中信建投証券股份有限公司

CSC FINANCIAL CO., LTD.

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

Stock Code: **6066**

2019 Interim Report

Contents

DEFINITIONS

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

Definitions of common terms

"Articles of Association" or "Articles"	the articles of association of CSC Financial Co., Ltd.
"A Share(s)"	domestic shares in the share capital of our Company with a nominal value of RMB1.00 each, listed on the Shanghai Stock Exchange and traded in RMB
"Board" or "Board of Directors"	the board of directors of our Company
"BSCOMC"	Beijing State-owned Capital Operation and Management Center (北京國有資本經營管理中心)
"Central Huijin"	Central Huijin Investment Limited (中央匯金投資有限責任公司)
"China Securities Capital"	China Capital Management Limited (中信建投資本管理有限公司)
"China Securities Funds"	China Securities Funds Management Limited (中信建投基金管理有限公司)
"China Securities Futures"	China Futures Co., Ltd. (中信建投期貨有限公司)
"China Securities International"	China Securities (International) Finance Holding Company Limited (中信建投(國際)金融控股有限公司)
"China Securities Investment"	China Securities Investment Limited (中信建投投資有限公司)
"CITIC Group"	CITIC Group Corporation Ltd. (中國中信集團有限公司)
"CITIC Limited"	CITIC Limited (中國中信股份有限公司)
"CITIC Securities"	CITIC Securities Co., Ltd. (中信証券股份有限公司)

"Company Law"	Company Law of the People's Republic of China
"CSC" or "Company", "our Company", "parent company"	CSC Financial Co., Ltd. (中信建投証券股份有限公司)
"CSRC"	the China Securities Regulatory Commission (中國證券監督管理委員會)
"CSRF"	China Structural Reform Fund Co., Ltd. (中國國有企業結構調整基金股份有限公司)
"Director(s)"	director(s) of our Company
"ETF"	Exchange Traded Fund
"FICC"	Fixed-income securities, currencies and commodities
"Glasslake Holdings"	Glasslake Holdings Limited (鏡湖控股有限公司)
"Group"	CSC Financial Co., Ltd. and its subsidiaries
"HK$" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules" or "Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"H Share(s)"	overseas listed foreign shares in the share capital of our Company with a nominal value of RMB1.00 each, listed on the Hong Kong Stock Exchange and traded in HK dollars

DEFINITIONS

“IPO”	initial public offering
“Latest Practicable Date”	23 August 2019, being the latest practicable date prior to the printing of this interim report for the purposes of ascertaining the information contained herein
“Ministry of Finance”	Ministry of Finance of the People’s Republic of China
“NEEQ Company”	National Equities Exchange and Quotations Co., Ltd. (全國中小企業股份轉讓系統有限責任公司)
“PwC”	PricewaterhouseCoopers
“PwC Zhong Tian”	PricewaterhouseCoopers Zhong Tian LLP
“QFII”	Qualified Foreign Institutional Investor (合格境外機構投資者)
“Reporting Period”	from 1 January 2019 to 30 June 2019
“RMB” or “Renminbi”	the lawful currency of the PRC
“RQFII”	Renminbi Qualified Foreign Institutional Investor (人民幣合格境外機構投資者)
“Securities Law”	Securities Law of the People’s Republic of China
“Shanghai and Shenzhen Stock Exchanges”	Shanghai Stock Exchange and Shenzhen Stock Exchange
“Shanghai Shangyan”	Shanghai Shangyan Investment Center (Limited Partnership) (上海商言投資中心(有限合夥))
“Shareholder(s)”	holder(s) of the Share(s)

"Share(s)"	ordinary shares in the share capital of our Company with a nominal value of RMB1.00 each, comprising A Shares and H Shares
"Shiji Jinyuan"	Shiji Jinyuan Investment Group Co., Ltd. (世紀金源投資集團有限公司)
"SSE"	Shanghai Stock Exchange
"SSE Listing Rules"	the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange
"SZSE"	Shenzhen Stock Exchange
"Supervisor(s)"	the supervisor(s) of the Company
"Supervisory Committee"	the supervisory committee of the Company
"Tengyun Investment"	Xizang Tengyun Investment Management Limited (西藏騰雲投資管理有限公司), formerly known as Xizang Shannan Century Jinyuan Investment Management Limited (西藏山南世紀金源投資管理有限公司)
"the end of the Reporting Period"	30 June 2019
"TMT"	Telecom, media and technology
"US$, USD, US Dollar(s)"	United States dollars, the lawful currency of the United States
"Wind Info"	Wind Information Co., Ltd. (上海萬得信息技術股份有限公司), a joint-stock company with limited liability incorporated in the PRC and a service provider of financial data, information and software

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

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

SECTION 1 COMPANY INFORMATION

I. PROFILE

Name in Chinese	中信建投証券股份有限公司
Abbreviation in Chinese	中信建投証券
Name in English	China Securities Co., Ltd. CSC Financial Co., Ltd. (carrying on business in Hong Kong with such registered English name)
Abbreviation in English	CSC
Chairman of the Board and Legal Representative	WANG Changqing
General Manager	LI Geping

Registered Capital and Net Capital

Unit: RMB Yuan

	As at the end of the Reporting Period (30 June 2019)	As at the end of the previous year (31 December 2018)
Registered Capital	**7,646,385,238**	7,646,385,238
Net Capital	**48,288,777,859.31**	41,030,077,201.74

Notes: As of the date of this report, the total number of Shares of the Company was 7,646,385,238, of which 6,385,361,476 Shares were A Shares and 1,261,023,762 Shares were H Shares.

II. BASIC INFORMATION

During the Reporting Period, there were no changes in basic information of the Company.

Registered Address	Unit 4, No. 66 Anli Road, Chaoyang District, Beijing
Postal Code of Registered Address	100101
Office Address	No. 188 Chaonei Avenue, Dongcheng District, Beijing
Postal Code of Office Address	100010
Place of Business in Hong Kong	18/F, Two Exchange Square, Central, Hong Kong
Website	www.csc108.com
Telephone	+8610–8513 0588
Facsimile	+8610–6518 6399
National Customer Service Hotline	+86 95587/400 8888 108
Investor Relations Hotline	+8610–6560 8107
United Social Credibility Code	91110000781703453H
Websites for Information Disclosure	HKEXnews website of HKEx: www.hkexnews.hk Official website of CSC: www.csc108.com
Authorized Representatives of the Company	WANG Changqing, LI Geping
Joint Company Secretaries	WANG Guangxue, WONG Wai Ling

III. CONTACT PERSONS AND METHODS

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

IV. PLACES WHERE INTERIM REPORTS OF THE COMPANY ARE AVAILABLE

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

V. OTHER RELEVANT INFORMATION

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

SECTION 2 FINANCIAL SUMMARY

I. KEY ACCOUNTING DATA

UNIT: RMB MILLION

Items	**January to June 2019**	January to June 2018	Increase/decrease as compared to the same period last year (%)
Total revenue and other income	**8,613**	8,190	5.16
Operating profit	**3,063**	2,238	36.86
Profit before income tax	**3,065**	2,239	36.89
Net profit attributable to equity holders of the Company	**2,330**	1,693	37.61
Net cash flow from operating activities	**542**	6,135	-91.17

UNIT: RMB MILLION

Items	**30 June 2019**	31 December 2018	Increase/decrease as compared to the end of last year (%)
Total assets	**248,210**	195,082	27.23
Total liabilities	**199,143**	147,219	35.27
Equity attributable to equity holders of the Company	**48,763**	47,577	2.49
Total share capital	**7,646**	7,646	–

II. KEY FINANCIAL INDICATORS

Items	**January to June 2019**	January to June 2018	Increase/decrease as compared to the same period last year *(%)*
Basic earnings per share *(RMB Yuan/Share)*	**0.30**	0.23	30.43
Diluted earnings per share *(RMB Yuan/Share)*	**0.30**	0.23	30.43
Return on weighted average equity *(%)*	**5.34**	4.23	Increased by 1.11 percentage points

Note: Earnings per Share and the return on weighted average equity above are calculated in accordance with the International Accounting Standards, and might be different from those calculated in accordance with the relevant regulations stipulated under the Standards Concerning the Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No. 9 – Calculation and Disclosure of Return on Net Assets and Earnings per Share (2010 Revision) issued by the CSRC.

