage (%)	**28.19**	29.38
Liquidity Coverage (%)	**241.05**	171.61
Net Stable Funding Ratio (%)	**133.19**	124.93

XIII. CONNECTED TRANSACTIONS

The Group conducts connected transactions in strict accordance with the Stock Exchange Listing Rules, the "Administrative System for the Disclosure of Corporate Information" and the "Administrative Measures for Connected Transactions" of the Company. The Group's connected transactions are conducted based on the principles of justice, openness and fairness, and the connected transaction agreements are entered into based on the principles of equality, voluntariness, equivalence and compensation. During the Reporting Period, the Group conducted the following non-exempt connected transactions in accordance with the Stock Exchange Listing Rules:

(i) Securities and Financial Services Framework agreement entered into between the Company and Galaxy Financial Holdings

On 2 May 2013, the Company entered into the Securities and Financial Services Framework Agreement with Galaxy Financial Holdings, pursuant to which, the Company shall provide securities and financial services based on normal commercial terms to Galaxy Financial Holdings and its subsidiaries ("Galaxy Financial Holdings Group"), including (1) securities brokerage services, (2) sales agency services, (3) leasing of exchange trading units and (4) other related securities and financial services. The Group shall receive service charges and commissions from Galaxy Financial Holdings Group for the provision of such services and shall pay interest to Galaxy Financial Holdings Group in respect of its funds entrusted to the Group in connection with such services. The service charges and commissions receivable and interest payable by the Group shall be determined based on negotiation between the parties with reference to the prevailing market rates and shall be in compliance with the applicable laws and regulations. The framework agreement came into force on the listing date of H Shares (being 22 May 2013) for a term of three years. On 29 December 2015, the Company and Galaxy Financial Holdings entered into the Supplemental Agreement to the Securities and Financial Services Framework Agreement, whereby the term of the framework agreement was renewed to 31 December 2018. Galaxy Financial Holdings is the controlling shareholder and therefore a connected person of the Company. As such, the above transactions constitute continuing connected transactions of the Company under the Stock Exchange Listing Rules.

For the three years ending 31 December 2018, the annual caps of the service charges and commissions payable by Galaxy Financial Holdings Group to the Group for the provision of securities and financial services under the framework agreement (as renewed by the supplemental agreement) will be RMB530 million, RMB580 million and RMB640 million, respectively, and the annual caps of the interest payable by the Group to Galaxy Financial Holdings Group for the entrusted funds will be RMB40 million, RMB60 million and RMB80 million, respectively. As the applicable percentage ratios under the Stock Exchange Listing Rules in respect of the annual caps are more than 0.1% but less than 5%, the transactions are subject to the reporting, announcement and annual review requirements, but are exempt from the independent shareholders' approval requirement under the Stock Exchange Listing Rules.

During the Reporting Period, the income received and expenses paid by the Group in respect of the securities and financial services provided to Galaxy Financial Holdings Group are as follows:

Unit: RMB million

	From January to June 2018	**Annual cap for 2018**
Income (inclusive of tax)		
Securities brokerage services	6.11	
Sales agency services	23.43	
Leasing of exchange trading units	10.96	
Other related securities and financial services	2.39	
Total	**42.89**	640
Expenses		
Interest expenses	0.58	
Total	**0.58**	80

(ii) Securities and Financial Products Transactions Framework Agreement between the Company and Galaxy Financial Holdings

On 6 June 2017, the Company entered into the Securities and Financial Products Transactions Framework Agreement with Galaxy Financial Holdings, pursuant to which, the Group will conduct securities and financial products transactions with Galaxy Financial Holdings Group on normal commercial terms in its ordinary course of business, which mainly include: securities products with fixed income features, fixed income related derivative products, equity related products, financing transactions, and other related securities and financial products transactions permitted by the regulatory authorities. The securities and financial products transactions, whether conducted in the PRC interbank bond market, the PRC exchange market or the open-ended fund market, shall be conducted on normal commercial terms at the prevailing market prices or market rates of similar transactions with independent third parties. The framework agreement became effective on 12 July 2017 upon obtaining the approvals from the independent Shareholders of the Company and the shareholders of Galaxy Financial Holdings (i.e. Huijin and the Ministry of Finance of the PRC), and will expire on 31 December 2019. The above transactions constitute continuing connected transactions of the Company under the Stock Exchange Listing Rules.

For the three years ending 31 December 2019, the annual cap of the total cash inflow of the Group generated from the securities and financial products transactions (excluding financing transactions) under the framework agreement is RMB63,000 million, RMB75,000 million and RMB87,000 million, respectively; the annual cap of the total cash outflow of the Group generated from the securities and financial products transactions (excluding financing transactions) under the framework agreement is RMB57,000 million, RMB70,000 million and RMB79,000 million, respectively. For each of the three years ending 31 December 2019, the maximum daily balance (including the accrued interest) of the financing provided by Galaxy Financial Holdings Group to the Group through collateralized securities repurchase transactions under the framework agreement is RMB10,500 million.

During the Reporting Period, the securities and financial products transactions between the Group and Galaxy Financial Holdings Group are shown as follows:

Unit: RMB million

Item	From January to June 2018	Annual cap for 2018
Total cash inflow of the Group from Galaxy Financial Holdings Group	2,184	75,000
Total cash outflow of the Group to Galaxy Financial Holdings Group	3,017	70,000
Maximum daily balance (including interest payables) of the financing provided by Galaxy Financial Holdings Group to the Group through collateralized securities repurchase transactions	–	10,500

(iii) Leasing of properties between the Group and Galaxy Investment

As the Ministry of Finance of the PRC made a capital injection to Galaxy Financial Holdings with its 100% equity interest in Galaxy Investment, Galaxy Investment became a wholly-owned subsidiary of Galaxy Financial Holdings in February 2018. Following the completion of the capital injection, Galaxy Investment became an associate of Galaxy Financial Holdings and therefore a connected person of the Company. Before Galaxy Investment became a connected person of the Company, the Group entered into seven lease contracts with Galaxy Investment, pursuant to which the Group (as lessee) rented several properties and parking spaces from Galaxy Investment (as lessor). After Galaxy Investment became a connected person of the Company, such continuing transactions constitute continuing connected transactions of the Company under the Stock Exchange Listing Rules. During the Reporting Period, the rent paid by the Group to Galaxy Investment amounted to RMB64,272,135.57.

XIV. PERFORMANCE OF CONTRACTS OF SIGNIFICANCE

1. Leases

During the Reporting Period, the Group and Galaxy Investment entered into a property lease contract, under which the rent for the period from January to June 2018 was RMB64,272,135.57. The Group and TravelSky Technology Limited entered into a co-operation agreement (plant lease), under which the rent for the period from January to June 2018 was RMB9,554,790.14. The Group and China United Network Communications Corporation Limited entered into a property lease contract, under which the rent for the period from January to June 2018 was RMB5,561,697.42. The abovementioned contract amounts shall be paid quarterly or monthly. Save for the above, during the Reporting Period, the Company had not engaged in any material lease (over RMB10 million) and no such matters were carried forward to the Reporting Period from the previous period.

2. Guarantees

Unit: RMB

External guarantees provided by the Company (excluding guarantees for its subsidiaries)	
Total amount of guarantee during the Reporting Period (excluding guarantees for its subsidiaries)	–
Total balance of guarantee as at the End of the Reporting Period (A) (excluding guarantees for its subsidiaries)	–
Guarantees provided by the Company for its subsidiaries	
Total amount of guarantees provided for its subsidiaries during the Reporting Period	3,000,000,000.00
Total balance of guarantees provided for its subsidiaries as at the End of the Reporting Period (B)	3,000,000,000.00
Total amount of guarantees provided by the Company (including those provided for its subsidiaries)	
Total amount of guarantees (A+B)	3,000,000,000.00
Total amount of guarantees as a percentage of the Company's net assets (%)	4.62
Of which:	
Amount of guarantees provided for shareholders, de facto controllers and related parties (C)	–
Amount of debt guarantees provided directly or indirectly for companies with gearing ratio of over 70% (D)	–
Total amount of guarantees in excess of 50% of net assets (E)	–
Sum of the above three guarantees (C+D+E)	–
Description of outstanding guarantees which may incur several and joint liability	
Notes on guarantees	

Note: On 30 March 2017, the "Proposal on the Review of Galaxy Jinhui's Application to Galaxy Securities for an Increase of Net Capital Guarantee" was passed at the 23rd meeting of the third session of the Board, approving the provison of a net capital guarantee of RMB3 billion to Galaxy Jinhui so as to meet the needs of its business development. Such proposal was considered and passed at the general meeting. As of 30 June 2018, the guarantee has not been performed.

3. Other material contracts

As at the End of the Reporting Period, the Company entered into a software purchase contract of RMB24.20 million with Beijing Com & Lan System Tech. Corp., Ltd. (北京昆侖聯通科技發展股份有限公司) and a data center service contract of RMB10.2933 million with SSE Technology Co., Ltd. (上交所技術有限責任公司). Save for the above, during the Reporting Period, the Company had not engaged in any material purchases (with an amount of over RMB10 million) and no such matters were carried forward to the Reporting Period from the previous period.

CHANGE IN ORDINARY SHARES AND OTHER SITUATION

I. CHANGE IN SHARE CAPITAL

During the Reporting Period, the total number of shares and share capital structure of the Company had no changes.

II. CHANGE IN MORATORIUM SHARES

Unit: Share(s)

Name of shareholder	Number of moratorium shares as at the beginning of the Reporting Period	Number of moratorium shares released during the Reporting Period	Increase in moratorium shares during the Reporting Period	Number of moratorium shares as at the End of the Reporting Period	Reason for moratorium	Date of release from moratorium
China Galaxy Financial Holdings Limited	5,160,610,864	0	0	5,160,610,864	Moratorium of IPO for A Shares	23 January 2020
PICC Property and Causality Company Limited	114,381,147	114,381,147	0	0	Moratorium of IPO for A Shares	23 January 2018
China Resources Co., Ltd.	38,379,809	38,379,809	0	0	Moratorium of IPO for A Shares	23 January 2018
Zhongshan Zhonghui Investment Group Company Limited	19,241,213	19,241,213	0	0	Moratorium of IPO for A Shares	23 January 2018
Shenzhen State-Owned Dutyfree Commodity (Group) Co., Ltd.	13,468,849	13,468,849	0	0	Moratorium of IPO for A Shares	23 January 2018
Dalian Port Corporation Limited	11,544,728	11,544,728	0	0	Moratorium of IPO for A Shares	23 January 2018
Jiaxing Highway Investment Co., Ltd.	11,497,828	11,497,828	0	0	Moratorium of IPO for A Shares	23 January 2018
Chuanhua Group Limited	9,620,607	9,620,607	0	0	Moratorium of IPO for A Shares	23 January 2018
Wuhan Research Institute of Posts and Telecommunications	9,620,607	9,620,607	0	0	Moratorium of IPO for A Shares	23 January 2018
China Taiping Insurance Group Limited	7,696,485	7,696,485	0	0	Moratorium of IPO for A Shares	23 January 2018

Name of shareholder	Number of moratorium shares as at the beginning of the Reporting Period	Number of moratorium shares released during the Reporting Period	Increase in moratorium shares during the Reporting Period	Number of moratorium shares as at the End of the Reporting Period	Reason for moratorium	Date of release from moratorium
Shanghai Western Enterprises (Group) Co., Ltd.	5,772,364	5,772,364	0	0	Moratorium of IPO for A Shares	23 January 2018
Han River Water Conservancy and Hydropower (Group) Co., Ltd.	5,772,364	5,772,364	0	0	Moratorium of IPO for A Shares	23 January 2018
China Space Sanjiang Group Corporation	5,772,364	5,772,364	0	0	Moratorium of IPO for A Shares	23 January 2018
Chongqing Jianfeng Industrial Group Co., Ltd.	2,457,825	2,457,825	0	0	Moratorium of IPO for A Shares	23 January 2018
Shougang Corporation	1,924,121	1,924,121	0	0	Moratorium of IPO for A Shares	23 January 2018
Chongqing Water Group Co., Ltd.	1,945,423	1,945,423	0	0	Moratorium of IPO for A Shares	23 January 2018
Shaanxi State Grid Corporation of China	1,202,576	1,202,576	0	0	Moratorium of IPO for A Shares	23 January 2018
Shanghai Rural Commercial Bank Co., Ltd.	110,000,000	110,000,000	0	0	Moratorium of IPO for A Shares	23 January 2018
Bank of Lanzhou Co., Ltd	90,514,398	90,514,398	0	0	Moratorium of IPO for A Shares	23 January 2018
Shanghai CIIC Electric Technology Co., Ltd.	60,000,000	60,000,000	0	0	Moratorium of IPO for A Shares	23 January 2018
Joincare Pharmaceutical Industry Group Co., Ltd	28,983,000	28,983,000	0	0	Moratorium of IPO for A Shares	23 January 2018
Wang Jianguo	12,080,000	12,080,000	0	0	Moratorium of IPO for A Shares	23 January 2018
Shanghai Yinrun Holding (Group) Co., Ltd.	11,250,000	11,250,000	0	0	Moratorium of IPO for A Shares	23 January 2018

Name of shareholder	Number of moratorium shares as at the beginning of the Reporting Period	Number of moratorium shares released during the Reporting Period	Increase in moratorium shares during the Reporting Period	Number of moratorium shares as at the End of the Reporting Period	Reason for moratorium	Date of release from moratorium
Shanghai Huashi Asset Management Co., Ltd.	10,000,000	10,000,000	0	0	Moratorium of IPO for A Shares	23 January 2018
Shenzhen Junsheng Cci Capital Ltd.	7,200,000	7,200,000	0	0	Moratorium of IPO for A Shares	23 January 2018
Yantai Changyu Pioneer Wine Company Limited	6,000,000	6,000,000	0	0	Moratorium of IPO for A Shares	23 January 2018
Wang Jiansheng	5,000,000	5,000,000	0	0	Moratorium of IPO for A Shares	23 January 2018
Anhui Haide Machine Manufacturing Co., Ltd.	4,375,000	4,375,000	0	0	Moratorium of IPO for A Shares	23 January 2018
Guo Wei	4,000,000	4,000,000	0	0	Moratorium of IPO for A Shares	23 January 2018
Lianhua E-Business Co., Ltd.	4,000,000	4,000,000	0	0	Moratorium of IPO for A Shares	23 January 2018
Qitian Holding Company Limited	3,530,000	3,530,000	0	0	Moratorium of IPO for A Shares	23 January 2018
Chongqing Rural Commercial Bank Co., Ltd.	2,222,560	2,222,560	0	0	Moratorium of IPO for A Shares	23 January 2018
Anhui Garments Import & Export Co., Ltd.	2,120,125	2,120,125	0	0	Moratorium of IPO for A Shares	23 January 2018
Lianyungang AEON Glass Co., Ltd.	2,000,000	2,000,000	0	0	Moratorium of IPO for A Shares	23 January 2018
Zaoyang Kainang Trading Co., Ltd (棗陽市凱能經貿有限公司)	1,363,600	1,363,600	0	0	Moratorium of IPO for A Shares	23 January 2018
China National Building Material Company Limited	1,000,000	1,000,000	0	0	Moratorium of IPO for A Shares	23 January 2018

Name of shareholder	Number of moratorium shares as at the beginning of the Reporting Period	Number of moratorium shares released during the Reporting Period	Increase in moratorium shares during the Reporting Period	Number of moratorium shares as at the End of the Reporting Period	Reason for moratorium	Date of release from moratorium
Shanghai Kaiyi Investment Co., Ltd. (上海凱壹投資有限公司)	1,000,000	1,000,000	0	0	Moratorium of IPO for A Shares	23 January 2018
Account No. 1 of National Council for Social Security Fund	58,726,267	1,593,891	0	57,132,376	Moratorium of IPO for A Shares	23 January 2020
Total	5,846,274,124	628,530,884	0	5,217,743,240	/	/

Note: The Company was listed on the SSE on 23 January 2017. According to the Approval of the Ministry of Finance Regarding the "Transfer Proposal of State-owned Shares of China Galaxy Securities Co., Ltd." (Cai Jin Han [2016] No. 181), the state-owned shareholders, including Galaxy Financial Holdings and China Resources Co., Ltd., transferred 58,726,267 shares to the social security fund pursuant to relevant requirements. Among them, 1,593,891 shares were released on 23 January 2018, and the remaining 57,132,376 shares will be released on 23 January 2020.

III. SHAREHOLDERS

(i) Total number of shareholders:

Number of ordinary shareholders as at the End of the Reporting Period	110,181 holders in total of which: 109,426 holders of A Shares; 755 holders of H Shares
Preference shareholders with voting rights restored as at the End of the Reporting Period	0

(ii) Shareholdings of the top 10 shareholders and top 10 holders of circulating shares (or shareholders not subject to trading restriction) as at the End of the Reporting Period

Unit: Share(s)

Shareholdings of the top 10 shareholders

Name of Shareholders (Full name)	Increase or decrease during Reporting Period	Number of Shares held as at the End of Reporting Period	Percentage (%)	Number of Shares subject to trading moratorium held	Pledged or frozen		Nature of Shareholders
					Status of shares	Number of shares held	
China Galaxy Financial Holdings Limited	0	5,160,610,864	50.91	5,160,610,864	Nil	0	State-owned legal person
HKSCC Nominees Limited	-123,000	3,688,358,616	36.38	0	Nil	0	Overseas legal person
PICC Property and Causality Company Limited	0	114,381,147	1.13	0	Nil	0	State-owned legal person
Bank of Lanzhou Co., Ltd	0	90,514,398	0.89	0	Nil	0	Domestic non-state-owned legalperson
China Securities Finance Corporation Limited	+55,760,370	84,078,210	0.83	0	Nil	0	State-owned legal person
Shanghai Rural Commercial Bank Co., Ltd.	-30,971,842	79,028,158	0.78	0	Nil	0	Domestic non-state-owned legal person
Account No. 1 of National Council for Social Security Fund	0	58,726,267	0.58	57,132,376	Nil	0	State-owned legal person
China Resources Co., Ltd.	0	38,379,809	0.38	0	Nil	0	State-owned legal person
Joincare Pharmaceutical Industry Group Co., Ltd	0	28,983,000	0.29	0	Nil	0	Domestic non-state-owned legal person
Zhongshan Zhonghui Investment Group Company Limited	0	19,241,213	0.19	0	Nil	0	State-owned legal person

Note: HKSCC Nominees Limited held the H shares on behalf of a number of customers.

Shareholdings of the top 10 shareholders not subject to trading restriction

Unit: Share(s)

Name of Shareholders	Number of Shares not subject to trading restriction held	Type and number of Shares held	
		Type	Number
HKSCC Nominees Limited	3,688,358,616	H Shares	3,688,358,616
PICC Property and Causality Company Limited	114,381,147	A Shares	114,381,147
Bank of Lanzhou Co., Ltd	90,514,398	A Shares	90,514,398
China Securities Finance Corporation Limited	84,078,210	A Shares	84,078,210
Shanghai Rural Commercial Bank Co., Ltd.	79,028,158	A Shares	79,028,158
China Resources Co., Ltd.	38,379,809	A Shares	38,379,809
Joincare Pharmaceutical Industry Group Co., Ltd	28,983,000	A Shares	28,983,000
Zhongshan Zhonghui Investment Group Company Limited	19,241,213	A Shares	19,241,213
Shenzhen State-Owned Dutyfree Commodity (Group) Co., Ltd.	13,468,849	A Shares	13,468,849
Dalian Port Group Company Limited	11,544,728	A Shares	11,544,728
Details of the connected relationship amongst, or concerted actions between, the above shareholders	The Company is not aware of any relationship between among shareholders/whether such shareholders are parties to any concerted action.		
Preference shareholders with voting rights restored and number of shares held	Nil.		

