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

2019
INTERIM REPORT

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 2019
"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 Financial Holdings"	China Galaxy Financial Holdings Company Limited(中國銀河金融控股有限責任公司), controlling shareholder of the Company, which holds approximately 51.16% interests of the Company as at the End of the Reporting Period
"Galaxy Fund Management"	Galaxy Fund Management Company Limited(銀河基金管理有限公司), owned as to 50% by Galaxy Financial Holdings and a non-wholly owned subsidiary of Galaxy Financial Holdings
"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 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 and a wholly-owned subsidiary of Galaxy Financial Holdings
"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 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
"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
"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 2019

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.

COMPANY INFORMATION

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, Mr. Lee Kwok Fai Kenneth

AUTHORIZED REPRESENTATIVES

Mr. Liu Dingping, Mr. Lee Kwok Fai Kenneth

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: Ernst & Young Hua Ming LLP
International: Ernst & Young

HONG KONG LEGAL ADVISOR

Latham & Watkins LLP

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 the International Financial Reporting Standards)

MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

Items	**January - June 2019**	January-June 2018	Increase/ decrease from the same period of last year
Operating results (RMB'000)			
Revenue and other income	**10,633,551**	7,491,941	41.93%
Profit before income tax	**3,396,200**	1,719,873	97.47%
Profit for the period – attributable to owners of the Company	**2,595,002**	1,311,046	97.93%
Net cash from/(used in) operating activities	**7,866,120**	1,382,185	469.11%
Earnings per share (RMB per share)			
Basic earnings per share	**0.26**	0.13	100.00%
Profitability ratio			
Weighted average return on net assets	**3.85%**	2.01%	Increased by 1.84 percentage points

Items	**As at 30 June 2019**	As at 31 December 2018	Increase/ decrease from the end of last year
Scale indicators (RMB'000)			
Total assets	**310,646,070**	251,363,291	23.58%
Total liabilities	**241,486,840**	185,025,430	30.52%
Accounts payable to brokerage clients	**82,959,036**	56,695,274	46.32%
Equity attributable to owners of the Company	**68,137,231**	65,982,088	3.27%
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)	**6.72**	6.51	3.23%
Gearing ratio (%) [1]	**69.63%**	65.92%	Increased by 3.71 percentage points

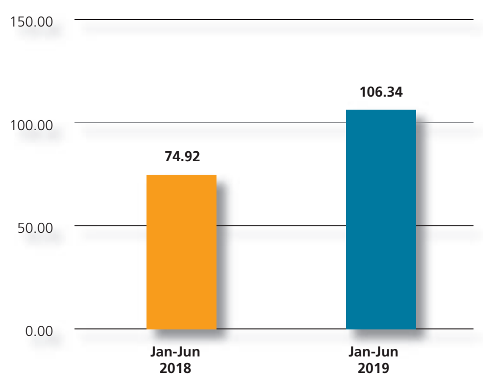
1 Gearing ratio = (total liabilities – accounts payable to brokerage clients)/(total assets – accounts payable to brokerage clients)

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

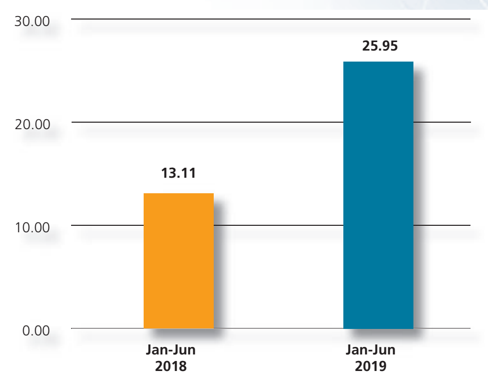
There was no difference between the Company's net profits and net assets shown in the consolidated financial statements prepared under the International Financial Reporting Standards and those shown in the consolidated financial statements prepared under the China Accounting Standards for Business Enterprises.

FINANCIAL HIGHLIGHTS

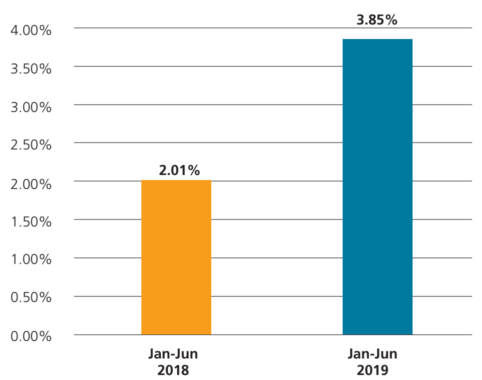
Revenue and other income (RMB100 million)



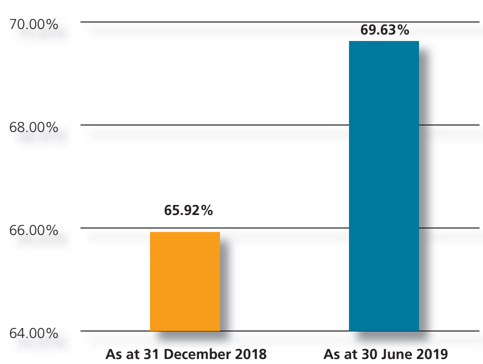
Profit for the period – attributable to owners of the Company (RMB100 million)



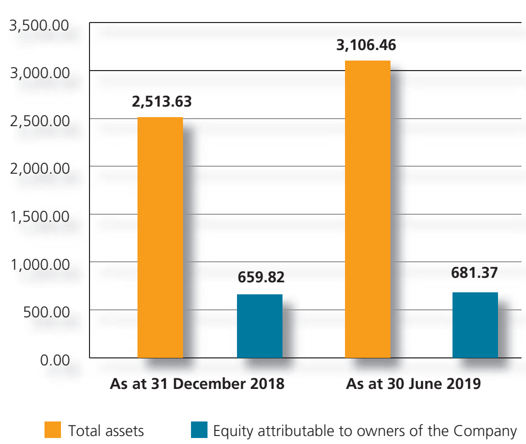
Weighted average return on net assets (%)



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

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 products, customer, data and service center, and strengthened the comprehensive business and management coordination mechanism in order to transform its branches into 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

Since 2019, due to the global economic downturn, the major economies in general tended to continue to stabilise the economic growth and inflation expectation by easing their monetary policy. Downturn pressure of the domestic economy was marginally eased and the macro-policy is not expected to reverse the countercyclical trend to support the economy in the short term. However, under the improving situations and greater inflationary pressure, the pace of easing would be under control. Under the pressure of external demand and the weakening of the stimulating effect of investment on the economy, it is estimated that the focus of China's future economic policy will be deepening reform, expanding the open policy and enhancing the efficiency of resource allocation to enhance the overall productivity and raise the vitality of organic growth of the economy.

2. Market environment

During the Reporting Period, the SSE Component Index closed at 2,979 points, representing an increase of 19.4% as compared with the beginning of the year; the SZCI closed at 9,178 points, representing an increase of 26.8% as compared with the beginning of 2019; the average daily trading turnover was RMB587.7 billion, representing a year-on-year increase of 33.9%. The China Bond Aggregate Total Return Index closed at 187 points, representing an increase of 1.5% as compared with the beginning of the year. As affected by the demand in risk aversion, the bonds and gold became the better hedging instruments and asset allocation. With the gradual rollout of the policies for maintaining steady growth and facilitating reforms, the confidence on the equity market and risk appetite will be effectively enhanced and the contribution margin ratio of capital investment will then be improved, which can promote the positive expectations on the equity market.

3. Industry situation

During the Reporting Period, as the securities industry was affected by the economic environment and market conditions, business activities recovered significantly. According to the data in the unaudited financial statements of securities company's parent company published by the Securities Association of China ("**SAC**"), during the Reporting Period, the securities industry of China recorded an operating income of RMB178.74 billion and a net profit of RMB66.66 billion, representing a year-on-year increase of 41.2% and 102.9%, respectively. As at the End of the Reporting Period, total assets and net assets of the securities industry were RMB7.10 trillion and RMB1.96 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 unaudited financial statements of securities company's parent company published by the SAC, in the first half of 2019, the Company ranked ninth in the industry in terms of operating income and net profit respectively, and ranked eighth, eighth and fifth 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 2019, the total assets of the Group amounted to RMB310.646 billion, representing an increase of 23.58% as compared with the end of last year. Among them, the items with greater changes were:

Monetary funds amounted to RMB83.672 billion, representing an increase of 62.74% as compared with the end of last year, which was mainly due to an increase in clients' funds. Advances to customers amounted to RMB53.148 billion, representing an increase of 19.08% as compared with the end of last year, which was mainly due to the expansion of the business scale of advances to customers. Financial assets held for trading amounted to RMB71.388 billion, representing an increase of 18.31% as compared with the end of last year, which was mainly due to an increase in bond positions held for trading. Financial assets purchased under resale agreements amounted to RMB33.140 billion, representing a decrease of 17.08% as compared with the end of last year, which was mainly due to the reduction of the business scale of dealer-quoted securities repurchase. Receivable were RMB9.387 billion, representing an increase of 1,359.60% as compared with the end of last year, which was mainly due to an increase in the settlement amounts of overseas subsidiaries. Other debt investments amounted to RMB20.319 billion, representing an increase of 17.46% as compared with the end of last year, which was mainly due to an increase in debt investments. Long-term equity investments amounted to RMB1.070 billion, representing an increase of 21.99% as compared with the end of last year, which was mainly due to the acquisition of additional associates by subsidiaries. Other assets amounted to RMB3.455 billion, representing an increase of 75.10% as compared with the end of last year, which was mainly due to an increase in prepayments and tax prepayments.

Among them: overseas assets amounted to RMB23.559 billion, representing 7.58% 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. According to the unaudited data published by the SAC, during the Reporting Period, net income of the Company from its securities brokerage business ranked second in the industry in terms of individual securities companies with a market share of 5.10%. The Company ranked third in the industry in terms of aggregate market value of securities in its client accounts, which amounted to RMB2.74 trillion and represented a market share of 6.86%. The Company ranked fifth in the industry in terms of the balance of clients' deposit margin account, which amounted to RMB63.2 billion and represented a market share of 4.6%. As at the End of the Reporting Period, the balance of margin financing and securities lending of the Company ranked fourth in the industry with a market share of 5.32%. The huge client base and client assets of the Company provide significant growth potential for its businesses, and become a powerful driving force 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 a strong channel network with reasonable strategic layout

As at the End of the Reporting Period, the Company had 5 subsidiaries, 36 branches and 493 securities brokerage branches in central cities in 31 provinces, autonomous regions and municipalities directly under the Central Government across China. It is the securities company with the largest number of branches in China, laying an important foundation for its strong sales capability. The Company is accelerating the transformation of traditional securities brokerage branches to wealth management centers to secure high-end clients for the Company in developed regions, and benefit from the rapid economic growth and urbanization process in developing regions so as to grasp overseas business opportunities.

(III) Possessing a large and stable client base

The Company has a large, stable and ever-growing client base. As at the End of the Reporting Period, the Company had 10,970,000 brokerage clients, representing an increase of 820,000 clients or 8.08% as compared with the same period of 2018. Benefitted from its large client base, the Company has significant potential for cross-selling among its business lines.

(IV) Having a professional investment banking business

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 shareholders

The de facto controller of the Company is Huijin. Huijin is authorized by the State Council to make equity investments in major state-owned financial enterprises to preserve and increase the value of state-owned assets. As an important securities financial platform under Huijin, the Company can grasp the national development policy in a timely manner and enjoy the synergy of resources.

I. OVERALL OPERATION OF THE COMPANY

In the first half of 2019, as a result of the new upward trend in the A Share market of the PRC, the performance of securities companies were strong in general. All businesses in the securities industry have shown an upward development trend. The traditional brokerage business progressively transformed into wealth management business and the core business status of securities brokerage was maintained. With the increased capacity of local bonds and the establishment of the Science and Technology Innovation Board, the investment banking business met new development opportunities. The credit business progressively entered a rational development stage focusing on risk control and differentiated pricing from the expansion of scale. Under the impact of the new regulations on assets management, the assets management business progressively turned to a more professional and standardised direction of development. In order to effectively cope with the ever-changing external environment, the Company insisted on carrying out its operation management system reform led by party building effectiveness and adhere to the business model of "Dual-wheel Drive and Coordinated Development" to enhance competitiveness and preserve and increase the value of assets. Its brokerage business continued to maintain a steady position in the industry, and its asset management business maintained a relatively good development momentum. The investment banking business reform was carried out continuously, and its investment business adjusted the allocation of major assets in an orderly manner and thus 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 RMB310.646 billion and equity attributable to the shareholders of the Company amounted to RMB68.137 billion. During the Reporting Period, the Group achieved revenue and other income of RMB10.634 billion, representing a year-on-year increase of 41.93%; net profit attributable to the shareholders of the Company amounted to RMB2.595 billion, representing a year-on-year increase of 97.93%; and weighted average return on net assets was 3.85%, representing a year-on-year increase of 1.84 percentage points.

II. ANALYSIS OF MAJOR BUSINESSES

The businesses of the Group may be divided into brokerage, sales and trading business, investment banking business, investment management business and overseas business, etc.

(i) 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 through structural adjustment of the organization, optimization and integration of resources, and the innovative service model, profit-making model, organization model and coordination model of wealth management business. During the Reporting Period, the Company's securities brokerage business recorded net income of RMB2.373 billion, ranking No. 2 among standalone securities companies according to the unaudited data issued by the SAC. As at the End of the Reporting Period, the securities brokerage business of the Company had a total of 10.8385 million customers, among which 16,500 were organization and product customers. In order to coordinate with the launch of the Science and Technology Innovation Board, the Company consistently improved the construction of the information system while increasing the promotion on the investment education of the Science and Technology Innovation Board and prudently activated the transaction authority in Science and Technology Innovation Board for the customers. As at the End of the Reporting Period, the Company has given access to Science and Technology Innovation Board for over 202,000 customers. 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 174 securities branches of the Company obtained qualification for futures IB business, resulting in a total of 36,100 customers and total customer equity of RMB1.822 billion as at the End of the Reporting Period. The Company's businesses 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 28,000 customers, representing a year-on-year increase of 21.74%; the number of accounts of the Company trading through the Hong Kong Stock Connect was 119,000 in total, representing a year-on-year increase of 7.4%; the number of qualified investors with accounts in the Company for trading in New OTC Board amounted to 9,000, representing a year-on-year increase of 3.6%.

The Company further optimized the management model and business processes for financial products agency sales business. The Company continued to implement centralized and unified management of the financial products agency sales business. As coordinated by the product center, a vertically integrated business team from the headquarters to the branch offices and sales department was formed to improve the customer service capability of the Company and promote the transformation of the wealth management of the Company through multi-level capital market participation, systemized product planning which meets the needs of various customers. During the Reporting Period, the Company achieved a net income of RMB258 million in the sales of financial products, ranking third in the industry. Financial products in the total amount of RMB47.266 billion were sold, ranking third in the industry. As at the End of the Reporting Period, the Company's financial product holdings amounted to RMB117.371 billion, representing a year-on-year increase of 15.96%.

The Company's private integrated services business developed steadily amidst a volatile market environment. The number of product managers providing PB services increased to 321, representing a year-on-year increase of 29.44%; the number of managers providing comprehensive fund services reached more than 1,800, representing a year-on-year increase of 76.99%. The Company continuously improves its service quality and service efficiency for private equity managers by continuously optimizing service process and strengthening business training. As at the End of the Reporting Period, the Company's PB system operated 1,085 online products, representing a year-on-year increase of 20.29%. The online product scale was RMB317.149 billion, representing a year-on-year increase of 387.9%. Income from PB business was RMB101 million, representing a year-on-year increase of 32.22%. As at the End of the Reporting Period, the Company had 1,312 online fund service products, of which 177 were newly launched from January to June 2019; the online fund service product scale was RMB62 billion, representing a year-on-year increase of 24%.

(2) Futures brokerage

In the first half of 2019, the internationalization of the futures market continued to advance, the normalized transaction of stock index futures gradually recovered. The transaction volume of the futures market increased steadily, with a year-on-year increase of 23.47% in cumulative turnover. During the Reporting Period, Galaxy Futures focused on expanding the scope of business synergy, further cultivated its industrial customers, focused on strategic instruments such as crude oil and stock index futures, optimized marketing policies, strengthened IT support, promoted iterative upgrades of R&D services, and achieved revenue and other income of RMB918 million, representing an increase of 123.88%; the daily average customer equity was RMB16.355 billion, representing a year-on-year increase of RMB1.242 billion or 8.22%; the cumulative transaction volume was 42 million lots with a cumulative transaction amount totaling RMB3.10 trillion, representing a year-on-year increase of 47.04% and 67.36%, respectively. The trading volume of soybean, white sugar, corn and cotton options of Galaxy Futures ranked Nos. 2, 3, 4 and 3, respectively, in the market. The scale of the asset management business of Galaxy Futures was RMB2.217 billion, with 29 products under its management. Among them, the self-management scale was RMB427 million and has 8 proprietary products.

(3) Margin financing and securities lending and stock pledge

The credit business of the Company adheres to the development principle of "stabilizing scale, adjusting structure, controlling risks and guaranteeing profits". In respect of the margin financing and securities lending business, the Company adheres to the customer-centered principle and strengthens the application of financial technology, optimizes the customer service system; continuously optimizes its customer structure and business structure, actively cultivates a client base with high investment capability, vigorously develops the securities lending business; strictly controls the concentration of securities lending and manages well the front-end control of the system. As at the End of the Reporting Period, the Company's margin financing and securities lending balance was RMB48.8 billion, ranking fourth in the industry, with a market share of 5.22%. During the Reporting Period, the Company also earned interest income from margin financing and securities lending of RMB1.71 billion, ranking fourth in the industry. In respect of the stock pledge business, the Company focuses on quality customers, improves project access standard and continuously optimizes the project structure. It further carries out business closed-loop management from the aspects of system construction and standardization process, and improves the continuous management mechanism and internal decision-making process. As at the End of the Reporting Period, the Company's self-operated stock pledge business balance was RMB31.8 billion with a market share of 6.04%, and its stock pledge interest income was RMB1.17 billion during the Reporting Period, ranking third in the industry.

(4) Asset Management

Since 2019, with the implementation of the new regulations on asset management and affiliated rules, the reconstruction trend of the asset management industry has accelerated. The securities management institutions have focused on business transformation and returned to the original asset management business. According to the statistics of China Securities Investment Fund Association, as at the End of the Reporting Period, the scale of private equity asset management business of securities companies and their subsidiaries was RMB13.59 trillion, which decreased by more than 14.5% from RMB15.89 trillion in the same period of 2018.

Pursuant to the revised regulatory policies, the Company adhered to the strategy of "Dual-wheel Drive and Coordinated Development" and firmly seized the significant development opportunities of wealth management transformation to steadily improve compliance management and risk prevention standards, vigorously develop business synergies and other measures and strive to reduce the impacts from new asset management regulations by strengthening the active management of product innovation and investment management standards. During the Reporting Period, the Company's asset management business realized revenue and other income of RMB371 million, representing a year-on-year decrease of 18.16%, which was basically in line with the general situation of the industry. As at the End of the Reporting Period, the size of the assets under management of Galaxy Jinhui amounted to RMB240.575 billion, representing a year-on-year decrease of 17.52%, of which the size of assets under active management was RMB84.565 billion, representing a year-on-year increase of 14.46%. The size of collective wealth management products was RMB60.763 billion, representing a year-on-year increase of 42.13%; the size of single (targeted) asset management business was RMB172.786 billion, representing a year-on-year decrease of 28.18%; and the size of asset backed securities (ABS) was RMB7.026 billion, representing a year-on-year decrease of 15.72%.

(ii) Investment Banking Business

During the Reporting Period, the investment banking business of the Company recorded revenue and other income of RMB291 million, representing a year-on-year decrease of 32.39%. According to the statistics from WIND Information, the Company's aggregate underwriting amount of equities and bonds ranked twentieth in the industry.