Items	**30 June 2019**	31 December 2018	Increase/decrease as compared to the end of last year *(%)*
Net assets per share attributable to equity holders of the Company *(RMB Yuan/Share)*	**6.38**	6.22	2.57
Gearing ratio *(%)*	**74.88**	70.09	Increased by 4.79 percentage points

Note: Gearing ratio : (Total liabilities - Accounts payable to brokerage clients)/(Total assets - Accounts payable to brokerage clients) × 100%

In calculating the net assets per Share attributable to equity holders of the Company as indicated in the table above, the perpetual bonds of RMB5 billion issued by the Company was included in the net assets attributable to equity holders of the Company. After excluding such impact, the net assets per share attributable to ordinary shareholders of the Company as at the end of Reporting Period was RMB5.72 (31 December 2018: RMB5.57).

III. NET CAPITAL AND RISK CONTROL INDICATORS OF THE COMPANY

Items	**30 June 2019**	31 December 2018
Net capital *(RMB Million)*	**48,289**	41,030
Net assets *(RMB Million)*	**47,170**	46,055
Total risk capital reserves *(RMB Million)*	**18,510**	17,087
Risk coverage ratio *(%)*	**260.88**	240.13
Capital leverage ratio *(%)*	**18.25**	23.02
Liquidity coverage ratio *(%)*	**506.06**	525.32
Net stable funding ratio *(%)*	**176.09**	196.74
Net capital/net assets *(%)*	**102.37**	89.09
Net capital/liabilities *(%)*	**35.96**	40.89
Net assets/liabilities *(%)*	**35.12**	45.89
Proprietary equity securities and securities derivatives/net capital *(%)*	**11.08**	9.27
Proprietary non-equity securities and securities derivatives/net capital *(%)*	**188.22**	182.35

Note: All risk control indicators including net capital of the Company complied with the relevant requirements of the Administrative Measures for Risk Control Indicators of Securities Companies (Revision in 2016) (《證券公司風險控制指標管理辦法》) (2016年修訂版) issued by the CSRC.

I. ANALYSIS ON CORE COMPETITIVENESS

In 2019, the Company continued to adhere to the core value of "achievements leading to status", as well as the concepts of "healthy development" and "risk management as priority" to strive for better service for existing customers and realize mutual growth with the enterprise. In the meantime, the Company penetrated the local market and moved towards the international market to explore potential quality customers. The Company aimed at taking the advantages of investment banking business as the starting point to steadily develop innovative business, becoming a large best-in-class full-service investment bank based in the PRC with global vision leveraging the development trends in the PRC and global capital market.

Investment banking business of the Company continued to stay at a leading position in the industry, with indicators for core business leading the industry. In the first half of 2019, the number of equity financing projects underwritten by us as a lead underwriter and the amount of lead underwriting ranked first and fourth in the industry, respectively. The bond business of the Company maintained a promising development momentum, as the number of bond business underwritten by us as a lead underwriter and the amount of lead underwriting ranked second in the industry, among which both the number of companies underwritten by us as a lead underwriter and the amount of lead underwriting of corporate bonds ranked first in the industry. Within the first 25 listed companies seeking for IPO to be listed on the Science and Technology Innovation Board (the "**STAR Market**") of SSE, the Company has acted as a sponsor for 5.5 companies, accounting for 22% in the market, ranking first in the industry. (Source: Wind Info and statistics of the Company)

Wealth management business of the Company focused on developing investment advisory service brand, and established an integrated client services platform and ecological chain to develop businesses covering financial products, margin financing and securities lending, the NEEQ, science and technology innovation board, investment advisory services, stock options, precious metal products and futures. In the first half of 2019, the net income from the securities brokerage business of the Company accounted for 2.99% of the market share, ranking eleventh in the industry. Net income from sales of financial products from an agent accounted for 3.65% in the market, ranking sixth in the industry. (Source: Wind Info and statistics of the Company).

Trading and institutional customer service business of the Company maintained a positive development momentum. For fixed-income products sales and trading business, in addition to maintaining satisfactory returns on investments and sales performance, breakthroughs had been made in both cross-border investment business and net asset value ("**NAV**") product investment advisory business, and the level of international operations and trading service was significantly improved. For investment research, the research team of the Company continued to provide institutional customers with diversified research advisory services, which expanded coverage of industries and overseas listed companies.

The Company further optimised its asset management business and the proportion of the actively managed products continued to increase. As of 30 June 2019, the total asset under management ("**AUM**") of the Company reached RMB660,493 million, ranking fourth in the industry, among which, the actively managed products reached RMB249,214 million, accounting for 37.73% of the total AUM and representing an increase of 7.75 percentage points as compared with that at the end of 2018. (Source: The Securities Association of China)

The asset custody and operating service business of the Company maintained a good development trend. As of 30 June 2019, the total size of the Company's custody and outsourcing business was RMB278,630 million, representing an increase of 36.10% as compared with that at the beginning of the year, ranking among the top in the industry. (Source: Wind Info and statistics of the Company)

In terms of information technology, the Company further promoted digitalized transformation and smart services. In the first half of 2019, the investment banking customer relations management system, central organization structure service management system, investment research management platform, real-time information system software and historical information system software had been granted with the Computer Software Copyright Registration Certificate by the National Copyright Administration.

II. BUSINESS OVERVIEW

(I) Overview

As of 30 June 2019, the total assets of the Group were RMB248,210 million, representing an increase of 27.23% as compared to that on 31 December 2018. Equity attributable to equity holders of the Company was RMB48,763 million, representing an increase of 2.49% as compared to that on 31 December 2018. During the Reporting Period, total revenue and other income of the Group amounted to RMB8,613 million in aggregate, representing a year-on-year increase of 5.16%. Total expenses amounted to RMB5,550 million in aggregate, representing a year-on-year decrease of 6.77%. Net profit attributable to equity holders of the Company amounted to RMB2,330 million, representing a year-on-year increase of 37.61%.

(II) Analysis of Principal Businesses

The principal businesses of the Group comprise four segments: investment banking business, wealth management business, trading and institutional client services business and investment management business. During the Reporting Period, total revenue and other income of the investment banking segment amounted to RMB1,663 million in aggregate, representing a year-on-year increase of 9.48%. Total revenue and other income of the wealth management segment amounted to RMB3,406 million in aggregate, representing a year-on-year decrease of 2.85%. Total revenue and other income of the trading and institutional client services segment amounted to RMB2,454 million in aggregate, representing a year-on-year increase of 10.00%. Total revenue and other income of the investment management segment amounted to RMB782 million in aggregate, representing a year-on-year increase of 16.89%.

1. Investment Banking Business Segment

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

1.1 Equity Financing Business

In the first half of 2019, a total of 182 equity financing deals were launched in A-share market, representing a year-on-year decrease of 18.75%, while the proceeds raised amounted to RMB509,451 million, representing a year-on-year decrease of 8.97%. In particular, 64 IPO projects were launched, which was basically equal to that in the corresponding period of 2018, while the proceeds raised were RMB61,157 million, representing a year-on-year decrease of 33.67%. 118 equity refinancing deals (including placement, allotment of shares and preference shares) were launched, representing a year-on-year decrease of 27.16%, while the proceeds raised were RMB448,249 million, representing a year-on-year decrease of 4.10%. (Source: Wind Info.: placement is inclusive of asset-oriented private placement)