OTHER INFORMATION

I. INTERIM DIVIDEND

The Board does not recommend to declare the payment of interim dividend to the shareholders of the Company for the six months ended 30 June 2018.

II. INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OR DEBENTURES IN THE COMPANY AND ITS ASSOCIATED CORPORATIONS HELD BY THE DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE

Based on the information available to the Company and so far as the Directors are aware, as at the End of the Reporting Period, none of the Directors, Supervisors and chief executive of the Company has interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of SFO) (i) which are required to 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 they are taken or deemed to have under such provisions of the SFO), or (ii) which are required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein, or (iii) which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

III. RIGHTS OF THE DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

During the Reporting Period and as at the End of the Reporting Period, there was no arrangement to which the Company, its subsidiaries or holding company or a subsidiary of its holding company was a party and the purpose or one of the purposes of which was to benefit any Director, Supervisor, their respective spouses or any of their minor children under 18 years of age through acquisition of any shares or debentures of the Company or any other body corporation.

IV. INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES IN THE COMPANY HELD BY SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

So far as Directors are aware after making all reasonable enquiries, as at the End of the Reporting Period, the following persons (other than the Directors, Supervisors or chief executive of the Company) held interests or short positions in shares or underlying shares which are required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or which are recorded in the register required to be kept pursuant to Section 336 of the SFO:

Name of substantial shareholders	Class of shares	Nature of interest	Number of shares held (share) (Note 1)	Percentage of the total number of issued shares of the Company (%)	Percentage of the total number of issued A Shares/ H Shares of the Company (%)	Long positions/short positions/shares available for lending
Huijin (Note 2)	A Shares	Interests of controlled corporation	5,160,610,864	50.91	80.06	Long position
Galaxy Financial Holdings (Note 2)	A Shares	Beneficial owner	5,160,610,864	50.91	80.06	Long position
Wenze International Investment Limited (Notes 3 & 4)	H Shares	Beneficial owner	219,524,000	2.17	5.95	Long position
Wang Yili (Note 3)	H Shares	Interests of controlled corporation	219,524,000	2.17	5.95	Long position
Yan Yuqing (Note 4)	H Shares	Interests of controlled corporation	219,524,000	2.17	5.95	Long position
BlackRock, Inc. (Note 5)	H Shares	Interests of controlled corporation	198,558,644	1.96	5.38	Long position
	H Shares	Interests of controlled corporation	43,266,592	0.43	1.17	Short position

Note 1: According to Section 336 of the SFO, when the shareholdings of the shareholders in the Company change, it is not necessary for the shareholders to notify the Company and the Hong Kong Stock Exchange unless certain criteria are fulfilled. Therefore, the latest shareholdings of the shareholders in the Company may be different from the shareholdings filed with the Hong Kong Stock Exchange.

Note 2: As at the End of the Reporting Period, Huijin directly holds approximately 69.07% equity interest in Galaxy Financial Holdings and is therefore deemed to be interested in 5,160,610,864 A Shares directly held by Galaxy Financial Holdings.

Note 3: Wang Yili is interested in 50% shares of Wenze International Investment Limited and is hence deemed to be interested in the 219,524,000 H Shares held by Wenze International Investment Limited.

Note 4: Yan Yuqing is interested in 50% shares of Wenze International Investment Limited and is hence deemed to be interested in the 219,524,000 H Shares held by Wenze International Investment Limited.

Note 5: BlackRock, Inc. holds 198,558,644 H Shares in long position and 43,266,592 H Shares in short position through various entities under its control. In addition, 15,661,092 H Shares in short position involve derivatives, of which the category is: unlisted derivatives – cash settled.

Save as disclosed above, as at the End of the Reporting Period, the Company was not aware of any other person (other than Directors, Supervisors and chief executive of the Company) who held interests or short positions in shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.

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

Save as disclosed in the sub-section "VIII. Bond Financing of the Company" under the section "Management Discussion and Analysis", the Company and its subsidiaries did not purchase, sell or redeem any of its listed securities during the Reporting Period.

VI. COMPLIANCE WITH THE CG CODE

As a company listed in Hong Kong and Shanghai and incorporated in Mainland China, the Company strictly conforms to the requirements of the laws, regulations and regulatory documents of the jurisdictions where the Company is listed and Mainland China, operates in compliance with the law, and is continually dedicated to maintain and improve the outstanding social image of the Company. According to the Company Law, the Securities law and other laws, regulations and regulatory requirements, the Company has established a power-balanced and duty-segregated governance structure between the general meeting, the Board of Directors, the Supervisory Committee and the management, which will ensure the operation of the Company in a regulated manner. The convening and voting process of the general meeting and the meeting of the Board of Directors and the meeting of the Supervisory Committee are legal and valid. The information disclosed by the Company is true, accurate, timely and complete. The investor relationship is managed effectively and the corporate governance is scientific, rigorous and orderly.

During the Reporting Period, the Company had been in strict compliance with the Corporate Governance Code. Other than code provision A.4.2, the Company has complied with all code provisions and met the requirements of most recommended best practice provisions set out in the Corporate Governance Code. In accordance with the requirements of code provision A.4.2 of the Corporate Governance Code, each director shall retire by rotation at least once every three years. During the period from June 2015 to June 2018, the term of the third session of the Board and the Supervisory Committee has exceeded three years. In accordance with the articles of association of the Company, members of the current session of the Board and the Supervisory Committee shall continue to perform duties until the establishment of the next session of the Board and the Supervisory Committee. As the nomination of candidates for the Directors and the Supervisors of the fourth 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 fourth session of the Board and the Supervisory Committee will be postponed. The Company will submit the information on nomination or re-election of new session of directors and supervisors at the general meeting for approval in accordance with legal procedures, if practicable.

VII. COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for securities transactions by Directors and Supervisors. The Company has made specific enquiries to all Directors and Supervisors with respect to their compliance with the Model Code, and all Directors and Supervisors confirmed that they have complied with all of the codes and requirements set out in the Model Code during the Reporting Period.

VIII. OPERATION OF THE BOARD AND ITS SPECIAL COMMITTEES

The Board currently comprises 11 Directors, including 3 executive Directors, 4 non-executive Directors and 4 independent non-executive Directors.

The Strategy and Development Committee, Compliance and Risk Management Committee, Nomination and Remuneration Committee and Audit Committee have been established under the Board. The responsibilities of each committee are clearly divided and defined. The committees assist the Board in conducting work within the terms of reference as specified in the procedural rules of meetings, and are accountable to and report to the Board. The majority of the members of the Nomination and Remuneration Committee and the Audit Committee are independent non-executive Directors, and the chairman of each of the two committees is an independent non-executive Director.

Special committees	Chairman	Members
Strategy and Development Committee	Chen Gongyan	Gu Weiguo, Du Ping, Shi Xun, Liu Dingping, Wu Chengming, Luo Lin, Wu Yuwu, Liu Ruizhong, Wang Zhenjun, Li Chaoyang
Compliance and Risk Management Committee	Shi Xun	Gu Weiguo, Du Ping, Liu Dingping, Wu Chengming, Wang Zhenjun, Li Chaoyang
Nomination and Remuneration Committee	Liu Ruizhong	Luo Lin, Wu Yuwu, Wang Zhenjun, Shi Xun, Li Chaoyang
Audit Committee	Luo Lin	Wu Yuwu, Liu Ruizhong, Wang Zhenjun, Shi Xun, Liu Dingping

All Directors performed their duties faithfully and diligently in accordance with the relevant requirements of laws, regulations and the Articles of Association, so as to protect the interests of the Company and its shareholders. During the Reporting Period, all Directors faithfully and diligently performed their duties entitled by laws and regulations, and have protected the overall interests of the Company, especially the legitimate interests of small and medium shareholders.

During the Reporting Period, the Board convened 1 annual general meeting, 1 extraordinary general meeting and submitted 14 proposals for shareholders' consideration. The Board actively organized, supervised and followed up the implementation of the resolutions passed at general meetings. The Board has convened 4 Board meetings to consider 22 proposals. The Strategy and Development Committee convened 4 meetings, the Compliance and Risk Management Committee convened 2 meetings, the Nomination and Remuneration Committee convened 1 meeting, and the Audit Committee convened 2 meetings. The special committees gave full play to their own professional strengths, provided strong support for the decision-making of the Board and further enhanced the efficiency and level of decision-making of the Board.

In particular, the Audit Committee and the management have reviewed the accounting policies adopted by the Company, discussed matters including risk management, internal control and financial statements of the Company, and reviewed the consolidated interim financial information of the Company for the six months ended 30 June 2018. The external auditor of the Company has reviewed the interim financial information in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

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

IX. OPERATION OF THE SUPERVISORY COMMITTEE

The Supervisory Committee currently comprises 5 Supervisors, including 2 employee Supervisors.

Supervisory Committee	Chairman	Supervisors
Supervisors	Chen Jing	Zhong Cheng, Tao Libin, Liu Zhiyi (employee Supervisor), Chen Jijiang (employee Supervisor)

The Supervisors performed their duties diligently in accordance with relevant laws and regulations, including the Company Law and Securities Law of the PRC, and relevant requirements of the Articles of Association. The Supervisory Committee supervised the operation of the Company so as to protect the legitimate interests of the Company and its shareholders. During the Reporting Period, the Supervisory Committee convened 4 meetings.

X. MATERIAL LITIGATIONS

During the Reporting Period, the Company had no material litigation or arbitration involving an amount of over RMB10 million and representing 10% the latest audited net assets of the Company.

From the beginning of the Reporting Period to the date of disclosure of this report, the Company had new litigation or arbitration involving new progress or an amount (or an accrued amount) of over RMB10 million as follows:

(I) Civil action brought by Sichuan Trust Co., Ltd. (四川信託有限公司) against eight entities and individuals including Weihai Zhongtian Real Estate Co., Ltd. (威海中天房地產有限公司) in relation to an entrusted loan agreement dispute

In April 2013, Sichuan Trust Co., Ltd. ("Sichuan Trust") established a collective trust and entered into the Jixing No. 9 Directed Asset Management Contract (吉星9號定向資產管理合同) with the Company, pursuant to which the Company was entrusted to provide a loan of RMB160 million to Weihai Zhongtian Real Estate Co., Ltd. ("Weihai Zhongtian") by way of entrusted loan and Sichuan Trust undertook to assume the risks arising from such investment. As Weihai Zhongtian failed to settle the principal and interest as agreed in the contract, on 29 December 2015, Sichuan Trust initiated a litigation against Weihai Zhongtain before Shandong Provincial Higher People's Court, applying for ordering Weihai Zhongtain to repay the principal of and interest on the loan and pay relevant penalty and compound interest, totalling approximately RMB219 million, and suing the parties involved in the entrusted loan, either asking them to undertake guarantee liability or seek to hold them jointly and severally liable for repayment of the loan. The Company and Galaxy Jinhui, as the managers of the directed asset management scheme, were listed as the 7th and 8th defendants, respectively (for the relevant background, please refer to the 2016 annual report of the Company). Defendants, including Galaxy Jinhui, made an objection on jurisdiction. On 10 August 2018, the Supreme People's Court made a civil ruling and transferred the case to Guangdong Shenzhen Intermediate People's Court for trial.

On 30 December 2015, Shenzhen Bangxin Small Loan Co., Ltd. (深圳市邦信小額貸款有限公司) ("Bangxin Small Loan"), the subscriber for second class units of the above collective trust as established by Sichuan Trust, initiated a litigation before Guangdong Shenzhen Intermediate People's Court, applying for ordering Sichuan Trust to perform the commitment of trust asset allocation and compensate for loss within a limited period, and also applying for listing Galaxy Jinhui, the Company and the lending bank as the third party of the case, while Sichuan Trust applied for listing the subscriber for senior class units of the collective trust as the third party of the case. On 30 March 2018, Guangdong Shenzhen Intermediate People's Court handed down its first-instance judgment and rejected all petitions of Bangxin Small Loan. On 27 July 2018, Bangxin Small Loan made an appeal at the Higher People's Court of Guangdong Province.

(II) Civil action brought by the Bank of Qinghai against four entities and individuals including Shenyang Dabeiguan Street Securities Branch in relation to government bonds transaction dispute

Bank of Qinghai Co., Ltd. (青海銀行股份有限公司) required Shenyang Dabeiguan Street Securities Branch of the Company and Dalian Changfu Ruihua Group Co., Ltd. (大連長福瑞華集團有限公司) to pay the principal capital and related income of government bonds, liquidated damages and the cost for the realization of creditor's rights, totaling over RMB98 million, by alleging that Shenyang Youth Street Securities Branch of China Galaxy Securities Limited Liability Company (中國銀河證券有限責任公司) sold the government bonds which the Bank of Qinghai entrusted the securities branch to purchase in 2003, and made the proceeds available to Dalian Changfu Ruihua Group Co., Ltd. without informing it (for the relevant background, please refer to the 2017 annual report of the Company). The Qinghai Province Higher People's Court has been scheduled to commence hearing for this case on 17 May 2018. Currently, the case was in the first instance process.

(III) Arbitration filed by Taiping Fund and AXA SPDB

Taiping Fund Management Co., Ltd. ("Taiping Fund") filed an arbitration to Shanghai International Economic and Trade Arbitration Commission on 19 January 2018 and identified the Company as the counterparty. It requested the Company to repay the facility amount with a total of RMB144,670,000 under four agreed dealer-quoted bond repurchase transactions and the financing interest with a total of RMB398,337.86 and calculated the compensatory and penalty interest based on a daily basis from the maturity and settlement date of the four repurchase transactions (for the relevant background, please refer to the 2017 annual report of the Company). Shanghai International Economic and Trade Arbitration Commission has been scheduled to commence hearing for this case on 19 July 2018. Currently, the case was in the arbitration process.

On 16 May 2018, AXA SPDB Investment Managers Co., Ltd. (浦銀安盛基金管理有限公司) ("AXA SPDB") filed an arbitration with Shanghai International Economic and Trade Arbitration Commission and identified the Company as the counterparty. It requested the Company to repay the facility amount with a total of RMB42,750,000 under the bond pledge repurchase transactions and the financing interest with a total of RMB85,265.75 and calculated the compensatory and penalty interest based on a daily basis from the maturity and settlement date of the repurchase transactions. It was found out that the counterparty conducting the bond pledge agreed repurchase transactions with AXA SPDB is the same as the one which conducting the bond pledge agreed repurchase transactions with Taiping Fund, being "Galaxy Huida Yihe Targeted Asset Management Plan No. 109 (銀河匯達易禾109號定向資產管理計劃)", a targeted asset management product of Galaxy Jinhui, a subsidiary of the Company. The product is a brokerage client of the Company and the Company provides it with trading orders application services. The Arbitration Commission informed to commence hearing for this case on 14 September 2018.

(IV) Labor dispute filed by former staff of the original investment banking headquarters of the Company

On 18 October 2017, Zheng Zhiquan (鄭職權), a former staff of the original investment banking headquarters of the Company, applied an arbitration to Beijing Xicheng District Labor Arbitration Commission (北京市西城區勞動仲裁委), requesting a project performance bonus of RMB896,000. The case went through arbitration, first-instance and second-instance. On 27 July 2018, Beijing Second Intermediate People's Court made the second trial judgment, and the Company paid the performance bonus of RMB896,000 to Zheng Zhiquan. As at the End of the Reporting Period, there were 5 pending labor disputes as a result of the request of performance bonus by former staff of the investment banking headquarters of the Company with a total amount of RMB12,133,000.

(V) Agency contract dispute between Li Tianzhen (李天陣) and the Company

On 22 August 2018, the Company received the information in respect of the commission contract dispute brought by Li Tianzhen from Beijing Second Intermediate People's Court via post. Li Tianzhen requested the court to make a judgement on the continuous validity of his agency contract with the Company, and required the Company to pay his commissions and compensate for his loss as well as the penalties, interest and penalty interest of a total of RMB77,768,652.33 with the reasons of deleting the list of his customers by the Company without any reason.

Li Tianzhen was the broker of the Company's Securities Branch at Nanyang Road, Zhengzhou. As he failed to pass the annual broker examination for the year 2013, the China Securities Association cancelled Li Tianzhen's broker license on 31 August 2013. The securities branch terminated his contract according to the practice requirements under the entrustment contract.

(VI) Civil action brought by Galaxy Yuanhui Investment

In August 2018, Galaxy Yuanhui Investment initiated a litigation with the Shanghai Financial Court (上海金融法院). Galaxy Yuanhui Investment entered into the Cooperation Agreement on the Transfer of Trust Beneficiary Rights with Shanghai Dahan Real Estate Co., Ltd. (上海大涵置業有限公司), Shanghai Dafeng Asset Management Co., Ltd. (上海大豐資產管理有限公司), Shanghai Dafeng Investment Group Co., Ltd. (上海大豐投資集團有限公司) and Mr. Sun Jinglong (孫景龍) (collectively the "Defendants"), pursuant to which, the Defendants undertook to provide supplemental funds or provide joint liability guarantee in respect of the class B trust beneficiary rights held by Galaxy Yuanhui Investment under the Chongqing Trust-Yuxin Zengli No. 6 Collective Trust Plan (重慶信託－渝信增利6號集合資金信托計劃). Galaxy Yuanhui Investment informed the Defendants to perform the above obligations, but the Defendants failed to do so. Galaxy Yuanhui Investment requested the Defendants to pay the consideration for its acquisition of the trust beneficiary rights of an amount of RMB218,069,052.05 and the interests accrued thereon.

The Company considers that the above legal proceedings will not have direct material adverse impact on the business, financial position or solvency of the Company.

XI. PUNISHMENT OR PUBLIC CENSURE, INCLUDING PUNISHMENT IMPOSED OR PUBLIC CENSURE MADE BY THE CSRC, SECURITIES ASSOCIATION OF CHINA, STOCK EXCHANGES AND FINANCIAL FUTURES EXCHANGE AGAINST THE COMPANY AND ITS DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT, SUBSTANTIAL SHAREHOLDERS AND DE FACTO CONTROLLERS

During the Reporting Period, the Directors, Supervisors and senior management of the Company had not been punished or publicly condemned by the CSRC, Securities Association of China, stock exchanges, financial futures exchange, finance and taxation, foreign exchange and auditing authorities.

During the Reporting Period, the Company had not been subject to any administrative penalties by the CSRC, Securities Association of China, stock exchanges, financial futures exchanges, finance and taxation, foreign exchange and auditing authorities.

XII. RELEVANT SUBSEQUENT EVENTS

1. Equity acquisition

(1) Proposed acquisition of 50% equity interest in Galaxy Fund Management Company Limited ("Galaxy Fund") held by Galaxy Financial Holdings

On 18 July 2018, a resolution was passed at the 40th meeting (extraordinary) of the third session of the Board, approving the Company's acquisition of 50% equity interest in Galaxy Fund held by Galaxy Financial Holdings via cash and other means. The price for the acquisition will be determined based on the valuation results by an independent third party valuer appointed. The exact acquisition proposal and acquisition agreement for the acquisition will be submitted again to the Board for review. The acquisition is subject to the approval of the Ministry of Finance of the PRC, and the change of controlling shareholder of Galaxy Fund as a result of the proposed acquisition is subject to the approval of the CSRC.

For details, please refer to the indicative announcement of the Company dated 18 July 2018.