1. Equity financing and financial advisory

During the Reporting Period, the size of equity financing in the PRC's capital market decreased, with an equity financing amount of RMB612.472 billion, representing a decrease of 13.68% as compared with the same period of 2018. Among which, the proceeds from IPOs amounted to RMB60.330 billion, representing a decrease of 34.63% as compared with the same period of last year. During the Reporting Period, the Company focused on promoting investment and financing integration, regional coordinated development integration, customer comprehensive service integration, as well as the integration of domestic and overseas investment and financing business, so as to track closely and engage in the establishment of the relevant policies and standards of the Science and Technology Innovation Board, improve the reserves in equity financing project and improve contracting and undertaking standard and integrated service capability. The Company completed one IPO project, and four equity re-financing projects (including convertible bonds), with an underwriting amount of RMB7.352 billion, and ranked seventeenth in the market. As at the End of the Reporting Period, the Company had 4 IPO projects under review and 3 re-financing projects under review. In addition, the Company's financial advisory business completed one financing project in relation to merger and acquisitions and reorganization during the Reporting Period.

2. Bond Financing

During the Reporting Period, the total issued amount of credit bonds was RMB6,606.614 billion, representing a year-on-year increase of 38.69%. A total of 6,209 bonds were issued, representing a year-on-year increase of 44.46%. The Company focused on strengthening the design capability of bond financing types, accelerated the progress of poverty alleviation bonds, supported the financing of small and micro enterprises, strengthened the cooperation with large financial organizations, and created sales system at different levels by making use of a large operation networking channel. During the Reporting Period, the Company underwrote 35 bonds with an underwriting amount of RMB30.45 billion and ranked twenty-second in the industry. In particular, the Company served as a lead underwriter to underwrite the "First Tranche of Medium-term Notes of Xinjiang Beixin Road & Bridge Group Co., Ltd. in 2019", which is the first debt financing instrument of the "One Belt and One Road Initiatives" issued by the enterprise under Xinjiang Production and Construction Corps for the year to provide new momentum for the sustainable development of the region.

3. New OTC Board

During the Reporting Period, the Company completed one recommended listing project on the New OTC Board and two stock placings of listed companies. As at the End of the Reporting Period, the Company supervised the listing of 69 listed companies on the New OTC Board.

(iii) Investment Management Business

(1) Proprietary trading and other securities trading services

During the Reporting Period, the Group recorded revenue and other income of RMB2.652 billion from the proprietary trading and other securities trading services, representing a year-on-year increase of 1,655.50%, which was mainly due to the fact that the loss incurred in the proprietary investment business in the same period of 2018 was reversed through timely optimization of asset allocation of the Company in the current year and the establishment of a sound risk control mechanism for proprietary business.

Promoted by the issuance of local bonds and the impact of financial expenses, the rate of return of the capital market increased in the first quarter of 2019. The prices of equity assets were adjusted significantly due to the marginal relax of monetary policy and a decrease in the rate of return of bonds in the second quarter of 2019. According to ever-changing market condition, during the Reporting Period, the Company's proprietary equity investment business adjusted the investment strategy and changed the investment mindset to focus on size control for effective control on the risk of stock investment business. The proprietary bond investment business closely traced the economic policies and the change in macro-economy, expanded the size of fixed-income quantitative investment business, interest rate derivatives trading and position scale and attached great attention to the qualification reserve of various innovative businesses. In May 2019, upon strict assessment by China Financial Futures Exchange ("**China Financial Futures Exchange**"), the Company was approved to become one of the first batch of market makers of national bonds futures business in China Financial Futures Exchange, which generally enhanced the pricing capability of derivatives of the Company and the business level of risk control and IT. During the Reporting Period, the cumulative transaction volume of national bonds futures of the Company was 2.3 times of that in the same period of 2018, and the cumulative transaction volume of interest rate swap was 12 times of that in the same period of 2018. As at the End of the Reporting Period, the number of investors of the dealer-quoted bond repurchase business (the product of "Daily Profits" (天天利)) of the Company in Shanghai made a breakthrough of 518,800, and it ranked first in the market for the seventh consecutive year in outstanding repurchase balance, which amounted to RMB10.860 billion.

The Company's derivatives business overcame the market fluctuation, continually enhanced the risk hedging capability and designed various risk return products to meet the customized demand of institutional clients and fulfill the traditional strength of the listed fund's market-making business. During the Reporting Period, more than 30% of the funds consecutively obtained a rating of A or above within the funds of the Company participating the market-making ranking of the SSE.

(2) Private Equity Investment

During the Reporting Period, with the slowdown in economic growth, the investment and financing in private equity market of the PRC was generally under a downward trend, the engagement in investment decreased, and the size of fundraising shrunk more than 50% as compared with the same period of 2018, "Challenges in fundraising and high cost of investment" became the mutual difficulties faced by the PE institutions. As the Company's private equity investment management platform, Galaxy Capital continued to strengthen the business synergy with other business lines of the Company, actively expanded the channels of fundraising and channels of obtaining projects, and actively promoted the establishment of and investment in private funds by seeking cooperation with local governments, large enterprises and listed companies. During the Reporting Period, Galaxy Capital continued to strengthen its cooperation with Yueke Group and promoted the investment in Galaxy Yueke Fund. During the Reporting Period, Galaxy Capital realized revenue and other income of RMB56 million.

(3) Alternative asset investment

As an alternative asset investment business platform of the Company, Galaxy Yuanhui Investment gradually improved its governance mechanism and risk control system, and established firm footholds in equity investment in the primary market, other equity investments and financial products. Its equity investment targets focused on industrial investments which consist of industries including advanced manufacturing, medical health and consumption upgrade, and its total investment size was RMB2.988 billion. During the Reporting Period, Galaxy Yuanhui Investment further strengthened post-investment management and intensified its coordinated development with the Company's wealth management business to assist the transformation of the wealth management business of the Company. During the Reporting Period, the registered capital of Galaxy Yuanhui Investment was increased to RMB3 billion from RMB1.5 billion and its revenue and other income amounted to RMB64 million.

(iv) Overseas Business

During the Reporting Period, the stock markets in emerging economies generally rebounded. The Hong Kong stock market rose by 10.44%, the performance of which was better than other major stock markets in the Asia-Pacific region, but still lagged behind the Shanghai and Shenzhen stock markets. Since May 2019, the Hang Seng Index retreated due to geopolitical factors such as the rising of trade protectionism. As at the End of the Reporting Period, the Hang Seng Index closed at 28,543 points. The total market value of the Hong Kong securities market was approximately HK$32.7 trillion, representing a decrease of 1% from the same period of 2018.

During the Reporting Period, the average daily stock trading volume of the Hong Kong securities market was HK$98.0 billion, representing a year-on-year decrease of 22.6%. As affected by the securities market, the commissions and interest income of the brokerage business of Galaxy International Holdings dropped to a certain extent. During the Reporting Period, the investment banking business of Galaxy International Holdings completed the underwriting of two companies listed on the Main Board in Hong Kong. The asset management business further enriched the business product lines. Since 1 April 2019, Galaxy International Holdings started the consolidated management on the CGS-CIMB Securities International Pte. Ltd. ("**CGS-CIMB Securities**"), a joint venture of the Company. During the Reporting Period, Galaxy International Holdings recorded revenue and other income of RMB598 million and the net profit before tax of RMB40 million.

On 28 June 2019, Galaxy International Holdings completed the closing in respect of the acquisition of 50% of equity interests in the Malaysia securities brokerage business under CIMB Group Sdn. Bhd. ("**CIMB Group**"). The overseas business layout of the Company was therefore enhanced and its overseas business network covers 8 countries and 1 region, including Singapore, Malaysia, Thailand, Indonesia, India, Korea, the United States, Britain and Hong Kong, the PRC.

III. CHALLENGES AND PROSPECTS FOR THE SECOND HALF OF 2019

In the second half of 2019, facing the development environment mixed with both opportunities and challenges in the securities industry, the Company will adhere to the strategic goal of "building a carrier securities broker and a modern investment bank" and continue with the implementation of the business model of "Dual-wheel Drive and Coordinated Development", promoting the development of the Company with the work philosophy of "six consolidation, two breakthroughs and one core".

The first step is to establish the "six consolidations": in consolidating the development of credit business, the Company will adhere to "stabilizing scale, adjusting structure, protecting revenue, and controlling risks"; in the consolidation of the development of brokerage business, the Company will achieve "steady progress". "Steady" refers to preventing oversold. "Progress" is to transform into wealth management as soon as possible on the basis of "+Internet" and the development of professional institutional transactions. In consolidating the development of investment banking business, the Company will continue to establish an investment and financing business system and promote the "four integrations" (integration of investment and financing, integration of regional coordinated development, integration of customer services, integration of domestic and foreign investment and financing businesses) and achieve an innovative development on the basis of adhering to the goal of building a "service-oriented investment bank" and sticking to the "Four Principles" and creating "six major service chains". In consolidating the development of asset management business, the Company will enhance its self-management capabilities, strengthen the coordinated development with the brokerage business, and actively carry out the financial stress relief business. In consolidating the development of investment business, the Company will strictly control the scale of equity investment and relevant risks and vigorously develop sales transactions, capital intermediation, large alternative investment business and optimize the alignment of risk control capability and investment scale, and market sensitivity will be enhanced. In consolidating the development of research business, the coordination method will be innovated, and the coordination with other business lines will be strengthened through "establishment of brands" and "cultivation of talents", and it will also achieve macro research dynamics, industry research on commercialisation of products and construction of stock pool and product pool.

The second step is to achieve "two breakthroughs": in respect of the breakthrough in management of subsidiaries, the Company will adhere to the principle of "one company, one policy" to develop management and supporting programs in different categories; in respect of the breakthrough in international business, the Company will strive to overcome the pressure from the intensification of international competition and the growing protectionism in investment and trade, take advantage of the strength of outlets in Southeast Asia to establish an organizational system covering Asia with Southeast Asia as the center while paying attention to the Russian and African capital markets. At the same time, the Company will establish an international business system with the local business as its basis and cross-border business as its core to upgrade its capability of serving the national strategies such as "One Belt and One Road Initiatives", Guangdong-Hong Kong-Macao Greater Bay Area, Hainan Free Trade Region and the strategies of "bringing in" and "going global" for corporations.

The last step is to focus on "one core", so that the Company will strive to achieve rapid development to further strengthen its market competitiveness.

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 2019, net assets attributable to owners of the Company amounted to RMB68.137 billion, representing an increase of RMB2.155 billion or 3.27% as compared with RMB65.982 billion as at the end of 2018, which was mainly due to an increase in profits of RMB2.595 billion in the first half of the year, an increase in other comprehensive income of RMB0.472 billion, as well as the reduction of final dividend distribution of RMB0.912 billion for the year of 2018.

Asset structure was constantly improved and asset quality and liquidity remained satisfactory. As at 30 June 2019, total assets of the Group, excluding clients' funds, amounted to RMB227.687 billion, representing an increase of RMB33.019 billion or 16.96% as compared with RMB194.668 billion as at the end of 2018. In particular, cash and bank balances accounted for 9% of the total assets. Investment assets, which mainly consisted of investments in high liquidity financial assets, accounted for 46% of the total assets. Margin financing and securities lending business rose slightly, with advances to its customers accounting for 23% of the total assets. Dealer-quoted securities repurchase transactions and securities-based lending transactions accounted for 14% of the total assets.

The gearing ratio of the Group increased slightly. As at 30 June 2019, the own gearing ratio of the Company was 69.63%, representing an increase of 3.71 percentage points as compared with 65.92% as at the end of 2018. Operating leverage rate (own asset/net assets) of the Company was 3.34 times, representing an increase of 13.22% as compared with 2.95 times as at the end of 2018. The increase in leverage ratio was mainly attributable to an increase in the Company's own liabilities.

Currently, the Company is raising short-term capital by issuing income certificates. Meanwhile, the Company is also raising long-term capital by various means, including the 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 effect of changes in customers' margins, the net increase in cash and cash equivalents of the Company during the Reporting Period was RMB8.824 billion, representing an increase of RMB10.330 billion as compared with RMB-1.506 billion for the same period of 2018. The net cash flow from the operating activities of the Company during the Reporting Period was RMB7.866 billion, representing a year-on-year increase of RMB6.484 billion as compared with RMB1.382 billion for the same period of 2018, which was mainly due to an increase in financial assets sold under repurchase agreements; the net cash flow from the investing activities of the Company during the Reporting Period was RMB2.205 billion, representing an increase of RMB3.782 billion as compared with RMB-1.577 billion for the same period of 2018, which was mainly due to an increase in cash inflow from disposal of financial assets; the net cash flow from the financing activities of the Company during the Reporting Period was RMB-1.247 billion, representing an increase of RMB65 million as compared with RMB-1.312 billion for the same period of 2018, which was mainly due to an increase in fundraising through short-term borrowings, issuance of subordinated bonds and income certificates in the first half of 2019.

Profitability analysis of the Company during the Reporting Period

In the first half of 2019, the Group realized revenue and other income of RMB10.634 billion, representing an increase of 41.93% as compared to the same period of last year, of which securities brokerage business realized revenue and other income of RMB6.048 billion, representing an increase of 4.29% as compared to the same period of last year; futures business realized revenue and other income of RMB918 million, representing an increase of 123.88% as compared to the same period of last year; proprietary trading and other securities trading services realized revenue and other income of RMB2.652 billion, representing an increase of 1,655.50% as compared to the same period of last year; investment banking business realized revenue and other income of RMB291 million, representing a decrease of 32.39% as compared to the same period of last year; asset management business realized revenue and other income of RMB371 million, representing a decrease of 18.16% as compared to the same of last year; private equity investment business realized revenue and other income of RMB56 million, representing an increase of 180.00% as compared to the same period of last year; alternative investment business realized revenue and other income of RMB64 million, representing an increase of 23.08% as compared to the same period of last year; overseas business realized revenue and other income of RMB598 million. In the first half of 2019, expenses paid by the Group amounted to RMB7.238 billion, representing an increase of 25.44% as compared to the same period of last year.

In the first half of 2019, the Group realized net profits attributable to owners of the Company of RMB2.595 billion, representing an increase of 97.93% as compared to the same period of last year; the Group realized earnings per share of RMB0.26, representing an increase of 100.00% as compared to the same period of last year; and the weighted average return on net assets amounted to 3.85%, representing an increase of 1.84 percentage points as compared to the same period of last year.

Asset structure and quality

As at 30 June 2019, total assets of the Group amounted to RMB310.646 billion, representing an increase of 23.58% as compared to the end of 2018. Monetary fund amounted to RMB83.672 billion, representing 26.93% of the total assets. Clearing settlement funds amounted to RMB13.011 billion, representing 4.19% of the total assets. Advances to customers amounted to RMB53.148 billion, representing 17.11% of the total assets. Financial assets held for trading amounted to RMB71.388 billion, representing 22.98% of the total assets. Financial assets purchased under resale agreements amounted to RMB33.140 billion, representing 10.67% of the total assets. Other debt investments amounted to RMB20.319 billion, representing 6.54% of the total assets. The Group's assets were highly liquid with reasonable structure. In addition, the Group has made corresponding impairment provision for the assets showing impairment indications under market fluctuation. Therefore, the assets are with relatively high quality.

As at 30 June 2019, total liabilities of the Group amounted to RMB241.487 billion, excluding securities brokerage services, the Group's own liabilities amounted to RMB158.528 billion, of which the Group's own current liabilities and own long-term liabilities amounted to RMB113.163 billion and RMB45.365 billion, representing a share of 71.38% and 28.62%, respectively. The Group's own liabilities were mainly comprised of short-term financing payables of RMB12.306 billion, representing a share of 7.76%; financial assets sold under repurchase agreements of RMB44.051 billion, representing a share of 27.79%; and bond payables, including long-term subordinated bonds, long-term corporate bonds and long-term income certificates, of RMB76.949 billion, representing a share of 48.54%. The gearing ratio of the Group was 69.63%, which represented a reasonable liabilities structure. The Group did not have any unpaid due debts and its business was in sound condition with strong profitability and good long-term and short-term solvency.

V. ESTABLISHMENT AND DISPOSAL OF SECURITIES BRANCHES AND BRANCH OFFICES

As at the End of the Reporting Period, the Company had 36 branch offices and 493 securities branches.

(1) Establishment of branch offices and securities branches

During the Reporting Period, the Company has not established any new branch offices and securities branches.

(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 18 branches within the same city, including 3 branch offices and 15 securities branches.

① ***Relocation of branch offices***

No.	Province/ autonomous region/ municipality	Branch offices	Existing addresses
1	Zhejiang Province	Ningbo branch office	32-1, No. 30, Anbo Road, No. 8, Jiangning Street, Yinzhou District, Ningbo, Zhejiang Province
2	Jiangxi Province	Jiangxi branch office	Room 401-410, 4/F, Jiangxi News Building, No. 190, Yangming Road, Donghu District, Nanchang, Jiangxi Province
3	Hainan Province	Hainan branch office	Room C408, C409, C410 & C411, 4/F, East Wing, Block B, Plot S5, Guorui City, No. 11 Guoxing Avenue, Meilan District, Haikou, Hainan Province

② ***Relocation of securities branches***

No.	Province/ autonomous region/ municipality	Original names of securities branches	Existing name of securities branches	Existing addresses
1	Shanghai City	Shanghai Yichuan Road Securities Branch	Shanghai Yichuan Road Securities Branch	Room 101 & 102, 1/F & 2/F, 855-859 Yichuan Road, Jingan District, Shanghai
2	Shanghai City	Shanghai Putuo District Zhongjiang Road Securities Branch	Shanghai Putuo District Daduhe Road Securities Branch	Room 505, 5/F, No. 26, Lane 168, Daduhe Road, Putuo District, Shanghai
3	Guangdong Province	Zhuhai Jingshan Road Securities Branch	Zhuhai Jida Road Securities Branch	Zone B, 1/F, No. 99 Jida Road, Xiangzhou District, Zhuhai, Guangdong Province
4	Guangdong Province	Chaozhou Chaofeng Road Securities Branch	Chaozhou Chaofeng Road Securities Branch	Shops No. 9-10 and Office No. 3 at mezzanine and 2/F, Block A, Chaofa Garden, Chaofeng Road, Chaozhou, Guangdong Province
5	Guangdong Province	Zhanjiang Lianjiang Huanshi North Road Securities Branch	Zhanjiang Lianjiang Nanbei Avenue Securities Branch	No. 18, New District, Nanbei Avenue, Lianjiang, Zhanjiang, Guangdong Province
6	Zhejiang Province	Ningbo Daqing South Road Securities Branch	Ningbo Ningchuan Road Securities Branch	1-5-4, No. 1713, 1719, 1721, 1733 Ningchuan Road, No. 30 Anbo Road, 32-2, No. 8 Jianning Street, Yinzhou District, Ningbo, Zhejiang Province
7	Zhejiang Province	Wenzhou Jinxiu Road Securities Branch	Wenzhou Station Avenue Securities Branch	No. 10-11, 1/F, Block 1 & 2, Jinglong Building, Station Avenue, Lucheng District, Wenzhou, Zhejiang Province
8	Jiangsu Province	Nanjing Longpan Middle Road Securities Branch	Nanjing Zhujiang Road Securities Branch	Building 1, No. 714, Zhujiang Road, Xuanwu District, Nanjing
9	Henan Province	Zhengzhou Jingsan Road Securities Branch	Zhengzhou Dongfeng Road Securities Branch	No. 103, Building 3, No. 217, Dongfeng Road, Jinshui District, Zhengzhou
10	Anhui Province	Huangshan Xinyuan East Road Securities Branch	Huangshan Xianrendong South Road Securities Branch	No. 2-40, Xianrendong South Road, Tunxi District, Huangshan, Anhui Province
11	Shanxi Province	Taiyuan Taoyuan Securities Branch	Taiyuan Taoyuan Securities Branch	5/F, No.1, Xinjian South Road, Yingze District, Taiyuan
12	Guizhou Province	Guiyang Xintian Avenue Securities Branch	Guiyang Beijing Road Securities Branch	No. 4, 1/F, Xindu Fortune Building, No. 27 Beijing Road, Yunyan District, Guiyang, Guizhou Province
13	Jiangxi Province	Nanchang Square East Road Securities Branch	Nanchang Yangming Road Securities Branch	Room 411-412, 1/F, 3/F & 4/F, Jiangxi News Building, No. 190 Yangming Road, Donghu District, Nanchang, Jiangxi Province
14	Liaoning Province	Yingkou Shifu Road Securities Branch	Yingkou Liaohe Street Securities Branch	30-1, 30-2, Liaohe Street, Zhanqian District, Yingkou
15	Hainan Province	Haikou Binhai Avenue Securities Branch	Haikou Guoxing Avenue Securities Branch	Room C408, C409, C410, C411, 4/F, East Building, Block B, Plot S5, Guorui City, No. 11 Guoxing Avenue, Meilan District, Haikou, Hainan Province

VI. MATERIAL EQUITY INVESTMENT OF THE COMPANY DURING THE REPORTING PERIOD

(I) On 26 February 2019, the 48th meeting of the third session of the Board of Directors of the Company reviewed and approved the "Proposal on Reviewing the Capital Increase to Galaxy Yuanhui Investment Co., Ltd.". According to the five-year development strategy plan and business development needs of the Company, it was agreed to increase capital in Galaxy Yuanhui Investment, and the registered capital increased from RMB1.5 billion to RMB3 billion. On 22 March 2019, the Company completed the capital increase of RMB1.5 billion to Galaxy Yuanhui Investment.