In the first half of 2019, in the backdrop of decrease in both the number of equity financing companies and financing scale on primary market, the equity financing business of the Company still maintained a leading position in the industry. The Company completed 16 equity financing projects, ranking first in the industry. The amount underwritten by the Company as a lead underwriter was RMB8,544 million, ranking fourth in the industry. In particular, the number of IPOs underwritten by us as a lead underwriter was six, ranking second in the industry, and with an amount underwritten by us as a lead underwriter of RMB4,409 million, ranking fourth in the industry. Among the above IPO projects, Lakala is the first third-party payment processing company seeking for IPO on A Share market, and China CITIC Press is a leading enterprise in the publication industry in the PRC. The number of refinancing projects was ten, ranking first in the industry, with an amount underwritten by us as a lead underwriter of RMB4,135 million. In addition, in respect of equity-bond products, the Company completed seven convertible bond projects in the first half of 2019, with an amount underwritten by us as a lead underwriter of RMB11,118 million. In respect of project reserve, as of 30 June 2019, the Company had 55 IPO projects pending review, ranking first in the industry, including 15 projects on the STAR Market of the SSE, 21 projects on the Main Board of the SSE and 19 projects on the SZSE. The Company had 30 equity refinancing projects pending review, ranking first in the industry. (Source: CSRC, SSE, Wind Info and statistics of the Company)

Details of the Company's equity underwriting and sponsorship in the first half of 2019 are set out below:

Items	**First half of 2019**		First half of 2018	
	Amount of lead underwriting *(RMB'00 million)*	**Number of offerings**	Amount of Lead underwriting *(RMB'00 million)*	Number of offerings
IPO	**44.09**	**6**	118.92	7
Refinancing Issuance	**41.35**	**10**	495.05	12
Total	**85.44**	**16**	613.97	19

Source: Statistics of the Company

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

For overseas business, in the first half of 2019, China Securities International completed six IPOs in Hong Kong, ranking fourth among mainland investment securities companies in Hong Kong; equity financing amounted to HK$15.1 billion in aggregate, ranking thirteenth among Hong Kong and China securities firms. (Source: Dealogic)

Outlook for the second half of 2019

In the second half of 2019, as the first 25 enterprises seeking for IPO will be listed on the SSE STAR Market on 22 July, including five enterprises for which the Company acted as the sole sponsor and the lead underwriter, one enterprise for which the Company acted as the joint sponsor and the lead underwriter and one enterprise for which the Company acted as the joint lead underwriter, making the Company ranking first in the industry with the most projects at hand. The Company will continue to focus on customer demand, pay close attention to the changes in market and policies, step up efforts to serve the real economy, properly implement industry research and regional development and keep consolidating customer base. Meanwhile, the Company will attach great importance to project quality management and risk control to maintain balanced and robust development. For overseas business, in addition to constantly focusing on exploring sponsorship business, China Securities International will also actively involve in the projects such as IPO underwriting, pre-IPO and IPO underwriting in the United States.

1.2 Debt Financing Business

In the first half of 2019, bond market showed a great uncertainty and volatility. Main influence factors included external risks brought by domestic macroeconomic climate, monetary policies, Sino-US trade frictions, etc., and return on equity pivot in the market has fallen far below the average level in 2018. Interest rates of public and private bonds issued by quality AAA entities have fallen below benchmark interest rate for loan. AA+ issuers and below faced an improved condition of issuances as platform enterprises' demand for bonds increased. In the first half of 2019, a total of 6,159 credit bonds (excluding Negotiable Certificate of Deposits) were issued in the market, at an aggregate amount of RMB6,569,912 million, representing a year-on-year increase of 43.90% and 43.34%, respectively. By bond type, a total of 960 corporate bonds were issued in the market, at an aggregate amount of RMB1,041,107 million, representing a year-on-year increase of 57.38% and 76.56%, respectively; a total of 194 enterprise bonds were issued, at an aggregate amount of RMB155,469 million, representing a year-on-year increase of 76.56% and 84.76%, respectively; a total of 2,950 debt financing instruments of non-financial enterprises were issued, at an aggregate amount of RMB3,052,632 million, representing a year-on-year increase of 27.25% and 23.75%, respectively; and a total of 277 financial bonds were issued, at an aggregate amount of RMB1,172,730 million, representing a year-on-year increase of 17.37% and 79.66%, respectively.

In the first half of 2019, the debt financing business of the Company maintained a promising development momentum, The Company completed a total of 784 underwriting projects as a lead underwriter, with a total scale of the lead underwriting project of RMB469,862 million, ranking second in the industry. Among the above, the number of corporate bonds underwritten by the Company as a lead underwriter was 183, with the total size of projects underwritten as a lead underwriter amounted to RMB203,372 million, which ranked first in the industry. By leveraging our professional advantages in the corporate bond business, the Company has accumulated such large-scale central government-owned enterprise customers and high-quality industry customers such as China National Petroleum Corporation, Sinopec, State Grid and China Huaneng. In terms of product innovation, the Company, as a lead underwriter, successfully issued “19 Fanggang EB” (19方鋼EB), the first exchangeable bond with credit protection contract on the SSE; “CSC-CD Finance No. 1 Special Scheme Backed by Public Small Loans” (中信建投－中和農信1號公益小額貸款資產支持專項計劃), a special assets-backed security for poverty alleviation; green bonds for “19 Shenwan 01” (19深灣01) in the Guangdong-Hong Kong-Macau Greater Bay Area; a supply chain financial assets-backed security for ByteDance, a leading new-economy enterprise, China Three Gorges Corporation and China Energy Conservation green bond, green assets backed security for Caocao Zhuanche, Chaoyang State-owned Capital Bond, Jiangxi State-owned Capital Bond, HFI bond and other bail-in bonds.

Details of debt financing business of the Company in 2019 are as follows:

Items	**First half of 2019**			First half of 2018		
	Amount of lead underwriting *(RMB'00 million)*	**Total project scale *(RMB'00 million)***	**Number of offerings**	Amount of lead underwriting *(RMB'00 million)*	Total project scale *(RMB'00 million)*	Number of offerings
Corporate bonds	**2,033.72**	**3,375.12**	**183**	1,035.62	1,769.35	105
Enterprise bonds	**81.80**	**113.80**	**8**	48.70	61.30	7
Convertible bonds	**111.18**	**511.15**	**7**	68.06	68.06	4
Financial bonds	**826.98**	**2,786.00**	**26**	93.98	325.50	15
Others	**1,646.44**	**19,764.80**	**561**	959.07	2,602.96	85
Total	**4,698.62**	**26,520.87**	**784**	2,205.43	4,827.17	216

Source: Wind Info and statistics of the Company

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

For overseas business, in the first half of 2019, China Securities International completed seven overseas bond issuance transactions, ranking eleventh among mainland investment securities companies in Hong Kong; project amount totalled HK$15.5 billion, ranking thirteenth among mainland investment securities companies in Hong Kong. (Source: Bloomberg).

Outlook for the second half of 2019

In the second half of 2019, in addition to consolidating and maintaining the market competitiveness of traditional advantageous business type, the Company will strengthen the service of banks, listed companies and industry customers, strive to establish new project reserves including debt financing instruments of non-financial enterprises, financial bonds, and corporate bonds, develop innovative business such as project revenue bonds, special-purpose bonds, perpetual bonds, asset-backed security, Panda Bonds, exchangeable bond, convertible bond, debt-to-equity swap of central government-owned enterprises, in order to provide a full range of products, achieve balanced development and keep improving its overall strength in debt financing business. For overseas business, China Securities International will actively participate in the mainland-invested overseas bond issuance projects, improve domestic and overseas synergy and coordination, and actively promote the coordinated development of primary and secondary markets, in order to satisfy the demand of domestic and overseas customers in a number of aspects.

1.3 Financial Advisory Business

In the first half of 2019, 86 mergers and acquisitions ("M&A") financial advisory projects (including acquisition of assets through issuance of shares and major asset restructuring) were completed in A-share market, representing a year-on-year decrease of 11.34%, and the transaction amount was RMB278,935 million, representing a year-on-year decrease of 1.30%. In the first half of 2019, 153 companies were newly quoted on the NEEQ, and 923 companies were delisted. As of 30 June 2019, 9,921 enterprises were accumulatively listed on the NEEQ, representing a decrease of 770 as compared to that as of the end of 2018.