(2) Acquisition of 12% equity interest in Galaxy Derivatives Capital Management Company Limited ("Galaxy Derivatives") held by Galaxy Financial Holdings

On 26 July 2018, a resolution was passed at the 41st meeting (extraordinary) of the third session of the Board, approving the acquisition by Galaxy Futures of the 12% equity interest in Galaxy Derivatives held by Galaxy Financial Holdings. Galaxy Futures has won the bid for the 12% equity interest in Galaxy Derivatives at a total consideration of RMB66,673,000 through the public listing-for-sale process organized by the BFAE. On 16 August 2018, Galaxy Futures and Galaxy Financial Holdings entered into the Equity Transfer Agreement in respect of the transaction. Upon completion of the transaction, Galaxy Derivatives will become a wholly-owned subsidiary of Galaxy Futures.

For details, please refer to the indicative announcement of the Company dated 26 July 2018 and the connected transaction announcement of the Company dated 16 August 2018.

2. External joint investment

On 18 July 2018, the Resolution on the Participation by China Galaxy Securities Co., Ltd. in the Joint Bidding for the Construction of Commercial Properties on the Land Parcel at Lize Financial Business District of Beijing was passed at the 40th meeting (extraordinary) of the third session of the Board. With the growing business of the Company and in order to meet its needs for operation and management and further optimize the operational environment at its headquarters, the Company formed a joint development entity with China Securities Internet System Co., Ltd. to participate in the bid for the land use rights for state-owned construction land of F-22 and F-23 of the south zone and F3 land parcel of Lize Financial Business District of Fengtai District in Beijing. The Company won the bid and proposed to jointly develop self-owned properties on such land parcels through joint investment. The Company intends to hold properties with an area of approximately 40,000 square meters and expects to invest approximately RMB1.92 billion (and no more than RMB2 billion). On 10 August 2018, the Company had paid the upfront payment of RMB1.070 billion.

For details, please refer to the overseas regulatory announcement of the Company dated 18 July 2018.

3. External guarantees

On 18 July 2018, the Resolution on the Provision of Guarantee by Galaxy International Holdings for CGS-CIMB and its subsidiary CGS-CIMB Securities was passed at the 40th meeting (extraordinary) of the third session of the Board. In order to obtain unsecured loan facilities granted by Malayan Bank, UOB Bank and Standard Chartered Bank Hong Kong, Galaxy International Holdings was authorized to provide loan guarantee for CGS-CIMB and its subsidiary CGS-CIMB Securities. The amount of guarantee was HK$776,603,900 in total, equivalent to RMB633,553,500.

4. Subsequent events related to investments

(1) On 19 April, 29 June and 2 July 2018, the Company acquired 500,000 shares, 1,580,000 shares and 500,000 shares of Changsheng Bio-Technology (002680.SZ, now known as "ST長生" for its Chinese name) respectively through block trade in the course of provision of liquidity services to the customers. As at the date of this report, the Company held its 2,580,000 shares and the operating cost was RMB50.0592 million. The above investment was classified as financial assets measured at fair value through profit or loss.

(2) In May 2018, Galaxy Yuanhui Investment entered into the Limited Partnership Share Acquisition Agreement with the counterparty, agreeing that the counterparty shall acquire all the limited partnership share held by Galaxy Yuanhui Investment by 21 September 2018, with an acquisition amount of approximately RMB265 million. It also agreed certain triggering conditions, under which the counterparty shall acquire all the limited partnership share held by Galaxy Yuanhui Investment in advance. On 4 August 2018, Galaxy Yuanhui Investment was informed that the early acquisition condition was triggered. Galaxy Yuanhui Investment had informed the counterparty to perform the acquisition obligation in writing and is adopting necessary measures for protecting the safety of relevant assets.

The above subsequent events related to investments had no material impact on the Company's business operation and solvency.

5. Administrative penalties

On 27 July 2018, the Company received the Administrative Penalty Decision (Yin Fan Xi Fa Jue Zi [2018] No. 4) issued by the People's Bank of China. In accordance with the requirements of article 32 of the Anti-Money Laundering Law of the People's Republic of China, the Company was fined by the People's Bank of China RMB500,000 for its failure to perform its obligation to identify customers as required and RMB500,000 for dealing with unidentified customers, totaling RMB1,000,000.

During the period of investigation, the Company immediately conducted investigation and correction and developed the Proposal for Rectification for Anti-Money Laundering Issues Identified by the People's Bank of China in On-Site Inspection, which was considered and passed at the 40th meeting of the third session of the Board, in accordance with the requirements of the Legal Inspection Opinions of the People's Bank of China. To date, the Company has further improved its anti-money laundering system, refined workflow including customer identification, customer money laundering risk level management and suspicious transaction recording, strengthened anti-money laundering inspection and assessment and continuous identification of existing customers, and further improved the relevant functions of the anti-money laundering system. The Company will continue to improve internal control compliance management and conduct effective anti-money laundering.

XIII. EVALUATION RESULTS OF THE COMPANY BY SECURITIES REGULATORY AUTHORITY

In the evaluation of securities companies of 2018 carried out by the CSRC, the Company was assigned an AA rating in A class.

XIV. CHANGE IN DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

1. On 9 February 2018, Mr. Liu Dingping was elected as a non-executive director of the Company at the first extraordinary general meeting of 2018 of the Company. Mr. Liu Dingping also acted as a member of each of the Strategy and Development Committee, the Audit Committee and the Compliance and Risk Management Committee, with effect from the same day.

2. Mr. Zhang Jinghua ceased to be a non-executive director of the Company and a member of each of the Strategy and Development Committee, the Audit Committee and the Compliance and Risk Management Committee due to his age, with effect from 9 February 2018.

3. On 9 February 2018, Mr. Wang Zhenjun was elected as an independent director of the Company at the first extraordinary general meeting of 2018 of the Company. Mr. Wang Zhenjun also acted as a member of each of the Nomination and Remuneration Committee, the Strategy and Development Committee, the Audit Committee and the Compliance and Risk Management Committee, with effect from the same day.

4. Mr. Liu Feng ceased to be an independent director of the Company, the chairman of the Nomination and Remuneration Committee, and a member of each of the Strategy and Development Committee, the Audit Committee and the Compliance and Risk Management Committee due to his intention to focus on his other work commitments and engagements, with effect from 9 February 2018.

5. On 9 February 2018, Mr. Liu Ruizhong was elected as the chairman of the Nomination and Remuneration Committee.

6. On 30 July 2018, the "Proposal on Discontinuation of the Appointment of Mr. Li Shuhua as the Chief Risk Officer/ Chief Compliance Officer, and a Member of the Executive Committee of the Company", was considered and approved at the 42nd meeting (extraordinary) of the third session of the Board of the Company. Mr. Li Shuhua resigned as a member of the Executive Committee of the Company and the Chief Risk Officer (and Chief Compliance Officer) due to personal reason. Mr. Gu Weiguo, Vice-chairman and President, performs the relevant duties in place of the Compliance Officer, with a period of not exceeding 6 months.

7. Since 26 June 2018, Mr. Gu Weiguo ceased to be a director of Zhengtong Co., Ltd., while Mr. Wu Chengming became a director of such company.

8. Ms. Chen Jing ceased to be the legal representative of Galaxy Yuanhui Investment, a director and chairman of Galaxy Yuanhui Investment, and an executive director and chairman of cloud application branch of China Computer User Association, respectively, with effect from 19 January 2018, 5 June 2018 and May 2018 respectively. Ms. Chen Jing became the vice chairman of Securities Mediation Committee of the Securities Association of China, with effect from April 2018.

9. Mr. Shi Xun became the director of CGS-CIMB Securities International Pte. Ltd. since 18 January 2018.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.
德勤

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

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Galaxy Securities Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 51 to 126, which comprise the condensed consolidated statement of financial position as at 30 June 2018 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month 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 enquiries, 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

30 August 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

		Six months ended 30 June	
	Notes	**2018 (Unaudited)**	2017 (Unaudited)
Revenue			
Commission and fee income	5	**2,888,930**	2,864,981
Interest income	6	**4,288,530**	3,441,897
Investment income and gains or losses	7	**261,958**	1,379,579
		7,439,418	7,686,457
Other income and gains		**52,523**	17,937
Total revenue, gains and other income		**7,491,941**	7,704,394
Impairment losses	8	**(214,433)**	(234,124)
Depreciation and amortization	9	**(112,694)**	(106,931)
Staff costs	10	**(1,562,451)**	(2,000,529)
Commission and fee expenses	11	**(146,880)**	(117,514)
Interest expenses	12	**(3,024,589)**	(1,910,202)
Other operating expenses	13	**(708,693)**	(717,896)
Total expenses		**(5,769,740)**	(5,087,196)
Share of result of a joint venture		**(2,328)**	–
Profit before income tax		**1,719,873**	2,617,198
Income tax expense	14	**(385,379)**	(485,983)
Profit for the period		**1,334,494**	2,131,215
Profit for the period attributable to:			
Owners of the Company		**1,311,046**	2,112,212
Non-controlling interests		**23,448**	19,003
		1,334,494	2,131,215
Earnings per share (Expressed in RMB per share)			
– Basic	15	**0.13**	0.21

The notes on pages 59 to 126 form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Profit for the period	**1,334,494**	2,131,215
Other comprehensive (expense)/income:		
Items that will not be reclassified to profit or loss:		
Fair value losses on investments in equity instruments measured at fair value through other comprehensive income	**(313,489)**	–
Income tax effect on changes in fair value	**78,372**	–
Share of other comprehensive income of a joint venture, net of related income tax	**257**	–
Subtotal	**(234,860)**	–
Items that may be reclassified subsequently to profit or loss:		
Fair value gains on:		
available-for-sale financial assets	**–**	261,317
investments in debt instruments measured at fair value through other comprehensive income	**136,505**	–
Income tax effect on changes in fair value	**(34,126)**	(65,329)
Exchange differences arising on translation of foreign operations	**9,424**	(38,585)
Share of other comprehensive income of a joint venture, net of related income tax	**(3,745)**	–
Subtotal	**108,058**	157,403
Other comprehensive (expense)/income for the period (net of tax)	**(126,802)**	157,403
Total comprehensive income for the period (net of tax)	**1,207,692**	2,288,618
Total comprehensive income for the period attributable to:		
Owners of the Company	**1,184,244**	2,269,615
Non-controlling interests	**23,448**	19,003
	1,207,692	2,288,618

The notes on pages 59 to 126 form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

	Notes	**As at 30 June 2018 (Unaudited)**	As at 31 December 2017 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	17	**361,698**	381,079
Goodwill		**223,278**	223,278
Other intangible assets		**374,535**	385,796
Interest in a joint venture	18	**802,936**	–
Financial assets measured at fair value through profit or loss	19	**7,777,696**	–
Available-for-sale financial assets	20	**–**	15,186,366
Debt instruments measured at fair value through other comprehensive income	21	**101,066**	–
Equity instruments measured at fair value through other comprehensive income	22	**10,302,705**	–
Debt instruments measured at amortized cost	23	**3,438,866**	–
Held-to-maturity investments	24	**–**	1,419,541
Investments classified as loan and receivables	25	**–**	2,736,282
Financial assets held under resale agreements	26	**25,583,582**	23,916,025
Deposits with exchanges and a non-bank financial institution	27	**729,117**	484,838
Deferred tax assets	29	**281,371**	168,048
Total non-current assets		**49,976,850**	44,901,253
Current assets			
Advances to customers	30	**53,650,883**	60,063,731
Accounts receivable	31	**1,521,151**	1,002,842
Tax recoverable		**489,737**	565,577
Other receivables and prepayments	32	**3,698,847**	4,028,350
Financial assets measured at fair value through profit or loss	19	**38,939,666**	29,010,296
Available-for-sale financial assets	20	**–**	18,874,475
Debt instruments measured at fair value through other comprehensive income	21	**16,028,996**	–
Debt instruments measured at amortized cost	23	**1,769,244**	–
Held-to-maturity investments	24	**–**	2,125,632
Investments classified as loan and receivables	25	**–**	2,247,865
Financial assets held under resale agreements	26	**18,245,389**	14,340,106
Derivative financial assets	33	**138,227**	22,936
Deposits with exchanges and a non-bank financial institution	27	**5,617,283**	5,351,712
Clearing settlement funds	34	**14,241,538**	12,538,492
Bank balances	28	**58,854,809**	59,741,699
Total current assets		**213,195,770**	209,913,713
Total assets		**263,172,620**	254,814,966

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	Notes	**As at 30 June 2018 (Unaudited)**	As at 31 December 2017 (Audited)
EQUITY AND LIABILITIES			
Liabilities			
Non-current liabilities			
Bonds payable	35	**51,145,338**	45,739,475
Financing instrument payables	36	**2,777,390**	4,180,190
Financial liabilities measured at fair value through profit or loss	37	**28,216**	25,370
Other payables and accruals	38	**2,814,853**	3,156,971
Deferred tax liabilities	29	**19,776**	6,581
Total non-current liabilities		**56,785,573**	53,108,587
Current liabilities			
Bonds payable	35	**20,567,918**	16,014,798
Due to banks and other financial institutions	39	**3,902,523**	3,050,331
Financing instrument payables	36	**17,235,560**	25,274,330
Accounts payable to brokerage clients	40	**67,435,097**	64,787,132
Accrued staff costs	41	**2,243,450**	3,389,597
Other payables and accruals	38	**6,764,979**	5,145,580
Current tax liabilities		**45,671**	63,683
Financial liabilities measured at fair value through profit or loss	37	**817,316**	243,121
Derivative financial liabilities	33	**255,204**	135,150
Financial assets sold under repurchase agreements	42	**22,196,777**	18,716,224
Total current liabilities		**141,464,495**	136,819,946
Total liabilities		**198,250,068**	189,928,533
Net current assets		**71,731,275**	73,093,767
Total assets less current liabilities		**121,708,125**	117,995,020

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

	Note	**As at 30 June 2018 (Unaudited)**	As at 31 December 2017 (Audited)
Equity			
Share capital	43	**10,137,259**	10,137,259
Capital reserve		**25,027,389**	25,027,389
Investment revaluation reserve		**333,496**	(168,989)
Translation reserve		**23,552**	14,128
General reserves		**13,659,585**	13,659,585
Other reserves		**(36,774)**	(33,286)
Retained profits		**15,381,191**	15,876,941
Equity attributable to owners of the Company		**64,525,698**	64,513,027
Non-controlling interests		**396,854**	373,406
Total equity		**64,922,552**	64,886,433
Total equity and liabilities		**263,172,620**	254,814,966

The notes on pages 59 to 126 form an integral part of these condensed consolidated financial statements.

The condensed consolidated financial statements on pages 51 to 126 were approved and authorized for issue by the Board of Directors on 30 August 2018 and are signed on its behalf by:

Chen Gongyan	Gu Weiguo
DIRECTOR	*DIRECTOR*

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Equity attributable to owners of the Company									
		Reserves								
	Share capital	Capital reserve	Investment revaluation reserve	Translation reserve	General reserves	Other reserves	Retained profits	Subtotal	Non-controlling interests	Total equity
Six months ended 30 June 2017										
At 1 January 2017 (Audited)	9,537,259	21,673,175	(435,705)	113,384	12,552,109	(26,638)	14,574,962	57,988,546	365,353	58,353,899
Profit for the period	–	–	–	–	–	–	2,112,212	2,112,212	19,003	2,131,215
Other comprehensive income/ (expense) for the period	–	–	195,988	(38,585)	–	–	–	157,403	–	157,403
Total comprehensive income/ (expense) for the period	–	–	195,988	(38,585)	–	–	2,112,212	2,269,615	19,003	2,288,618
Issuance of new shares	600,000	3,486,000	–	–	–	–	–	4,086,000	–	4,086,000
Transaction costs attributable to issue of new shares	–	(131,786)	–	–	–	–	–	(131,786)	–	(131,786)
Dividend recognized as distribution (Note 16)	–	–	–	–	–	–	(1,571,275)	(1,571,275)	–	(1,571,275)
At 30 June 2017 (Unaudited)	10,137,259	25,027,389	(239,717)	74,799	12,552,109	(26,638)	15,115,899	62,641,100	384,356	63,025,456
Six months ended 30 June 2018										
At 31 December 2017 (Audited)	10,137,259	25,027,389	(168,989)	14,128	13,659,585	(33,286)	15,876,941	64,513,027	373,406	64,886,433
Effect of adoption of IFRS 9 (Note 3)	–	–	635,185	–	–	–	(590,287)	44,898	–	44,898
At 1 January 2018 (Restated)	10,137,259	25,027,389	466,196	14,128	13,659,585	(33,286)	15,286,654	64,557,925	373,406	64,931,331
Profit for the period	–	–	–	–	–	–	1,311,046	1,311,046	23,448	1,334,494
Other comprehensive income/ (expense) for the period	–	–	(132,738)	9,424	–	(3,488)	–	(126,802)	–	(126,802)
Total comprehensive income/ (expense) for the period	–	–	(132,738)	9,424	–	(3,488)	1,311,046	1,184,244	23,448	1,207,692
Dividend recognized as distribution (Note 16)	–	–	–	–	–	–	(1,216,471)	(1,216,471)	–	(1,216,471)
Transfer within equity	–	–	38	–	–	–	(38)	–	–	–
At 30 June 2018 (Unaudited)	10,137,259	25,027,389	333,496	23,552	13,659,585	(36,774)	15,381,191	64,525,698	396,854	64,922,552

The notes on pages 59 to 126 form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
OPERATING ACTIVITIES		
Operating cash flows before movements in working capital	**3,969,277**	3,869,608
Decrease in advances to customers	**6,359,055**	5,727,314
Increase in financial assets held under resale agreements	**(5,601,520)**	(8,769,814)
(Increase)/decrease in financial assets at fair value through profit or loss and derivative financial assets	**(4,678,807)**	1,799,757
(Increase)/decrease in clearing settlement funds – clients	**(1,626,280)**	10,028,915
(Increase)/decrease in cash held on behalf of customers	**(1,269,863)**	4,051,119
Increase/(decrease) in accounts payable to brokerage clients, accrued staff costs and other payables and accruals	**1,606,346**	(15,888,106)
Increase/(decrease) in financial assets sold under repurchase agreements	**3,480,553**	(8,298,910)
Increase in placements from a non-bank financial institution	**200,000**	–
Other working capital items	**(85,664)**	1,014,997
Cash from/(used in) operations	**2,353,097**	(6,465,120)
Income taxes paid	**(398,412)**	(355,102)
Interests paid	**(572,500)**	(544,370)
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	**1,382,185**	(7,364,592)
INVESTING ACTIVITIES		
Dividends and interests received from investments	**716,787**	536,241
Purchases of property and equipment and other intangible assets	**(101,181)**	(81,800)
Proceeds from disposals of property and equipment and other intangible assets	**4,834**	3,318
Capital injection to a joint venture	**(808,752)**	(21,996)
Purchases of financial assets at fair value through profit or loss	**(1,739,691)**	–
Proceeds from disposals of financial assets at fair value through profit or loss	**760,162**	–
Purchases of available-for-sale financial assets	**–**	(4,934,337)
Proceeds from disposals of available-for-sale financial assets	**–**	7,409,037
Purchases of debt instruments at fair value through other comprehensive income	**(2,639,115)**	–
Proceeds from disposals of debt instruments at fair value through other comprehensive income	**1,818,077**	–
Purchases of equity instruments at fair value through other comprehensive income	**(1,090,000)**	–
Proceeds from disposals of equity instruments at fair value through other comprehensive income	**50,000**	–
Purchases of debt instruments measured at amortized cost	**(24,263)**	–
Proceeds from disposals of debt instruments measured at amortized cost	**830,958**	–
Decrease in investments classified as loan and receivables	**–**	92,398
Increase in investments classified as loans and receivables	**–**	(2,002,780)
Placement of bank deposits with original maturity of more than three months	**(225,558)**	(434,893)
Maturity of bank deposits with original maturity of more than three months	**871,113**	1,171,945
NET CASH (USED IN)/FROM INVESTING ACTIVITIES	**(1,576,629)**	1,737,133

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Note	Six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
FINANCING ACTIVITIES			
Proceeds from placing of new A shares		**–**	4,086,000
Transaction costs paid on issue of new A shares		**–**	(115,642)
Transaction costs paid on issue of bonds and financial instrument payables		**(88,679)**	(21,000)
Cash injection by third-party holders to consolidated structured entities		**79,546**	138,173
Cash repayment to third-party holders to consolidated structured entities		**(495,796)**	(562,355)
Proceeds from borrowing and financing instrument payables		**9,790,122**	15,586,334
Proceeds from bonds issued		**19,200,000**	22,478,500
Repayment of borrowing and financing instrument payables		**(18,579,500)**	(16,171,192)
Repayment of bonds		**(9,230,000)**	(19,300,000)
Interests paid in respect of bonds, borrowing and financial instrument payables		**(1,960,024)**	(2,133,782)
Dividends paid to non-controlling shareholders		**(27,171)**	–
NET CASH (USED IN)/FROM FINANCING ACTIVITIES		**(1,311,502)**	3,985,036
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(1,505,946)**	(1,642,423)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		**9,026,394**	8,011,071
Effect of foreign exchange rate changes		**71,740**	(10,458)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	44	**7,592,188**	6,358,190
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interests received		**5,034,347**	3,472,983
Total interests paid		**(2,605,763)**	(2,785,681)

The notes on pages 59 to 126 form an integral part of these condensed consolidated financial statements.