(II) On 26 February 2019, the 48th meeting of the third session of the Board of Directors of the Company reviewed and approved the "Proposal on Reviewing the Capital Increase to Galaxy Capital Management Company Limited". According to business development needs, it was agreed to increase capital in Galaxy Capital, and the registered capital increased from RMB1 billion to RMB1.5 billion. As at the End of the Reporting Period, the capital increase was still in progress.

(III) According to the previous arrangements for a series of relevant transactions between Galaxy International Holdings and CIMB Group in Malaysia, Galaxy International Holdings and CIMB Group completed the closing in respect of 50% equity interest in CGS-CIMB Holdings Sdn. Bhd. of Malaysia on 28 June 2019 by paying RM629 million. Upon completion of the transaction, Galaxy International Holdings and CIMB Group hold 50% of shares in CGS-CIMB Holdings Sdn. Bhd. of Malaysia, respectively, and the Malaysian business was renamed as "CGS-CIMB Securities" on 1 July 2019. On the same day, each of CIMB Group and Galaxy International Holdings contributed RM122.5 million to CGS-CIMB Securities, according to the operational plan, as its additional capital contribution as shareholder.

VII. BOND FINANCING ACTIVITIES OF THE COMPANY

1. The newly issued bonds of the Company during the Reporting Period, are set out below. Such bonds are all listed on the SSE.

Unit: RMB100 million

Name	Issue size	Use of proceeds	Value date	Maturity Date	Period	Interest rate
Non-public issuance of 2019 subordinated bonds (Tranche 1) (Type 2)	40	Replenishment of working capital of the Company or repayment of the Company's interest-bearing debts	2019/1/30	2022/1/30	3 years	4.05%
Non-public issuance of 2019 subordinated bonds (Tranche 2) (Type 2)	34	Replenishment of working capital of the Company or repayment of the Company's interest-bearing debts	2019/2/27	2022/2/27	3 years	4.20%
Non-public issuance of 2019 subordinated bonds (Tranche 3) (Type 1)	32	Replenishment of working capital of the Company or repayment of the Company's interest-bearing debts	2019/3/11	2021/3/11	2 years	4.10%
Non-public issuance of 2019 subordinated bonds (Tranche 3) (Type 2)	34	Replenishment of working capital of the Company or repayment of the Company's interest-bearing debts	2019/3/11	2022/3/11	3 years	4.25%

2. On 19 June 2019, the Company received the "Notice from the General Office of the People's Bank of China in Relation to the Approval of Maximum Outstanding Balance of the Short-term Financing Notes of China Galaxy Securities Co., Ltd." (Ting Bian Han [2019] No. 212), the People's Bank of China approved that the maximum outstanding balance of the short-term financing notes of the Company amounted to RMB36.8 billion which was effective from the date of issuance of the notice. In this scope, the Company can determine its issuance size of the short-term financing notes on its own. According to the "Administrative Measures on Short-term Financing Notes of Securities Companies" and other requirements, the People's Bank of China can make dynamic adjustments to the maximum balance of short-term financing notes of the Company according to the operating condition of the Company.

3. On 27 June 2019, the Company received the "Regulatory Opinion in Relation to the Issuance of Financial Bonds by China Galaxy Securities Co., Ltd." (Ji Gou Bu Han [2019] No. 1644). According to the regulatory opinion, the Department of Fund and Intermediary Supervision of the CSRC has no objections on the Company's application for the issuance of financial bonds.

VIII. EXTERNAL GUARANTEE, MORTGAGE, PLEDGE AND MATERIAL CONTINGENT LIABILITIES OF THE COMPANY

The external guarantees of the Company during the Reporting Period and until the End of the Reporting Period are as follows:

(1) In August 2016 and August 2017, the Company provided a net capital guarantee of RMB1 billion and RMB2 billion, respectively, to Galaxy Jinhui, a subsidiary of the Company, to meet its business development needs.

(2) On 22 June 2017, the "Resolution on Increase of Net Capital Guarantee Provided to Galaxy Jinhui" was considered and approved at the 2016 annual general meeting of the Company and the Company agreed to further provide a net capital guarantee of RMB3 billion to Galaxy Jinhui to meet its business development needs. As at 30 June 2019, the guarantee had not been performed.

(3) On 26 February 2019, the "Resolution on the Review and Approval of the Provision of Bank Loan Guarantee by Galaxy International Holdings to CGS-CIMB Securities" was considered and approved at the 48th meeting (extraordinary) of the third session of the Board of Directors of the Company. According to the business development needs, it was agreed that Galaxy International Holdings would provide loan guarantees to CGS-CIMB Securities in coming three years with a limit of not more than RMB3.5 billion. As at 30 June 2019, the aggregate amount of the guarantee letter executed by Galaxy International Holdings was HK$763 million and the performed guarantee amounted to HK$90 million.

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 mortgage and pledge.

IX. 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 commodity futures brokerage, financial futures brokerage, futures investment consultancy, assets management and sale of funds. According to the financial statements prepared in accordance with the China Accounting Standards for Business Enterprises, as at 30 June 2019, the total assets and net assets of Galaxy Futures were RMB19.351 billion and RMB1.980 billion, respectively. In the first half of 2019, it achieved an operating income and a net profit of RMB911 million and RMB105 million, respectively.

On 21 November 2018, the Company entered an equity transfer agreement with RBS Asia Futures Limited, pursuant to which RBS Asia Futures Limited agreed to dispose of and the Company agreed to acquire 16.68% equity interest in Galaxy Futures. Upon completion of the equity transfer, Galaxy Futures will become a wholly-owned subsidiary of the Company. As at the date of this Report, the equity transfer is still in the process of approval by regulatory authorities and has not yet been completed.

(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 establish private equity investment funds and manage private equity investment funds, etc. According to the financial statements prepared in accordance with the China Accounting Standards for Business Enterprises, as at 30 June 2019, the total assets and net assets of Galaxy Capital were RMB1.426 billion and RMB1.047 billion, respectively. In the first half of 2019, it achieved an operating income and a net profit of RMB53 million and RMB34 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 services of securities and futures brokerage, research and analysis, investment banking, margin financing and securities lending, asset management, wealth management and derivatives, etc. in regions and countries such as Hong Kong, Singapore, Indonesia, Thailand, Malaysia, India, Korea, Britain and the United States through a number of wholly-owned subsidiaries and joint ventures. According to the financial statements prepared in accordance with the China Accounting Standards for Business Enterprises, as at 30 June 2019, the total assets and net assets of Galaxy International Holdings were RMB23.524 billion and RMB3.950 billion, respectively. In the first half of 2019, it achieved an operating income and a net profit of approximately RMB401 million and RMB29 million, respectively. The net profit attributable to the parent company amounted to RMB37 million. Since April 2019, Galaxy International Holdings has consolidated CGS-CIMB Securities into its consolidated financial statements.

(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 financial statements prepared in accordance with the China Accounting Standards for Business Enterprises, as at 30 June 2019, the total assets and net assets of Galaxy Jinhui were RMB1.989 billion and RMB1.321 billion, respectively. In the first half of 2019, it achieved an operating income and a net profit of RMB355 million and RMB48 million, respectively.

(5) Galaxy Yuanhui Investment has a registered capital of RMB3.0 billion, in which the Company holds an equity interest of 100%. Its major business scope is proprietary investment to enterprises business (including equity investment or bond investment), or to invest in other investment funds related to equity investment and bond investment. According to the financial statements prepared in accordance with the China Accounting Standards for Business Enterprises, as at 30 June 2019, the total assets and net assets of Galaxy Yuanhui Investment were RMB3.149 billion and RMB3.113 billion, respectively. In the first half of 2019, it achieved an operating income and a net profit of RMB63 million and RMB39 million, respectively.

X. STRUCTURED ENTITIES CONTROLLED BY THE COMPANY

As at 30 June 2019, the Group consolidated 41 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 identified the control right over certain asset management schemes and certain partnerships and incorporated them into the consolidation after considering its investment decision-making right on them, the exposure to variable returns and other factors. As at 30 June 2019, the total assets of the above structured entities incorporated into the consolidation were RMB6.001 billion.

XI. 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 maintains a long-term and stable financial policy, focusing on liquidity management of assets and guaranteeing a smooth financing channel. Currently, the Company is raising short-term funding primarily by means of interbank lending, issuance of short-term corporate bonds and income certificates. 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 RMB339.5 billion; the cap of borrowing for national inter-bank lending business approved by the People's Bank of China amounted to RMB20 billion; and the cap for dealer-quoted bond repurchase transactions in interbank bond market amounted to RMB30 billion.

XII. NUMBER OF EMPLOYEES, REMUNERATION AND TRAINING PLAN

As at the End of the Reporting Period, the Group had 9,614 employees (including sales account managers), of which 8,530 were employees of the Company (including sales account managers).

In terms of remuneration and incentive measures, the 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. 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.

During the Reporting Period, the Company organized over 30 training sessions which trained nearly 1,000 employees. In order to improve the general quality, professionalism, implementation capability and innovation of the professional personnel of each business line, the content of the training involved management training, business training, general skills training for employees, professional skills training, and training for new employees, etc.

XIII. 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 2019, 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 Group expose to risks mainly including market risk, credit risk, operational risk, liquidity risk, internet security 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 rose initially but receded subsequently, resulting in a wide fluctuation in earnings of the equity investment business of the Group. The Company effectively controlled the proprietary size by means of risk hedging, quota management, control of exposure in proprietary trading and monitoring of positions in securities in a timely manner. There was no relatively significant loss due to material fluctuation of prices. As at the End of the Reporting Period, the value at risk (VaR) of the Group and the Company (1d, 95%) are as follows:

Unit:100 million Currency: RMB

	The Group		**The Company**	
	30 June 2019	31 December 2018	**30 June 2019**	31 December 2018
VaR of the overall portfolio	**0.60**	0.74	**0.42**	0.59

② Interest rate risk refers to the risks resulting from the change in interest rate. The assets of the Group exposed to interest rate risks mainly include bank deposits, clearing settlement fund, refundable deposits and debt equities, etc. The Group 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 Group 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 Group 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.

There are strict requirements over the rating of bonds invested by the Group. As at the End of the Reporting Period, 99.49% of the credit risk exposure of the bonds investment of the Group was domestic bonds of the PRC, of which all the credit ratings were AA or above. Among them, 69.88% had a credit rating of AAA, 30.12% had a credit rating of AA+ or AA, and no bonds were in default. Among the overseas bonds, 53.44% had a credit rating of Baa or above. Therefore, the Group believes that the Group has no significant credit risk exposure in the above proprietary business.

At the End of the Reporting Period, the Group maintained an average margin ratio of 266.93% for the Group's margin financing and securities lending clients with outstanding liabilities, an average covered ratio of 257.93% for the Group's stock-pledged repo clients with outstanding liabilities, and an average covered ratio of 214.60% for the Group's stock repo clients with outstanding liabilities. 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 Group 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.

(5) Cyber Security Risk

Cyber risk refers to the risks involved in the availability or integrity of data generated by the use of information and communication technologies of the Company, as well as risks including property damage caused by business interruptions as a result of the Company's cyber operation technologies.

In order to effectively cope with and manage the cyber risks, the Company mainly adopted the following measures: establishing and improving the network security management system, making full use of various technologies, building a network security management ensuring system; formulating a system for disaster recovery and offsite backup within the same city, and ensuring a safe physical network environment; using data backup technology and hardware redundancy backup technology to improve the security level of hardware, software and data. The Company also strived to achieving information security management and control in key matters, including network planning and isolation, information system security baseline, access to network, office terminal control and so on; deploying anti-virus and data anti-leakage systems, installing firewalls and other anti-network attack security devices at network boundaries; conducting security vulnerability scanning on important systems and engaging external security companies to carry out security assessments and penetration tests for essential systems.

During the Reporting Period, the Company's overall cyber risk was controllable and important information technology systems were operated in a safe and stable manner.

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

The Group 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 Group 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 and including the subsidiaries into the all-round risk management system, 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 Group 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 Group 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, 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, financing risk monitoring system, liquidity risk management system, statement consolidation management system, etc. All kinds of risk management system have been stably advanced.

(4) Adopting a risk management throughout the whole process

The Group 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 Group vigorously promoted the overall risk management of the Group. The Company vigorously promotes 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 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 2019, 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, material investment and financing and launching new business, 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 2019 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 2019, the Company continued to implement the future strategic development plan 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. As at the End of the Reporting Period, the Company issued long-term subordinated bonds totaling RMB30 billion to supplement subordinated net capital of RMB15.310 billion and enhance the strength of net capital.

Items	As at 30 June 2019	As at 31 December 2018
Net capital (RMB)	**67,624,878,194.01**	61,919,056,297.82
Net assets (RMB)	**66,283,162,203.25**	64,435,083,387.46
Net Capital/Total risk capital reserves (%)	**376.42%**	320.39%
Net Capital/Net Assets (%)	**102.02%**	96.10%
Net Capital/Liabilities (%)	**47.80%**	52.22%
Net Assets/Liabilities (%)	**46.85%**	54.34%
Proprietary Equity Securities and Securities Derivatives Held/Net Capital (%)	**20.91%**	20.89%
Proprietary securities with fixed income features/Net Capital (%)	**125.62%**	110.94%
Capital Leverage (%)	**25.87%**	29.31%
Liquidity Coverage (%)	**512.29%**	312.02%
Net Stable Funding Ratio (%)	**134.30%**	144.27%

As of 30 June 2019, the Company's relevant risk control indicators, including its net capital and liquidity, complied with relevant regulatory requirements on net capital.

XIV. 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 Group 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. On 21 December 2018, the Company and Galaxy Financial Holdings entered into the "Second Supplemental Agreement to the Securities and Financial Services Framework Agreement", whereby the term of the Framework Agreement was extended to 31 December 2021. 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 2021, 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 Second Supplemental Agreement) will be RMB267 million, RMB320 million and RMB416 million, respectively, and the annual caps of the interest payable by the Group to Galaxy Financial Holdings Group for the entrusted funds will be RMB10 million, RMB15 million and RMB20 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 Company is 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 2019	**Annual cap for 2019**
Income (inclusive of tax)		
Securities brokerage services	4.81	
Sales agency services	11.40	
Leasing of exchange trading units	6.79	
Other related securities and financial services	1.43	
Total	**24.43**	267
Expenses		
Interest expenses	0.65	
Total	**0.65**	10

(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 include: (1) securities products with fixed income features; (2) fixed income related derivative products; (3) equity related products; (4) financing transactions; and (5) 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 pricings of such transactions are subject to the strict PRC regulatory supervision and the requirements of applicable PRC laws and regulations. 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 billion, RMB75 billion and RMB87 billion, respectively; the cap of the total cash outflow is RMB57 billion, RMB70 billion and RMB79 billion, respectively. 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 RMB10.5 billion.

As the applicable percentage ratios under the Stock Exchange Listing Rules in respect of the annual caps are more than 5%, the transactions are subject to the reporting, announcement, annual review requirements and independent shareholders' approval requirement under the Stock Exchange Listing Rules.

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 2019	Annual cap for 2019
Total cash inflow of the Group from Galaxy Financial Holdings Group	1,437.41	87,000
Total cash outflow of the Group to Galaxy Financial Holdings Group	1,673.20	79,000
Maximum daily balance (including interest payables) of the financing provided by Galaxy Financial Holdings Group to the Group through collateralized securities repurchase transactions	100.00	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 RMB60.36 million.

XV. ADMINISTRATIVE SUPERVISION MEASURES AND RELATED MATTERS FACED BY THE COMPANY AND ITS BRANCHES DURING THE REPORTING PERIOD

On 22 March 2019, Dongguan Dongcheng Central Road Securities Branch of the Company received the "Decision on Issuing a Warning Letter to Dongguan Dongcheng Central Road Securities Branch of China Galaxy Securities Co., Ltd." issued by the CSRC Guangdong Bureau. The decision stated that the employees of the securities branch personally introduced private equity fund purchasers for private equity fund management companies, personally promoted financial products that were not sold by the Company and guaranteed the principal and return of the investors, which reflected the poor compliance management of Dongguan Dongcheng Central Road Securities Branch. In addition, upon the discovery of personal recommendation of financial products by its employees which caused the complaints from investors, the branch did not report to the CSRC Guangdong Bureau in a timely manner. The above behaviors have breached the requirements in Article 6 of the "Administrative Measures on Compliance of Securities Companies and Securities Investment Fund Management Companies" and Article 18 of the "Regulatory Requirements on Branches of Securities Companies". Pursuant to the requirements as stated in Article 32 of the "Administrative Measures on Compliance of Securities Companies and Securities Investment Fund Management Companies" and Article 20 of the "Regulatory Requirements on Branches of Securities Companies", the CSRC Guangdong Bureau decided to adopt the regulatory measure of issuing a warning letter to Dongguan Dongcheng Central Road Securities Branch. Dongguan Dongcheng Central Road Securities Branch has submitted a "Rectification Report of Dongguan Dongcheng Central Road Securities Branch of China Galaxy Securities Co., Ltd. Regarding the Issues involved in the Warning Letter" on 12 April 2019. The relevant issues been rectified and accountability measures were imposed to the relevant responsible employees.

XVI. MATTERS RELATED TO THE PROGRESS OF EQUITY ACQUISITION OF CGS-CIMB SECURITIES

On the basis of the previous investment in CGS-CIMB Securities, in order to facilitate the further enhancement of the control over CGS-CIMB Securities and achieve a better promotion of the inter-group international business development and improvement on business synergy, Galaxy International Holdings is entitled to appoint and dismiss the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer of CGS-CIMB Securities and CIMB Group is entitled to nominate the above personnel from 1 April 2019 according to the cooperation agreement reached between Galaxy International Holdings and CIMB Group.