In the first half of 2019, the Company completed ten M&A financial advisory projects, ranking first in the industry, with an aggregate transaction amount of RMB34,063 million, ranking fourth in the industry. In terms of project reserve, as of 30 June 2019, the Company had five projects pending review, ranking third in the industry. In the first half of 2019, as a chief agency broker, the Company recommended three companies to be listed on NEEQ and completed 16 private placements of these listed enterprises, with RMB3,800 million proceeds raised. As of 30 June 2019, the Company continuously oversaw 35 enterprises in the innovation level, ranking the second in the industry. (Source: NEEQ Company, Wind Info, choice financial terminal and statistics of the Company)

Outlook for the second half of 2019

In the second half of 2019, the Company will continue to improve its ability to facilitate M&A transactions, increase its efforts in developing cross-border M&A business, actively provide service for venture capital companies to resolve crisis, further consolidate its advantages in financial advisory business on bankruptcy reorganization of listed companies, and keep improving its diversified service capabilities for M&A business.

2. Wealth Management Segment

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

2.1 Brokerage and Wealth Management Business

In the first half of 2019, the bilateral trading volume of equity and funds in the market was RMB134.18 trillion, representing a year-on-year increase of 29.69% (Source: Shanghai and Shenzhen Stock Exchanges).

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

In the first half of 2019, the net income from the securities brokerage business of the Company accounted for 2.99% of the market share, ranking eleventh in the industry. As of 30 June 2019, trading volume of the agency sales of equity funds of the Company amounted to RMB3.77 trillion with a market share of 2.81%. The sale of standardized products amounted to RMB19,773 million, and the net income from the distribution of financial products had a market share of 3.65%, ranking sixth in the industry. The number of new capital accounts was 384,000; the total number of clients' capital accounts at the end of the Reporting Period was 8,794,800. The market value of securities under custody for the Company's clients accounts was RMB1.99 trillion with a market share of 3.93%, ranking fifth in the industry; in which new client assets amounted to RMB205,822 million (Sources: Shanghai and Shenzhen Stock Exchanges, China Securities Depositary and Clearing Corporation Limited, The Securities Association of China and statistics of the Company). As of 30 June 2019, the Group had 303 securities branches, of which 56% were located in the relatively affluent five provinces and two municipalities (Beijing, Shanghai, Guangdong, Fujian, Zhejiang, Jiangsu and Shandong), and among which 57 securities branches were located in Beijing. Being the securities company with the largest number of securities branches in Beijing, the Company has established a solid client base for its brokerage and wealth management businesses.

With respect to future brokerage business, as of 30 June 2019, the accumulated agency futures trading volume of China Securities Futures accounted for 1.48% of the market, representing a year-on-year increase of 3.50%. Among which, financial futures market accounted for 1.77%, representing a year-on-year increase of 0.58 percentage point, commodity futures market accounted for 1.38%, representing a year-on-year decrease of 0.09 percentage point. Clients' equity scale of RMB5.963 billion, increased by 29.18% as compared with the end of 2018.

With respect to overseas business, as of 30 June 2019, the aggregate transaction amount of stock agency of China Securities International was HK$10,655 million, with 299 new clients and 20,343 clients in aggregate, and the total market value of stock under custody for the Company's clients' accounts was HK$28,594 million.

Outlook for the second half of 2019

In the second half of 2019, the Company's brokerage business will be guided by transformation of wealth management. The Company will continue to develop investment advisory service brand. The Company, enabled by technology, will build an all-around brokerage business customer service system, in order to ensure compliant operation, prevent risks, consolidate its foundation, intensively develop business and ultimately improve the quality of customer service along brokerage business line in all aspects. In terms of futures business, China Securities Futures will continue to intensively develop risk management business and improve its capability to serve the real economy. Meanwhile, the Company will get well prepared for the lifting of financial futures and options by optimising the construction of rapid transaction system. In terms of overseas business, as the bridge between domestic and overseas security business of the Company, China Securities International will on one hand satisfy high net worth customers' demand for overseas investment and wealth inheritance through security and insurance products, and on the other hand will guide overseas customers to invest in domestic financial market relying on the interconnection mechanism among financial products, to effectively expand wealth management business in overseas market.

2.2 Margin Financing and Securities Lending Business

In the first half of 2019, A Share market stabilised and recovered as a whole, and margin financing and securities lending business scale in the whole market remained steady and showed a slight rise. As of 30 June 2019, the balance of margin financing and securities lending of the Shanghai and Shenzhen Stock Exchanges was RMB910,817 million, which increased by 20.53% as compared to that of the end of 2018 (Source: Wind Info). As of 30 June 2019, the balance of the Company's margin financing and securities lending business was RMB27,210 million, representing an increase of RMB2,088 million as compared with that at the end of 2018, accounting for 2.99% in the market. The number of margin financing and securities lending accounts was 142,800, representing an increase of 4.23% as compared to that at the end of 2018.

With respect to overseas business, as of 30 June 2019, the balance of China Securities International's margin financing and securities lending business was RMB538 million, representing a decrease of 28.55% as compared to that at the end of 2018.

Outlook for the second half of 2019

In the second half of 2019, the Company will, by focusing on customer service, continue to improve customer investment advisory service, refine classified customer management, and further improve service quality and customer satisfaction. Meanwhile, the Company will continue to improve investor protection, practically implement customer appropriateness management, prevent risks relating to margin financing and securities lending business, and steadily promote the sound and orderly development of margin financing and securities lending business.

2.3 Stock Pledge Business

In the first half of 2019, as the market condition gradually stabilised, risks relating to stock pledge business were further mitigated. As of 30 June 2019, the balance of principal of the Company's stock pledge business amounted to RMB34,154 million, representing an increase of RMB246 million, or 0.73%, as compared with that at the end of 2018.

Outlook for the second half of 2019

In the second half of 2019, the Company will continue to uphold the general principle of risk prevention first, and prudently implement stock pledge business on the premise of making sure that risks are controllable. Relying on its investment research capability, the Company will improve risk identification relating to listed companies, establish cooperation with quality customers, provide customers with a package of business solutions, and prudently provide service for development of the real economy.

3. Trading and Institutional Client Services Segment

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

3.1 Equity Sales and Trading Business

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

With respect to the securities trading business, the Company closely tracked macroeconomic conditions and medium and micro economic data, seized structural opportunities arising in the market, and strictly controlled systematic risks relating to business. With respect of NEEQ market-making business, the Company provided market-making services to 42 listed companies in the first half of 2019.

With respect to the derivatives trading business, the Company strengthened its research on the market and strategies, broadened the strategies and categories of products, expanded the scope of market–making services, constantly developed and optimised trading system and diversified investment strategies with proprietary funds. Since the Company was qualified as one of the earliest First-Class Over-The-Counter ("**OTC**") Option Dealers in August 2018, the Company has steadily promoted OTC derivatives business including OTC options and non-financing swaps. The Company actively explored new types of linked subjects and revenue structure and provided diversified options to meet the customized investment needs of clients.

Outlook for the second half of 2019

The Company will continue to pay close attention to macroeconomic trend and changes in monetary and financial policies, proactively keep abreast of the development of Sino-US trade friction. The Company will adhere to the concept of value investment, improve research level, and realize stable incomes that are aligned with market conditions. In addition, the Company will pay close attention to trend of listed companies, in order to prevent and control risks. The Company will steadily develop the OTC derivative business, increase resource investment in market-making and continuously explore opportunities for cross-border investments to satisfy various needs of clients and improve its investment system using its own funds.

3.2 Sales of Fixed-income Products and Trading Business

In the first half of 2019, with respect to the FICC business, the Company actively explored opportunities of investment in gold and derivatives while investment transactions under traditional fixed-income proprietary business maintained good performance, so as to bring the synergy of FICC related business into full play via the cooperation between the FICC business and traditional fixed-income products.

With respect to fixed-income proprietary business, the Company maintained a stable pattern in proprietary investment, in particular the proprietary investment in bonds, which precisely caught up with market trend with the combination of a stable allocation and positive directional trading, hence achieving a satisfactory result in bond investment. Meanwhile, the Company continued to push forward the market-making business at a moderate pace and the Company was recognized as one of the leaders in market-making services in the city in the first quarter of 2019 (Source: China Foreign Exchange Trade System). The Company obtained the qualification of Core Dealer of Credit Protection Contract in February 2019, and created the first credit protection contract based on exchangeable bonds on the SSE in April 2019.