1. GENERAL INFORMATION

Pursuant to the approval from the China Securities Regulatory Commission (the "CSRC"), China Galaxy Securities Co., Ltd. (the "Company") was established in Beijing, the People's Republic of China (the "PRC") on 26 January 2007. In May 2013, 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"). On 23 January 2017, the Company completed its A Share Offering of 600 million shares on Shanghai Stock Exchange.

The registered office of the Company is located at 2-6F, Tower C, Corporate Square, 35 Finance Street, Xicheng District, Beijing, the PRC.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in securities and futures brokerage, institutional sales and investment research, proprietary trading and other securities trading services, margin financing and securities lending, asset management and wealth management, and equity investment management.

The Company's immediate holding company is China Galaxy Financial Holdings Company Limited (中國銀河金融控股有限責任公司) ("Galaxy Financial Holdings").

These condensed consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company, and all values are rounded to the nearest thousand unless otherwise stated.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 (IAS 34) *Interim Financial Reporting* issued by the International Accounting Standards Board (the "IASB") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"). The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2017.

(Amounts in thousands of Renminbi, unless otherwise stated)

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 effective for the annual period beginning on or after 1 January 2018 for the preparation 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 Payment 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.

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

3.1 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, Amendments to IFRS 9 Prepayment Features with Negative Compensation 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 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 derecognized as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognized 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 recognized in the opening retained profits and other components of equity, without restating comparative information.

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

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

3.1.1 Key changes in accounting policies resulting from application of IFRS 9

Classification and measurement of financial assets

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

All recognized financial assets that are within the scope of IFRS 9 are subsequently measured at amortized cost or fair value, including unquoted equity investments measured at cost less impairment under IAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortized 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 recognized by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

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 are recognized in profit or loss. All other changes in the carrying amounts of these debt instruments are recognized in OCI and accumulated in the investment revaluation reserve. Impairment allowance are recognized in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. The amounts that are recognized in profit or loss are the same as the amounts that would have been recognized in profit or loss if these debt instruments had been measured at amortized cost. When these debt instruments are derecognized, the cumulative gains or losses previously recognized in OCI are reclassified to profit or loss.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

3.1.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Classification and measurement of financial assets (Continued)

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. They are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in OCI and accumulated in the investment revaluation 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 recognized 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 or losses" line item in profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized 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 recognized in profit or loss. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset and is included in the "Investment income and gains or losses" 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 3.1.2.

Impairment under ECL model

The Group recognizes a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9, including debt instruments measured at FVTOCI or amortized cost, advances to customers, accounts receivable, other receivables, financial assets held under resale agreements, deposits with exchanges and a non-bank financial institution, clearing settlement funds and bank balances. The amount of ECL is updated at each reporting date 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.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

3.1.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Impairment under ECL model (Continued)

The Group always recognizes lifetime ECL for accounts receivable and other receivables without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate 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 recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized 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.

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

- significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instruments with the same expected life;
- an actual or expected significant change in the financial instrument's external credit rating;
- an actual or expected internal credit rating downgrade for the borrower;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its debt obligations;
- an actual or expected significant change in the operating results of the borrower;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements;
- an actual or expected significant change in the quality of credit enhancement;
- significant changes in the expected performance and behaviour of the borrower.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

3.1.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Impairment under ECL model (Continued)

Significant increase in credit risk (Continued)

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, 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.

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 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.

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 amortized cost of the financial asset.

Except for investments in debt instruments that are measured at FVTOCI and loan commitments, the Group recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount through the use of a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognized in OCI and accumulated in the investment revaluation reserve without reducing the carrying amounts of these debt instruments.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets and loan commitments for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. The result of the assessment and the impact thereof are detailed in Note 3.1.2.

(Amounts in thousands of Renminbi, unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

3.1.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

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 recognized 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 recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained profits upon derecognition of the financial liability.

3.1.2 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 financial assets	Held-to-maturity investments	Financial assets designated at FVTPL	Financial assets at FVTPL required by IAS 39/ IFRS 9	Equity instruments at FVTOCI	Debt instruments at FVTOCI	Amortized cost (previously classified as loans and receivables)	Deferred tax assets/ (liabilities)	Investment revaluation reserve	Retained profits	Non-controlling interests
		RMB'000	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		34,060,841	3,545,173	5,760,592	23,249,704	–	–	186,200,998	161,467	(168,989)	15,876,941	373,406
Effect arising from initial application of IFRS 9:												
Reclassification												
From available-for-sale financial assets	(a)	(34,060,841)			9,318,833	9,576,143	15,165,865			612,816	(612,816)	
From held-to-maturity investments	(b)		(3,545,173)					3,545,173				
From designated at FVTPL	(c)			(5,760,592)	5,760,592							
From loans and receivables	(d)				2,477,316			(2,477,316)				
From financial assets at FVTPL	(c)				(224,649)			224,649				
Remeasurement												
Impairment under ECL model	(e)							(9,242)	2,310	22,369	(29,300)	
From cost less impairment to fair value	(a)				42,306				(10,577)		31,729	
From amortized cost to fair value	(d)				26,799				(6,699)		20,100	
Opening balance at 1 January 2018		–	–	–	40,650,901	9,576,143	15,165,865	187,484,262	146,501	466,196	15,286,654	373,406

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

3.1.2 Summary of effects arising from initial application of IFRS 9 (Continued)

(a) Available-for-sale financial assets

From AFS equity investments to equity instruments at 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 financial assets carried at fair value under IAS 39. 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, RMB9,576 million were reclassified from available-for-sale financial assets to equity instruments at FVTOCI. The fair value gains of RMB635 million relating to these investments continued to accumulate in investment revaluation reserve.

From AFS equity investments to financial assets at FVTPL

At the date of initial application of IFRS 9, the Group's equity investments of RMB9,255 million were reclassified from available-for-sale financial assets to financial assets at FVTPL. The fair value gains of RMB42 million relating to those equity investments previously carried at cost less impairment were adjusted to financial assets at FVTPL and retained profits as at 1 January 2018, with the related deferred income tax of RMB11 million adjusted to retained profits. The fair value losses deducting related deferred income tax of RMB613 million relating to those financial assets previously carried at fair value were transferred from investment revaluation reserve to retained profits.

From AFS debt investments to debt instruments at FVTOCI

Bonds with a fair value of RMB15,166 million were reclassified from available-for-sale financial assets 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 losses of RMB255 million continued to accumulate in investment revaluation reserve as at 1 January 2018.

From AFS debt investments to financial assets at FVTPL

Bonds with a fair value of RMB64 million were reclassified from available-for-sale financial assets to financial assets at FVTPL. This is because on the basis of the facts and circumstances that exist at the date of initial application of IFRS 9, these investments are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Related fair value gains and related deferred income tax were not significant and were transferred from the investment revaluation reserve to retained profits as at 1 January 2018.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

3.1.2 Summary of effects arising from initial application of IFRS 9 (Continued)

(b) Held-to-maturity investments

Bonds previously classified as held-to-maturity investments are reclassified and measured at amortized cost upon application of IFRS 9. The Group intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. There was no difference between the previous carrying amount and the revised carrying amount at 1 January 2018.

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

At the date of initial application, the Group no longer applied designation as measured at FVTPL for the convertible bonds and the portfolio of financial assets which is managed and its performance is evaluated on a fair value basis, as these financial assets are required to be measured at FVTPL under IFRS 9. As a result, the fair value of these investments of RMB5,761 million were reclassified from financial assets designated at FVTPL to financial assets at FVTPL.

At the date of initial application of IFRS 9, the Group's debt investments of RMB225 million were reclassified from financial assets at FVTPL to amortized 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 difference between fair value and the amortized cost at the date of adoption was not significant.

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

(d) Loans and receivables

Financial assets of RMB2,477 million previously classified as loans and receivables was reclassified to FVTPL upon the application of IFRS 9 because the cash flows do not represent solely payments of principal and interest on the principal amount outstanding. The related fair value gains of RMB27 million arising from a difference between the previous amortized cost amount of these investments and the fair value of these investments was adjusted to financial assets at FVTPL and retained profits as at 1 January 2018, with the related deferred income tax of RMB7 million adjusted to retained profits.

Remaining investments were held within a business model whose objective 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. Accordingly, these investments will continue to be subsequently measured at amortized cost upon the application of IFRS 9.

(Amounts in thousands of Renminbi, unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

3.1.2 Summary of effects arising from initial application of IFRS 9 (Continued)

(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. To measure the ECL, accounts receivable and other receivables have been grouped based on shared credit risk characteristics.

Loss allowances for other financial assets at amortized cost mainly comprise of bank balances, debt instruments measured at amortized cost, advances to customers and financial assets held under resale agreements. They are measured on 12m ECL basis as there had been no significant increase in credit risk since initial recognition, except for certain advances to customers and certain financial assets held under resale agreements which are measured on lifetime ECL basis as their credit risk had increased significantly since initial recognition.

As at 1 January 2018, the additional credit loss allowance of RMB39 million and related deferred income tax of RMB10 million has been recognized against retained profits. The additional loss allowance is charged against the respective asset, except for the debt instruments which is measured at FVTOCI, the loss allowance for which is recognized against the investment revaluation reserve.

All loss allowances for financial assets including available-for-sale financial assets, debt instruments measured at FVTOCI or amortized cost, advances to customer, accounts receivable, other receivables, financial assets held under resale agreements and bank balances as at 31 December 2017 reconciled to the opening loss allowance as at 1 January 2018 is as follows:

	Accounts receivable and other receivables RMB'000	Debt instruments at amortized cost RMB'000	Investment classified as loan and receivables RMB'000	Advances to customers RMB'000	Financial assets held under resale agreements RMB'000	Available-for-sale financial assets RMB'000	Debt instruments at FVTOCI RMB'000	Bank balances RMB'000
At 31 December 2017 – IAS 39	33,166	N/A	1,894	100,658	80,127	796,823	N/A	–
Reclassification		1,894	(1,894)			(796,823)		
Amounts remeasured through opening retained profits/investment revaluation reserve		581		7,773	20		29,824	868
At 1 January 2018	33,166	2,475	–	108,431	80,147	–	29,824	868

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.2 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* and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this standard recognized at the date of initial application, 1 January 2018. There is no difference at the date of initial application 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 and has used the practical expedient for all contract modifications that occurred before the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 and the related interpretations.

3.2.1 Key changes in accounting policies resulting from application of IFRS 15

IFRS 15 introduces a 5-step approach when recognizing 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: Recognize revenue when (or as) the Group satisfies a performance obligation.

Under IFRS 15, the Group recognizes 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 recognized 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 recognized at a point in time when the customer obtains control of the distinct good or service.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

3.2.1 Key changes 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.

3.2.2 Summary of effects arising from initial application of IFRS 15

The application of IFRS 15 has had no material impact on the timing and amounts of revenue recognized in the reporting periods.

(Amounts in thousands of Renminbi, unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards and amendments

As a result of the changes in the Group's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table shows the adjustments recognized for each individual line item.

	31 December 2017 (Audited) RMB'000	IFRS 9 RMB'000	1 January 2018 (Restated) RMB'000
Non-current assets			
Property, plant and equipment	381,079	–	381,079
Goodwill	223,278	–	223,278
Other intangible assets	385,796	–	385,796
Financial assets measured at fair value through profit or loss	–	7,945,860	7,945,860
Available-for-sale financial assets	15,186,366	(15,186,366)	–
Debt instruments measured at fair value through other comprehensive income	–	98,114	98,114
Equity instruments measured at fair value through other comprehensive income	–	9,576,143	9,576,143
Held-to-maturity investments	1,419,541	(1,419,541)	–
Debt instruments measured at amortized cost	–	1,545,211	1,545,211
Investments classified as loan and receivables	2,736,282	(2,736,282)	–
Financial assets held under resale agreements	23,916,025	–	23,916,025
Deferred tax assets	168,048	(4,382)	163,666
Deposits with exchanges and non-bank financial institutions	484,838	–	484,838
Current assets			
Advances to customers	60,063,731	(7,773)	60,055,958
Accounts receivable	1,002,842	–	1,002,842
Tax recoverable	565,577	–	565,577
Other receivables and prepayments	4,028,350	258,967	4,287,317
Financial assets measured at fair value through profit or loss	29,010,296	3,694,745	32,705,041
Available-for-sale financial assets	18,874,475	(18,874,475)	–
Debt instruments measured at fair value through other comprehensive income	–	15,067,751	15,067,751
Held-to-maturity investments	2,125,632	(2,125,632)	–
Debt instruments measured at amortized cost	–	4,471,895	4,471,895
Investments classified as loans and receivables	2,247,865	(2,247,865)	–
Financial assets held under resale agreements	14,340,106	(20)	14,340,086
Derivative financial assets	22,936	–	22,936
Deposits with exchanges and non-bank financial institutions	5,351,712	–	5,351,712
Clearing settlement funds	12,538,492	–	12,538,492
Bank balances	59,741,699	(868)	59,740,831
Total assets	254,814,966	55,482	254,870,448

(Amounts in thousands of Renminbi, unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards and amendments (Continued)

	31 December 2017 (Audited) RMB'000	IFRS 9 RMB'000	1 January 2018 (Restated) RMB'000
Non-current liabilities			
Bonds payable	45,739,475	–	45,739,475
Financing instrument payables	4,180,190	–	4,180,190
Other payables and accruals	3,156,971	–	3,156,971
Deferred tax liabilities	6,581	10,584	17,165
Financial liabilities designated as at fair value through profit or loss	25,370	–	25,370
Current liabilities			
Bonds payable	16,014,798	–	16,014,798
Financing instrument payables	3,050,331	–	3,050,331
Due to banks and other financial institutions	25,274,330	–	25,274,330
Accounts payable to brokerage clients	64,787,132	–	64,787,132
Accrued staff costs	3,389,597	–	3,389,597
Other payables and accruals	5,145,580	–	5,145,580
Current tax liabilities	63,683	–	63,683
Financial liabilities designated at fair value through profit or loss	243,121	–	243,121
Derivative financial liabilities	135,150	–	135,150
Financial assets sold under repurchase agreements	18,716,224	–	18,716,224
Total liabilities	**189,928,533**	**10,584**	**189,939,117**
Equity			
Share capital	10,137,259	–	10,137,259
Capital reserve	25,027,389	–	25,027,389
Investment revaluation reserve	(168,989)	635,185	466,196
Translation reserve	14,128	–	14,128
General reserves	13,659,585	–	13,659,585
Other reserves	(33,286)	–	(33,286)
Retained profits	15,876,941	(590,287)	15,286,654
Non-controlling interests	373,406	–	373,406
Total equity	**64,886,433**	**44,898**	**64,931,331**

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.4 Significant accounting judgements and estimates

The preparation of the condensed consolidated financial statements requires management to make judgments, 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 estimates and assumptions about future conditions.

Except for the following significant judgements/estimates made in responds to the adoption of IFRS 9, the significant judgments made by management in applying the Group's accounting policies and key sources of uncertainty were the same as those applied in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Determination on classification of financial assets

Classification and measurement of financial assets depends on the results 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 the assets is evaluated and their performance measured, the risks that affect the performance of the 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 asset 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

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, and it comes to stage 3 when it is credit impaired (but it is not purchased original credit impaired). 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 49 for more details.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.4 Significant accounting judgements and estimates (Continued)

Measurement of ECL (Continued)

Significant increase of credit risk (Continued)

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

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

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

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

  – for debt securities investments: significant deteriorations between the investment's initial external or internal credit rating and the credit rating at the reporting date. The Group considers that the debt securities have experienced a significant increase in credit risk if the securities are more than 30 days past due on its contractual payments.

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

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

  – for debt securities investments: significant deterioration in the investment's internal and external rating whereby the issuer is assessed to be typically in default, with little prospect for recovery of principal or interest; or, significant financial difficulty of the issuer. The Group considers that the debt securities are credit impaired if the securities are more than 90 days past due.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.4 Significant accounting judgements and estimates (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 49 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 49 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 49 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 49 for more details.

4. 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 unit that offers different products and serves different markets. Segment information is measured in accordance with the accounting policies and measurement criteria adopted by each segment when reporting to the board of directors, 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:

(a) Securities brokerage: This segment engages in the provision of securities dealing and broking, margin financing to margin clients and securities lending;

(b) Futures brokerage: This segment engages in futures dealing and broking, futures information consulting and training;

(c) Proprietary trading and other securities trading services: This segment engages in trading of equities, bonds, funds, derivatives and other financial products for the Group;

(d) Investment banking: This segment engages in the provision of corporate finance services including underwriting of equity and debt securities and financial advisory services to institutional clients;

(e) Asset management: This segment engages in the provision of portfolio management, investment advisory and transaction execution services;

(f) Private equity and alternative investment: This segment makes equity investments in private companies and realizes capital gains by exiting from these private equity investments through initial public offerings or share sales, or receives dividends from these portfolio companies;

(g) Hong Kong business: This segment mainly represents the business operations in securities brokerage, futures brokerage, securities research, investment banking, margin financing, money lending, asset management and insurance brokerage business that are carried out in Hong Kong; and

Others mainly represent head office operations, investment holding as well as interest income and interest expense arising from general working capital.

Inter-segment transactions, if any, are conducted with reference to the prices charged to third parties and there was no change in the basis during both periods. Segment profit or loss represents the profit earned or loss incurred 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.

Segment assets or liabilities are allocated to each segment, excluding deferred tax assets and liabilities. Inter-segment balances mainly resulted from futures brokerage transaction carried out by futures brokerage segment for proprietary trading and other securities trading services segment and are eliminated upon consolidation. The segment result excludes income tax expense while the segment assets and liabilities include prepaid taxes and current tax liabilities respectively.