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. SHAREHOLDERS

(i) Total number of shareholders:

Number of ordinary shareholders as at the End of the Reporting Period ("holders")	123,596 of which : 122,846 holders of A Shares; 750 holders of H Shares
Preference shareholders with voting rights restored ("holders") 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: Status of shares	Pledged or frozen: Number of shares held	Nature of Shareholders
China Galaxy Financial Holdings Company Limited	0	5,186,538,364	51.16	5,160,610,864	Nil	0	State-owned legal person
HKSCC Nominees Limited (Note 1)	-31,500	3,688,133,596	36.38	0	Nil	0	Overseas legal person
China Securities Finance Corporation Limited	0	84,078,210	0.83	0	Nil	0	State-owned legal person
Account No. 1 of National Council for Social Security Fund	-1,593,891	57,132,376	0.56	57,132,376	Nil	0	State-owned legal person
Bank of Lanzhou Co., Ltd.	-47,444,268	43,070,130	0.42	0	Nil	0	Domestic non-state-owned legal person
Shanghai Rural Commercial Bank Co., Ltd.	-48,028,158	31,000,000	0.31	0	Nil	0	Domestic non-state-owned legal person
Joincare Pharmaceutical Industry Group Co., Ltd.	-3,000,000	25,983,000	0.26	0	Nil	0	Domestic non-state-owned legal person
China Resources Co., Ltd.	-15,400,000	22,979,809	0.23	0	Nil	0	State-owned legal person
Zhongshan Zhonghui Investment Group Company Limited	0	19,241,213	0.19	0	Nil	0	State-owned legal person
Hong Kong Securities Clearing Company Limited (Note 2)	+953,023	15,170,769	0.15	0	Nil	0	Overseas legal person

Note 1: HKSCC Nominees Limited is the nominal holder of shares held by the Company's H-share non-registered shareholders and holds the H Shares on behalf of a number of customers, including 25,927,500 H Shares of Galaxy Financial Holdings.

Note 2: Hong Kong Securities Clearing Company Limited is the nominal holder of the A Shares of the Company held by the investors of Shanghai Connect.

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	3,688,133,596	H Shares	3,688,133,596
China Securities Finance Corporation Limited	84,078,210	A Shares	84,078,210
Bank of Lanzhou Co., Ltd	43,070,130	A Shares	43,070,130
Shanghai Rural Commercial Bank Co., Ltd.	31,000,000	A Shares	31,000,000
Joincare Pharmaceutical Industry Group Co., Ltd	25,983,000	A Shares	25,983,000
China Resources Co., Ltd.	22,979,809	A Shares	22,979,809
Zhongshan Zhonghui Investment Group Company Limited	19,241,213	A Shares	19,241,213
Hong Kong Securities Clearing Company Limited	15,170,769	A Shares	15,170,769
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 connected relationship among shareholders or any concerted action between the above shareholders. HKSCC Nominees Limited and Hong Kong Securities Clearing Company Limited are both wholly owned subsidiaries of The Stock Exchange of Hong Kong Limited, holding H Shares and A Shares of the Company for H shares investors and Shanghai Connect investors.		
Preference shareholders with voting rights restored and number of shares held	Nil.		

Shareholdings of the top 10 shareholders subject to trading moratorium and conditions of trading

Unit: share(s)

No.	Name of shareholders subject to trading moratorium	Number of shares held subject to trading moratorium	Listing and trading of shares subject to trading moratorium		Conditions of trading moratorium
			Date of being permitted for listing and trading	Number of new shares to be listed and traded	
1	China Galaxy Financial Holdings Company Limited	5,160,610,864	23 January 2020	0	Moratorium of IPO of A Shares
2	Account No. 1 of National Council for Social Security Fund	57,132,376	23 January 2020	0	Moratorium of IPO of A Shares

Details of the connected relationship amongst, or concerted actions between, the above shareholders	Nil

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.

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 2019.

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
	H Shares	Interests of controlled corporation	26,585,500	0.26	0.72	Long position
Galaxy Financial Holdings (Note 2)	A Shares	Beneficial owner	5,160,610,864	50.91	80.06	Long position
	H Shares	Beneficial owner	25,927,500	0.25	0.70	Long position
	H Shares	Interests of controlled corporation	658,000	0.01	0.02	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	231,751,104	2.29	6.28	Long position
	H Shares	Interests of controlled corporation	1,123,000	0.01	0.03	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 held approximately 69.07% equity interest in Galaxy Financial Holdings and is therefore deemed to be interested in 5,160,610,864 A Shares and 26,585,500 H Shares held by Galaxy Financial Holdings. Galaxy Financial Holdings directly held approximately 62.69% equity interest in Galaxy Insurance Brokerage (Beijing) Company Limited (銀河保險經紀(北京)有限責任公司) and is therefore deemed to be interested in 658,000 H Shares held by Galaxy Insurance Brokerage (Beijing) Company Limited.

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 231,751,104 H Shares in long position and 1,123,000 H Shares in short position through various entities under its control. In addition, 125,000 H Shares in long position and 561,000 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 “VII. Bond Financing Activities 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 maintaining and improving 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 ensures the operation of the Company in a regulated manner. The convening and voting process of the general meeting and the meetings of the Board of Directors and the meetings 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 provisions A.2.1 and 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. Under code provision A.2.1, the roles of chairman and chief executive should be separated and should not be performed by the same individual. As Mr. Gu Weiguo ceased to be the President of the Company due to reaching the retirement age, Mr. Chen Gongyan, the Chairman of the Board, served as the Acting President of the Company during the period from 14 March 2019 to 11 June 2019. On 11 June 2019, Mr. Chen Liang was appointed as the President of the Company and Mr. Chen Gongyan ceased to be the Acting President of the Company. Therefore, the Company has re-complied with the code provision A.2.1 of the Corporate Governance Code. Under code provision A.4.2 of the Corporate Governance Code, each director shall retire by rotation at least once every three years. The term of the third session of the Board and the Supervisory Committee has exceeded three years. In accordance with the Articles of Association, 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 8 Directors, including 1 executive Director, 4 non-executive Directors and 3 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 rules of procedure, 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	Liu Dingping, Xiao Lihong, Zhang Tianli, Liu Ruizhong, Wang Zhenjun
Compliance and Risk Management Committee	Liu Dingping	Xiao Lihong, Zhang Tianli, Wang Zhenjun, Liu Chun, Wang Zelan
Nomination and Remuneration Committee	Liu Ruizhong	Liu Dingping, Wang Zhenjun, Liu Chun
Audit Committee	Liu Chun	Zhang Tianli, Liu Ruizhong, Wang Zhenjun

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 15 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 5 Board meetings to consider 28 proposals. The Strategy and Development Committee convened 1 meeting, the Compliance and Risk Management Committee convened 1 meeting, the Nomination and Remuneration Committee convened 2 meetings, and the Audit Committee convened 4 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.

The Audit Committee and the management have reviewed the accounting policies adopted by the Company, discussed matters including the risk management, internal control and financial statements of the Company, and reviewed the consolidated interim financial information of the Company for the six months ended 30 June 2019. 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 data set forth 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	Tao Libin, Fang Yan, 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 3 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 relevant new litigation or arbitration involving new progress of the Company are 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

Currently, the case is not yet concluded.

(II) Arbitration filed by Taiping Fund Management Co., Ltd. against the Company

Currently, the case was in the arbitration process.

(III) Arbitration filed by AXA SPDB Investment Co., Ltd. against the Company

Currently, the case was in the arbitration process.

(IV) Dispute in relation to Stock Pledge Repurchase Transactions between the Company and Changchun Xiangsheng Investment Management Co., Ltd. ("Xiangsheng Investment")

As Xiangsheng Investment has not fulfilled its obligations as agreed in the agreement on the stock pledge repurchase transactions, the Company filed an arbitration against Xiangsheng Investment in September 2018.

On June 24, 2019, the Beijing Arbitration Commission made an award on the arbitration which ordered that: 1. Xiangsheng Investment shall pay to the Company the repurchase transaction amount as of 30 April 2019 of RMB45,605,484.34, and the interest calculated at an annual rate of 5.7% based on the amount of RMB45,182,133.93 for the period from 1 May 2019 to the date of full payment of the repurchase transaction amount; 2. Xiangsheng Investment shall pay to the Company the liquidated damages as of 30 April 2019 of RMB1,272,838.82, and the liquidated damages at a daily rate of 0.05% based on the amount of RMB45,182,133.93 for the period from 1 May 2019 to the date of full payment of the repurchase transaction amount; 3. The Company shall have the right to discount the 9,748,658 circulating shares of ST Changsheng (stock code: 002680) that have been pledged by Xiangsheng Investment to the Company, or shall have priority right to be repaid from the proceeds of the auction or sale of such pledged shares within the limit of the above items 1 and 2; 4. Xiangsheng Investment shall pay to the Company the legal expenses of RMB100,000; and 5. Xiangsheng Investment shall pay to the Company the arbitration fee of RMB306,288.59 disbursed by the Company.

On 2 April 2019, the Company filed an arbitration to the No. 2 Intermediate Court of Beijing against the guarantor of Xiangsheng Investment. The case is still in pending legal proceedings.

(V) The securities margin trading dispute case between the Company and Sun Taoyong

Mr. Sun Taoyong (孫濤勇) (the "First Defendant") conducted securities margin trading through the relevant service provided by the Company. In accordance with the "Securities Margin Trading Guarantee Letter" issued by Shanghai Meng Ju Investment Management Center (LLP) (上海盟聚投資管理中心(有限合夥)) (the "Second Defendant") and Shanghai Meng Shang Investment Management Center (LLP) (上海盟商投資管理中心(有限合夥)) (the "Third Defendant"), the Second Defendant and the Third Defendant agreed to provide an unlimited joint liability guarantee to the Company for all debts of the First Defendant under the "Securities Margin Trading Contract". As the guarantee maintenance ratio of the First Defendant's credit account was lower than 150% and he has not deposited additional guaranty with sufficient amount within the agreed period, the Company has implemented a compulsory clearing measure on the First Defendant's credit account according to the relevant provisions of the "Securities Margin Trading Contract" and the "Securities Margin Trading Supplemental Agreement" entered into by the parties. In respect of the outstanding financial liabilities after the clearing, the Company filed a lawsuit to the Court requesting the Court to order the First Defendant to repay the financing principal and to pay the financing interest and penalty interest and to bear the legal costs of the Company, to order the Second Defendant and the Third Defendant to assume the joint and several liabilities for all the debts of the First Defendant, which amounted to RMB64,567,571.53 as at 26 March 2019, and to order the First Defendant, the Second Defendant and the Third Defendant to jointly bear the litigation costs, the property preservation fee and property preservation insurance premium of this case. The case is still in pending legal proceedings.

(VI) The securities margin trading dispute case between the Company and Xu Guodong

Xu Guodong conducted securities margin trading through relevant services provided by the Company. Since Xu Guodong's credit account maintenance guarantee ratio was lower than 130%, and the collateral was not added in full within the agreed time limit, the Company imposed mandatory liquidation measures on Xu Guodong's credit account according to the relevant agreement of the "Securities Margin Trading Contract" signed by both parties. For the financing liabilities that were not repaid after the liquidation, the Company filed a lawsuit with the court, requesting the court to order Xu Guodong to repay the financing principal and pay the financing interest and penalty interest with the total amount of RMB65,458,830.17 as of 9 January 2019, and to bear the case acceptance fee. On 25 July 2019, the Beijing Second Intermediate People's Court issued the Civil Ruling, ordering Xu Guodong to: (1) repay financing principal amount of RMB50,544,883.56 to the Company within ten days from the effective date of the ruling; (2) pay financing interest of RMB14,455,961.37 to the Company within ten days from the effective date of the ruling; and (3) pay penalty interest to the Company within ten days from the effective date of the ruling (the sum of the payment amounts determined in the above rulings (1) and (2) as the base amount on which interest shall be accrued at a daily interest rate of 0.05% from 16 January 2019 to the date of actual payment). The case acceptance fee of RMB369,094 and application fee for property preservation of RMB5,000 were both payable by Xu Guodong.

(VII) The securities margin trading dispute case between the Company and Ge Hongtao

Ge Hongtao conducted securities margin trading through relevant services provided by the Company. Since Ge Hongtao's credit account maintenance guarantee ratio was less than 130%, and the collateral was not added in full within the agreed time limit, the Company imposed a forced liquidation measure on Ge Hongtao's credit account in accordance with the relevant agreement of the "Securities Margin Trading Contract" signed by both parties. For the financing liabilities that were not repaid after the liquidation, the Company filed a lawsuit with the court, requesting the court to order Ge Hongtao to repay the financing principal, and to pay the financing interest, penalty interest (calculation up to 22 January 2019), and to bear the case acceptance fee with a total of RMB51,210,928.05. The case is still in pending legal proceedings.

(VIII) Transaction concerning bond pledge repo dispute between Nanjing Shanghai Road Securities Branch under the Company and Shenzhen Bismarck Capital Management Co., Ltd. (深圳俾斯麥資本管理有限公司)

Due to the transaction concerning bond pledge repo dispute, Nanjing Shanghai Road Securities Branch under the Company filed a lawsuit to the Court against four defendants including Shenzhen Bismarck Capital Management Co., Ltd..

As the plaintiff and the defendants reached an out-of-court settlement on the matters of settlement of advance payment, Nanjing Shanghai Road Securities Branch under the Company submitted an application for withdrawing the case to the Nanjing Intermediate People's Court on 15 July 2019, and the Nanjing Intermediate People's Court approved the withdrawal of the case by Nanjing Shanghai Road Securities Branch.

(IX) The case of application for enforcement by the Company against Zhou Weihong, Wang Huifen, Jiangsu Guocheng Equipment Technology Research Institute Co., Ltd. (江蘇國澄裝備技術研究院有限公司), Zhou Chen, Zhou Yanping, Zhou Zheng

Zhou Weihong, person subject to the enforcement, entered into the "Stock Pledge Repo Business Agreement", "Equity Pledge Repo Agreement" and "Letter of Undertaking" with the Company, while Zhou Weihong and Wang Huifen, persons subject to the enforcement, entered into "Supplemental Agreement to Stock Pledge Repo Business Agreement" with the Company, pursuant to which Zhou Weihong pledged his holding of the Kin Don shares (stock code: 300411) to the Company for Stock Pledge Repo transactions, and Wang Huifen, the spouse of Zhou Weihong, acted as the joint debtor. Jiangsu Guocheng Equipment Technology Research Institute Co., Ltd., Zhou Chen, Zhou Yanping, Zhou Zheng, persons subject to the enforcement, entered into a "Guarantee Letter" as guarantors. The relevant notarial certificate and enforcement certificate were issued by Beijing Capital Notary Public Office.

As the persons subject to the enforcement failed to perform the liability of repayment as evidenced in the notarial debt documents, the Company submitted an application to the Shaoxing Intermediate People's Court to enforce the notarial debt documents, requesting: 1. to enforce the persons subject to the enforcement to pay the principal amount of RMB66.9088 million and the interest accrued from the date of 20 March 2019 (inclusive) to the date of settlement of all debts (exclusive); 2. to enforce the persons subject to the enforcement to pay a daily default payment at 0.05% of the outstanding amount from the date of default; 3. to enforce the persons subject to the enforcement to pay the notarization fee, execution fee of the case, evaluation fee, auction fee, etc.; and 4. the Company shall be entitled to the right of preferential repayment with the pledged shares of 37.1692 million share of restricted stocks in Kin Don Shares of equivalent value or using the proceeds from auction or sale of the pledged shares within the scope of creditor's rights as stated in items 1 to 3.

The Company believes that there is no material adverse impact caused by the above lawsuits on the business, financial positions or operation performance results 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.

OTHER INFORMATION

XII. RELEVANT SUBSEQUENT EVENTS

(i) On 5 July 2019, the Securities Association of China issued the "Announcement on the Restricted List of the Target Subscribers of the IPO Shares" (No. 1 of 2019) and decided to include "proprietary account of China Galaxy Securities Co. Ltd.", the target subscriber of shares who breach the requirements of the Articles 15 and 16 of the "Management Rules for the Offline Investors of the IPO Shares of the Science and Technology Innovation Board" in the offline purchasing process of IPO shares of "TZTEK Technology" on the Science and Technology Innovation Board, to the restricted list from 8 July 2019 to 7 January 2020 according to the requirements of the "Management Rules for the Offline Investors of the IPO Shares of the Science and Technology Innovation Board". The event has no significant impact to the normal operation of the Company.

(ii) Since 13 August 2018, Galaxy Financial Holdings has increased its shareholding of H shares in the Company through Hong Kong Stock Connect, and has committed to increase its shareholdings of H shares in the Company through Hong Kong Stocks Connect within 12 months. The cumulative increase in shareholdings does not exceed 3% of the total issued shares of the Company. As at 12 August 2019, the implementation period of the plan of shareholdings increase has expired. During the period from 13 August 2018 to 12 August 2019, Galaxy Financial Holdings increased its shareholdings of H Shares in the Company by 25,927,500 shares through the Hong Kong Stock Connect, accounting for approximately 0.2558% of the Company's total issued share capital. Upon the completion of the shareholdings increase, Galaxy Financial Holdings and its subsidiary, Galaxy Insurance Brokerage (Beijing) Company Limited, held a total of 5,160,610,864 A Shares and 26,585,500 H Shares, accounting for 51.1696% of the total issued share capital of the Company.

XIII. CHANGES IN ACCOUNTING POLICIES

The Company has applied the IFRS 16 "Leases" since 1 January 2019. For the description of the changes in the accounting policies, please refer to the "Notes to the Interim Condensed Consolidated Financial Statement-3.1 Standards, amendments and interpretations effective in 2019".

XIV. EVALUATION RESULTS OF THE COMPANY BY SECURITIES REGULATORY AUTHORITY

In the evaluation of securities companies of 2019 carried out by the CSRC, the Company was assigned an AA rating in A class.

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

1. On 26 February 2019, Ms. Xiao Lihong and Mr. Zhang Tianli were elected as non-executive directors of the third session of board of directors of the Company at 2019 first extraordinary general meeting of the Company. Mr. Shi Xun and Mr. Wu Chengming ceased to be Directors of the Company due to work arrangements.

2. On 26 February 2019, Ms. Liu Chun was elected as an independent Director of the third session of the Company at 2019 first extraordinary general meeting of the Company, and Mr. Luo Lin ceased to be an independent Director of the Company due to his age.

3. As approved at the employee representative meeting of the Company, Ms. Wang Zelan was elected as an employee Director of the Company with effect from 26 February 2019. Mr. Li Chaoyang ceased to be an employee Director of the Company due to his age.

4. On 26 February 2019, Ms. Fang Yan was elected as a non-employee representative Supervisor of the third session of the Supervisory Committee at 2019 first extraordinary general meeting of the Company. Due to adjustment of work arrangements, Mr. Zhong Cheng ceased to be a Supervisor of the Company.

5. On 14 March 2019, the discontinuation of the appointment of Mr. Gu Weiguo as the President, a member of the Executive Committee and the Vice Chairman of the Board was resolved by the Board of Directors and Mr. Chen Gongyan, the Chairman of the Executive Committee and the Chairman of the Board, will be the Acting President for a period of no more than six months.

6. On 24 April 2019, the fifty-first meeting of the third session of the board of directors of the Company has approved the resignation of Ms. Zhu Ruimin from the positions of the chief financial officer and a member of the executive committee of the Company. Mr. Wu Chengming, the secretary to the Board, will be responsible for financial management of the Company, on a temporary basis, with effect from 25 April 2019.

7. On 28 May 2019, as Mr. Gu Weiguo had reached retirement age, he was removed from his position of a Director at the 2018 annual general meeting of the Company. Mr. Gu Weiguo also ceased to be a member of each of the Strategy and Development Committee and the Compliance and Risk Management Committee.

8. On 29 May 2019, Mr. Wu Yuwu, an Independent Director and a member of each of the Audit Committee and the Nomination and Remuneration Committee of the Company, passed away.

9. On 11 June 2019, the third session of Board resolved to appoint Mr. Chen Liang as the President and a member of the Executive Committee of the Company. His term of office commenced from date of the resolution of the Board of Directors and end on the expiry of the term of the third session of the Board. Meanwhile, Mr. Chen Gongyan ceased to be the Acting President of the Company. The Board of Directors agreed to recommend Mr. Chen Liang as a candidate for director of the Company and shall be subject to the election on the general meeting.