With respect to fixed-income sales business, in view of intensified competition in the industry, the Company, according to its business development needs, improved customer maintenance and development, intensively developed sales market, promoted sales of various products, and satisfactory sales results have been obtained. As of 30 June 2019, the sales of corporate bonds continued to rank the first in the industry (Source: Wind Info).

With respect to investment advisory business, the Company, on the premise of strict control of credit risk, effectively utilized the investment opportunities brought by interest rate fluctuation in market on the investment side and satisfactory investment results have been obtained. In addition, the Company exerted greater efforts to support investment advisory business, expanded the market coverage of investment advisory business through business innovation and channel diversification, and therefore significant growth of business scale has been observed.

With respect to overseas business, since the Company was qualified as a quotation institution of the "Bond Connect" in July 2018, the Company has entered into Bond Connect transactions with several overseas institutional investors. Since the Company was qualified to carry out pilot cross-border business in October 2018, the Company has implemented several cross-border transactions. Further, as of 30 June 2019, the volume of China Securities International's bond trading was HK$8,910 million.

Outlook for the second half of 2019

In the second half of 2019, the Company will further exploit its advantages in highly professional fixed-income business, wide customer coverage and effective internal and external coordination, continue to improve the level of comprehensive services provided to customers, and facilitate better development of bond sales business and investment advisory business. Moreover, in the light of changes in market, the Company will flexibly adjust the structure of proprietary investment portfolio and conduct transactions at a more internationalized and automated level.

3.3 *Investment Research Business*

The investment research business of the Company mainly provides institutional clients with research consultation services covering macro-economy, fixed income, strategy, industry, corporate, financial engineering and other aspects. Clients mainly include mutual funds, insurance companies, the National Social Security Fund, private equity funds, securities firms and other institutions. The Company provides clients with research reports and various kinds of tailored research consultation services. In the first half of 2019, by giving top priority to the new economy and by seizing the opportunity of incoming launch of STAR Market of the SSE, the Company enhanced research planning and cross-industry interaction and well kept abreast of market conditions and market focus. As of 30 June 2019, the Company had a research and sales team comprising 159 members, and published a total of 2,677 research reports of various types (including China Securities International) in the first half of 2019, which expanded the industry coverage and coverage of overseas listed companies. At present, the Company's stock research covered 27 industries. In the first half of 2019, the Company provided institutional customers with 5,938 roadshows of various types and 306 surveys, and successfully organized conventions including "STAR Market Forum" and "Exchange Meeting of Listed Companies in Chengdu" and other various professional activities.

Outlook for the second half of 2019

As new technologies have rapidly penetrated the research business, they provide a greater variety of research products to the market. In the second half of 2019, the Company will continue to put more efforts in team building, deepen research on the STAR Market, and keep improving research with wider perspective and deeper insight in the context of complicated and ever-changing economic climate, in order to provide different clients and business lines with comprehensive and in-depth services.

3.4 *Prime Brokerage Business*

The Company provides market-leading full-chain prime brokerage services to institutional investors, including trading service, account service, product design and agency sales, institutional investment and financing service, asset custody service, product operating service, research service, financing solution and value-added services. As of 30 June 2019, the total scale of custody and operating services of the Company amounted to RMB278,630 million, representing an increase of 36.10% as compared to that of the end of 2018, and a leading position in the industry. Among it, the number of products under custody reached 1,698, and products of operating service reached 1,533, representing an increase of 10.91% and 12.56% respectively as compared to that of the end of 2018.

The prime brokerage system of the Company is one of the most comprehensive system with the widest range of supportive systems among the securities brokers in the industry, which connects markets of margin financing and securities lending services, stock index futures, stock options, the NEEQ and interbank markets to offer its clients with convenience and favorable experience in carrying out various businesses at the same time. The self-developed algorithmic trading platform within the prime brokerage system maintained a leading position in the industry in terms of the efficiency of execution of algorithmic trading, which is widely recognized and trusted by various clients including those from the banking, insurance, public offering, private equity and QFII sectors and enterprises as well as high-net-worth individual clients. Newly developed services including Southbound trading and stock index futures satisfied customers' diversified trading needs. In the first half of 2019, the Company set up special counters for institutional trading, to provide independent trading channel with more functions to institutional customers. The trading volume of the prime brokerage business of the Company grew continuously, with an upward trend in trading performance of algorithmic trading and continuous expansion of client type and scale.

Outlook for the second half of 2019

With the aim to constantly satisfy institutional investors' trading needs, in the second half of 2019, the prime brokerage system of the Company will continue to improve quantitative trading, high-frequency trading, stock exchange bonds, real-time valuation, program trading and other services. The embedded algorithmic platform will connect with professional orders and more trading software including Transaction Technologies Limited and will provide online algorithm trading services for convertible bonds on the STAR Market of SSE. The Company will keep abreast of the changes in market and regulatory policies to further provide diversified and personalised professional trading services, so as to further meet the trading needs of various clients.

3.5 QFII and RQFII Business

The Company carries out QFII and RQFII brokerage agency trading business. Currently, the Company's QFII and RQFII businesses have developed a professional service brand featuring advanced transaction system and trading algorithm and extensive research information services by leveraging and integrating the competitive resources in domestic business and the overseas platforms of the Company and by constantly developing international market.

Outlook for the second half of 2019

In the second half of 2019, the Company will continue to build a diversified client network, in an effort to provide its QFII and RQFII clients with high-level, all-round, diversified, differentiated and integrated financial services by means of professional sales and service.

3.6 Other Investment Businesses

In the first half of 2019, domestic and international economic climate became increasingly complicated, and the market was filled with risks including decrease in quality investment subjects, inverted prices in primary and secondary markets, and higher uncertainties in investment withdrawal. In such a context, China Securities Investment implemented investment layout work in an orderly manner by following the principle of "maintain stable and sustainable development" and completed 22 investment projects at an aggregate amount of RMB754,411,300. Meanwhile, China Securities Investment actively participated in the preliminary work of co-investment mechanism of STAR Market of SSE business, in order to prepare for the successful development of STAR Market of SSE business.

Outlook for the second half of 2019

In the second half of 2019, China Securities Investment will continue to carry out the investment in equity and financial products at a moderate pace, implement investment layout by putting strict control over project quality as the top priority. Meanwhile, the Company will promote STAR Market of SSE co-investment business in an orderly manner, in an effort to turn it into a new profit growth point of the Company.

4 Investment Management Segment

4.1 Asset Management Business

With the effect of the Measures for the Administration of the Privately Offered Asset Management Business of Securities and Futures Business Institutions (《證券期貨經營機構私募資產管理業務管理辦法》) and the Provisions on the Administration of Operation of Privately Offered Asset Management Plans of Securities and Futures Business Institutions (《證券期貨經營機構私募資產管理計劃運作管理規定》) of CSRC, the Company, as required by "net worth management" and "de-channeling business" under new rules, steadily and orderly standardised the existing business, actively adjusted business direction, promoted the development of NAV business under active management, and sought new business development opportunities.

As of 30 June 2019, the Company's AUM of entrusted assets reached RMB660,493 million, ranking fourth in the industry, representing an increase of 1.27% as compared to that of the end of 2018. Among which, the AUM of actively managed products reached RMB249,214 million, accounting for 37.73% of the total AUM, representing an increase of 7.75 percentage points as compared to that of the end of 2018.

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

Unit: RMB'00 million

	AUM	
	30 June 2019	31 December 2018
Collective asset management business	**412.14**	301.66
Targeted asset management business	**5,616.60**	5,807.95
Specialized asset management business	**576.19**	412.69
Total	**6,604.93**	6,522.30

Source: The Securities Association of China, and statistics of the Company

With respect to overseas business, as of 30 June 2019, China Securities International's total AUM reached US$383 million, of which bonds AUM amounted to approximately RMB375 million, while equity AUM amounted to approximately RMB1.51 million. Balanced fund AUM amounted to approximately US$1.02 million and limited partnership fund AUM amounted to approximately US$6.11 billion. (Source: statistics of the Company)

Outlook for the second half of 2019

In the second half of 2019, the Company will continue to improve its investment management capability, and intensify business transformation through broadening the variety of products, developing sales channels for products, improving the investment performance of products and other means. Meanwhile, the Company will keep strengthening product operation management, risk control management and compliance management, in order to safeguard robust operation of business.