(Amounts in thousands of Renminbi, unless otherwise stated)

4. SEGMENT REPORTING (CONTINUED)

The Group operates in two principal geographical areas in the People's Republic of China, Mainland China and Hong Kong, representing the location of both income from external customers and assets of the Group. Segment revenue and all assets of the Group in respect of Hong Kong business segment are attributable to operations in Hong Kong, while other segment revenue and assets of the Group are attributable to operations in Mainland China. No single customer contributes more than 10% of the Group's income for the six months ended 30 June 2018 and 2017.

The operating and reportable segment information provided to the CODM for the six months ended 30 June 2018 and 2017 is as follows:

	Securities brokerage	Futures brokerage	Proprietary trading and other securities trading services	Investment banking	Asset management	Private equity and alternative investments	Hong Kong business	Reportable segment total	Others	Eliminations	Consolidated total
For the six months ended 30 June 2018 (Unaudited)											
Segment revenue and results:											
Revenue and net investment gains											
– External	5,533,013	394,551	151,057	430,115	434,848	56,268	261,088	7,260,940	178,478	–	7,439,418
– Inter-segment	255,306	549	–	–	17,572	–	–	273,427	–	(273,427)	–
Other income and gains	10,931	15,084	–	–	526	15,529	7,397	49,467	3,056	–	52,523
Segment revenue and other income	5,799,250	410,184	151,057	430,115	452,946	71,797	268,485	7,583,834	181,534	(273,427)	7,491,941
Segment expenses	(3,414,443)	(234,382)	(1,000,498)	(190,973)	(411,349)	(32,936)	(194,042)	(5,478,623)	(564,544)	273,427	(5,769,740)
Segment result	2,384,807	175,802	(849,441)	239,142	41,597	38,861	74,443	2,105,211	(383,010)	–	1,722,201
Share of result of a joint venture	–	–	–	–	–	–	(2,328)	(2,328)	–	–	(2,328)
Profit/(loss) before income tax	2,384,807	175,802	(849,441)	239,142	41,597	38,861	72,115	2,102,883	(383,010)	–	1,719,873
For the six months ended 30 June 2017 (Unaudited)											
Segment revenue and results:											
Revenue and net investment gains											
– External	5,059,946	407,015	1,120,958	198,808	398,935	62,674	197,557	7,445,893	240,564	–	7,686,457
– Inter-segment	182,288	777	–	–	15,753	–	–	198,818	–	(198,818)	–
Other income and gains	11,629	7,912	–	–	–	2	4,251	23,794	(5,857)	–	17,937
Segment revenue and other income	5,253,863	415,704	1,120,958	198,808	414,688	62,676	201,808	7,668,505	234,707	(198,818)	7,704,394
Segment expenses	(2,865,461)	(256,331)	(943,238)	(297,021)	(301,529)	(16,297)	(150,632)	(4,830,509)	(455,505)	198,818	(5,087,196)
Segment result	2,388,402	159,373	177,720	(98,213)	113,159	46,379	51,176	2,837,996	(220,798)	–	2,617,198
Profit/(loss) before income tax	2,388,402	159,373	177,720	(98,213)	113,159	46,379	51,176	2,837,996	(220,798)	–	2,617,198

(Amounts in thousands of Renminbi, unless otherwise stated)

4. SEGMENT REPORTING (CONTINUED)

	Securities brokerage	Futures brokerage	Proprietary trading and other securities trading services	Investment banking	Asset management	Private equity and alternative investments	Hong Kong business	Reportable segment total	Others	Eliminations	Consolidated total
As at 30 June 2018 (Unaudited)											
Segment assets and liabilities											
Segment assets	143,595,004	18,700,852	71,682,990	1,593,970	13,903,445	3,088,976	9,598,477	262,163,714	152,302,202	(151,574,667)	262,891,249
Deferred tax assets											281,371
Group's total assets											263,172,620
Segment liabilities	138,019,058	16,737,429	74,480,087	980,239	12,789,306	390,431	6,372,691	249,769,241	100,072,416	(151,611,365)	198,230,292
Deferred tax liabilities											19,776
Group's total liabilities											198,250,068
Other segment information											
Depreciation and amortization	74,974	10,154	1,523	1,700	1,093	202	2,825	92,471	20,223	–	112,694
Impairment losses	173,832	–	2,475	519	1,206	–	4,916	182,948	31,485	–	214,433
Additions to non-current assets	33,037	11,202	–	–	463	8	901	45,611	40,868	–	86,479
Interest income from operations	3,606,869	226,012	192,212	–	37,112	506	131,591	4,194,302	94,228	–	4,288,530
Interest income from investments	–	–	402,979	–	87,652	–	–	490,631	–	–	490,631
Interest expenses	101,052	2,360	424,928	–	72,323	–	33,477	634,140	2,390,449	–	3,024,589
As at 31 December 2017 (Audited)											
Segment assets and liabilities											
Segment assets	137,329,069	16,560,226	56,373,411	960,988	20,258,373	3,018,147	9,208,348	243,708,562	155,745,356	(144,807,000)	254,646,918
Deferred tax assets											168,048
Group's total assets											254,814,966
Segment liabilities	136,902,073	14,718,487	58,980,057	826,820	18,963,201	396,956	6,048,975	236,836,569	97,724,679	(144,639,296)	189,921,952
Deferred tax liabilities											6,581
Group's total liabilities											189,928,533
Other segment information											
Depreciation and amortization	150,493	16,725	3,149	1,476	1,373	394	4,047	177,657	38,813	–	216,470
Impairment losses	35,763	–	637,625	(351)	2,473	–	7,906	683,416	(1,307)	–	682,109
Additions to non-current assets	107,539	9,885	–	–	962	300	12,199	130,885	106,077	–	236,962
Interest income from operations	6,181,884	431,445	240,950	1	89,209	13,767	203,283	7,160,539	183,480	–	7,344,019
Interest income from investments	–	–	825,968	–	259,548	20,151	–	1,105,667	–	–	1,105,667
Interest expenses	251,275	9,531	702,959	–	156,605	2	42,347	1,162,719	3,194,894	–	4,357,613

(Amounts in thousands of Renminbi, unless otherwise stated)

5. COMMISSION AND FEE INCOME

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Commission on securities dealing and broking and handling fee income	**1,966,110**	2,175,138
Underwriting and sponsors' fees	**287,014**	113,430
Commission on futures and options contracts dealing and broking and handling fee income	**145,189**	184,810
Consultancy and financial advisory fee income	**57,161**	31,030
Asset management fee income	**382,447**	312,977
Others	**51,009**	47,596
	2,888,930	2,864,981

6. INTEREST INCOME

The following is the analysis excluding interest income from investments:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Deposits with exchanges and a non-bank financial institution and bank balances	**939,882**	984,000
Advances to customers and securities lending	**2,135,482**	2,014,183
Financial assets held under resale agreements	**1,148,898**	428,776
Interest income from other financial assets	**64,268**	14,938
	4,288,530	3,441,897

(Amounts in thousands of Renminbi, unless otherwise stated)

7. INVESTMENT INCOME AND GAINS OR LOSSES

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Realized and unrealized gains/(losses) from		
– available-for-sale financial assets	**–**	264,108
– debt instruments measured at FVTOCI	**7,065**	–
– financial assets measured at FVTPL (required by IFRS 9)	**(711,104)**	–
– financial assets held for trading (required by IAS 39)	**–**	375,288
– financial assets designated at fair value through profit or loss (required by IAS 39)	**–**	14,409
– financial liabilities held for trading	**–**	(6,183)
– financial liabilities designated at FVTPL	**(24,188)**	35,696
– derivatives	**490,427**	(40,654)
Dividend income from		
– available-for-sale financial assets	**–**	156,735
– equity instruments measured at FVTOCI	**9,127**	–
Interest income from		
– available-for-sale financial assets	**–**	436,265
– debt instruments measured at FVTOCI	**402,979**	–
– debt instruments measured at amortized cost	**87,652**	–
– investments classified as loan and receivables	**–**	143,915
	261,958	1,379,579

8. IMPAIRMENT LOSSES

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Impairment/(reversals of impairment) in respect of the following assets:		
– Financial assets held under resale agreements (Note 26)	**28,660**	36,704
– Advances to customers (Note 30)	**46,020**	(3,545)
– Accounts receivable (Note 31)	**136,475**	2,504
– Other receivables (Note 32)	**1,208**	(1,725)
– Available-for-sale financial assets	**–**	194,377
– Debt instruments measured at FVTOCI (Note 21)	**412**	–
– Debt instruments measured at amortized cost (Note 23)	**2,301**	–
– Investments classified as loan and receivables (Note 25)	**–**	5,809
– Bank balances	**(643)**	–
	214,433	234,124

(Amounts in thousands of Renminbi, unless otherwise stated)

9. DEPRECIATION AND AMORTIZATION

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Depreciation for property and equipment	**87,733**	86,798
Amortization of other intangible assets	**24,961**	20,133
	112,694	106,931

10. STAFF COSTS

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Salaries, bonus and allowances	**1,087,429**	1,538,244
Social welfare	**310,213**	299,256
Contributions to annuity schemes	**64,797**	66,545
Others	**100,012**	96,484
	1,562,451	2,000,529

11. COMMISSION AND FEE EXPENSES

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Securities and futures dealing and broking expenses	**138,928**	108,564
Underwriting and sponsors' fee expenses	**1,527**	1,955
Other service expenses	**6,425**	6,995
	146,880	117,514

(Amounts in thousands of Renminbi, unless otherwise stated)

12. INTEREST EXPENSES

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Presented below are interests on the following liabilities:		
– Bonds payable	**1,643,956**	1,101,585
– Financial assets sold under repurchase agreements	**512,185**	372,178
– Financing instrument payables	**632,595**	176,736
– Accounts payable to brokerage clients	**101,338**	119,727
– Due to banks and other financial institutions	**61,276**	32,447
– Third-party interests in consolidated structured entities	**73,239**	107,529
	3,024,589	1,910,202

13. OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
General and administrative expenses	**185,265**	190,152
Turnover tax and surcharges	**41,722**	35,810
Minimum operating lease rentals in respect of rented premises	**274,750**	255,541
Data transmission expenses	**101,200**	103,106
Securities investor protection funds	**19,275**	36,686
Business travel expenses	**33,001**	33,803
Utilities expenses	**17,971**	17,200
Sundry expenses	**35,509**	45,598
	708,693	717,896

(Amounts in thousands of Renminbi, unless otherwise stated)

14. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Current income tax	**456,240**	149,827
PRC Enterprise Income Tax	**449,702**	141,073
Hong Kong Profits Tax	**6,538**	8,754
Deferred income tax (Note 29)	**(70,861)**	336,156
	385,379	485,983

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate applicable to PRC enterprises is 25%.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit.

15. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share for the six months ended 30 June 2018 and the six months ended 30 June 2017 is based on the profit attributable to owners of the Company and the number of ordinary shares in issue during the periods.

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Profit attributable to owners of the Company	**1,311,046**	2,112,212
Weighted average number of shares in issue (2017: weighted average number of shares in issue) (thousand)	**10,137,259**	10,064,331
Basic earnings per share (in RMB)	**0.13**	0.21

No diluted earnings per share has been presented for the six months ended 30 June 2018 and 2017 as the Group had no potential ordinary shares in issue during the periods.

(Amounts in thousands of Renminbi, unless otherwise stated)

16. DIVIDEND

No interim dividend was proposed during the current interim period by the Board of Directors in respect of the interim period for the six months ended 30 June 2018 (30 June 2017: Nil).

A dividend in respect of 2017 of RMB1.20 per 10 shares (inclusive of tax), or a total of RMB1,216.47 million, based on a total of 10,137,258,757 shares in issue, was approved at the Annual General Meeting on 26 June 2018.

A dividend in respect of 2016 of RMB1.55 per 10 shares (inclusive of tax), or a total of RMB1,571.28 million, based on a total of 10,137,258,757 shares in issue, was approved at the Annual General Meeting on 22 June 2017.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Electronic and communication equipment	Motor vehicles	Office equipment	Leasehold improvements	Total
COST						
As at 1 January 2017 (Audited)	245,067	727,414	95,352	135,407	314,235	1,517,475
Additions	3,296	59,856	1,637	11,580	89,549	165,918
Disposals/written-off	–	(56,607)	(2,879)	(13,620)	(71,302)	(144,408)
As at 31 December 2017 (Audited)	248,363	730,663	94,110	133,367	332,482	1,538,985
ACCUMULATED DEPRECIATION						
As at 1 January 2017 (Audited)	131,029	581,019	82,816	109,169	215,538	1,119,571
Charge for the year	10,683	83,637	3,835	10,871	68,247	177,273
Disposals/written-off	–	(53,420)	(2,186)	(12,030)	(71,302)	(138,938)
As at 31 December 2017 (Audited)	141,712	611,236	84,465	108,010	212,483	1,157,906
CARRYING VALUES						
As at 31 December 2017 (Audited)	106,651	119,427	9,645	25,357	119,999	381,079
COST						
As at 1 January 2018 (Audited)	248,363	730,663	94,110	133,367	332,482	1,538,985
Additions	473	36,668	1,678	3,078	30,792	72,689
Disposals/written-off	–	(16,881)	(3,010)	(4,892)	(18,133)	(42,916)
As at 30 June 2018 (Unaudited)	248,836	750,450	92,778	131,553	345,141	1,568,758
ACCUMULATED DEPRECIATION						
As at 1 January 2018 (Audited)	141,712	611,236	84,465	108,010	212,483	1,157,906
Charge for the period	5,334	42,192	828	4,123	35,256	87,733
Disposals/written-off	–	(13,298)	(2,618)	(4,530)	(18,133)	(38,579)
As at 30 June 2018 (Unaudited)	147,046	640,130	82,675	107,603	229,606	1,207,060
CARRYING VALUES						
As at 30 June 2018 (Unaudited)	101,790	110,320	10,103	23,950	115,535	361,698

(Amounts in thousands of Renminbi, unless otherwise stated)

18. INTEREST IN A JOINT VENTURE

(1) Details of the Group's investment in a joint venture are as follows:

	As at 30 June 2018 (Unaudited)
Cost of investment in a joint venture	808,752
Share of post-acquisition loss and other comprehensive income	(5,816)
	802,936

(2) Details of the Group's joint venture at the end of the reporting period are as follows:

Name of entity	Country of incorporation/ registration	Principal place of business	Proportion of t ownership interest held by the Group 30/6/2018	Proportion of voting rights held by the Group 30/6/2018	Principal activity
CGS-CIMB Securities International Pte. Ltd. ("CGS-CIMB")	Singapore	South East Asia, United States and United Kingdom	50.00%	50.00%	Securities broking and research

Pursuant to the Share Purchase Agreement (the "SPA") entered into between China Galaxy International Financial Holdings Company Limited, a wholly-owned subsidiary of the Company, and CIMB Group Sdn Bhd ("CIMB"), the Group made a payment of SGD150 million to CIMB in January 2018, representing 90% of the total consideration of SGD166 million for the purchase of 50% equity interest in CIMB Securities International Pte. Ltd..

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(1) Required by IFRS 9 as at 30 June 2018:

	As at 30 June 2018 (Unaudited)
Non-current	
Debt securities	491,266
Funds	2,961,851
Trust schemes (a)	2,249,655
Other investments (b)	2,074,924
	7,777,696
Current	
Debt securities	20,412,038
Equity securities	8,690,806
Funds	7,725,037
Structured deposits and wealth management products	934,925
Trust schemes (a)	507,037
Other investments (b)	669,823
	38,939,666

(Amounts in thousands of Renminbi, unless otherwise stated)

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

(2) Required by IAS 39 as at 31 December 2017:

	As at 31 December 2017 (Audited)
Financial assets held for trading	
Debt securities	15,773,451
Equity securities	3,449,700
Funds	4,026,553
	23,249,704
Financial assets designated at fair value through profit or loss	
Convertible bonds	273,604
Equity securities	3,215,225
Funds	498,858
Structured deposits and wealth management products	628,543
Other investments (b)	1,144,362
	5,760,592

(a) Included in the balance mainly represents investments in trust schemes which were issued and managed by a non-bank financial institution. Underlying assets of these trust schemes are asset-backed securities issued by a bank. The schemes bear effective interest at 5.66%-17.74% per annum. Upon initial application of IFRS 9 as at 1 January 2018, these trust schemes have been reclassified from investments classified as loan and receivables because their cash flows do not represent solely payments of principal and interest on the principal amount outstanding.

(b) Included in the balance mainly represents investments in: (i) collective asset management schemes issued and managed by the Group, whereby the Group's interest in and exposure to them are not significant, (ii) targeted asset management schemes (or trust investments) managed by non-bank financial institutions, which mainly invest in debt securities, publicly traded equity securities listed in the PRC, funds and loans, (iii) limited partnerships managed by non-bank financial institutions, which mainly invest in unlisted enterprises, (iv) equity investments in unlisted enterprises.

(Amounts in thousands of Renminbi, unless otherwise stated)

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 31 December 2017			
	Cost (Audited)	Fair value changes (Audited)	Impairment (Audited)	Carrying amount (Audited)
Non-current				
Measured at fair value:				
Debt securities	1,029,810	(10,143)	–	1,019,667
Funds	4,141,566	(362,820)	–	3,778,746
Other investments (1)	9,347,495	772,258	–	10,119,753
Measured at cost:				
Unlisted Equity securities (2)	415,700	–	(147,500)	268,200
	14,934,571	399,295	(147,500)	15,186,366
Current				
Measured at fair value:				
Debt securities	15,384,420	(252,661)	–	15,131,759
Equity securities	4,055,743	(381,375)	(649,152)	3,025,216
Other investments (1)	708,248	9,423	(171)	717,500
	20,148,411	(624,613)	(649,323)	18,874,475

(1) Included in the balance represents an investment in a designated account managed by China Securities Finance Corporation Limited (the "CSFCL"). The relevant arrangement of the investment is disclosed in the Group's annual financial statements for the year ended 31 December 2017.

The remaining balance mainly represents investments in: (i) collective asset management schemes issued and managed by the Group, whereby the Group's interest in and exposure to them are not significant; (ii) wealth management products issued by banks, (iii) targeted asset management schemes (or trust investments) managed by non-bank financial institutions, which mainly invest in debt securities, publicly traded equity securities listed in the PRC and loans.

(2) As the reasonable range of fair value estimation is so significant that the directors of the Company are of the opinion that the fair value cannot be measured reliably. The values of these securities are measured at cost less impairment at the end of each reporting period.

In the opinion of the directors of the Company, non-current available-for-sale financial assets are not expected to be realized within one year from the end of the reporting periods.

(Amounts in thousands of Renminbi, unless otherwise stated)

21. DEBT INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 30 June 2018 (Unaudited)
Non-current	
Debt securities	101,066
Current	
Debt securities	16,028,996

The movements in the allowance for impairment on debt instruments measured at fair value through other comprehensive income are set out below:

	Six months ended 30 June 2018 (Unaudited)
At the end of last year	–
Impact of adopting IFRS 9	29,824
At beginning of the period	29,824
Impairment losses recognized, net of reversal (Note 8)	412
At end of the period	30,236

22. EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 30 June 2018 (Unaudited)
Non-current	
Perpetual bonds	2,005,546
Equity investments (2)	8,297,159
	10,302,705

(1) These equity instruments are neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies. At the date of initial application of IFRS 9, the Group elected to present in OCI for the subsequent changes in fair value of these investments previously classified as available-for-sale financial assets carried at fair value under IAS 39.