10. On 11 June 2019, the third session of the board of directors of the Company agreed to appoint Mr. Liang Shipeng as the Chief Compliance Officer and a member of the Executive Committee of the Company. His term of office will end on the expiry of the term of the third session of the Board. The appointment is subject to the approval of the regulatory authorities. On 8 July 2019, the Company received the "No Objection Letter to China Galaxy Securities Co., Ltd. in relation to the Appointment of Liang Shipeng as Compliance Officer" (Jing Zheng Jian Fa [2019] No. 195, issued on 5 July 2019), pursuant to which the CSRC Beijing Bureau has no objection on the appointment of Mr. Liang Shipeng as the Compliance Officer of the Company and his term of office as the Compliance Officer of the Company commenced on 5 July 2019.

XVI. CONTRACTS OF SIGNIFICANCE AND THEIR PERFORMANCE

1. Rental Issue

Lessor	Lessee	Information on rental asset	Amount involved of rental asset (RMB)	Starting date of rental	Ending date of rental	Rental income	Recognition basis of rental income	Impact of rental income on the Company	Connect transaction
China Galaxy Investment Management Company Limited	The Group	International Enterprise Building, Financial Street, Beijing	408,105,729.68	1 January 2017	31 December 2019	N/A	Property lease contract	N/A	Yes
TravelSky Technology Limited	The Group	Plant	95,547,901.40	30 April 2014	31 March 2019	N/A	Property lease contract	N/A	No
China United Network Communications Group Co., Ltd	The Group	Property	53,763,075.06	1 November 2015	31 October 2020	N/A	Property lease contract	N/A	No
China Life Real Estate Co., Limited	The Group	Property	54,396,061.80	6 September 2017	5 September 2022	N/A	Property lease contract	N/A	No
Shanghai Jingang North Bund Real Estate Company Limited	The Group	Property	45,854,785.44	1 June 2019	30 September 2023	N/A	Property lease contract	N/A	No

Note to rental issue

During the Reporting Period, pursuant to the property lease contract entered into by the Group and Galaxy Investment, the rent for January to June 2019 was RMB60.3605 million; pursuant to the cooperation agreement (leasing of plant) entered into by the Group and TravelSky Technology Limited, the rent was RMB4.7774 million for January to March 2019 and such cooperation agreement for the period after April 2019 is being renewed. Pursuant to the property lease contract entered into by the Group and China United Network Communications Group Co., Ltd, the rent was RMB5.5617 million during January to June 2019. Pursuant to the property lease contract entered into by the Group and China Life Real Estate Co., Limited, the rent was RMB5.1806 million from January to June 2019. Pursuant to the property lease contract entered into by the Group and Shanghai Jingang North Bund Real Estate Company Limited, the rent was RMB3.0595 million for January to June 2019. The above contract payments are paid quarterly or monthly. Save as disclosed above, during the Reporting Period, the Company did not have any major leases (with an amount of RMB10 million or more), nor was there any such matter that was carried forward to the Reporting Period from the previous period.

2. Other material contracts

As at the End of the Reporting Period, the Company entered into 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) in November 2017 and such contract is still being performed; and the Company entered into a software purchase contract of RMB24.0945 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) on 29 September 2017 and such contract is still being performed; and the Company entered into Lenovo products purchase contracts of RMB11.7278 million and RMB11.4817 million with Beijing JYD Technology & Development Co., Ltd. (北京嘉運達科技開發股份有限公司) in March and June 2019, respectively, and such contracts are still being performed. 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.

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITIOIN

To the Board of Directors of China Galaxy Securities Co., Ltd.
(Established in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the interim 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 54 to 128, which comprise the interim condensed consolidated statement of financial position as at 30 June 2019 and the related interim 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 interim condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these interim 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 interim 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 interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong

27 August 2019

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019
(Amounts in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June 2019 (Unaudited)	2018 (Unaudited)
Revenue			
Commission and fee income	7	**3,220,201**	2,888,930
Interest income	8	**4,733,503**	4,779,161
Investment income and gains or losses	9	**2,115,765**	(228,673)
		10,069,469	7,439,418
Other income and gains		**564,082**	52,523
Total revenue, gains and other income		**10,633,551**	7,491,941
Impairment losses, net of reversal	10	**(33,572)**	(214,433)
Depreciation and amortization	11	**(342,182)**	(112,694)
Staff costs	12	**(2,466,549)**	(1,562,451)
Commission and fee expenses	13	**(160,035)**	(146,880)
Interest expenses	14	**(3,103,507)**	(3,024,589)
Other operating expenses	15	**(1,131,853)**	(708,693)
Total expenses		**(7,237,698)**	(5,769,740)
Share of result of a joint venture		**347**	(2,328)
Profit before income tax		**3,396,200**	1,719,873
Income tax expense	16	**(791,151)**	(385,379)
Profit for the period		**2,605,049**	1,334,494
Profit for the period attributable to:			
Owners of the Company		**2,595,002**	1,311,046
Non-controlling interests		**10,047**	23,448
Earnings per share (Expressed in RMB per share)			
– Basic	17	**0.26**	0.13

The notes on pages 62 to 128 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019
(Amounts in thousands of Renminbi, unless otherwise stated)

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Profit for the period	**2,605,049**	1,334,494
Other comprehensive income/(expense):		
Items that will not be reclassified to profit or loss:		
Fair value gains/(losses) on investments in equity instruments measured at fair value through other comprehensive income	**512,276**	(313,489)
Income tax effect on changes in fair value	**(128,069)**	78,372
Share of other comprehensive income of a joint venture, net of related income tax	**(391)**	257
Subtotal	**383,816**	(234,860)
Items that may be reclassified subsequently to profit or loss:		
Fair value gains on investments in debt instruments measured at fair value through other comprehensive income	**33,160**	136,505
Income tax effect on changes in fair value	**(8,290)**	(34,126)
Exchange differences arising on translation of foreign operations	**47,427**	9,424
Share of other comprehensive income of a joint venture, net of related income tax	**5,518**	(3,745)
Fair value gains on hedging instruments designated in cash flow hedges	**20,205**	–
Subtotal	**98,020**	108,058
Other comprehensive income/(expense) for the period (net of tax)	**481,836**	(126,802)
Total comprehensive income for the period (net of tax)	**3,086,885**	1,207,692
Total comprehensive income for the period attributable to:		
Owners of the Company	**3,067,429**	1,184,244
Non-controlling interests	**19,456**	23,448
	3,086,885	1,207,692

The notes on pages 62 to 128 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019
(Amounts in thousands of Renminbi, unless otherwise stated)

	Note	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	19	359,138	364,496
Investment properties	20	8,133	8,231
Right-of-use assets	21	1,404,007	N/A
Goodwill	22	435,652	223,278
Other intangible assets	23	513,685	391,667
Interest in a joint venture	24	1,069,656	876,823
Financial assets measured at fair value through profit or loss	25	4,091,902	5,542,834
Debt instruments measured at fair value through other comprehensive income	26	103,494	101,603
Equity instruments measured at fair value through other comprehensive income	27	10,839,711	9,777,435
Debt instruments measured at amortized cost	28	354,740	4,435,395
Financial assets held under resale agreements	29	17,582,234	18,630,062
Deposits with exchanges and a non-bank financial institution	30	482,620	511,701
Other receivables and prepayments	35	1,088,840	1,088,840
Advances to customers	33	79,904	–
Deferred tax assets	32	169,510	477,454
Total non-current assets		38,583,226	42,429,819
Current assets			
Advances to customers	33	53,068,324	44,631,943
Accounts receivable	34	9,386,875	643,112
Tax recoverable		614,118	169,442
Other receivables and prepayments	35	1,644,604	591,915
Financial assets measured at fair value through profit or loss	25	67,295,944	54,795,447
Debt instruments measured at fair value through other comprehensive income	26	20,215,497	17,197,627
Equity instruments measured at fair value through other comprehensive income	27	57	–
Debt instruments measured at amortized cost	28	1,103,550	626,383
Financial assets held under resale agreements	29	15,557,273	21,337,012
Derivative financial assets	36	72,472	76,291
Deposits with exchanges and a non-bank financial institution	30	6,421,549	4,764,126
Clearing settlement funds	37	13,010,735	12,686,543
Bank balances	31	83,671,846	51,413,631
Total current assets		272,062,844	208,933,472
Total assets		310,646,070	251,363,291

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019
(Amounts in thousands of Renminbi, unless otherwise stated)

	Note	**As at 30 June 2019 (Unaudited)**	As at 31 December 2018 (Audited)
EQUITY AND LIABILITIES			
Equity			
Share capital	46	**10,137,259**	10,137,259
Reserves		**40,237,100**	39,764,606
Retained profits		**17,762,872**	16,080,223
Equity attributable to owners of the Company		**68,137,231**	65,982,088
Non-controlling interests		**1,021,999**	355,773
Total equity		**69,159,230**	66,337,861
Liabilities			
Non-current liabilities			
Bonds payable	38	**40,119,748**	43,056,018
Financing payables	39	**2,668,349**	3,243,512
Financial liabilities measured at fair value through profit or loss	40	**499,814**	823,059
Other payables and accruals	41	**992,289**	2,096,097
Lease liabilities		**931,843**	N/A
Deferred tax liabilities	32	**153,047**	10,096
Total non-current liabilities		**45,365,090**	49,228,782

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019
(Amounts in thousands of Renminbi, unless otherwise stated)

	Note	**As at 30 June 2019 (Unaudited)**	As at 31 December 2018 (Audited)
Current liabilities			
Bonds payable	38	**29,241,024**	26,672,988
Due to banks and other financial institutions	42	**5,565,433**	5,012,664
Financing payables	39	**17,226,321**	13,289,357
Accounts payable to brokerage clients	43	**82,959,036**	56,695,274
Accrued staff costs	44	**2,728,144**	2,591,519
Other payables and accruals	41	**11,464,322**	2,614,896
Lease liabilities		**444,357**	N/A
Current tax liabilities		**43,097**	10,958
Financial liabilities measured at fair value through profit or loss	40	**2,115,746**	635,639
Derivative financial liabilities	36	**283,380**	213,413
Financial assets sold under repurchase agreements	45	**44,050,890**	28,059,940
Total current liabilities		**196,121,750**	135,796,648
Total liabilities		**241,486,840**	185,025,430
Total equity and liabilities		**310,646,070**	251,363,291
Net current assets		**75,941,094**	73,136,824
Total assets less current liabilities		**114,524,320**	115,566,643

The notes on pages 62 to 128 form an integral part of these interim condensed consolidated financial statements.

The interim condensed consolidated financial statements on pages 54 to 128 were approved and authorized for issue by the Board of Directors on 27 August 2019 and are signed on its behalf by:

Chen Gongyan	Liu Dingping
DIRECTOR	*DIRECTOR*

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019
(Amounts in thousands of Renminbi, unless otherwise stated)

	Equity attributable to owners of the Company										
		Reserves									
	Share capital	Capital reserves	Investment revaluation reserve	Cash flow Hedging reserve	Translation reserves	General reserves	Other reserves	Retained profits	Subtotal	Non-controlling interests	Total equity
Six months ended 30 June 2019											
At 1 January 2019	10,137,259	25,022,896	155,601	(20,205)	139,749	14,536,634	(70,069)	16,080,223	65,982,088	355,773	66,337,861
Profit for the period								2,595,002	2,595,002	10,047	2,605,049
Other comprehensive income for the period	–	–	409,077	20,205	38,018	–	5,127	–	472,427	9,409	481,836
Total comprehensive income for the period	–	–	409,077	20,205	38,018	–	5,127	2,595,002	3,067,429	19,456	3,086,885
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	646,770	646,770
Dividend recognized as distribution (Note 18)	–	–	–	–	–	–	–	(912,353)	(912,353)	–	(912,353)
Others	–	67	–	–	–	–	–	–	67	–	67
At 30 June 2019 (Unaudited)	10,137,259	25,022,963	564,678	–	177,767	14,536,634	(64,942)	17,762,872	68,137,231	1,021,999	69,159,230
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	N/A	N/A	635,185	N/A	N/A	N/A	N/A	(590,287)	44,898	N/A	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 18)	–	–	–	–	–			(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 62 to 128 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019
(Amounts in thousands of Renminbi, unless otherwise stated)

		Six months ended 30 June	
	Notes	**2019 (Unaudited)**	2018 (Unaudited)
OPERATING ACTIVITIES			
Operating cash flows before movements in working capital		**4,484,716**	3,969,277
(Increase)/decrease in advances to customers		**(8,519,333)**	6,359,055
(Increase)/decrease in financial assets held under resale agreements		**6,828,659**	(5,601,520)
(Increase)/decrease in financial assets at fair value through profit or loss and derivative financial assets		**(10,472,347)**	(4,678,807)
(Increase)/decrease in clearing settlement funds-clients		**1,925,823**	(1,626,280)
(Increase)/decrease in cash held on behalf of customers		**(25,049,014)**	(1,269,863)
Increase/(decrease) in accounts payable to brokerage clients, accrued staff costs and other payables and accruals		**27,454,567**	1,606,346
Increase/(decrease) in financial assets sold under repurchase agreements		**15,994,685**	3,480,553
Increase/(decrease) in placements from a non-bank financial institution		**(1,700,000)**	200,000
Other working capital items		**(1,394,083)**	(85,664)
Cash from/(used in) operations		**9,553,673**	2,353,097
Income taxes paid		**(866,977)**	(398,412)
Interests paid		**(820,576)**	(572,500)
NET CASH FROM/(USED IN) OPERATING ACTIVITIES		**7,866,120**	1,382,185
INVESTING ACTIVITIES			
Dividends and interests received from investments		**1,308,445**	716,787
Purchases of property and equipment and other intangible assets		**(113,805)**	(101,181)
Proceeds from disposals of property and equipment and other intangible assets		**7,219**	4,834
Capital injection to a joint venture		**(1,069,656)**	(808,752)
Acquisition of a subsidiary, net of cash acquired		**1,212,189**	–
Purchases of financial assets at fair value through profit or loss		**(1,817,335)**	(1,739,691)
Proceeds from disposals of financial assets at fair value through profit or loss		**2,921,012**	760,162
Purchases of debt instruments at fair value through other comprehensive income		**(9,423,133)**	(2,639,115)
Proceeds from disposals of debt instruments at fair value through other comprehensive income		**6,585,586**	1,818,077
Purchases of equity instruments at fair value through other comprehensive income		**(550,447)**	(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		**(144,618)**	(24,263)
Proceeds from disposals of debt instruments measured at amortized cost		**3,964,571**	830,958
Placement of bank deposits with original maturity of more than three months		**(1,732,904)**	(225,558)
Maturity of bank deposits with original maturity of more than three months		**1,058,018**	871,113
NET CASH (USED IN)/FROM INVESTING ACTIVITIES		**2,205,142**	(1,576,629)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019
(Amounts in thousands of Renminbi, unless otherwise stated)

	Notes	Six months ended 30 June	
		2019	2018
		(Unaudited)	(Unaudited)
FINANCING ACTIVITIES			
Transaction costs paid on issue of bonds and financing payables		**(52,830)**	(88,679)
Cash injection by third-party holders to consolidated structured entities		**17,658**	79,546
Cash repayment to third-party holders to consolidated structured entities		**(1,243,803)**	(495,796)
Proceeds from borrowing and financing payables		**19,996,370**	9,790,122
Proceeds from bonds issued		**14,000,000**	19,200,000
Repayment of borrowing and financing payables		**(16,574,712)**	(18,579,500)
Repayment of bonds		**(14,100,112)**	(9,230,000)
Interests paid in respect of bonds, borrowing and financing payables		**(2,535,825)**	(1,960,024)
Dividends paid		**(580,165)**	–
Dividends paid to non-controlling shareholders		**–**	(27,171)
Funds from other fundraising program		**(173,591)**	–
NET CASH (USED IN)/FROM FINANCING ACTIVITIES		**(1,247,010)**	(1,311,502)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**8,824,252**	(1,505,946)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**8,645,592**	9,026,394
Effect of foreign exchange rate changes		**4,662**	71,740
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	46	**17,474,506**	7,592,188
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interests received		**5,932,346**	5,034,347
Total interests paid		**(3,356,434)**	(2,605,763)

The notes on pages 62 to 128 form an integral part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019
(Amounts in thousands of Renminbi, unless otherwise stated)

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 interim 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 interim 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 interim 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 2018.

3. PRINCIPAL ACCOUNTING POLICIES

The interim 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 interim condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

(Amounts in thousands of Renminbi, unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.1 Standards, amendments and interpretations effective in 2019

In the current interim period, the Group has applied the following new standards, amendments and interpretations to IFRSs that are effective for the Group's annual period beginning on 1 January 2019.

On 1 January 2019, the Group adopted the following new standards, amendments and interpretations.

IFRS 16	Leases
IFRIC Interpretation 23	Uncertainty over Income Tax Treatments
IAS 19 Amendments	Plan amendment, Curtailment or Settlement
IAS 28 Amendments	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle (issued in December 2017)

In January 2016, the IASB issued IFRS 16 Leases, which replaced IAS 17 and IFRIC 4. Under IFRS 16, the classifications of finance lease and operating lease for lessees are removed, and lessees recognize right-of-use assets and lease liabilities for all leases (except short-term leases and low-value assets leases elected to be accounted for using a practical expedient) and recognize depreciation and interest expense respectively.

The Group has adopted IFRS 16 from 1 January 2019 and applied the modified retrospective approach without restating comparative figures. The Group has not reassessed existing contracts before the date of initial application and adopted several specified practical expedients, including applying a single discount rate to a portfolio of leases with reasonably similar characteristics; accounting for leases for which the lease term ends within 12 months of the date of initial application in the same way as short-term leases; excluding initial direct costs from the measurement of the right-of-use assets at the date of initial application; and using hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease. As a lessee, the Group has elected to exercise the recognition exemption not to recognize the right-of-use assets and lease liabilities for the leases of which the underlying assets are of low value or for which the contract would end within 12 months from the date of initial application, and has recognized the profit or loss on a straight-line basis over the lease term. Therefore, the financial information for the six month period ended 30 June 2019 related to leasing presented in the interim financial report is not comparable with the financial information presented in the 2018 audit report in accordance with the former lease standards.

For the minimum lease payment for the operating leases disclosed in the financial statements of 2018, the Group used its incremental borrowing interest rate on 1 January 2019 as the discount rate of the lease payment, which was between 4.28% and 4.50%. The reconciliation to the opening balance for the lease liabilities as at 1 January 2019 is as follows:

Minimum lease payment for operating leases as at 31 December 2018	1,183,305
Less: minimum lease payment with recognition exemption – short-term lease	(25,817)
Less: minimum lease payment with recognition exemption – leases of low value assets	–
Less: the impact of lease payment discounted at incremental borrowing interest rate as at 1 January 2019	(276,955)
Add: Increase of minimum lease payment if a lessee is reasonably certain to exercise an option to extend a lease	559,170
Less: other adjustments	(866)
Lease liabilities as at 1 January 2019	1,438,837
Right-of-use assets as at 1 January 2019	1,487,214

(Amounts in thousands of Renminbi, unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.1 Standards, amendments and interpretations effective in 2019 (Continued)

IFRIC Interpretation 23 clarifies how to apply the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. The interpretation mainly addresses the following four areas: whether an entity separately considers the uncertainty of tax treatments; assumptions adopted by an entity to address the examination of tax treatments by taxation authorities; how an entity determines taxable profit/(tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances.

IAS 19 Amendments require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The amendments do not address the accounting for “significant market fluctuations” in the absence of a plan amendment, curtailment or settlement.

IAS 28 Amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). Entities must apply the amendments retrospectively, with certain exceptions.

Annual Improvements to IFRSs 2015–2017 Cycle was issued in December 2017. Those amendments affect IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs.

The adoption of the above standards, amendments and interpretations does not have any significant impact on the operating results, financial position and comprehensive income of the Group.

3.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2019

		Effective for annual periods beginning on or after
IFRS 3 Amendments	Definition of a Business	1 January 2020
IAS 1 and IAS 8 Amendments	Definition of Material	1 January 2020
IFRS 17	Insurance Contracts	1 January 2021
IFRS 10 and IAS 28 Amendments	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Effective date has been deferred indefinitely

The Group is considering the impact of these standards, amendments and interpretations on the consolidated financial statements.