4.2 *Fund Management Business*

In the first half of 2019, China Securities Funds focused on enhancing market competitiveness by strengthening its investment and research capabilities, diversified product lines and improve the customer service system, actively explored new business fields, accelerated product launch and optimized product structure. As of 30 June 2019, the AUM of China Securities Funds was RMB90,927 million, representing a decrease of 3.66% as compared to that at the end of 2018, among which, the AUM of mutual fund and segregated fund products were RMB13,948 million and RMB76,979 million, respectively.

Outlook for the second half of 2019

In the second half of 2019, conforming to the development orientation of the asset management industry in the new era, China Securities Funds will continue to diversified product portfolio and take the initiative to promote active management capability, with an aim to drive business development by enhancing internal governance, improving management level, and nurturing core talents, and will further develop its level of investment research, expand client base and launch key and core products to realize a stable growth in management scale and the value preservation and appreciation of the clients' assets, to strengthen its core competitiveness and improve its brand influence.

4.3 Private Equity Investment Business

In the first half of 2019, the economic operation of China extended the development trend of overall stability with steady progress. Meanwhile, the economic development encountered new risk challenges, and there was increasing pressure of the downward trend of the economy. Due to price inversions in the primary and secondary market, the number of enterprises with investment value decreased significantly, resulting in the intensified competition in the equity investment market. Combining with industrial development and its own characteristics, China Securities Capital explored potential projects and developed new funds while reinforcing post-investment management, and strengthening risk control and compliance measures to control investment risks.

As of 30 June 2019, China Securities Capital managed a total of 45 private equity investment funds, including 15 integrated funds, five industrial funds, 16 designated funds, eight real estate funds and one fund of funds, with the fund management scale of RMB46,275 million, representing an increase of RMB917 million as compared to that at the end of 2018. As of 30 June 2019, China Securities Capital completed over 117 investment projects, including 14 main board listings, 30 NEEQ quotations, and 15 exit projects, with average investment yield of 113%.

Outlook for the second half of 2019

In the second half of 2019, by taking full advantage of its professional investment capability and project resources, China Securities Capital will actively expand fundraising channels, promote fundraising with focus on such key fields as strategic emerging industries, TMT, high-end manufacturing and information security, and realize stable and sound investment.

III. FINANCIAL STATEMENT ANALYSIS

(I) Profitability Analysis

In the first half of 2019, the Group recognized a total revenue and other income of RMB8,613 million, representing a year-on-year increase of 5.16%. The changes of key items are as follows:

- fee and commission income amounted to RMB4,034 million, representing a year-on-year increase of 10.34%, which was mainly due to the year-on-year increase in fee and commission income from brokerage business and investment banking business in the first half of 2019;

- interest income amounted to RMB3,037 million, representing a year-on-year decrease of 15.12% which was mainly due to the decrease in interest income from margin account; and

- investment gains amounted to RMB1,501 million, representing a year-on-year increase of 60.53%, which was mainly due to the increase in net gains from financial assets at fair value through profit or loss.

Note: The Ministry of Finance revised and issued the Notice on Revising and Issuing the Format of Financial Statements of Financial Enterprises (Cai Kuai [2018] No. 36) (《關於修訂印發2018年度金融企業財務報表格式的通知》(財會[2018]36號)) in December 2018. The Company prepared the financial statements of the 2019 Interim Report in accordance with the format required by the Notice. In order to improve the comparability of the data presented in financial statements, the Company made reclassification adjustments to items including "investment gains" and "interest income" in the income statement set out in 2018 Interim Report in accordance with new format. Such adjustments had no effect on the 2018 interim total revenue and other income and net profit of the Company.

In the first half of 2019, the total expenses of the Group amounted to RMB5,550 million, representing a year-on-year decrease of 6.77%. The changes of key items are as follows:

- fee and commission expenses amounted to RMB473 million, representing a year-on-year increase of 8.74%, which was mainly due to a year-on-year increase in fee and commission expenses from brokerage business;

- interest expenses amounted to RMB2,224 million, representing a year-on-year decrease of 10.54%, which was mainly due to the decrease in interest expense arising from short-term financing instruments, placements from banks and other financial institutions, and financial assets sold under repurchase agreement; and

- credit impairment losses amounted to RMB-100 million, and in the same period of 2018, amounted to RMB256 million, which is mainly due to the reversal of impairment loss of margin accounts and the reversal of impairment loss of financial assets held under resale agreements during the Period.

In the first half of 2019, net profit attributable to equity holders of the Company amounted to RMB2,330 million, representing a year-on-year increase of 37.61%; basic earnings per share amounted RMB0.30, representing a year-on-year increase of 30.43% while the return on weighted average net assets was 5.34%, representing a year-on-year increase of 1.11 percentage points, which was mainly due to the year-on-year increase of net profit for the Period.

(II) Asset Structure and Asset Quality

During the reporting period, total assets and total liabilities of the Company increased by different margins. Operation of the Company was more prudent, stability of asset and liability structure was maintained, while high asset quality and sound financial status were guaranteed.

As of 30 June 2019, the total assets of the Group amounted to RMB248,210 million, representing an increase of RMB53,128 million, or 27.23%, as compared with that at the end of 2018. Excluding the accounts payable to brokerage clients, the total assets of the Group amounted to RMB195,333 million, representing an increase of RMB35,290 million, or 22.05%, as compared with that at the end of 2018, among which, assets in investments, (mainly include investments in associates and investments in financial assets) accounted for 55.44%, while margin accounts and financial assets held under resale agreements accounted for 28.51%, cash and bank balances accounted for 12.79%, and other assets accounted for 3.26%.

As of 30 June 2019, the total liabilities of the Group amounted to RMB199,143 million, representing an increase of RMB51,924 million, or 35.27%, as compared with that at the end of 2018. Excluding the accounts payable to the brokerage clients, the total liabilities of the Group amounted to RMB146,265 million, representing an increase of RMB34,085 million, or 30.38%, as compared with that at the end of 2018, among which, financial assets sold under repurchase agreements amounted to RMB47,548 million, accounting for 32.51%; bonds in issue amounted to RMB41,348 million, accounting for 28.27%; short-term borrowings, placements from banks and other financing institutions, short-term financing instruments payable and non-current liabilities due within one year amounted to RMB37,789 million, accounting for 25.84%; financial liabilities at fair value through profit or loss and derivative financial liabilities amounted to RMB773 million, accounting for 0.52%; and the amount from other liabilities in aggregate was RMB18,807 million, accounting for 12.86% of the total liabilities.

As of 30 June 2019, the Group's equity attributable to equity holders of the Company amounted to RMB48,763 million, representing an increase of RMB1,186 million, or 2.49%, as compared with that at the end of 2018.

As of 30 June 2019, after deducting accounts payable to brokerage clients, the gearing ratio of the Group was 74.88%, representing an increase of 4.79 percentage points, as compared with that at the end of 2018.

(III) Cash Flow Status

Excluding the accounts payable to brokerage clients, the Group's net increase in cash and cash equivalents was RMB7,556 million in the first half of 2019, which was mainly due to the year-on-year increase in cash inflow from financing activities.

The net cash inflow from operating activities in the first half of 2019 was RMB542 million, representing a year-on-year net decrease of RMB5,593 million in inflow when compared with the net inflow of RMB6,135 million in the same period of 2018, which was mainly attributable to the increase in the net outflows of margin accounts in the current period.

Net cash outflow from investing activities in the first half of 2019 was RMB2,462 million, representing a year-on-year net decrease of RMB537 million in outflow when compared with the net outflow of RMB2,999 million in the same period of 2018, which was mainly attributable to the increase in cash inflow due to a decrease in financial assets measured at amortized cost, and the decrease of net cash outflow due to financial assets at fair value through other comprehensive income.