(2) As at 30 June 2018, the balance represented the investment in a designated account managed by CSFCL, reclassified from available-for-sale financial assets upon the new adoption of IFRS 9 (see Note 20).

As at 30 June 2018, based on the investment report provided by CSFCL, the cost and fair value of the Company's investment managed by CSFCL were RMB7,800 million and RMB8,297 million.

(Amounts in thousands of Renminbi, unless otherwise stated)

23. DEBT INSTRUMENTS MEASURED AT AMORTIZED COST

	As at 30 June 2018 (Unaudited)
Non-current	
Debt securities (1)	3,441,250
Less: Impairment	(2,384)
	3,438,866
Current	
Debt securities (1)	161,000
Unsecured loans (2)	1,610,636
Less: Impairment	(2,392)
	1,769,244

(1) As at 30 June 2018, the interest rates on these debt securities are between 3.85%-8.30% per annum.

(2) As at 30 June 2018, these unsecured loans bear effective interests at 4.35%-7.10% per annum and are repayable within one year.

(3) The movements in the allowance for impairment on debt instruments measured at amortized cost are set out below:

	Six months ended 30 June 2018 (Unaudited)
At the end of last year	–
Impact of adopting IFRS 9	2,475
At beginning of the period	2,475
Impairment losses recognized, net of reversal (Note 8)	2,301
At end of the period	4,776

24. HELD-TO-MATURITY INVESTMENTS

	As at 31 December 2017 (Audited)
Non-current	
Debt securities	1,419,541
Current	
Debt securities	2,125,632

As at 31 December 2017, the interest rates on these securities are between 3.85%-5.50% per annum.

(Amounts in thousands of Renminbi, unless otherwise stated)

25. INVESTMENTS CLASSIFIED AS LOAN AND RECEIVABLES

	As at 31 December 2017 (Audited)
Non-current	
Trust schemes [1]	2,736,282
Less: Impairment	–
	2,736,282
Current	
Unsecured loans [2]	2,249,759
Less: Impairment	(1,894)
	2,247,865

(1) As at 31 December 2017, the Group invested in non-current trust schemes which were issued and managed by a non-bank financial institution. Underlying assets of these trust schemes are asset-backed securities issued by a bank. The schemes bear effective interest at 5.93%-16.79% per annum. Upon initial application of IFRS 9 as at 1 January 2018, these trust schemes have been reclassified to financial assets measured at FVTPL because their cash flows do not represent solely payments of principal and interest on the principal amount outstanding.

(2) As at 31 December 2017, these unsecured loans bear effective interests at 4.35%-6.50% per annum and are repayable within one year.

(3) The movements in the allowance for impairment on investments classified as loan and receivables are set out below:

	Six months ended 30 June 2018 (Unaudited)
At the end of last year	**1,894**
Impact of adopting IFRS 9	**(1,894)**
At beginning of the period	**–**
Impairment losses recognized, net of reversal (Note 8)	**–**
At end of the period	**–**

(Amounts in thousands of Renminbi, unless otherwise stated)

26. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Non-current		
Analyzed by collateral type:		
Stocks	**25,661,169**	23,974,206
Less: Impairment	**(77,587)**	(58,181)
	25,583,582	23,916,025
Analyzed by market of collateral:		
Stock exchanges	**25,583,582**	23,916,025
Current		
Analyzed by collateral type:		
Stocks	**15,325,494**	12,346,091
Bonds	**2,941,675**	1,962,213
Funds	**9,440**	53,748
Less: Impairment	**(31,220)**	(21,946)
	18,245,389	14,340,106
Analyzed by market of collateral:		
Stock exchanges	**18,245,389**	14,340,106

The movements in the allowance for impairment on financial assets held under resale agreements are set out below:

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
At the end of last year	**80,127**	61,902
Impact of adopting IFRS 9	**20**	–
At beginning of the period	**80,147**	61,902
Impairment losses recognized, net of reversal (Note 8)	**28,660**	36,704
At end of the period	**108,807**	98,606

As at 30 June 2018, the fair values of collateral received by the Group amounted to approximately RMB109,159 million (31 December 2017: RMB126,708 million).

(Amounts in thousands of Renminbi, unless otherwise stated)

27. DEPOSITS WITH EXCHANGES AND A NON-BANK FINANCIAL INSTITUTION

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Non-current		
Deposits with stock exchanges	**712,766**	453,443
Deposits with futures and commodity exchanges	**6,020**	25,123
Guarantee fund paid to Shenzhen Stock Exchange	**5,282**	5,780
Others	**5,049**	492
	729,117	484,838
Current		
Deposits with futures and commodity exchanges	**5,612,817**	5,277,048
CSFCL	**4,466**	74,664
	5,617,283	5,351,712

28. BANK BALANCES

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
House accounts	**6,807,680**	8,964,433
Cash held on behalf of customers	**52,047,129**	50,777,266
	58,854,809	59,741,699

Bank balances comprise time and demand deposits at bank which bear interest at the prevailing market rates.

The Group maintains accounts with banks to hold customers' deposits arising from normal business transactions. The corresponding liabilities are recorded as accounts payable to brokerage clients (Note 40).

As at 30 June 2018, the ECL allowance of bank balances amounted to RMB225 thousand (31 December 2017: nil).

(Amounts in thousands of Renminbi, unless otherwise stated)

29. DEFERRED TAXATION

For presentation purpose, certain deferred tax assets and deferred tax liabilities have been offset. The following is an analysis of the deferred tax balances for financial reporting purposes:

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Deferred tax assets	**281,371**	168,048
Deferred tax liabilities	**19,776**	6,581
	261,595	161,467

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Net deferred income tax assets, at beginning of the period	**146,501**	239,630
Recognized in profit or loss	**70,861**	(336,156)
Recognized in other comprehensive income	**44,246**	(65,329)
Reclassified from other comprehensive income to retained profits	**(13)**	–
Net deferred income tax liabilities/assets, at end of the period	**261,595**	(161,855)

The movements of deferred tax assets and liabilities are set out below:

	Changes in fair value of financial assets at fair value through profit or loss	Changes in fair value of available-for-sale financial assets	Changes in fair value of financial assets at FVTOCI	Accrued staff costs	Allowance of impairment losses	Accrued interest expenses	Accrued expenses	Changes in fair value of derivative instruments	Accrued interest income	Others	Total
As at 1 January 2017 (Audited)	167,124	145,235	–	260,562	90,823	430,154	18,754	4,700	(872,716)	(5,006)	239,630
(Charge)/credit to profit or loss	44,176	–	–	(144,366)	118,574	(9,940)	(1,017)	(4,930)	(3,454)	11,699	10,742
Charge to other comprehensive income	–	(88,905)	–	–	–	–	–	–	–	–	(88,905)
As at 31 December 2017 (Audited)	211,300	56,330	–	116,196	209,397	420,214	17,737	(230)	(876,170)	6,693	161,467
Effect of adoption of IFRS 9 (Note 3)	349,599	(56,330)	(155,398)	–	(152,837)	–	–	–	–	–	(14,966)
As at 1 January 2018 (Restated)	560,899	–	(155,398)	116,196	56,560	420,214	17,737	(230)	(876,170)	6,693	146,501
(Charge)/credit to profit or loss	(104,192)	–	–	1,807	49,464	86,934	18,222	(49,452)	67,461	617	70,861
Credit to other comprehensive income	–	–	44,246	–	–	–	–	–	–	–	44,246
Reclassified from other comprehensive income to retained profits	–	–	(13)	–	–	–	–	–	–	–	(13)
As at 30 June 2018 (Unaudited)	**456,707**	**-**	**(111,165)**	**118,003**	**106,024**	**507,148**	**35,959**	**(49,682)**	**(808,709)**	**7,310**	**261,595**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes, if any, and the taxes are to be levied by the same tax authority, and of the same taxable entity.

(Amounts in thousands of Renminbi, unless otherwise stated)

30. ADVANCES TO CUSTOMERS

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Loans to margin clients	**52,205,428**	59,473,426
Other loans and advances	**1,599,906**	690,963
Less: Impairment	**(154,451)**	(100,658)
	53,650,883	60,063,731

(1) The credit facility limits for margin clients are determined by the discounted market value of the collateral securities accepted by the Group.

No aging analysis is disclosed as in the opinion of the directors of the Company, the aging analysis does not give additional value to the users of these condensed consolidated financial statements in view of the nature of business of securities margin financing.

The Group determines the allowance for impaired debts based on the evaluation of collectability and on management's judgment including the assessment of change in credit quality and collateral.

(2) The movements in the allowance for impairment are set out below:

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
At the end of last year	**100,658**	83,115
Impact of adopting IFRS 9	**7,773**	–
At beginning of the period	**108,431**	83,115
Impairment losses recognized, net of reversal (Note 8)	**46,020**	(3,545)
At end of the period	**154,451**	79,570

The concentration of credit risk is limited due to the customer base being large and diversified.

(Amounts in thousands of Renminbi, unless otherwise stated)

31. ACCOUNTS RECEIVABLE

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Accounts receivable of:		
Client securities settlement	**635,213**	58,963
Brokers and dealers	**70,989**	119,421
Clearing house	**82,284**	298,733
Underwriting and sponsors fee	**359,040**	186,480
Trading rights rental commission	**63,062**	73,930
Asset management and funds distribution handling fee	**289,074**	249,291
Others	**172,200**	32,528
Subtotal	**1,671,862**	1,019,346
Less: Impairment	**(150,711)**	(16,504)
Total	**1,521,151**	1,002,842

Aging analysis of accounts receivable is as follows:

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Within 1 year	**1,391,885**	846,326
Between 1 and 2 years	**9,147**	6,899
Between 2 and 3 years	**720**	148,614
Over 3 years	**119,399**	1,003
	1,521,151	1,002,842

The movements in the allowance for impairment on accounts receivable are set out below:

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
At beginning of the period	**16,504**	13,503
Impairment losses recognized, net of reversal (Note 8)	**136,475**	2,504
Amounts written off	**(2,268)**	(276)
At end of the period	**150,711**	15,731

(Amounts in thousands of Renminbi, unless otherwise stated)

32. OTHER RECEIVABLES AND PREPAYMENTS

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Prepaid taxes	28,150	4,162
Interests receivable	3,356,034	3,653,101
Prepaid expenses	217,259	132,209
Others	115,239	255,540
Subtotal	3,716,682	4,045,012
Less: Impairment	(17,835)	(16,662)
Total	3,698,847	4,028,350

The movements in the allowance for impairment on other receivables are set out below:

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
At beginning of the period	16,662	18,940
Impairment losses recognized, net of reversal (Note 8)	1,208	(1,725)
Amounts written off	(35)	(1,436)
At end of the period	17,835	15,779

(Amounts in thousands of Renminbi, unless otherwise stated)

33. DERIVATIVE FINANCIAL INSTRUMENTS

	As at 30 June 2018 (Unaudited)			As at 31 December 2017 (Audited)		
	Nominal amounts	Asset	Liability	Nominal amounts	Asset	Liability
Equity Return Swap	166,424	14,922	–	146,395	7,645	1,095
Options	3,627,154	123,305	255,204	1,051,060	15,291	134,055
Stock index futures	4,149,250	165,370	44,440	3,242,325	30,024	23,512
Less: settlement		(165,370)	(44,440)		(30,024)	(23,512)
Treasury bond futures	1,816,403	2,021	14,607	1,712,025	3,171	4,378
Less: settlement		(2,021)	(14,607)		(3,171)	(4,378)
Commodity Futures	339,077	8,560	1,737	120,885	114	2,027
Less: settlement		(8,560)	(1,737)		(114)	(2,027)
Interest Rate Swap	7,310,000	25,462	25,745	1,070,000	1,025	844
Less: settlement		(25,462)	(25,745)		(1,025)	(844)
Total	17,408,308	138,227	255,204	7,342,690	22,936	135,150

(1) The Group uses derivatives primarily for hedging its positions in investments. In certain cases, the Group also entered into contracts on derivatives for proprietary trading.

(2) Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in stock index futures, treasury bond futures, commodity futures and interest rate swap were settled daily and the corresponding receipts and payments were included in "clearing settlement funds". Accordingly, the net position of the stock index futures, treasury bond futures, commodity future and interest rate swap contracts was nil at the end of each reporting period.

34. CLEARING SETTLEMENT FUNDS

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Clearing settlement funds held with clearing houses for:		
– House accounts	1,111,472	1,034,706
– Clients accounts	13,130,066	11,503,786
	14,241,538	12,538,492

These clearing settlement funds are held by the clearing houses for the Group, and these balances carry interest at prevailing market interest rates.

(Amounts in thousands of Renminbi, unless otherwise stated)

35. BONDS PAYABLE

As at 30 June 2018 and 31 December 2017, bonds payable comprised of subordinated bonds and corporate bonds.

Details of the bonds issued by the Company are as follows:

Non-current

Issue date	Maturity date	Coupon rate	As at 30 June 2018 Carrying amount (Unaudited)	As at 31 December 2017 Carrying amount (Audited)
4 February 2015	4 February 2020	4.80%	995,250	993,750
15 March 2016*	14 March 2021	4.30%	299,600	299,300
1 June 2016	1 June 2019	3.10%	–	4,881,489
1 June 2016	1 June 2021	3.35%	597,200	596,720
23 August 2016	23 August 2019	2.89%	1,491,875	1,488,125
23 August 2016	23 August 2021	3.14%	990,750	989,250
19 September 2016	19 September 2019	3.18%	3,500,000	3,500,000
27 February 2017	27 February 2019	4.65%	–	2,495,625
23 March 2017	23 March 2019	4.98%	–	1,756,530
23 March 2017	23 September 2019	4.98%	2,496,848	2,495,497
28 April 2017	28 April 2019	4.95%	–	4,621,810
28 April 2017	28 April 2020	4.99%	4,711,778	4,709,429
10 July 2017	10 July 2020	4.55%	4,981,132	4,971,698
18 September 2017	18 September 2020	4.69%	3,982,390	3,974,843
20 October 2017	20 October 2019	5.03%	3,988,208	3,983,491
6 December 2017	6 December 2019	5.53%	3,986,635	3,981,918
17 January 2018	17 January 2020	5.55%	3,487,618	–
17 January 2018	17 January 2021	5.65%	1,494,104	–
12 February 2018	12 February 2020	5.60%	1,195,519	–
12 February 2018	12 February 2021	5.70%	995,938	–
14 March 2018	14 March 2021	5.15%	2,483,229	–
19 April 2018	19 April 2020	5.20%	797,358	–
19 April 2018	19 April 2021	5.30%	3,188,931	–
24 May 2018	24 May 2020	5.38%	5,480,975	–
			51,145,338	45,739,475

(Amounts in thousands of Renminbi, unless otherwise stated)

35. BONDS PAYABLE-CONTINUED (Continued)

Current

Issue date	Maturity date	Coupon rate	As at 30 June 2018 Carrying amount (Unaudited)	As at 31 December 2017 Carrying amount (Audited)
04 February 2015	04 February 2018	4.65%	–	1,499,375
24 April 2015	24 April 2018	5.60%	–	5,800,000
1 June 2016	1 June 2019	3.10%	4,888,022	–
24 October 2016	24 October 2018	3.15%	4,000,000	4,000,000
27 February 2017	27 February 2019	4.65%	2,497,500	–
23 March 2017	23 March 2019	4.98%	1,758,017	–
28 April 2017	28 April 2019	4.95%	4,625,086	–
29 August 2017	29 May 2018	4.79%	–	1,925,953
29 August 2017	29 August 2018	4.79%	1,799,293	1,796,718
20 October 2017	20 July 2018	4.77%	1,000,000	992,752
			20,567,918	16,014,798

All of these bonds are denominated in RMB.

* For the bonds issued on 15 March 2016, the Group has an option to extend the term of the bonds for another two years but then there will be a 300 basis point upward adjustment to the interest rates. Other than this, there are no early redemption or extension options embedded in these bonds.

36. FINANCING INSTRUMENT PAYABLES

Financing instrument payables is a special type of financing allowed by CSRC.

As at 30 June 2018, for financing instrument payables issued by the Company, their coupon rates are from 4.10% to 6.66% (31 December 2017: 4.10% to 5.60%). Their principals and interests are not associated with any particular securities.

(Amounts in thousands of Renminbi, unless otherwise stated)

37. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Non-current		
Financial liabilities designated at fair value through profit or loss:		
Financial instruments payable linked to stock index	**28,216**	18,054
Deposits from clients participating in equity swap	**–**	7,316
	28,216	25,370
Current		
Financial liabilities designated at fair value through profit or loss:		
Financial instruments payable linked to stock index	**750,457**	238,407
Deposits from clients participating in equity swap	**66,859**	4,714
	817,316	243,121

Financial instruments linked to stock index are financing instruments issued by the Group and its returns to holders are linked to performance of stock index.

Deposits from clients participating in equity swaps are payable to the clients at maturity of the corresponding derivatives and its balance is linked to performance of the corresponding equity swaps.

(Amounts in thousands of Renminbi, unless otherwise stated)

38. OTHER PAYABLES AND ACCRUALS

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Non-current		
Third-party interests in consolidated structured entities	**2,814,853**	3,068,041
Interests payable	**–**	88,930
	2,814,853	3,156,971
Current		
Third-party interests in consolidated structured entities	**215,589**	305,412
Interests payable	**2,034,489**	1,604,394
Customer deposits held for swap transactions	**1,221,687**	1,134,205
Payables to margin clients	**795,919**	1,009,228
Payables to clearing houses	**2,077**	60,478
VAT and other taxes	**76,292**	323,989
Accrued expenses	**209,895**	92,654
Sundry payables	**157,342**	114,056
Payable for the securities investor protection fund	**43,550**	44,696
Dividends payable	**1,216,471**	27,171
Others	**791,668**	429,297
	6,764,979	5,145,580

(Amounts in thousands of Renminbi, unless otherwise stated)

39. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Secured short-term bank loans [(1)]	**641,185**	990,541
Unsecured short-term bank loans [(2)]	**3,261,338**	2,059,790
	3,902,523	3,050,331

(1) The short-term bank loans borrowed by the Group are secured by listed shares in Hong Kong pledged to the Group as a security for advances to customers (with customers' consent) with a fair value of approximately RMB933 million (31 December 2017: RMB2,202 million). These short-term bank loans bear interest at Hibor plus 125 to 160 basis point per annum (31 December 2017: Hibor plus 125 to 155 basis point per annum) and are repayable within 7 days (31 December 2017: within 1 month).

(2) As at 30 June 2018, the unsecured short-term bank loans bear interest at Hibor plus 155 to 200 basis point per annum (31 December 2017: 1.90%-2.50% per annum) and are repayable within 1 month (31 December 2017: within 1 month).

40. ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

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

No aging analysis is disclosed as in the opinion of the directors of the Company, the aging analysis does not give additional value to the readers of the condensed consolidated financial statements in view of the nature of these businesses.

Accounts payable to brokerage clients mainly include money held on behalf of clients at banks and at clearing houses by the Group and are interest bearing at the prevailing market interest rate.

As at 30 June 2018, included in the Group's accounts payable to brokerage clients were approximately RMB6,726 million (31 December 2017: RMB5,799 million) received from clients for margin financing and securities lending arrangement.