(Amounts in thousands of Renminbi, unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.3 Change in presentation of the financial statements

In accordance with the requirements of the Circular on Revising and Issuing 2018 Versions of Financial Statement Templates for Financial Enterprises (Cai Kuai [2018] No. 36), the Group has restated the financial statements for the six months ended June 30, 2018.

Items in the Group's consolidated statement of profit or loss for the six months ended June 30, 2018 affected by the above adjustment are as follows. The above adjustments have no impact on the Group's profit and equity.

	Six months ended 30 June, 2018		
	Before restatement	**Impact of restatement**	**Restated**
Interest income	4,288,530	490,631	4,779,161
Investment income	261,958	(490,631)	(228,673)
Total	4,550,488	–	4,550,488

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Critical judgement in applying accounting

The following is the critical judgement, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Consolidation of structured entities

All facts and circumstances must be taken into consideration in the assessment of whether the Group, as an investor, controls the investee. The principle of control sets out the following three elements of control: (a) power over the investee; (b) exposure, or rights, to variable returns from involvement with the investee; and (c) the ability to use power over the investee to affect the amount of the investor's returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

For collective asset management schemes and investment funds where the Group involves as manager and also as investor, the Group considers the scope of its decision-making authority and assesses whether the combination of interests it holds together with its remuneration and credit enhancements creates exposure to variability of returns from the activities of the collective asset management schemes and investment funds that is of such significance that it indicates that the Group is a principal. The collective asset management schemes and investment funds are consolidated if the Group acts in the role of principal.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

4.1 Critical judgement in applying accounting (Continued)

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.

Measurement of ECL

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

Significant increase in 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 51 for more details.

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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

4.1 Critical judgement in applying accounting (Continued)

Measurement of ECL (Continued)

Significant increase in credit risk (Continued)

- 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.

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 51 for more details on ECL.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

4.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value measurement of financial instruments

Certain of the Group's financial instruments amounting to RMB4,296 million as at 30 June 2019 (RMB5,631 million as at 31 December 2018) are measured at fair values with fair values being determined based on unobserved inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See Note 52.2 for further disclosures.

Measurement of 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 51 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 51 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 51 for more details.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

4.2 Key sources of estimation uncertainty (Continued)

Measurement of ECL (Continued)

Provision of ECL for accounts receivable and other receivables

The Group uses provision matrix to calculate ECL for accounts receivable and other receivables. The provision rates are based on shared credit risk characteristics as groupings of accounts receivable and other receivables that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, accounts receivable and other receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's accounts receivable and other receivables are disclosed in Notes 51.1, 34 and 35 respectively.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating unit to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows, a material impairment loss/further impairment loss may arise. As at 31 June 2019, the carrying amount of goodwill is RMB436 million (31 December 2018: RMB223 million) (no impairment loss was recognized during the reporting periods).

5. SEGMENT REPORTING

Information reported to the board of directors of the Company, being the chief operating decision maker (the "CODM"), 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 interim 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) Overseas 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 overseas; 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.

(Amounts in thousands of Renminbi, unless otherwise stated)

5. SEGMENT REPORTING (CONTINUED)

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.

The Group operates in Mainland China, Hong Kong and other overseas areas, 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 overseas business segment are attributable to operations in Hong Kong and other overseas areas, 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 2019 and 2018.

The operating and reportable segment information provided to the CODM for the six months ended 30 June 2019 and 2018 is as follows:

	Securities brokerage	Futures brokerage	Proprietary trading and other securities trading services	Investment banking	Asset management	Private equity and alternative investments	Overseas business	Reportable segment total	Others	Eliminations	Consolidated total
For the six months ended 30 June 2019 (Unaudited)											
Segment revenue and results											
Revenue and net investment gains											
– External	5,831,253	394,346	2,416,660	290,820	358,481	119,879	573,073	9,984,512	84,957	-	10,069,469
– Inter-segment	207,534	123	235,151	-	12,188	-	-	454,996	-	(454,996)	-
Other income and gains	9,360	523,842	-	-	-	1,128	24,630	558,960	5,122	-	564,082
Segment revenue and other income	6,048,147	918,311	2,651,811	290,820	370,669	121,007	597,703	10,998,468	90,079	(454,996)	10,633,551
Segment expenses	(3,933,058)	(777,523)	(1,168,044)	(254,903)	(306,513)	(27,547)	(557,944)	(7,025,532)	(431,275)	219,109	(7,237,698)
Segment result	2,115,089	140,788	1,483,767	35,917	64,156	93,460	39,759	3,972,936	(341,196)	(235,887)	3,395,853
Share of result of a joint venture	-	-	-	-	-	-	347	347	-	-	347
Profit/(loss) before income tax	2,115,089	140,788	1,483,767	35,917	64,156	93,460	40,106	3,973,283	(341,196)	(235,887)	3,396,200

(Amounts in thousands of Renminbi, unless otherwise stated)

5. SEGMENT REPORTING (CONTINUED)

	Securities brokerage	Futures brokerage	Proprietary trading and other securities trading services	Investment banking	Asset management	Private equity and alternative investments	Overseas 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

(Amounts in thousands of Renminbi, unless otherwise stated)

5. SEGENT REPORTING (CONTINUED)

	Securities brokerage	Futures brokerage	Proprietary trading and other securities trading services	Investment banking	Asset management	Private equity and alternative investments	Overseas business	Reportable segment total	Others	Eliminations	Consolidated total
As at 30 June 2019 (Unaudited)											
Segment assets and liabilities											
Segment assets	149,728,360	19,345,497	100,286,276	2,153,096	1,979,211	4,561,234	22,412,018	300,465,692	132,005,003	(123,063,791)	309,406,904
Interest in joint venture	-	-	-	-	-	-	1,069,656	1,069,656	-	-	1,069,656
Deferred tax assets											169,510
Group's total assets											310,646,070
Segment liabilities	143,302,220	17,370,979	92,922,159	1,015,315	668,590	410,588	19,570,211	275,260,062	89,260,957	(123,187,226)	241,333,793
Deferred tax liabilities											153,047
Group's total liabilities											241,486,840
For the six months ended 30 June 2019 (Unaudited)											
Other segment information											
Depreciation and amortization	209,539	19,669	4,913	9,348	4,797	1,809	28,699	278,774	63,408	-	342,182
Impairment losses	(4,021)	11,613	2,307	107	11,731	(5,455)	2,331	18,613	14,959	-	33,572
Additions to non-current assets	29,158	6,799	-	-	77	56	17,019	53,109	44,159	-	97,268
Interest income from operations	3,460,356	181,700	133,879	151	14,345	4,513	257,277	4,052,221	84,740	-	4,136,961
Interest income from investments	-	3,532	575,223	-	17,787	-	-	596,542	-	-	596,542
Interest expenses	169,816	7,425	626,718	9,921	16,079	2,207	111,441	943,607	2,159,900	-	3,103,507

For the six months ended 30 June 2019
(Amounts in thousands of Renminbi, unless otherwise stated)

5. SEGMENT REPORTING (CONTINUED)

	Securities brokerage	Futures brokerage	Proprietary trading and other securities trading services	Investment banking	Asset management	Private equity and alternative investments	Overseas business	Reportable segment total	Others	Eliminations	Consolidated total
As at 31 December 2018 (Audited)											
Segment assets and liabilities											
Segment assets	115,557,402	17,107,896	102,746,721	435,877	2,284,731	2,957,358	7,831,314	248,921,299	143,656,853	(142,569,138)	250,009,014
Interest in a joint venture	–	–	–	–	–	–	876,823	876,823	–	–	876,823
Deferred tax assets											477,454
Group's total assets											251,363,291
Segment liabilities	114,144,500	15,224,018	103,973,882	425,524	1,036,027	394,173	5,506,110	240,704,234	87,052,901	(142,741,801)	185,015,334
Deferred tax liabilities											10,096
Group's total liabilities											185,025,430
For the six months ended 30 June 2018 (Unaudited)											
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

6. BUSINESS COMBINATIONS

On 18 January 2018, pursuant to the Share Purchase Agreement (the "SPA") entered between China Galaxy International Financial Holdings Company Limited ("Galaxy International Holdings"), a wholly-owned subsidiary of the Company, and CIMB Group Sdn Bhd ("CIMB"), the Group acquired 50% of the issued share capital of CIMB Securities International Pte. Ltd ("CSI"), which was wholly owned by CIMB. Upon completion of the SPA, the name of CSI is then changed to CGS-CIMB. The Group's investment cost of CGS-CIMB is SGD177 million, equivalent to RMB912 million.

Pursuant to the supplemental shareholders' agreement signed and effective on 1 April 2019, CIMB agreed to transfer additional shareholder rights, including appointment and removal of key management, to the Group. The directors are of the opinion that the Group has accordingly obtained controls over CGS-CIMB and consolidated CGS-CIMB since 1 April 2019.

The interim condensed consolidated financial statements include the results of CGS-CIMB for the three-month period from the acquisition date.

(Amounts in thousands of Renminbi, unless otherwise stated)

6. BUSINESS COMBINATIONS (CONTINUED)

The details of the identifiable assets and liabilities acquired are as follows:

	Acquisition Date	
	Fair value	Carrying amount
Cash	1,212,189	1,212,189
Advances to customers	1,576,821	1,576,821
Accounts receivable	6,925,411	6,925,411
Financial assets measured at fair value through profit or loss	378,225	378,225
Financial assets measured at fair value through other comprehensive income	70,162	70,162
Debt instruments measured at amortized cost	322,195	322,195
Derivative financial assets	788	788
Property, plant and equipment	22,172	22,172
Intangible assets	118,952	95,640
Deferred income tax assets	34,615	39,277
Other assets	724,478	724,478
Total assets	11,386,008	11,367,358
Bank Loans	(2,209,868)	(2,209,868)
Current tax liabilities	(12,440)	(12,440)
Derivative financial liabilities	(253)	(253)
Financial liabilities measured at fair value through profit or loss	(194,669)	(194,669)
Other liabilities	(7,675,238)	(7,675,238)
Total liabilities	(10,092,468)	(10,092,468)
Total identifiable net assets at fair value	1,293,540	
Non-controlling interests	646,770	
Goodwill arising on acquisition (Note 22)	206,653	
Total consideration	853,423	

(Amounts in thousands of Renminbi, unless otherwise stated)

6. BUSINESS COMBINATIONS(CONTINUED)

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of CGS-CIMB is as follows:

	Acquisition Date
Cash and cash equivalents held by CGS-CIMB as at the acquisition date	1,212,189
Cash consideration paid on acquisition of CGS-CIMB in 2018	826,360
Cash consideration paid on acquisition of CGS-CIMB in 2019	–
Net cash flow on acquisition of CGS-CIMB	1,212,189

The financial performance and cash flows of CGS-CIMB from the date of acquisition until 30 June 2019 are as follows:

	Period from acquisition date to 30 June 2019
Operating income	**225,207**
Profit for the period	**(15,912)**
Net cash flows for the period	**2,088,905**

7. COMMISSION AND FEE INCOME

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Commission on securities dealing and broking and handling fee income	**2,465,444**	1,966,110
Underwriting and sponsors' fees	**223,417**	287,014
Commission on futures and options contracts dealing and broking and handling fee income	**133,260**	145,189
Consultancy and financial advisory fee income	**47,680**	57,161
Asset management fee income	**325,932**	382,447
Others	**24,468**	51,009
	3,220,201	2,888,930

For the six months ended 30 June 2019
(Amounts in thousands of Renminbi, unless otherwise stated)

8. INTEREST INCOME

The following is the analysis excluding interest income from investments:

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Deposits with exchanges and a non-bank financial institution and bank balances	**1,076,431**	939,882
Advances to customers and securities lending	**1,837,032**	2,135,482
Financial assets held under resale agreements	**1,223,498**	1,148,898
Debt instruments measured at fair value through other comprehensive income	**463,455**	402,979
Debt instruments measured at amortized cost	**133,087**	119,824
Interest income from other financial assets	**–**	32,096
	4,733,503	4,779,161

9. INVESTMENT INCOME AND GAINS OR LOSSES

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Realized and unrealized gains/(losses) from		
– debt instruments measured at FVTOCI	**36,051**	7,065
– debt instruments measured at amortized cost	**65,927**	–
– financial assets measured at FVTPL	**3,116,075**	(711,104)
– financial liabilities designated at FVTPL	**(153,436)**	(24,188)
– derivatives	**(1,023,868)**	490,427
– financial liabilities held for trading	**5,870**	–
Dividend income from		
– equity instruments measured at FVTOCI	**69,146**	9,127
	2,115,765	(228,673)

(Amounts in thousands of Renminbi, unless otherwise stated)

10. IMPAIRMENT LOSSES, NET OF REVERSAL

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Impairment losses recognized/(reversed) on:		
– Financial assets held under resale agreements (Note 29)	**(1,092)**	28,660
– Advances to customers (Note 33)	**3,047**	46,020
– Accounts receivable (Note 34)	**961**	136,475
– Other receivables (Note 35)	**17,424**	1,208
– Debt instruments measured at FVTOCI (Note 26)	**2,494**	412
– Debt instruments measured at amortized cost (Note 28)	**(1,739)**	2,301
– Bank balances	**864**	(643)
– Inventories	**11,613**	–
	33,572	214,433

11. DEPRECIATION AND AMORTIZATION

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Depreciation for right-of-use assets	**227,137**	N/A
Depreciation for property and equipment	**84,484**	87,733
Amortization of other intangible assets	**30,561**	24,961
	342,182	112,694

12. STAFF COSTS

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Salaries, bonus and allowances	**1,990,201**	1,087,429
Social welfare	**306,975**	310,213
Contributions to annuity schemes	**50,433**	64,797
Others	**118,940**	100,012
	2,466,549	1,562,451

(Amounts in thousands of Renminbi, unless otherwise stated)

13. COMMISSION AND FEE EXPENSES

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Securities and futures dealing and broking expenses	**157,528**	138,928
Underwriting and sponsors' fee expenses	**937**	1,527
Other service expenses	**1,570**	6,425
	160,035	146,880

14. INTEREST EXPENSES

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Presented below are interests on the following liabilities:		
– Bonds payable	**1,995,388**	1,643,956
– Financial assets sold under repurchase agreements	**527,268**	512,185
– Financing payables	**149,867**	632,595
– Accounts payable to brokerage clients	**181,409**	101,338
– Due to banks and other financial institutions	**150,502**	61,276
– Third-party interests in consolidated structured entities and others	**99,073**	73,239
	3,103,507	3,024,589

For the six month period ended 30 June 2019, the Group's interest expense related to lease liabilities amounted to RMB29,047 thousand.

(Amounts in thousands of Renminbi, unless otherwise stated)

15. OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
General and administrative expenses	**220,052**	185,265
Turnover tax and surcharges	**56,082**	41,722
Minimum operating lease rentals in respect of rented premises	**58,120**	274,750
Data transmission expenses	**88,600**	101,200
Securities investor protection funds	**30,102**	19,275
Business travel expenses	**39,514**	33,001
Utilities expenses	**17,859**	17,971
Cost of commodity trading	**516,454**	–
Sundry expenses	**105,070**	35,509
	1,131,853	708,693

For the six month period ended 30 June 2019, included in the “Other operating expenses” were operating lease expenses related to short-term leases of RMB36 million.

16. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Current income tax	**441,888**	456,240
PRC Enterprise Income Tax	**424,787**	449,702
Overseas Profits Tax	**17,101**	6,538
Under provision in prior years:	**112**	–
PRC Enterprise Income Tax	**112**	–
Subtotal	**442,000**	456,240
Deferred income tax (Note 32)	**349,151**	(70,861)
	791,151	385,379

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%.

Taxation on profits of Hong Kong, Singapore and other countries and regions has been calculated on the estimated assessable profits in accordance with local tax regulations at the rates of taxation prevailing in the countries or regions in which the Group operates.

(Amounts in thousands of Renminbi, unless otherwise stated)

17. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share for the six months ended 30 June 2019 and the six months ended 30 June 2018 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	
	2019 (Unaudited)	2018 (Unaudited)
Profit attributable to owners of the Company	**2,595,002**	1,311,046
Weighted average number of shares in issue (thousand)	**10,137,259**	10,137,259
Basic earnings per share (in RMB)	**0.26**	0.13

No diluted earnings per share has been presented for the six months ended 30 June 2019 and 2018 as the Group had no potential ordinary shares in issue during the periods.

18. 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 2019 (30 June 2018: Nil).

A dividend in respect of 2018 of RMB0.90 per 10 shares (inclusive of tax), or a total of RMB912.35 million, based on a total of 10,137,258,757 shares in issue, was approved at the Annual General Meeting on 28 May 2019.

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.

(Amounts in thousands of Renminbi, unless otherwise stated)

19. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Electronic and communication equipment	Motor vehicles	Office equipment	Leasehold improvements	Total
COST						
As at 1 January 2018 (Audited)	248,363	730,663	94,110	133,367	332,482	1,538,985
Additions	468	74,144	2,599	13,087	73,780	164,078
Disposals/written-off	–	(42,695)	(6,544)	(12,593)	(50,198)	(112,030)
As at 31 December 2018 (Audited)	248,831	762,112	90,165	133,861	356,064	1,591,033
ACCUMULATED DEPRECIATION						
As at 1 January 2018 (Audited)	141,712	611,236	84,465	108,010	212,483	1,157,906
Charge for the year	10,683	75,433	3,407	11,098	70,813	171,434
Disposals/written-off	–	(34,639)	(5,995)	(11,971)	(50,198)	(102,803)
As at 31 December 2018 (Audited)	152,395	652,030	81,877	107,137	233,098	1,226,537
CARRYING VALUES						
As at 31 December 2018 (Audited)	96,436	110,082	8,288	26,724	122,966	364,496
COST						
As at 1 January 2019 (Audited)	248,831	762,112	90,165	133,861	356,064	1,591,033
Additions	20	36,350	1,445	8,043	17,863	63,721
Acquisition of subsidiaries	5,939	121,622	7,651	43,194	63,708	242,114
Exchange gains	–	961	–	–	–	961
Disposals/written-off	–	(24,450)	(1,629)	(5,150)	(10,778)	(42,007)
As at 30 June 2019 (Unaudited)	254,790	896,595	97,632	179,948	426,857	1,855,822
ACCUMULATED DEPRECIATION						
As at 1 January 2019 (Audited)	152,395	652,030	81,877	107,137	233,098	1,226,537
Charge for the period	5,439	30,952	1,573	6,295	40,225	84,484
Acquisition of subsidiaries	4,739	112,283	5,606	40,471	56,843	219,942
Exchange gains	–	930	–	97	–	1,027
Disposals/written-off	–	(19,439)	(1,172)	(3,917)	(10,778)	(35,306)
As at 30 June 2019 (Unaudited)	162,573	776,756	87,884	150,083	319,388	1,496,684
CARRYING VALUES						
As at 30 June 2019 (Unaudited)	92,217	119,839	9,748	29,865	107,469	359,138

For the six months ended 30 June 2019
(Amounts in thousands of Renminbi, unless otherwise stated)

20. INVESTMENT PROPERTIES

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
COST		
At the beginning of the period	**8,280**	–
Additions	**–**	8,280
At the end of the period	**8,280**	8,280
DEPRECIATION		
At the beginning of the period	**49**	–
Amortised for the period	**98**	49
At the end of the period	**147**	49
CARRYING VALUES		
At the end of the period	**8,133**	8,231

The fair value of the Group's investment properties at 30 June 2019 was RMB14.68 million (31 December 2018: RMB14.68 million).

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Details of the Group's investment properties and information about the fair value hierarchy as at the end of the reporting period are as follows:

	Level 3	**Fair value as at 30 June 2019**
Property units located in PRC	**14,676**	**14,676**

	Level 3	Fair value as at 31 December 2018
Property units located in PRC	14,676	14,676

The above investment properties are depreciated over their estimated useful lives of 40 years and after taking into account their estimated residual value of nil, using the straight-line method.