Net cash inflow from financing activities in the first half of 2019 was RMB9,476 million, compared with a net inflow of RMB2,581 million in the same period of 2018, representing a year-on-year net increase of RMB6,895 million in inflow, which was mainly attributable to a decrease in cash outflow for the repayment of short-term financing instruments payable.

IV. ANALYSIS OF PRINCIPAL SUBSIDIARIES AND NON-CONTROLLING COMPANIES

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

Name	Shareholding of the Company	Date of establishment	Registered capital	Place of business	Registered address	Contact number
China Securities Futures	100%	16 March 1993	RMB700 million	11-B (Parallel to Ground Level)/11-A, 8-B4,9-B & C (Nominal Level), Shangzhan Building, 107 Zhongshan Third Road, Yuzhong District, Chongqing (重慶市渝中區中山三路107號上站大樓平街11-B，名義層11-A，8-B4，9-B、C)	11-B (Parallel to Ground Level)/11-A, 8-B4,9-B & C (Nominal Level), Shangzhan Building, 107 Zhongshan Third Road, Yuzhong District, Chongqing (重慶市渝中區中山三路107號上站大樓平街11-B， 名義層11-A，8-B4，9-B、C)	+8623–86769602
China Securities Capital	100%	31 July 2009	RMB1,650 million	12/F, Block B, Kaiheng Center Building, Dongcheng District, Beijing (北京市東城區凱恒中心大廈B座12層)	Room 2, East Side, 6/F, 188 Chaoyangmennei Avenue, Dongcheng District, Beijing (北京市東城區朝陽門內大街188號6層東側2間)	+8610–85130648
China Securities International	100%	12 July 2012	Share capital of HK$2,000 million	18/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong	18/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong	+852–34655600
China Securities Funds	55%	9 September 2013	RMB300 million	17 & 19/F, Block B, Kaiheng Center Building, Dongcheng District, Beijing (北京市東城區凱恒中心大廈B座17、19層)	Unit 1, Building No. 3, Balongqiao Yayuan, Qiaozi Town, Huairou District, Beijing (北京市懷柔區橋梓鎮八龍橋雅苑3號樓1室)	+8610–59100211
China Securities Investment	100%	27 November 2017	RMB2,500 million (Note)	9/F, Block B, Kaiheng Center Building, Dongcheng District, Beijing (北京市東城區凱恒中心大廈B座9層)	Unit 109, Block C, Beijing Fund Town Center, No. 1 Jinyuan Avenue, Changgou Town, Fangshan District, Beijing (北京市房山區長溝鎮金元大街1號北京基金小鎮大廈C座109)	+8610–85130622

Note: As of 30 June 2019, the subscribed registered capital of China Securities Investment was RMB2,500 million. In May 2019, the board of directors of the Group considered and approved the issue of increasing capital contribution of RMB1,200 million to China Securities Investment, which is currently under the process of change of industrial and commercial registration of changes. Upon completion of the registration, the subscribed registered capital of China Securities Investment will be increased to RMB3,700 million.

In addition, the associate of the Company also includes:

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

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

China Securities Futures: as of 30 June 2019, total assets and net assets of China Securities Futures amounted to RMB7,938.61 million and RMB1,375.59 million, respectively. In the first half of 2019, China Securities Futures realized a total revenue and other income amounting to RMB166.27 million in aggregate, profit before income tax amounting to RMB74.11 million and net profit amounting to RMB62.83 million; (unaudited)

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

China Securities Capital: as of 30 June 2019, total assets and net assets of China Securities Capital amounted to RMB2,493.96 million and RMB1,468.90 million, respectively. In the first half of 2019, China Securities Capital realized total revenue and other income amounting to RMB74.45 million in aggregate, profit before income tax amounting to RMB42.33 million and net profit amounting to RMB48.10 million (The net profit was greater than total profit, mainly due to the negative income tax expense for the current period); (unaudited)

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

China Securities International: as of 30 June 2019, total assets and net assets of China Securities International amounted to RMB5,664.79 million and RMB1,766.72 million, respectively. In the first half of 2019, China Securities International realized total revenue and other income amounting to RMB149.63 million in aggregate, profit before income tax amounting to RMB-16.31 million and net profit amounting to RMB-14.16 million; (unaudited)

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

China Securities Funds: as of 30 June 2019, total assets and net assets of China Securities Funds amounted to RMB615.41 million and RMB514.08 million, respectively. In the first half of 2019, China Securities Funds realized total revenue and other income amounting to RMB111.98 million in aggregate, profit before income tax amounting to RMB27.75 million and net profit amounting to RMB20.67 million (unaudited).

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

China Securities Investment: as of 30 June 2019, total assets and net assets of China Securities Investment amounted to RMB1,266.87 million and RMB1,266.39 million, respectively. In the first half of 2019, China Securities Investment realized total revenue and other income amounting to RMB-75.46 million in aggregate, profit before income tax amounting to RMB-78.07 million and net profit amounting to RMB-55.38 million; (unaudited)

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

General information of major associates of the Company is as follows:

Zhongguancun Equity Exchange Services Group Limited is an associate of the Company with registered capital of RMB500 million. As of 30 June 2019, total assets and net assets of Zhongguancun Equity Exchange Services Group Limited amounted to RMB491.71 million and RMB483.30 million, respectively. In the first half of 2019, Zhongguancun Equity Exchange Services Group Limited realized total revenue and other income amounting to RMB23.89 million in aggregate, profit before income tax amounting to RMB-2.69 million and net profit amounting to RMB-2.76 million (unaudited).

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

V. INFORMATION OF SECURITIES BRANCHES

No.	Branch	Date of establishment	Registered address	Contact number
1	Hubei Branch	6 February 2012	3/F, Block A, Longyuan Building, 24 Zhongbei Road, Wuchang District, Wuhan City, Hubei Province	+8627–87890128
2	Shanghai Branch	6 February 2012	Room 1605,1606,1607 Kunming Road, Yangpu District, Shanghai City	+8621–55138037
3	Shenyang Branch	7 February 2012	No. 1, 12/F, 61 Beizhan Road, Shenhe District, Shenyang City, Liaoning Province	+8624–24863279
4	Jiangsu Branch	13 February 2012	2/F, Huanghe Building, 58 Longyuan West Road, Gulou District, Nanjing City, Jiangsu Province	+8625–83156571
5	Hunan Branch	1 March 2013	No. 9, Furong Middle Road Section 2, Furong District, Changsha City, Hunan Province	+86731–82250463
6	Fujian Branch	16 April 2013	3/F, Wuyi Center, 33 East Street, Gulou District, Fuzhou City, Fujian Province	+86591–87612358
7	Zhejiang Branch	18 April 2013	Room 604, 6/F, 225 Qing Chun Road, Shangcheng District, Hangzhou City, Zhejiang Province	+86571–87067252
8	Northwest Branch	19 April 2013	56 Nanda Street, Beilin District, Xi'an City, Shaanxi Province	+8629–87265999–202

No.	Branch	Date of establishment	Registered address	Contact number
9	Guangdong Branch	24 April 2013	Unit 5102 and 5105, 30 Zhujiang East Road, Tianhe District, Guangzhou City, Guangdong Province	+8620–38381917
10	Chongqing Branch	14 April 2014	2–2, Block 2, Yijing Fenghao, 195 Longshan Road, Longshan Avenue, Yubei District, Chongqing City	+8623–63624398
11	Shenzhen Branch	21 April 2014	22/F, Block B, Rongchao Business Center, 6003 Yitian Road, Futian District, Shenzhen City, Guangdong Province	+86755–23953860
12	Sichuan Branch	25 April 2014	25, South Third Section, First Ring Road, Wuhou District, Chengdu City, Sichuan Province	+8628–85576963
13	Shandong Branch	23 May 2014	11/F, Block 4, 8 Long'ao North Road, Lixia District, Jinan City, Shandong Province	+86531–68655601
14	Jiangxi Branch	28 May 2014	Unit 5, 30/F, Block 2#, Heping International Hotel, 69 Yanjiang North Avenue, Donghu District, Nanchang City, Jiangxi Province	+86791–86700335
15	Henan Branch	3 June 2014	2/F, Zhonghua Mansion, 3 Shangwu Outer Ring Road, Zhengdong New District, Zhengzhou City, Henan Province	+86371–69092409
16	Shanghai Free Trade Zone Branch	26 September 2014	Room 2206, North Building, 528 South Pudong Road, China (Shanghai) Free Trade Zone	+8621–66821628
17	Tianjin Branch	10 November 2014	Room 201, International Communication Center South Building, Tianjin University of Technology, 26 Yuliang Road, Nankai District, Tianjin City	+8622–23660571
18	Beijing Hongyi Branch	19 March 2019	4–4, Third Section, 6/F, Building No. 4, 66 Anli Road, Chaoyang District, Beijing City	+8610–86451427

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

VI. EXPLANATION OF CHANGES IN SCOPE OF STATEMENT CONSOLIDATION

During the Reporting Period, there was no change in the number of primary entities included in the consolidated financial statement of the Company.