41. ACCRUED STAFF COSTS

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Salaries, bonus and allowances	**1,763,565**	2,913,795
Social welfare	**15,389**	10,906
Annuity schemes	**1,961**	13,769
Supplementary retirement benefits	**302,990**	308,056
Early retirement benefits	**1,616**	3,966
Others	**157,929**	139,105
	2,243,450	3,389,597

42. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Analyzed by collateral type:		
Bonds	**16,845,045**	13,260,155
Rights and interests in margin loans	**4,150,000**	4,150,000
Funds	**1,201,732**	1,306,069
	22,196,777	18,716,224
Analyzed by market of collateral:		
Stock exchanges	**15,846,777**	13,561,724
Interbank bond market	**2,200,000**	1,004,500
Over the counter	**4,150,000**	4,150,000
	22,196,777	18,716,224

Financial assets sold under repurchase agreements bear effective interest at 3.30%-9.59% per annum (31 December 2017: 3.63%-5.30% per annum).

43. SHARE CAPITAL

The Company's number of shares and nominal value are as follows:

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Issued and fully paid ordinary shares of RMB1 each (in thousands)		
Domestic shares	**6,446,274**	6,446,274
H shares	**3,690,985**	3,690,985
	10,137,259	10,137,259
Share capital (in RMB'000)		
Domestic shares	**6,446,274**	6,446,274
H shares	**3,690,985**	3,690,985
	10,137,259	10,137,259

On 23 January 2017, the Company completed its A Share offering of 600 million shares with nominal value of RMB1 per share at a price of RMB6.81 per share.

(Amounts in thousands of Renminbi, unless otherwise stated)

44. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the followings:

	As at 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Bank balances-house accounts	**6,480,716**	5,306,705
Clearing settlement funds-house accounts	**1,111,472**	1,051,485
	7,592,188	6,358,190

Cash and cash equivalent does not include bank deposits with original maturity of more than three months held by the Group and restricted bank deposits. As at 30 June 2018, bank deposits with original maturity of more than three months held by the Group were RMB327 million (30 June 2017: RMB1,099 million) and there was no bank deposits restricted for use (30 June 2017: Nil).

45. INTERESTS IN STRUCTURED ENTITIES

(a) Structured entities set up and managed by the Group

Structured entities consolidated by the Group include the asset management schemes, funds and other investments where the Group involves as investment manager or investment consultant and also as investor. These special vehicles issue units to investors, including the Group, to finance its operations, which are primarily investments in various debt and equity instruments.

As at 30 June 2018, the total assets of the consolidated structured entities are RMB13,683 million (31 December 2017: RMB14,968 million) and the carrying amount of third party interests in the consolidated collective asset management schemes are RMB3,030 million (31 December 2017: RMB3,373 million).

The Group also has interests in unconsolidated collective asset management schemes which the remuneration of the Group is commensurate with the services provided and the variable returns the Group exposed to are not considered significant. The Group therefore considers such decision-making rights is acting as an agent for the investors and hence did not consolidate these structured entities.

The size of unconsolidated structured entities managed by the Group amounted to RMB294,132 million as at 30 June 2018 (31 December 2017: RMB329,407 million). The Group's interests is equal to the maximum exposure to loss of interests held by the Group in these unconsolidated structured entities, which are amounted to RMB508 million as at 30 June 2018 (31 December 2017: RMB539 million).

During the period, the amount of management fee income and investment gains from unconsolidated asset management schemes managed by the Group amounted to RMB433 million as at 30 June 2018 (six months ended 30 June 2017: RMB313 million).

(Amounts in thousands of Renminbi, unless otherwise stated)

45. INTERESTS IN STRUCTURED ENTITIES (Continued)

(b) Structured entities set up and managed by third party institutions in which the Group holds an interest

The types of structured entities that the Group does not consolidate but in which it holds an interest include funds, asset management schemes, trust schemes, asset-backed securities and wealth management products issued by banks or other financial institutions. The nature and purpose of these structured entities is to generate fees from managing assets on behalf of investors. These vehicles are financed through the issue of units to investors.

The carrying amount of the related accounts in the consolidated statement of financial position is equal to the maximum exposure to loss of interests held by the Group in the unconsolidated structured entities as 30 June 2018 and 31 December 2017, which are listed as below:

	As at 30 June 2018 Financial assets measured at fair value through profit or loss (Unaudited)
Carrying amount of interests held by the Group	
– Funds	**10,686,888**
– Trust schemes and wealth management products	**3,245,617**
– Asset management schemes	**507,901**
– Others	**1,792,390**
Total	**16,232,796**

	As at 31 December 2017				
	Available for-sale financial assets (Audited)	Financial assets held for trading (Audited)	Financial assets designated at fair value through profit or loss (Audited)	Investments classified as loan and receivables (Audited)	Total (Audited)
Carrying amount of interests held by the Group					
– Funds	3,778,746	4,026,553	498,858	–	8,304,157
– Trust schemes, structured deposits and wealth management products	1,713,040	–	6,543	2,736,282	4,455,865
– Asset management schemes	195,870	–	342,708	–	538,578
– Others	273,754	–	801,654	–	1,075,408
Total	5,961,410	4,026,553	1,649,763	2,736,282	14,374,008

(Amounts in thousands of Renminbi, unless otherwise stated)

46. OPERATING LEASE COMMITMENTS

The Group as lessee

At 30 June 2018 and 31 December 2017, the Group had commitments for total future minimum lease payments under non-cancellable operating leases in respect of rented premises falling due as follows:

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Within 1 year	**559,773**	457,136
Beyond 1 year and not more than 5 years	**648,550**	637,447
More than 5 years	**12,332**	67,112
	1,220,655	1,161,695

Lease of rented premises are negotiated with fixed lease term for 1 year to 18 years (31 December 2017: 1 year to 13 years).

The Group as lessor

At 30 June 2018 and 31 December 2017, the Group did not have material lease commitments as lessor.

47. CAPITAL COMMITMENTS

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Contracted but not provided for		
Leasehold improvements	**12,910**	7,255
Property, plant and equipment purchase	**68,776**	–

(Amounts in thousands of Renminbi, unless otherwise stated)

48. RELATED PARTY TRANSACTIONS

(a) Transactions and balances with governmental related entities operated in the PRC

(1) Immediate holding company and its fellow subsidiaries

Galaxy Financial Holdings is a financial holding company approved by the State Council of the PRC and was established in Beijing on 8 August 2005. Galaxy Financial Holdings owned 5,160,610,864 shares (31 December 2017: 5,160,610,864 shares), representing 50.91% of the entire equity interest of the Company as at 30 June 2018 (31 December 2017: 50.91%). The shareholders of Galaxy Financial Holdings are Central Huijin Investment Ltd. ("Central Huijin") with 69.07% equity interest, the Ministry of Finance (the "MOF") with 29.05% equity interest and the National Council for Social Security Fund (the "SSF") with 1.88% equity interest.

Central Huijin is a wholly-owned subsidiary of China Investment Corporation Limited, and is established in Beijing, PRC. Central Huijin was established to hold certain equity investments as authorized by the State Council and does not engage in other commercial activities. Central Huijin exercises legal rights and obligations in the Group on behalf of the PRC Government.

MOF is one of the ministries under the State Council, primarily responsible for state fiscal revenue and expenditures, and taxation policies.

SSF is a government agency at the ministerial level directly under the State Council of the PRC, primarily responsible for the management and operation of National Social Security Fund.

During the six months ended 30 June 2018 and 30 June 2017, the Group provided securities brokerage and asset management services to Galaxy Financial Holdings and details of the significant transactions and balances as at 30 June 2018 and 31 December 2017 are set out below.

	As at 30 June (Unaudited)	As at 31 December (Audited)
Accounts receivable	**4,070**	9,055
Accounts payable to brokerage clients	**3,442**	1,075
Dividends payable	**619,273**	–
Financial assets measured at fair value through profit or loss	**–**	300,000
Financial instrument payables	**259,050**	781,600
Interest payable	**2,522**	7,579
Other payables and accruals	**9,595**	–

(Amounts in thousands of Renminbi, unless otherwise stated)

48. RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions and balances with governmental related entities operated in the PRC (Continued)

(1) Immediate holding company and its fellow subsidiaries (Continued)

	Six months ended 30 June	
	2018 **(Unaudited)**	2017 (Unaudited)
Commission and fee income	**28,670**	34,310
Other income and gains	**846**	–
Interest expenses	**4,582**	761
Rental expenses paid or payable to	**43,514**	665
Investment gains	**1,286**	–

(2) Central Huijin

Central Huijin holds equity interests in a number of banks and non-bank financial institutions in the PRC under the direction of the Chinese government (collectively referred to as the "Central Huijin Group"). The Group enters into transactions with Central Huijin Group under normal commercial terms. Such transactions mainly include deposits at banks, securities and futures dealing and broking, underwriting of equity and debt securities, and purchase and sale of equity and debt securities issued by banks and non-bank financial institutions within the Central Huijin Group.

(Amounts in thousands of Renminbi, unless otherwise stated)

48. RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions and balances with governmental related entities operated in the PRC (Continued)

(2) Central Huijin (Continued)

The Group's material transactions with Central Huijin Group

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Commission and fee income	**103,866**	1,509
Interest income from banks and other financial institutions within the Central Huijin Group	**307,157**	381,534
Investment gains of equity and debt securities issued by banks and other financial institutions within the Central Huijin Group	**132,449**	11,195
Interest expenses to brokerage clients within the Central Huijin Group	**106,172**	46,416
Other operating expenses	**32**	1,603

The Group's material balances with Central Huijin Group

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Equity and debt securities issued by banks and non-bank financial institutions within the Central Huijin Group classified as		
– available-for-sale financial assets	**–**	1,431,703
– financial assets measured at FVTOCI	**1,511,953**	–
– financial assets measured at FVTPL	**1,384,729**	–
– financial assets held for trading	**–**	575,392
– financial assets designated at fair value through profit or loss	**–**	48,242
Bank balances deposited with banks within the Central Huijin Group	**30,863,413**	30,421,048
Accounts receivable	**110,532**	–
Other receivables and prepayments	**–**	2,960
Due to banks and other financial institutions	**1,670,079**	677,079
Accounts payable to brokerage clients within the Central Huijin Group	**326,380**	779
Other payables and accruals	**143,294**	47,152
Financial assets held under repurchase agreements	**5,250,000**	1,004,500

(Amounts in thousands of Renminbi, unless otherwise stated)

48. RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions and balances with governmental related entities operated in the PRC (Continued)

(2) Central Huijin (Continued)

The Group's material balances with Central Huijin Group (Continued)

As at 30 June 2018, the financial institutions within the Central Huijin Group invested an amount of RMB86 million (31 December 2017: RMB196 million) in collective asset management schemes and targeted asset management schemes launched by the Group.

(3) Transactions with other government-related entities in the PRC

Other than disclosed above, a significant portion of the Group's transactions are entered into with government related entities including securities and futures dealing and broking, underwriting of debt securities, purchase and sales of government bonds, and equity and debt securities issued by other government related entities. These transactions are entered into under normal commercial terms and conditions. At the end of the reporting period, the Group holds such investments in equity and debt securities and has balances with these government related entities including accounts payable to brokerage clients.

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

(b) Other related parties in respect of key management personnel

(1) Other related parties in respect of key management personnel which have transactions with the Group are as follows:

Name	**Relationship**
China Galaxy Investment Management Company Limited ("Galaxy Investment")* 中國銀河投資管理有限公司	Note 1
E-Capital Transfer Co., Ltd. ("E-Capital Transfer") 證通股份有限公司	Note 2

Note 1: Mr. Song Weigang has served as the Vice President of Galaxy Financial Holdings and also as the chairman of Galaxy Investment since November 2016. Galaxy Investment became a subsidiary of the immediate holding company with effect from February 2018 when it was acquired by Galaxy Financial Holdings. Transactions with Galaxy Investment for the period from February to the reporting date are included in Note 48.(a)(1).

Note 2: Mr. Gu Weiguo serves as president of the Company and also as the non-executive director of E-Capital Transfer from January 2015.

* These entities do not have official English names.

(Amounts in thousands of Renminbi, unless otherwise stated)

48. RELATED PARTY TRANSACTIONS (Continued)

(b) Other related parties in respect of key management personnel-continued (Continued)

(1) Other related parties in respect of key management personnel which have transactions with the Group are as follows: (Continued)

The Group's material transactions with other related parties in respect of key management personnel

Expenses paid or payable to

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Galaxy Investment	**21,424**	78,208
E-Capital Transfer	**851**	2,774

Interest expenses

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Galaxy Investment	**49**	252

The Group's material balances with other related parties in respect of key management personnel

Accounts payable to brokerage clients

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Galaxy Investment	**–**	887

(Amounts in thousands of Renminbi, unless otherwise stated)

48. RELATED PARTY TRANSACTIONS (Continued)

(b) Other related parties in respect of key management personnel-continued (Continued)

(2) Key management personnel compensations

Key management personnel are those persons having authorities and responsibilities for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and other members of senior management.

The key management compensation for the six months ended 30 June 2018 and 2017 comprises:

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Salaries, allowances, bonuses, social welfare and annuity scheme contribution	**16,489**	19,774

The key management personnel's final compensation packages for the six months ended 30 June 2018 and 30 June 2017 have not yet been finalized in accordance with regulations of the PRC relevant authorities. Management of the Group believes that the difference between the final emoluments and that disclosed above will not have significant impact on the condensed consolidated financial statements of the Group.

49. FINANCIAL RISK MANAGEMENT

Overview

The Group's risk management objectives are to ensure its development within a sustainable and healthy direction, its business operated orderly within an acceptable risk framework and its overall risks within a measurable, controllable and acceptable manner, aiming to achieve the Group's overall development strategy. The Group's risk management strategy is to identify and analyze the various risks faced by the Group, establish appropriate risk tolerance, and reliably measure and monitor the risks on a timely and effective manner to ensure the risks are controlled within the tolerance level.

In daily operation, the Group is mainly exposed to credit risk, market risk, operational risk and liquidity risk. The Group has established risk management policies and procedures to identify and analyze these risks, set appropriate risk indicators, risk limits, risk policies and internal control processes, and monitor and manage the risks continuously through its information system.

Risk management principles include the consideration of the levels of comprehensiveness, prudence, counter checking and balancing and independence.

49. FINANCIAL RISK MANAGEMENT (Continued)

Risk management organizational structure

The risk management of the Company at the upper level involves the Board of Directors, the Board of Supervisors and the management as the major bodies of the comprehensive risk management system and according to the "three-layer defence" lays down the foundation of risk management, incorporates risk management of subsidiaries in single system and implements a vertical management of risks, among which:

The Board of Directors is the highest decision-making body of the risk management system, taking the ultimate responsibility for the Company's risk management duties through its sub-committees Risk Management Committee and Audit Committee. The Board of Supervisors monitors whether the Board of Directors and the management have fulfilled their responsibilities in respect of risk management on a timely and effective manner according to laws and regulations. The management is responsible for the implementation of risk management strategies, objectives and policies. The chief risk officer is in charge of overall risk management.

Business departments, functional departments and branches are charged with the primary responsibility for risk management. They shall execute the Company's risk management strategies and policies, understand and give due consideration to various risks when making decisions, and timely and effectively identify, assess, monitor and report relevant risks. The Company deploys dedicated/part-time risk management and compliance personnel in business departments and branches to be responsible for management of specific risks and compliance management. Risk Management Department, Legal and Compliance Department, Finance and Accounting Department, Audit Department and Disciplinary Inspection Office are responsible for monitoring and managing various risks.

Each subsidiary establishes its own risk management framework, policies, IT system and risk control indicator system according to the risk appetite and framework of the Company and the Company's requirement on comprehensive risk management for its subsidiaries. It has to ensure consistency and effectiveness of overall risk management, taking into account of factors such as its own capital level, risk tolerance and complexity of business.

49.1 Credit risk

Credit risk is the risk of loss due to failures or inabilities to fulfil obligations by counterparties, or the downgrade of credit rating of them. The Group's financial assets exposed to credit risk mainly include advances to customers, accounts receivable, other financial assets, held-to-maturity investments, investments classified as loans and receivables, financial assets measured at amortized cost, available-for-sale financial assets, financial assets measured at FVTOCI, financial assets held under resale agreements, financial assets measured at FVTPL, deposits with exchanges and a non-bank financial institution, clearing settlement funds and bank balances. Taking no account of collateral or other credit enhancements, the maximum credit exposure of financial assets to the extent exposed to credit risk approximates their carrying amount at the reporting date.

Bank balances of the Group are mainly deposited in state-owned commercial banks or joint-stock commercial banks with good credit rating, and clearing settlement funds are deposited with the China Securities Depository and Clearing Corporation Limited (the "CSDCC").

For proprietary trading business, when the transactions are conducted through stock exchanges and the CSDCC, the counterparty default risk is considered low. For transactions conducted through the interbank market, counterparties are evaluated and only parties with good credit rating are authorized to trade with.

In order to manage the risk of its investment portfolio, the Group invests primarily in bonds with rating of AA or above. Therefore, the Group considers the credit exposure of proprietary trading business is not significant.

49. FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

Margin trading assets consist of advances to customers and securities lent to customers. The main credit risk of these financial assets is customers' failure to repay the principal, interests or securities lent to them. The Group monitors margin trading clients' accounts on an individual customer basis and call for additional margin deposits, cash collateral or securities, whenever necessary. The advances to margin clients are monitored through their collateral ratios, which ensure the value of the pledged assets is sufficient to cover the advances. As at 30 June 2018 and 31 December 2017, the collateral ratios of most of the Group's margin clients were above 130%, respectively.

The credit risk of the Group also arises from their securities and futures brokerage business. In the case of customers failing to deposit adequate funds, the Group may have to complete trade settlements by using their own funds. To mitigate these credit risks, the Group requires cash deposit of full amounts for all transactions before they settle on behalf of customers.

As at 30 June 2018, other than those financial assets whose carrying amounts represent maximum exposure to credit risks, the Group is also exposed to credit risks arising from security lending and borrowing activities as clients may default on returning securities borrowed. Securities lent to clients may include securities collateral received from other clients under similar lending and borrowing arrangements. Therefore, these securities may not be recognized in the consolidated statement of financial position of the Group. As at 30 June 2018, the total amount of the securities (both the Group's own securities and securities borrowed by the Group) lent to clients amounted to RMB78 million (31 December 2017: RMB73 million).

The concentration of credit risk is limited due to the counterparty and customer base being large and diversified.

Impairment under ECL model

As disclosed in Note 3.1, since 1 January 2018, the Group recognizes a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 using ECL models, including debt instruments measured at FVTOCI or amortized cost, advances to customers, accounts receivable, other receivables, financial assets held under resale agreements, deposits with exchanges and a non-bank financial institution, clearing settlement funds and bank balances. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

The key inputs used for measuring ECL based on "probability of default" approach are probability of default (PD), loss given default (LGD) and exposure at default (EAD); or, based on loss rate approach, the key input is loss rate. 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.

49.1.1 Significant increase in credit risk

As explained in Note 3 the Group monitors all financial assets that are subject to impairment requirements 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.

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. The Group uses different criteria to determine whether credit risk has increased significantly per portfolio of assets.

49. FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

Impairment under ECL model (Continued)

49.1.1 Significant increase in credit risk (Continued)

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

- significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instruments with the same expected life;
- an actual or expected significant change in the financial instrument's external credit rating;
- an actual or expected internal credit rating downgrade for the borrower;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its debt obligations;
- an actual or expected significant change in the operating results of the borrower;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements;
- an actual or expected significant change in the quality of credit enhancement;
- significant changes in the expected performance and behaviour of the borrower.