(Amounts in thousands of Renminbi, unless otherwise stated)

21. RIGHT-OF-USE ASSETS

	Six months ended 30 June	
	Buildings	**Total**
Cost		
As at 1 January 2019	1,487,214	1,487,214
Additions	91,769	91,769
Acquistion of subsidiaries	52,429	52,429
Deductions	(977)	(977)
Exchange differences	–	–
As at 30 June 2019	1,630,435	1,630,435
Accumulated depreciation	–	–
At 1 January 2019	–	–
Charge for the period	227,137	227,137
Acquistion of subsidiaries	124	124
Deductions	(833)	(833)
Exchange differences	–	–
As at 30 June 2019	226,428	226,428
Net book value		
As at 1 January 2019	1,487,214	1,487,214
As at 30 June 2019	1,404,007	1,404,007

As at 30 June 2019, the carrying amount of the right-of-use assets and the accumulated depreciation amount confirmed by the group's leased properties were RMB1,630 million and RMB226 million respectively.

(Amounts in thousands of Renminbi, unless otherwise stated)

22. GOODWILL

	Goodwill
Gross carrying amount	
As at 1 January 2019 (Audited)	**223,278**
Acquisition of a subsidiary (Note 6)	**206,653**
Exchange gains	**5,721**
As at 30 June 2019 (Unaudited)	**435,652**
Accumulated impairment losses	
As at 1 January 2019 (Audited)	**–**
Impairment losses recognised during the reporting period	**–**
As at 30 June 2019 (Unaudited)	**–**
Net book value	
As at 1 January 2019 (Audited)	**223,278**
As at 30 June 2019 (Unaudited)	**435,652**

Impairment testing on goodwill

The Group acquired the CGS-CIMB in April 2019. The Group recognized the excess of acquisition cost over the fair value of the net identifiable assets acquired as the goodwill. Refer to Note 6 for more details.

During the period, management of the Group determined that there was no impairment of the relevant Cash Generating Unit ("CGU") containing the goodwill and trading rights with indefinite useful lives as the recoverable amounts of the CGU exceed their respective carrying amounts.

(Amounts in thousands of Renminbi, unless otherwise stated)

23. OTHER INTANGIBLE ASSETS

	Trading rights	Trademark	Computer software and others	Total
COST				
As at 1 January 2018 (Audited)	303,910	–	309,354	613,264
Additions	–	–	53,006	53,006
Disposals/written-off	–	–	(896)	(896)
As at 31 December 2018 (Audited)	303,910	–	361,464	665,374
ACCUMULATED AMORTIZATION				
As at 1 January 2018 (Audited)	–	–	227,468	227,468
Charge for the year	–	–	47,002	47,002
Disposals/written-off	–	–	(763)	(763)
As at 31 December 2018 (Audited)	–	–	273,707	273,707
CARRYING VALUES				
As at 31 December 2018 (Audited)	303,910	–	87,757	391,667
COST				
As at 1 January 2019 (Audited)	303,910	–	361,464	665,374
Additions	–	–	33,547	33,547
Acquisition of subsidiaries	–	23,879	206,023	229,902
Exchange gains	69	–	11	80
Disposals/written-off	–	–	–	–
As at 30 June 2019 (Unaudited)	303,979	23,879	601,045	928,903
ACCUMULATED AMORTIZATION				
As at 1 January 2019 (Audited)	–	–	273,707	273,707
Charge for the period	–	–	30,561	30,561
Acquisition of subsidiaries	–	–	110,950	110,950
Exchange gains	–	–	–	–
Disposals/written-off	–	–	–	–
As at 30 June 2019 (Unaudited)	–	–	415,218	415,218
CARRYING VALUES				
As at 30 June 2019 (Unaudited)	303,979	23,879	185,827	513,685

Trading rights mainly comprise the trading rights in Shanghai Stock Exchange, Shenzhen Stock Exchange, Hong Kong Stock Exchange and Hong Kong Futures Exchange Limited. These rights allow the Group to trade securities and futures contracts on or through these exchanges.

(Amounts in thousands of Renminbi, unless otherwise stated)

23. OTHER INTANGIBLE ASSETS (CONTINUED)

Impairment testing on intangible assets with indefinite useful lives

The trading rights and trademark held by the Group are considered by the directors of the Company as having indefinite useful lives because they are expected to contribute net cash inflows indefinitely. These intangible assets will not be amortized until their useful life is determined to be finite. Instead, they will be tested for impairment annually and whenever there is an indication that they may be impaired. They are assessed for impairment individually or attached to the relevant CGUs.

The respective recoverable amounts of these trading rights or CGUs where the trading rights are allocated to, using a value in use calculation, exceed their carrying amounts. Accordingly, there were no impairment of the trading rights as at 30 June 2019 and 31 December 2018.

24. INTEREST IN A JOINT VENTURE

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

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
As at 1 January	**876,823**	–
Additions	**1,069,656**	912,187
Share of post-acquisition profits and other comprehensive income	**5,866**	(7,705)
Disposals (Note)	**(882,689)**	–
Exchange adjustments and other	**–**	(27,659)
	1,069,656	876,823

Note: The Group has obtained controls over CGS-CIMB and consolidated as subsidiary since 1 April 2019, and ceased to be accounted by equity method. Please refer to Note 6 for more details.

(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 ownership interest held by the Group 30/6/2019**	**Proportion of voting rights held by the Group 30/6/2019**	**Principal activity**
CGS-CIMB Holdings Sdn. Bhd.	Malaysia	Malaysia	50%	50%	Securities and futures broking, securities margin trading and research

(Amounts in thousands of Renminbi, unless otherwise stated)

25. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Non-current		
Debt securities	**–**	779,180
Funds	**2,227,482**	1,940,124
Trust schemes (a)	**107,752**	1,545,934
Other investments (b)	**1,756,668**	1,277,596
	4,091,902	5,542,834
Current		
Debt securities	**50,958,470**	35,144,784
Equity securities	**5,098,798**	5,765,670
Funds	**6,545,603**	10,826,378
Structured deposits and wealth management products	**2,197,853**	1,434,340
Trust schemes (a)	**438,333**	213,627
Other investments (b)	**1,211,679**	811,517
Add: Interests receivable	**845,208**	599,131
	67,295,944	54,795,447

(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 5.52%-14.71% per annum.

(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)

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

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Non-current		
Debt securities	**103,494**	101,603
Current		
Debt securities	**19,711,308**	16,808,936
Add: Interests receivable	**504,189**	388,691
	20,215,497	17,197,627

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	
	2019 (Unaudited)	2018 (Unaudited)
At the beginning of the period	**28,522**	29,824
Impairment losses recognized, net of reversal (Note 10)	**2,494**	412
At the end of the period	**31,016**	30,236

(Amounts in thousands of Renminbi, unless otherwise stated)

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

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Non-current		
Perpetual bonds	**2,693,481**	2,158,677
Equity investments [(2)]	**8,146,230**	7,618,758
	10,839,711	9,777,435

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Current		
Equity investments [(2)]	**57**	–
	57	–

(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 assign the available-for-sale financial assets carried at fair value under IAS 39 as financial assets measured at fair value through OCI.

(2) As at 30 June 2019, based on the investment report provided by China Securities Finance Corporation Limited ("CSFCL"), the cost and fair value of the Company's investment managed by CSFCL were RMB7,800 million and RMB8,146 million.

(3) During the period, the Group did not disposed of any investment in a perpetual bond.

(Amounts in thousands of Renminbi, unless otherwise stated)

28. DEBT INSTRUMENTS MEASURED AT AMORTIZED COST

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Non-current		
Debt securities [1]	355,056	4,438,628
Less: Impairment	(316)	(3,233)
	354,740	4,435,395
Current		
Debt securities [1]	974,973	244,900
Unsecured loans [2]	83,422	233,522
Others [3]	31,381	25,540
Add: Interests receivable	20,665	128,134
Less: Impairment	(6,891)	(5,713)
	1,103,550	626,383

(1) As at 30 June 2019, the interest rates on these debt securities are between 5.03%-8.50% per annum (31 December 2018: 3.85%-7.75% per annum).

(2) As at 30 June 2019, these unsecured loans bear effective interests at 4.35% per annum and are repayable within one year (31 December 2018: 4.35%-6.00% per annum).

(3) As at 30 June 2019, these debt instruments measured at amortized cost bear effective interests at 6.00%-8.00% per annum and are repayable within one year (31 December 2018: 6.00% per annum).

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

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
At the beginning of the period	8,946	2,475
Impairment losses recognized, net of reversal (Note 10)	(1,739)	2,301
At the end of the period	7,207	4,776

(Amounts in thousands of Renminbi, unless otherwise stated)

29. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Non-current		
Analyzed by collateral type:		
Equity securities	**17,596,312**	18,659,121
Less: Impairment	**(14,078)**	(29,059)
	17,582,234	18,630,062
Analyzed by market of collateral:		
Stock exchanges	**17,582,234**	18,630,062
Current		
Analyzed by collateral type:		
Equity securities	**15,139,336**	19,109,288
Debt securities	**349,160**	2,178,015
Funds	**–**	5,118
Add: Interests receivable	**166,256**	130,294
Less: Impairment	**(97,479)**	(85,703)
	15,557,273	21,337,012
Analyzed by market of collateral:		
Stock exchanges	**15,557,273**	21,337,012

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

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
At the beginning of the period	**114,762**	80,147
Impairment losses recognized, net of reversal (Note 10)	**(1,092)**	28,660
Transfer out	**(2,113)**	–
At the end of the period	**111,557**	108,807

As at 30 June 2019, the fair values of collateral received by the Group amounted to approximately RMB83,735 million (31 December 2018: RMB84,725 million).

(Amounts in thousands of Renminbi, unless otherwise stated)

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

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Non-current		
Deposits with stock exchanges	**224,244**	368,913
Deposits with futures and commodity exchanges	**2,849**	104,464
Guarantee fund paid to Shenzhen Stock Exchange	**113,883**	5,281
Others	**141,644**	33,043
	482,620	511,701
Current		
Deposits with futures and commodity exchanges	**6,413,978**	4,701,658
Guarantee fund paid to CSFCL	**7,571**	62,468
	6,421,549	4,764,126

31. BANK BALANCES

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
House accounts	**15,867,389**	8,657,213
Cash held on behalf of customers	**67,642,030**	42,528,973
Add: Interests receivable	**162,427**	227,445
	83,671,846	51,413,631

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 43).

As at 30 June 2019, the ECL allowance of bank balances amounted to RMB2,434 thousand(31 December 2018: RMB621 thousand).

(Amounts in thousands of Renminbi, unless otherwise stated)

32. 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 2019 (Unaudited)	As at 31 December 2018 (Audited)
Deferred tax assets	**169,510**	477,454
Deferred tax liabilities	**153,047**	10,096
	16,463	467,358

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Net deferred tax assets, at the beginning of the period	**467,358**	146,501
Recognized in profit or loss	**(349,151)**	70,861
Recognized in other comprehensive income	**(136,359)**	44,246
Deferred taxes acquire in business combinations	**34,615**	–
Reclassified from other comprehensive income to retained profits	**–**	(13)
Net deferred tax assets, at the end of the period	**16,463**	261,595

(Amounts in thousands of Renminbi, unless otherwise stated)

32. DEFERRED TAXATION (Continued)

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 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	349,599	(56,330)	(155,398)	N/A	(152,837)	N/A	N/A	N/A	N/A	N/A	(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	(285,668)	–	–	193,840	94,141	149,823	(2,313)	(30,736)	107,533	(9,295)	217,325
Charge to other comprehensive income	–	–	103,545	–	–	–	–	–	–	–	103,545
Reclassified from other comprehensive income to retained profits	–	–	(13)	–	–	–	–	–	–	–	(13)
As at 31 December 2018 (Audited)	275,231	–	(51,866)	310,036	150,701	570,037	15,424	(30,966)	(768,637)	(2,602)	467,358
(Charge)/credit to profit or loss	(316,207)	–	–	3,226	4,064	(89,582)	27,286	69,911	(46,415)	(1,434)	(349,151)
Credit to other comprehensive income	–	–	(136,359)	–	–	–	–	–	–	–	(136,359)
Deferred taxes acquired in business combinations	–	–	–	12,781	2,301	–	–	–	–	19,533	34,615
As at 30 June 2019 (Unaudited)	(40,976)	–	(188,225)	326,043	157,066	480,455	42,710	38,945	(815,052)	15,497	16,463

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)

33. ADVANCES TO CUSTOMERS

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Non-current		
Other loans and advances	**79,904**	–
	79,904	–
Current		
Loans to margin clients	**50,100,385**	41,394,022
Other loans and advances	**1,357,227**	1,555,923
Add: Interests receivable	**1,741,863**	1,783,693
Less: Impairment	**(131,151)**	(101,695)
	53,068,324	44,631,943

(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 interim condensed consolidated financial statements in view of the nature of business of securities margin financing.

The Group determines the allowance for advances to customers 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	
	2019 (Unaudited)	2018 (Unaudited)
At the beginning of the period	**101,695**	108,431
Impact of acquisition of subsidiaries	**40,923**	–
Impairment losses recognized, net of reversal (Note 10)	**3,047**	46,020
Transfer out	**(14,514)**	–
At the end of the period	**131,151**	154,451

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

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(Amounts in thousands of Renminbi, unless otherwise stated)

34. ACCOUNTS RECEIVABLE

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Accounts receivable of:		
Client securities settlement	**555,982**	80,261
Brokers and dealers	**2,975,960**	154,987
Clearing house	**5,462,827**	85,840
Underwriting and sponsors fee	**184,399**	175,689
Trading rights rental commission	**49,919**	33,330
Asset management and funds distribution handling fee	**221,446**	178,741
Others	**24,106**	17,555
Subtotal	**9,474,639**	726,403
Less: Impairment	**(87,764)**	(83,291)
Total	**9,386,875**	643,112

Aging analysis of accounts receivable is as follows:

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Within 1 year	**9,235,633**	533,941
Between 1 and 2 years	**68,818**	28,877
Between 2 and 3 years	**7,130**	5,010
Over 3 years	**75,294**	75,284
	9,386,875	643,112

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

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
At the beginning of the period	**83,291**	16,504
Impairment losses recognized, net of reversal (Note 10)	**961**	136,475
Amounts written off	**–**	(2,268)
Receipt of an written-off account receivable	**3,512**	–
At the end of the period	**87,764**	150,711

(Amounts in thousands of Renminbi, unless otherwise stated)

35. OTHER RECEIVABLES AND PREPAYMENTS

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Non-current		
Prepayments	**1,088,840**	1,088,840
	1,088,840	1,088,840
Current		
Prepaid taxes	**4,162**	4,162
Interests receivable	**10,314**	9,035
Prepayments	**629,459**	213,150
Assets disposal receivable	**110,000**	110,000
Margin financing clients receivable	**295,313**	280,728
Others	**937,223**	282,656
Subtotal	**1,986,471**	899,731
Less: Impairment	**(341,867)**	(307,816)
Total	**1,644,604**	591,915

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

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
At the beginning of the period	**307,816**	16,662
Impairment losses recognized, net of reversal (Note 10)	**17,424**	1,208
Amounts written off	**–**	(35)
Transfer in	**16,627**	–
At the end of the period	**341,867**	17,835

(Amounts in thousands of Renminbi, unless otherwise stated)

36. DERIVATIVE FINANCIAL INSTRUMENTS

	As at 30 June 2019 (Unaudited)			As at 31 December 2018 (Audited)		
	Nominal amounts	**Asset**	**Liability**	Nominal amounts	Asset	Liability
Hedging instruments:						
Currency forward	216,182	–	53	960,848	–	20,205
Non-hedging instruments:						
Equity return swap	2,039,041	4,886	3,652	119,813	1,521	–
Options	23,099,944	57,468	279,433	4,959,014	64,652	192,869
Stock index futures	3,056,676	20,907	34,159	4,407,471	178,172	6,073
Less: settlement		(20,907)	(34,159)		(178,172)	(5,734)
Treasury bond futures	20,584,247	33,379	42,326	5,965,643	6,833	60,299
Less: settlement		(33,379)	(42,326)		(6,833)	(60,299)
Commodity futures	1,181,793	19,313	7,149	1,311,046	22,785	23,263
Less: settlement		(19,313)	(7,149)		(22,785)	(23,263)
Interest rate swap	45,595,011	90,244	119,317	17,500,000	79,625	91,421
Less: settlement		(90,244)	(119,075)		(79,625)	(91,421)
Other forward contract	43,846	10,118	–	43,846	10,118	–
Total	95,816,740	72,472	283,380	35,267,681	76,291	213,413

(1) The Group uses derivatives primarily for economically 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". Stock index futures and interest rate swap not under the daily mark-to-market and settlement arrangement are presented gross at the end of reporting period. Accordingly, the net position of the treasury bond futures and commodity futures was nil at the end of each reporting period.

37. CLEARING SETTLEMENT FUNDS

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Clearing settlement funds held with clearing houses for:		
– House accounts	3,289,344	1,039,329
– Clients accounts	9,686,911	11,623,905
Add: Interests receivable	34,480	23,309
Total	13,010,735	12,686,543

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

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(Amounts in thousands of Renminbi, unless otherwise stated)

38. BONDS PAYABLE

As at 30 June 2019 and 31 December 2018, 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 2019 Carrying amount (Unaudited)	As at 31 December 2018 Carrying amount (Audited)
4 February 2015	4 February 2020	4.80%	–	1,040,279
1 June 2016	1 June 2021	3.35%	599,812	609,465
23 August 2016	23 August 2021	3.14%	1,020,677	1,003,606
28 April 2017	28 April 2020	4.99%	–	4,874,157
10 July 2017	10 July 2020	4.55%	5,221,890	5,099,641
18 September 2017	18 September 2020	4.69%	4,144,480	4,043,904
17 January 2018	17 January 2020	5.55%	–	3,572,780
17 January 2018	17 January 2021	5.65%	1,534,774	1,545,724
12 February 2018	12 February 2020	5.60%	–	1,382,669
12 February 2018	12 February 2021	5.70%	1,019,217	1,056,191
14 March 2018	14 March 2021	5.15%	2,527,966	2,502,130
19 April 2018	19 April 2020	5.20%	–	827,405
19 April 2018	19 April 2021	5.30%	3,226,877	3,310,360
24 May 2018	24 May 2020	5.38%	–	5,666,136
25 October 2018	25 October 2021	4.48%	5,138,660	5,024,436
17 December 2018	17 December 2021	4.28%	1,529,915	1,497,135
30 January 2019	30 January 2022	4.05%	4,054,884	–
27 February 2019	27 January 2022	4.20%	3,437,465	–
11 March 2019	11 March 2021	4.10%	3,230,196	–
11 March 2019	11 March 2022	4.25%	3,432,935	–
			40,119,748	43,056,018

(Amounts in thousands of Renminbi, unless otherwise stated)

38. BONDS PAYABLE (Continued)

Current

Issue date	Maturity date	Coupon rate	As at 30 June 2019 Carrying amount (Unaudited)	As at 31 December 2018 Carrying amount (Audited)
4 February 2015	4 February 2020	4.80%	1,017,582	–
28 April 2017	28 April 2020	4.99%	4,757,774	–
17 January 2018	17 January 2020	5.55%	3,583,684	–
12 February 2018	12 February 2020	5.60%	1,223,940	–
19 April 2018	19 April 2020	5.20%	807,189	–
24 May 2018	24 May 2020	5.38%	5,522,158	–
15 March 2016 (Note)	14 March 2021	4.30%	–	310,112
1 June 2016	1 June 2019	3.10%	–	4,983,615
23 August 2016	23 August 2019	2.89%	1,536,549	1,511,302
27 February 2017	27 February 2019	4.65%	–	2,597,078
23 March 2017	23 March 2019	4.98%	–	1,826,963
23 March 2017	23 September 2019	4.98%	2,532,976	2,531,966
28 April 2017	28 April 2019	4.95%	–	4,784,082
20 October 2017	20 October 2019	5.03%	4,137,655	4,033,165
6 December 2017	6 December 2019	5.53%	4,121,517	4,094,705
			29,241,024	26,672,988

All of these bonds are denominated in RMB.