Internal credit risk ratings

The Group has developed internal credit rating models and functional internal credit rating systems based on the characteristics of different industries and target customer bases, to perform rating for borrowers or bond issuers. The Group gradually apply the internal credit rating results to business authorization, limit measurement, quota approval, risk monitoring, asset quality management and etc., which have become important tools for decision-making and risk management in credit business.

49. FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

Impairment under ECL model (Continued)

49.1.2 Incorporation of forward-looking information

The Group 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 Group generates a base case scenario of future forecast of relevant economic variables, along with a series of representative ranges of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

49.1.3 Measurement and of ECL

The measurement of ECL is a function of the PD, LGD and EAD based on probability of default approach. The assessment of the PD and LGD 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 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.

The Group measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contact extension or renewal is common business practice.

The measurement of ECL is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis (although measurement on a collective basis is more practical for large portfolios of items). In relation to the assessment of whether there has been a significant increase in credit risk it can be necessary to perform the assessment on a collective basis as noted below.

Groupings based on shared risks characteristics

When ECL are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, such as instrument type, credit risk grade, collateral type, remaining term to maturity and the value of collateral relative to the financial asset if it has an impact on the probability of a default occurring (loan-to-value ratios). The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

49.2 Market risk

Market risk is the risk of loss arising from adverse change in fair value or movement in cash flows in respect of financial instruments, due to interest rate risk, currency risk or price risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group utilizes sensitivity analysis as the main tool of monitoring interest rate risk and measuring the impact to profit and equity for a reasonable and possible change of interest rates, assuming all other variables were held constant. Debt securities of the Group mainly comprise corporate bonds, and the Group mitigates the interest rate risk through monitoring the durations and convexities of its bond portfolios. Interest rate risk in connection with cash held on behalf of customers in bank balances and clearing settlement funds is offset by the associated accounts payable to brokerage clients because their terms match with each other.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for interest-bearing assets and liabilities. When reporting to the management on the interest rate risk, a 100 basis points increase or decrease in the relevant interest rates will be adopted for sensitivity analysis, assuming all other variables were held constant, which represents a reasonably possible change in interest rates.

The analysis is prepared assuming:

- Interest income and expenses are recorded in profit of loss for when interest-bearing financial assets or liabilities are repriced or reinvested at 100 basis points higher or lower when their interests are re-priced or mature; and

- Fair values of interest-sensitive financial assets and liabilities change in responses to changes in 100 basis points by using duration analysis.

A positive number below indicates an increase in profit before income tax and other comprehensive income before income tax or vice versa.

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Profit before income tax for the year		
Increase by 100 basis points	**(240,143)**	(139,894)
Decrease by 100 basis points	**240,143**	139,894

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

49.2 Market risk (Continued)

Interest rate risk (Continued)

Sensitivity analysis (Continued)

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Other comprehensive income before income tax		
Increase by 100 basis points	**(200,685)**	(200,322)
Decrease by 100 basis points	**200,685**	200,322

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates.

The Group's currency risk primarily relates to the Group's operating activities whose settlements and payments are denominated in foreign currencies which are different from the respective group entity's functional currency.

The foreign currency assets and liabilities held by the Group are not material compared to the total assets and liabilities. In terms of the Group's revenue structure, the majority of the business transactions are denominated in RMB, and the proportion of foreign currency transactions is not significant to the Group. The Group considers that the currency risk of the Group's operations is immaterial due to the relatively low proportion of the Group's foreign currency denominated assets, liabilities, income and expense, as compared to the Group's total assets, liabilities, income and expenses. Hence, no further analysis is presented.

Price risk

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

The Group's price risk exposure mainly relates to investments in equity securities, funds, convertible bonds, trust schemes, derivatives and collective asset management schemes whose values will fluctuate as a result of changes in market prices. Most of these investments are made in the capital markets in China.

The Group's price risk management policy requires setting and managing investment objectives. The directors of the Company manage price risk by holding an appropriately diversified investment portfolio, setting limits for investments in different securities and closely monitoring the portfolio of investments to reduce the risk of concentration in any one specific industry or issuer. Therefore, in general concentration risk of the Group in respect of price risk is not significant, except for the Group's participation in the account managed by CSFCL as disclosed in Note 22. The Group uses derivatives contracts to hedge against certain exposures arising from its investment portfolio.

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

49.2 Market risk (Continued)

Price risk (Continued)

Sensitivity analysis

The analysis below is performed to show the impact on profit before income tax and other comprehensive income before income tax due to change in the prices of equity securities, funds, convertible bonds, trust schemes, derivatives and asset management schemes by 10% with all other variables held constant. A positive number below indicates an increase in profit before income tax and other comprehensive income before income tax or vice versa.

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Profit before income tax for the year		
Increase by 10%	**1,623,507**	898,350
Decrease by 10%	**(1,623,507)**	(898,350)

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Other comprehensive income before income tax		
Increase by 10%	**1,030,271**	1,962,625
Decrease by 10%	**(1,030,271)**	(1,962,625)

49.3 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficultly in meeting obligations associated with financial liabilities due to shortages of capital or funds. During the normal course of business, the Group may face liquidity risk caused by macroeconomic policy change, market fluctuations, poor operations, credit downgrades, mismatch of assets and liabilities, low turnover rate of assets, underwriting on a firm commitment basis, significant proprietary trading position, or any significant illiquid long-term investments. If the Group fails to address any liquidity risk by adjusting the asset structure or comply with regulatory requirements on certain risk indicators, the Group could be penalized by the regulatory authority, which could cause adverse impacts to the Group's operations and reputations.

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

49.3 Liquidity risk (Continued)

The measures of the group's liquidity risk management mainly include:

(1) Establish a centralized fund management mechanism and an effective fund regulation mechanism.

To cope with and manage liquidity risk effectively, the Company has strengthened monitoring and management over fund transfers of significant amounts in order to achieve centralized fund allocation and coordinated liquidity risk management: incorporated debt financing and leverage ratios into risk authorization systems; established liquidity risk index system; monitored and reported liquidity of the Company on a daily basis; risk warning in a timely manner; conducted regular and ad-hoc stress tests to analyze and evaluate the level of liquidity risk; continuously optimized asset-liability structure to build a multi-level liquidity reserve system; and achieved diversification of financing channels through money market, capital market and bank borrowings.

(2) Establish a stable liquidity risk management report system.

The Group prepares different financing plans for different periods, and reports implementations of financing plans to reflect the management of liquidity risk.

(3) Increase working capital and liquidity by issuing shares and corporate bonds.

The Group increases its working capital and liquidity by issuing shares, corporate bonds, financing instruments payables, transfer of rights and interests in margin loans to support the development of margin financing and other businesses.

50. FAIR VALUE OF FINANCIAL INSTRUMENTS

50.1 Fair value of the Group's financial assets and financial liabilities that are not measured on a recurring basis

The carrying amounts of the Group's financial assets and financial liabilities not measured at fair value approximate their fair values as at 30 June 2018 and 31 December 2017 except for the following financial assets and financial liabilities, for which their carrying amounts including interest receivable/interest payable and fair value are disclosed below:

	As at 30 June 2018 (Unaudited)	
	Carrying amounts	Fair value
Non-current		
Bonds payable	51,145,338	52,383,442
Financing instrument payables	2,777,390	2,858,888
Financial assets held under resale agreements	25,583,582	26,459,815
Debt instruments measured at amortized cost	3,438,866	3,442,534

(Amounts in thousands of Renminbi, unless otherwise stated)

50. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

50.1 Fair value of the Group's financial assets and financial liabilities that are not measured on a recurring basis (Continued)

	As at 31 December 2017	
	(Audited)	
	Carrying amounts	Fair value
Non-current		
Bonds payable	45,739,475	46,203,319
Financing instrument payables	4,180,190	4,315,742
Financial assets held under resale agreements	23,916,025	24,507,770
Held-to-maturity investments	1,419,541	1,357,219

Fair values of these financial instruments are categorized as Level 2 as explained below and determined by contractual cash flows discounted by observable yield curves.

50.2 Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of the reporting periods. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorized (Level 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Level 1 fair value measurements are those derived from 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 assets or liabilities, 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).

(Amounts in thousands of Renminbi, unless otherwise stated)

50. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

50.2 Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Financial assets/ financial liabilities	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)	Fair value hierarchy	Valuation technique(s) and key input(s)
Available-for-sale financial assets:				
– Debt securities traded on stock exchanges	–	13,504,300	Level 1	Quoted bid prices in an active market.
– Debt securities traded on interbank market	–	2,647,126	Level 2	China Bond Valuation-future cash flows are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.
– Equity securities and funds traded on stock exchanges	–	6,497,623	Level 1	Quoted bid prices in an active market.
– Equity securities traded on National Equities Exchange and Quotations	–	57,848	Level 2	Recent transaction prices.
– Equity securities traded on stock exchanges with lock-up periods (Note 1)	–	248,491	Level 3	The fair value is determined with reference to the quoted market prices with an adjustment of discount for lack of marketability.
– Other investments	–	9,387,476	Level 2	Calculated based on the fair value of the underlying investments which are debt securities and publicly traded equity investments listed in the PRC in each portfolio.
– Other investments (Note 1)	–	1,302,640	Level 3	Calculated based on the fair value of the underlying investments which invest in listed shares with lock up periods in which the fair value is determined with reference to the quoted market prices with an adjustment of discount for lack of marketability.
– Other investments (Note 2)	–	147,137	Level 3	Discounted cash flow with future cash flows that are estimated based on contract terms, discounted at a rate that reflects the credit risk of underlying investments.
Debt instruments measured at FVTOCI:				
– Debt securities traded on stock exchanges	**13,719,694**	–	Level 1	Quoted bid prices in an active market.
– Debt securities traded on interbank market	**2,410,368**	–	Level 2	China Bond Valuation-future cash flows are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.
Equity instruments measured at FVTOCI:				
– Perpetual bonds	**1,570,307**	–	Level 1	Quoted bid prices in an active market.
– Perpetual bonds	**435,239**	–	Level 2	China Bond Valuation-future cash flows are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.
– Equity investments	**8,297,159**	–	Level 2	Calculated based on the fair value of the underlying investments which are debt securities and publicly traded equity investments listed in the PRC in each portfolio.

(Amounts in thousands of Renminbi, unless otherwise stated)

50. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

50.2 Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Financial assets/ financial liabilities	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)	Fair value hierarchy	Valuation technique(s) and key input(s)
Financial assets measured at FVTPL (required by IFRS 9):				
– Debt securities traded on stock exchanges	**9,608,215**	–	Level 1	Quoted bid prices in an active market.
– Debt securities traded on interbank market	**11,295,089**	–	Level 2	China Bond Valuation – future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.
– Equity securities and funds traded on stock exchanges and unlisted funds (open-ended mutual funds)	**16,380,692**	–	Level 1	Quoted bid prices in an active market.
– Structured deposits and wealth management products	**934,925**	–	Level 2	Based on the fair value of the underlying investments which are debt securities and publicly traded equity investments listed in the PRC in each portfolio.
– Equity securities traded on National Equities Exchange and Quotations	**212,886**	–	Level 2	Recent transaction prices.
– Equity securities traded on National Equities Exchange and Quotations (Note 2)	**76,161**	–	Level 3	Future cash flows discounted at a rate that reflects the credit risk of the equity investments, or multiples valuation, with an adjustment of discount for lack of marketability or other reasons.
– Equity securities traded on stock exchanges with lock-up periods (Note 1)	**2,707,955**	–	Level 3	The fair value is determined with reference to the quoted market prices with an adjustment of discount for lack of marketability. This discount is determined by option pricing model. The key input is implied volatility of the share prices of the securities.
– Other investments	**1,303,434**	–	Level 2	Based on the fair value of the underlying investments which are debt securities and publicly traded equity investments listed in the PRC in each portfolio.
– Other investments (Note 1)	**132,836**	–	Level 3	Calculated based on the fair value of the underlying investments which invest in listed shares with lock up periods in which the fair value is determined with reference to the quoted market prices with an adjustment of discount for lack of marketability.
– Other investments (Note 2)	**4,065,169**	–	Level 3	Future cash flows discounted at a rate that reflects the credit risk of the equity investments, or multiples valuation, with an adjustment of discount for lack of marketability or other reasons.

(Amounts in thousands of Renminbi, unless otherwise stated)

50. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

50.2 Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Financial assets/ financial liabilities	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)	Fair value hierarchy	Valuation technique(s) and key input(s)
Financial assets held-for-trading (required by IAS 39):				
– Debt securities traded on stock exchanges	–	9,843,534	Level 1	Quoted bid prices in an active market.
– Debt securities traded on interbank market	–	5,929,917	Level 2	China Bond Valuation – future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.
– Equity securities and funds traded on stock exchanges and unlisted funds (open-ended mutual funds)	–	7,476,253	Level 1	Quoted bid prices in an active market.
Financial assets designated at fair value through profit or loss (required by IAS 39):				
– Debt securities traded on stock exchanges	–	273,604	Level 1	Quoted bid prices in an active market.
– Equity securities and funds traded on stock exchanges	–	1,094,381	Level 1	Quoted bid prices in an active market.
– Structured deposits and wealth management products	–	628,543	Level 2	Based on the fair value of the underlying investments which are debt securities and publicly traded equity investments listed in the PRC in each portfolio.
– Equity securities traded on National Equities Exchange and Quotations	–	442,435	Level 2	Recent transaction prices.
– Equity securities traded on stock exchanges (Note 1)	–	2,177,267	Level 3	The fair value is determined with reference to the quoted market prices with an adjustment of discount for lack of marketability. This discount is determined by option pricing model. The key input is implied volatility of the share prices of the securities.
– Other investments	–	342,708	Level 2	Based on the fair value of the underlying investments which are debt securities and publicly traded equity investments listed in the PRC in each portfolio.
– Other investments (Note 2)	–	801,654	Level 3	Discounted cash flow with future cash flows that are estimated based on contract terms, discounted at a rate that reflects the credit risk of underlying investments.
Financial liabilities designated at fair value through profit or loss:				
– Deposits from clients participating in equity swap	(66,859)	(12,030)	Level 1	Fair value is determined with quoted bid prices in an active market.
– Financial instruments payable linked to stock index	(778,673)	(256,461)	Level 2	Based on the bid prices of stock index in an active market.

(Amounts in thousands of Renminbi, unless otherwise stated)

50. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

50.2 Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Financial assets/ financial liabilities	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)	Fair value hierarchy	Valuation technique(s) and key input(s)
Derivative financial instruments:				
– Equity return swaps-assets	**14,922**	7,645	Level 2	Calculated based on the difference between the equity return of underlying equity securities based on quoted prices from stock exchanges in the PRC and the fixed income agreed in the swap agreements between the Company and the counterparties.
– Equity return swaps-liabilities	**–**	(1,095)	Level 2	Calculated based on the difference between the equity return of underlying equity securities based on quoted prices from stock exchanges in the PRC and the fixed income agreed in the swap agreements between the Company and the counterparties.
– Exchange-traded options-assets	**76,686**	11,785	Level 1	Quoted bid prices in an active market.
– Exchange-traded options-liabilities	**(74,084)**	(5,181)	Level 1	Quoted bid prices in an active market.
– Over-the-counter options-assets (Note 1)	**46,619**	3,506	Level 3	Calculated based on Black-Scholes option pricing model.
– Over-the-counter options-liabilities (Note 1)	**(181,120)**	(128,874)	Level 3	Calculated based on Black-Scholes option pricing model.
– Stock index futures-assets (Note 3)	**165,370**	30,024	Level 1	Quoted bid prices in an active market.
– Stock index futures-liabilities (Note 3)	**(44,440)**	(23,512)	Level 1	Quoted bid prices in an active market.
– Treasury bond futures assets (Note 3)	**2,021**	3,171	Level 1	Quoted bid prices in an active market.
– Treasury bond futures liabilities (Note 3)	**(14,607)**	(4,378)	Level 1	Quoted bid prices in an active market.
– Commodity futures-assets (Note 3)	**8,560**	114	Level 1	Quoted bid prices in an active market.
– Commodity futures-liabilities (Note 3)	**(1,737)**	(2,027)	Level 1	Quoted bid prices in an active market.
– Interest rate swaps-assets (Note 3)	**25,462**	1,025	Level 2	Calculated based on the difference between the floating income based on Fixing Repo Rate and the fixed income agreed in the swap agreements between the Company and the counterparties.
– Interest rate swaps-liabilities (Note 3)	**(25,745)**	(844)	Level 2	Calculated based on the difference between the floating income based on Fixing Repo Rate and the fixed income agreed in the swap agreements between the Company and the counterparties.

Notes:

(1) The significant unobservable input to fair value measurement is implied volatility of the underlying securities, which ranges from 4.40% to 74.54% (31 December 2017: 11.03% to 66.52%). The higher the implied volatility, the lower the fair value. A 10% increase/decrease in the implied volatility holding other variables constant will result in a decrease/increase in carrying amount by RMB23 million (31 December 2017: RMB15 million).

(2) The unobservable input to fair value is the discount rate, determined by reference to the credit risk of underlying investments, ranging from 5.66% to 17.74% (31 December 2017: 8.24% to 13.16%). The higher the discount rate, the lower the fair value. In respect of these assets, holding other variables constant, when the discount rate increases or decreases by 10%, the fair value of Level 3 financial assets will decrease or increase by RMB14 million (31 December 2017: RMB8 million).

(3) As disclosed in Note 33, these derivatives are under daily mark-to-market and settlement arrangements. Accordingly, the net position of the stock index futures, treasury bond futures, commodity futures and interest rate swaps contracts was nil at the end of each reporting period. The above analysis only presents the fair value of derivative financial instruments.

There were no transfers between Level 1 and 2 as at 30 June 2018 and 31 December 2017.

(Amounts in thousands of Renminbi, unless otherwise stated)

50. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

50.3 Reconciliation of Level 3 fair value measurements

	Financial assets measured at fair value through profit or loss	Available-for-sale financial assets
Six months ended 30 June 2018 (Unaudited)		
As at 31 December 2017	2,978,921	1,698,268
Effect of adoption of IFRS 9	4,695,045	(1,698,268)
At 1 January 2018	7,673,966	–
Total losses:		
– in profit or loss	(13,960)	–
Purchases	2,514,844	–
Transfers out (Note)	(3,192,729)	–
As at 30 June 2018	6,982,121	–
Total losses for assets held at 30 June 2018		
– unrealized losses recognized in profit or loss	(106,987)	–

	Available-for-sale financial assets
Six months ended 30 June 2017 (Unaudited)	
At 1 January 2017	4,464,487
Total losses:	
– in other comprehensive income	(303,258)
Transfer out (Note)	(2,641,857)
As at 30 June 2017	1,519,372
Total losses for assets held at 30 June 2017	
– unrealized losses recognized in other comprehensive income	(167,692)

Note: These are equity securities traded on stock exchanges with lock-up periods or asset management schemes which holds listed shares with lock-up periods. They were transferred from Level 3 to Level 1 or Level 2 when the lock-up period lapsed and became unrestricted.

51. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 18 July 2018, a resolution was passed at the 40th meeting (extraordinary) of the third session of the Board of Directors, approving the Company's acquisition of 50% equity interest in Galaxy Fund Management Company Limited ("Galaxy Fund") held by Galaxy Financial Holdings via cash and other means. The price for the acquisition will be determined based on the valuation results by an independent third party valuer. The exact acquisition proposal and acquisition agreement for the acquisition will be submitted again to the Board of Directors for review. The acquisition is subject to the approval of the MOF, and the change of controlling shareholder of Galaxy Fund as a result of the proposed acquisition is also subject to the approval of the CSRC.

For more information, please refer to :