Note: For the bonds issued on 15 March 2016, the Group has decided to exercise the early redemption option. On 14 March 2019, the redemption was completed.

39. FINANCING PAYABLES

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

As at 30 June 2019, for financing payables issued by the Company, their coupon rates are from 3.00% to 6.66% (31 December 2018: 3.35% to 5.40%). Their principals and interests are not associated with any particular securities.

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(Amounts in thousands of Renminbi, unless otherwise stated)

40. FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

(1) Financial liabilities held for trading

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Current		
Equity Securities	**6,741**	13,312
Securities lending	**967,643**	–
	974,384	13,312

(2) Financial liabilities designated as at fair value through profit or loss

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Non-current		
Financing payables linked to stock index	**84,590**	367,503
Structured products embedded with equity swaps	**415,224**	455,556
	499,814	823,059
Current		
Financing payables linked to stock index	**415,446**	361,490
Structured products embedded with equity swaps	**725,916**	260,837
	1,141,362	622,327

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

Structured products embedded with 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.

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(Amounts in thousands of Renminbi, unless otherwise stated)

41. OTHER PAYABLES AND ACCRUALS

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Non-current		
Third-party interests in consolidated structured entities	992,289	2,096,097
	992,289	2,096,097
Current		
Third-party interests in consolidated structured entities	175,433	297,771
Customer deposits held for swap transactions	237,719	399,275
Payables to margin clients	945,464	989,639
Settlement deposits payable	8,141,134	26,380
Value-added tax and other taxes	132,961	153,996
Accrued expenses	176,282	84,774
Sundry payables	84,397	82,617
Payable for the securities investor protection fund	54,289	46,577
Dividends payable	332,189	–
Payables to commodity trading client	77,899	92,614
Payable for acquisition of a joint venture	–	85,828
Others	1,106,555	355,425
	11,464,322	2,614,896

(Amounts in thousands of Renminbi, unless otherwise stated)

42. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Secured short-term bank loans (1)	**20,233**	8,762
Unsecured short-term bank loans (2)	**5,539,960**	2,999,233
Margin funds loans	**–**	2,000,000
Add: Interests payable	**5,240**	4,669
	5,565,433	5,012,664

(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 RMB1,484 million (31 December 2018: RMB1,241 million). These short-term bank loans bear interest at Hongkong InterBank Offered Rate ("Hibor") plus 130 basis point per annum or 0.50%-0.75% (31 December 2018: Hibor plus 130 basis point per annum) and are repayable between 7 days and 1 year (31 December 2018: within 7 days).

(2) As at 30 June 2019, the unsecured short-term bank loans bear interest at 2.48%~9.46% per annum (31 December 2018: 2.31%-4.10% per annum) and are repayable within 1 month (31 December 2018: within 1 month).

43. 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 interim 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 2019, included in the Group's accounts payable to brokerage clients were approximately RMB8,508 Million(31 December 2018: RMB5,399 Million) received from clients for margin financing and securities lending arrangement.

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(Amounts in thousands of Renminbi, unless otherwise stated)

44. ACCRUED STAFF COSTS

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Salaries, bonus and allowances	2,164,054	2,064,363
Social welfare	14,759	13,229
Annuity schemes	12,621	14,640
Supplementary retirement benefits	367,045	345,668
Early retirement benefits	940	1,197
Others	168,725	152,422
	2,728,144	2,591,519

45. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Current		
Analyzed by collateral type:		
Debt securities	43,552,239	27,530,170
Funds	422,049	449,433
Add: Interests payable	76,602	80,337
	44,050,890	28,059,940
Analyzed by market of collateral:		
Stock exchanges	32,154,393	20,189,823
Interbank bond market	11,819,895	7,789,780
Add: Interests payable	76,602	80,337
	44,050,890	28,059,940

Financial assets sold under repurchase agreements bear effective interest at 1.37%-4.50% per annum (31 December 2018: 2.61%-10.20% per annum).

46. SHARE CAPITAL

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

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (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

47. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the followings:

	As at 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Bank balances-house accounts	**14,185,162**	6,480,716
Clearing settlement funds – house accounts	**3,289,344**	1,111,472
	17,474,506	7,592,188

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 2019, bank deposits with original maturity of more than three months held by the Group were RMB1,733 million (30 June 2018: RMB327 million) and there was no bank deposits restricted for use (30 June 2018:Nil).

48. 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 2019, the total assets of the consolidated structured entities are RMB6,001 million (31 December 2018: RMB13,830 million) and the carrying amount of third party interests in the consolidated collective asset management schemes are RMB1,168 million (31 December 2018: RMB2,394 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 RMB237,989 million as at 30 June 2019 (31 December 2018: RMB245,174 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 RMB585 million as at 30 June 2019 (31 December 2018: RMB108 million).

During the period, the amount of management fee income and investment gains from unconsolidated asset management schemes managed by the Group amounted to RMB326 million as at 30 June 2019 (six months ended 30 June 2018: RMB722 million).

(Amounts in thousands of Renminbi, unless otherwise stated)

48. 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 2019 and 31 December 2018, which are listed as below:

	As at 30 June 2019 Financial assets measured at fair value through profit or loss (Unaudited)	As at 31 December 2018 Financial assets measured at fair value through profit or loss (Audited)
Carrying amount of interests held by the Group		
– Funds	**8,773,085**	12,766,502
– Trust schemes and wealth management products	**2,366,609**	2,572,235
– Asset management schemes	**584,960**	108,488
– Others	**1,275,956**	1,543,116
Total	**13,000,610**	16,990,341

49. CAPITAL COMMITMENTS

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Contracted but not provided for		
Leasehold improvements	**30,783**	31,719
Property, plant and equipment purchase	**7,391**	59,661
	38,174	91,380

(Amounts in thousands of Renminbi, unless otherwise stated)

50. 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 5,186,538,364 shares (31 December 2018: 5,186,538,364 shares), representing 51.16% of the entire equity interest of the Company as at 30 June 2019(31 December 2018: 51.16%). 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 2019 and 30 June 2018, the Group provided securities brokerage and asset management services to Galaxy Financial Holdings and its subsidiaries and details of the significant transactions and balances as at 30 June 2019 and 31 December 2018 are set out below.

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Accounts receivable	**3,616**	8,500
Accounts payable to brokerage clients	**149,781**	84,373
Financial assets sold under repurchase agreements	**365,532**	–
Financing payables	**232,866**	425,098
Right-of-use assets	**417,887**	N/A
Lease liabilities	**420,972**	N/A
Financial assets measured at fair value through profit or loss	**500,000**	–

(Amounts in thousands of Renminbi, unless otherwise stated)

50. 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	
	2019 **(Unaudited)**	2018 (Unaudited)
Commission and fee income	**24,430**	28,670
Other income and gains	**657**	846
Interest expenses	**13,178**	4,582
Rental expenses paid or payable	**60,361**	43,514
Investment gains	**–**	1,286

(2) Central Huijin Group

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.

The Group's material transactions with Central Huijin Group

	Six months ended 30 June	
	2019 **(Unaudited)**	2018 (Unaudited)
Commission and fee income	**50,718**	103,866
Interest income from banks and other financial institutions within the Central Huijin Group	**398,893**	307,157
Investment gains of equity and debt securities issued by banks and other financial institutions within the Central Huijin Group	**115,713**	132,449
Interest expenses to brokerage clients within the Central Huijin Group	**99,931**	106,172
Other operating expenses	**1,085**	32

(Amounts in thousands of Renminbi, unless otherwise stated)

50. RELATED PARTY TRANSACTIONS (Continued)

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

(2) Central Huijin Group (Continued)

The Group's material balances with Central Huijin Group

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Equity and debt securities issued by banks and non-bank financial institutions within the Central Huijin Group classified as		
– financial assets measured at FVTOCI	**1,662,525**	1,696,812
– financial assets measured at FVTPL	**5,811,961**	3,181,010
Bank balances deposited with banks within the Central Huijin Group	**47,448,373**	28,285,338
Derivative financial liabilities	**2,439**	–
Financing payables	**4,340,392**	–
Due to banks and other financial institutions	**1,003,701**	1,132,050
Accounts payable to brokerage clients within the Central Huijin Group	**1,306,937**	1,617
Other payables and accruals	**86,959**	725
Financial assets sold under repurchase agreements	**2,975,103**	4,172,506

(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.

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50. RELATED PARTY TRANSACTIONS (Continued)

(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
E-Capital Transfer Co., Ltd. ("E-Capital Transfer") 證通股份有限公司	Note

Note: Mr. Wu Chengming serves as the Company board secretary from August 2012 and also as the director of E-Capital Transfer from June 2018.

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	
	2019 (Unaudited)	2018 (Unaudited)
E-Capital Transfer	**–**	851

(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 2019 and 2018 comprises:

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Salaries, allowances, bonuses, social welfare and annuity scheme contribution	**19,978**	16,489

The key management personnel's final compensation packages for the six months ended 30 June 2019 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 interim condensed consolidated financial statements of the Group.

51. 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.

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 Compliance and 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, Financial Management Departments, Capital Management 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.

51. FINANCIAL RISK MANAGEMENT (Continued)

51.1 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, financial assets measured at amortized cost, 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, except for investments in short-term bonds with rating of A-1, which represents the highest rating of the short-term bonds, 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.

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 2019 and 31 December 2018, 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 2019, 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 2019, the total amount of the securities (both the Group's own securities and securities borrowed by the Group) lent to clients amounted to RMB256 million (31 December 2018: RMB385 million).

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

51. FINANCIAL RISK MANAGEMENT (Continued)

51.1 Credit risk (Continued)

Impairment under ECL model

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.

Significant increase in credit risk

Except for accounts receivable without significant financing component which are always measured on lifetime ECL basis, 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.

51. FINANCIAL RISK MANAGEMENT (Continued)

51.1 Credit risk (Continued)

Impairment under ECL model (Continued)

Significant increase in credit risk (Continued)

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

- significant changes in external market indicators of credit risk for the same 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; and
- 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.

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.

51. FINANCIAL RISK MANAGEMENT (Continued)

51.1 Credit risk (Continued)

Impairment under ECL model (Continued)

Measurement 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.

51. FINANCIAL RISK MANAGEMENT (Continued)

51.2 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.

(Amounts in thousands of Renminbi, unless otherwise stated)

51. FINANCIAL RISK MANAGEMENT (Continued)

51.2 Market risk (Continued)

Interest rate risk (Continued)

Sensitivity analysis (Continued)

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	
	2019	2018
	(Unaudited)	(Unaudited)
Profit before income tax for the period		
Increase by 100 basis points	**(941,310)**	(240,143)
Decrease by 100 basis points	**941,310**	240,143

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Other comprehensive income before income tax		
Increase by 100 basis points	**(238,546)**	(200,685)
Decrease by 100 basis points	**238,546**	200,685

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.

(Amounts in thousands of Renminbi, unless otherwise stated)

51. FINANCIAL RISK MANAGEMENT (Continued)

51.2 Market risk (Continued)

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, 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 27. The Group uses derivatives contracts to hedge against certain exposures arising from its investment portfolio.

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	
	2019 (Unaudited)	2018 (Unaudited)
Profit before income tax for the period		
Increase by 10%	**1,366,097**	1,623,507
Decrease by 10%	**(1,366,097)**	(1,623,507)

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Other comprehensive income before income tax		
Increase by 10%	**1,083,977**	1,030,271
Decrease by 10%	**(1,083,977)**	(1,030,271)

51. FINANCIAL RISK MANAGEMENT (Continued)

51.3 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.

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.

(Amounts in thousands of Renminbi, unless otherwise stated)

52. FAIR VALUE OF FINANCIAL INSTRUMENTS

52.1 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 2019 and 31 December 2018 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 2019	
	(Unaudited)	
	Carrying amounts	**Fair value**
Non-current		
Bonds payable	**40,119,748**	**40,513,806**
Financing payables	**2,668,349**	**2,671,088**
Financial assets held under resale agreements	**17,582,234**	**17,856,690**
Debt instruments measured at amortized cost	**354,740**	**365,984**

	As at 31 December 2018	
	(Audited)	
	Carrying amounts	Fair value
Non-current		
Bonds payable	43,056,018	43,773,162
Financing payables	3,243,512	3,316,836
Financial assets held under resale agreements	18,630,062	19,470,310
Debt instruments measured at amortized cost	4,435,395	4,475,946

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.

(Amounts in thousands of Renminbi, unless otherwise stated)

52. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

52.2 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 are observable and the significance.

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).

Financial assets/ financial liabilities	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)	Fair value hierarchy	Valuation technique(s) and key input(s)
Debt instruments measured at FVTOCI:				
– Debt securities traded on stock exchanges	**11,159,549**	14,056,191	Level 1	Quoted bid prices in an active market.
– Debt securities traded on interbank market	**9,159,442**	3,243,039	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	**2,197,973**	1,723,334	Level 1	Quoted bid prices in an active market.
– Perpetual bonds	**495,508**	435,343	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	**8,146,287**	7,618,758	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.
Financial assets measured at FVTPL:				
– Debt securities traded on stock exchanges	**16,348,945**	13,277,086	Level 1	Quoted bid prices in an active market.
– Debt securities traded on interbank market	**35,454,733**	23,243,641	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.

(Amounts in thousands of Renminbi, unless otherwise stated)

52. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

52.2 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 2019 (Unaudited)	As at 31 December 2018 (Audited)	Fair value hierarchy	Valuation technique(s) and key input(s)
– Equity securities and funds traded on stock exchanges	4,306,036	6,078,602	Level 1	Quoted bid prices in an active market.
– Unlisted funds (open-ended mutual funds)	6,418,298	9,414,830	Level 2	Calculated based on the fair value of the underlying investments which are money market instruments, debt securities and publicly traded equity, investments listed in the PRC in each portfolio.
– Structured deposits and wealth management products	2,197,853	1,436,708	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.
– Equity securities traded on National Equities Exchange and Quotations	142,927	129,777	Level 2	Recent transaction prices.
– Equity securities traded on National Equities Exchange and Quotations	41,067	14,714	Level 2	Based on the latest quoted bid prices and adjusted based on the index of National Equities Exchange and Quotations.
– Equity securities traded on National Equities Exchange and Quotations (Note 2)	3,155	60,740	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.
– Equity securities traded on National Equities Exchange and Quotations (Note 3)	12,342	11,341	Level 3	Multiples valuation,with an adjustment of discount for lack of marketability.
– Equity securities traded on stock exchanges with lock-up periods (Note 1)	2,948,058	2,822,168	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	1,953,664	980,448	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)	83,659	136,486	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)	527,364	1,990,621	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.
– Other investments (Note 3)	949,745	741,119	Level 3	Multiples valuation, with an adjustment of discount for lack of marketability.

(Amounts in thousands of Renminbi, unless otherwise stated)

52. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

52.2 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 2019 (Unaudited)	As at 31 December 2018 (Audited)	Fair value hierarchy	Valuation technique(s) and key input(s)
Financial liabilities held-for-trading:				
– Equity securities traded on stock exchanges	**(6,741)**	(13,312)	Level 1	Fair value is determined with quoted bid prices in an active market.
– Securities lending	**(967,643)**	–	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.
Financial liabilities designated as at fair value through profit or loss				
– Structured products embedded with equity swaps	**(1,141,140)**	(716,393)	Level 1	Fair value is determined with quoted bid prices in an active market.
– Financing payables linked to stock index	**(500,036)**	(728,993)	Level 2	Based on the bid prices of stock index in an active market.
Derivative financial instruments:				
– Equity return swaps-assets	**4,886**	1,521	Level 2	Calculated based on the difference between the equity return of underlying equity securities according to 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	**(3,652)**	–	Level 2	Calculated based on the difference between the equity return of underlying equity securities according to 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	**45,286**	23,928	Level 1	Quoted bid prices in an active market.
– Exchange-traded options-liabilities	**(28,954)**	(10,511)	Level 1	Quoted bid prices in an active market.
– Over-the-counter options-assets (Note 1)	**12,182**	40,724	Level 3	Calculated based on Black-Scholes option pricing model.
– Over-the-counter options-liabilities (Note 1)	**(250,479)**	(182,358)	Level 3	Calculated based on Black-Scholes option pricing model.
– Stock index futures-assets (Note 4)	**20,907**	178,172	Level 1	Quoted bid prices in an active market.
– Stock index futures-liabilities (Note 4)	**(34,159)**	(6,073)	Level 1	Quoted bid prices in an active market.
– Treasury bond futures-assets(Note 4)	**33,379**	6,833	Level 1	Quoted bid prices in an active market.
– Treasury bond futures-liabilities(Note 4)	**(42,326)**	(60,299)	Level 1	Quoted bid prices in an active market.
– Commodity futures-assets (Note 4)	**19,313**	22,785	Level 1	Quoted bid prices in an active market.
– Commodity futures-liabilities (Note 4)	**(7,149)**	(23,263)	Level 1	Quoted bid prices in an active market.

(Amounts in thousands of Renminbi, unless otherwise stated)

52. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

52.2 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 2019 (Unaudited)	As at 31 December 2018 (Audited)	Fair value hierarchy	Valuation technique(s) and key input(s)
– Interest rate swaps-assets (Note 4)	90,244	79,625	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 4)	(119,317)	(91,421)	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.
– Currency forward-liabilities	(53)	(20,205)	Level 2	Calculated based on future cash flows that are estimated based on observable forward exchange rates and contracted exchange rates.
– Other forward contract-assets (Note 2)	10,118	10,118	Level 3	Discounted cash flows with future cash flows that are estimated based on contractual amounts, discounted at a rate that reflects the credit risk of the counterparty.

Notes:

(1) The significant unobservable input to fair value measurement is implied volatility of the underlying securities, which ranges from 8.47% to 75.41% (31 December 2018: 7.54% to 64.60%).

(2) The unobservable input to fair value is the discount rate, determined by reference to the credit risk of underlying investments, ranging from 5.52% to 14.71% (31 December 2018: 6.00% to 17.74%). The higher the discount rate, the lower the fair value.

(3) The unobservable input to fair value is the discount for lack of marketability, which ranges from 20.00% to 45.00% (31 December 2018: 20.00% to 60.00%). The higher the discount for lack of marketability, the lower the fair value.

(4) As disclosed in Note 36, except for stock index futures and interest rate swap not under the daily mark-to-market and settlement arrangement are presented gross at the end of reporting period, the other derivatives are under daily mark-to-market and settlement arrangements. Accordingly, the net position of the treasury bond futures and commodity futures 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 Level 2 fair value measurements during the six months ended 30 June 2019 and 2018.

For the six months ended 30 June 2019
(Amounts in thousands of Renminbi, unless otherwise stated)

52. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

52.3 Reconciliation of Level 3 fair value measurements

	Financial assets measured at fair value through profit or loss
Six months ended 30 June 2019 (Unaudited)	
As at 31 December 2018	**5,762,475**
Total losses:	
– in profit or loss	**(443,004)**
Purchases	**2,618,160**
Transfers out (Note)	**(3,413,308)**
As at 30 June 2019	**4,524,323**
Total losses for assets held at 30 June 2019	
– unrealized losses recognized in profit or loss	**(165,743)**
As at 1 January 2018	7,673,966
Total losses:	
– in profit or loss	(294,618)
Purchases	3,628,017
Transfers out (Note)	(5,244,890)
As at 31 December 2018	5,762,475
Total losses for assets held at 31 December 2018	
– unrealized losses recognized in profit or loss	(288,614)

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.

53. EVENTS AFTER THE END OF THE REPORTING PERIOD

No significant subsequent events occurred after the period.

For more information, please refer to :