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

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

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

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

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

The Group adopted the Accounting Standards for Enterprises No.21 – Leases since 1 January 2019 revised and issued by the Ministry of Finance in December 2018. Such change constitutes a change in accounting policies, and adjustments of relevant amounts were recognized in the financial statements. The Group elected not to restate comparative figures, retained profit as at 1 January 2019 and other relevant amount stated in the financial statements are adjusted based on the cumulative effect of initially applying the new lease standards.

The relevant changes in accounting policy have no material impact to the shareholder's equity attributable to the parent company in the consolidated financial statements of the Group as at 1 January 2019.

The changes in accounting policy resulting from the adoption of the above revised accounting standards were approved by the Board on 18 March 2019. The specific impact of the above changes in accounting policy was disclosed in the website of HKEX (www.hkexnews.hk) in March 2019.

IX. FINANCING OF THE COMPANY

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

(I) Details of previously raised funds

The proceeds previously raised referred to in this report include the proceeds raised through overseas listed foreign shares (H Shares) in December 2016 and the over-allotment of overseas listed foreign shares (H Shares) in January 2017 (hereinafter referred to collectively as "proceeds raised through overseas listed foreign shares") and also proceeds raised through domestic listed RMB ordinary shares (A Shares) in June 2018 (hereinafter referred to as "proceeds raised through domestic listed RMB ordinary shares").

1. Proceeds raised through overseas listed foreign shares

Pursuant to the Reply on the Issue of Overseas Listed Foreign Shares by CSC Financial Co., Ltd. (Zheng Jian Xu Ke [2016] No. 2529) issued by the CSRC on 4 November 2016, our Company was authorized to issue to the public 1,076,470,000 overseas listed foreign shares (H Shares) at an offer price of HK$6.81 per share (equivalent to RMB6.06). The proceeds were paid up in Hong Kong dollars, amounting to HK$7,330,760,700.00 (equivalent to RMB6,518,732,337.26). Upon deduction of the issuance expense equivalent to RMB200,903,380.25, the proceeds raised amounted to the equivalent of RMB6,317,828,957.01. The above mentioned proceeds were paid up on 9 December 2016.

On 5 January 2017, the Company exercised partial over-allotment options to issue 69,915,238 overseas listed foreign shares (H shares) at the offer price of HK$6.81 per share (equivalent to RMB6.09). The proceeds were paid up in Hong Kong dollars, amounting to HK$476,122,770.78 (equivalent to RMB425,534,726.38). Upon deduction of the issuance expense equivalent to RMB10,671,134.34, the proceeds raised were equivalent to RMB414,863,592.04, which were paid up on 5 January 2017. The above mentioned proceeds raised amounted to an equivalent of RMB6,732,692,549.05, and such proceeds were verified by PwC Zhong Tian, Beijing Branch, which issued the capital verification report numbered PricewaterhouseCoopers Zhong Tian Beijing Yan Zi [2017] No. 037.

As of 30 June 2019, the balance of such proceeds raised in the designated bank account of H Share proceeds was equivalent to RMB282,731,365.25, including unused proceeds and bank deposit interest.

2. Proceeds raised through domestic listed RMB ordinary shares

Pursuant to the Reply on the Initial Public Offering and the Listing of Shares by CSC Financial Co., Ltd. (Zheng Jian Xu Ke [2018] No. 828) issued by the CSRC on 25 May 2018, the Company was authorized to issue to 400,000,000 domestic listed RMB ordinary shares (A Shares) at an offer price of RMB5.42 per share. The proceeds were paid up in RMB, amounting to RMB2,168,000,000.00. Upon the deduction of issuance expense equivalent to 99,302,819.71, proceeds raised were RMB2,068,697,180.29, which were paid up on 13 June 2018. The above mentioned proceeds raised through domestic listed RMB ordinary shares were verified by PwC Zhong Tian which issued the capital verification report numbered PricewaterhouseCoopers Zhong Tian Yan Zi [2018] No. 0388.

On 30 June 2019, the balance of such proceeds raised in the designated bank account of A Share proceeds was RMB52,205.40, being the bank deposit interest of the designated bank account of A Share proceeds only.

(II) Actual Use Of The Proceeds Previously Raised

1. Proceeds raised through overseas listed foreign shares

According to the prospectus for overseas listed foreign shares (H Shares) issued by the Company in 2016, the Company planned to use an amount equivalent to RMB6,310.8920 million in total for five specific projects. The balance of additional proceeds from the exercise of any over-allotment option will be allocated to the above mentioned projects on a pro rata basis. The proceeds raised through the exercise of over-allotment options by the Company was equivalent to RMB414.8636 million, amounting to an equivalent of RMB6,725.7556 million when taken together with the proceeds raised as disclosed in the above mentioned H Share prospectus. As of 30 June 2019, the actual amount invested in the projects involving the use of the proceeds previously raised amounted to the equivalent of RMB6,506.0636 million in total.

The use of proceeds raised through overseas listed foreign shares of the Company as of 30 June 2019 is as follows:

Unit: RMB ten thousand

Total proceeds raised:	673,269.25	The accumulated amount of proceeds raised that has been used:	650,606.36
Total amount of proceeds raised with purpose changed:	Nil	Total amount of raised proceeds used in each year:	650,606.36
Proportion of raised proceeds with purpose changed:	Nil	2016:	204,106.16
		2017:	320,177.66
		2018:	125,000.00
		2019:	1,322.54

	Investment project		Total investment amount of the raised proceeds			The accumulated investment amount of the raised proceeds as of 30 June 2019				
No.	**Proposed investment project**	**Actual investment project**	**Proposed investment amount before fundraising** *(Note 3)*	**Proposed investment amount after fundraising** *(Note 3)*	**Actual investment**	**Proposed investment amount before fundraising**	**Proposed investment amount after fundraising**	**Actual investment** *(Note 2)*	**Difference between actual investment and proposed investment amount after fundraising** *(Note 1)*	**The date on which the project is ready for use (or the completion progress of the project as of the closing date)**
1	Meeting investment and financing needs of customers	Meeting investment and financing needs of customers	35%, an amount equivalent to 235,401.45	35%, an amount equivalent to 235,644.24	235,644.24	235,401.45	235,644.24	235,644.24	–	N/A
2	Enhancing investment and market-making capacity	Enhancing investment and market-making capacity	20%, an amount equivalent to 134,515.11	20%, an amount equivalent to 134,653.85	127,572.66	134,515.11	134,653.85	127,572.66	(7,081.19)	N/A
3	Product seed fund	Product seed fund	20%, an amount equivalent to 134,515.11	20%, an amount equivalent to 134,653.85	131,322.54	134,515.11	134,653.85	131,322.54	(3,331.31)	N/A
4	Enhancing cross-border business capacity and international competitiveness, increasing proportion of overseas assets and revenue	Enhancing cross-border Business capacity and international competitiveness, increasing proportion of overseas assets and revenue	15%, an amount equivalent to 100,886.33	15%, an amount equivalent to 100,990.39	88,740.00	100,886.33	100,990.39	88,740.00	(12,250.39)	N/A
5	Working capital and other general business use	Working capital and other general business use	10%, an amount equivalent to 67,257.56	10%, an amount equivalent to 67,326.92	67,326.92	67,257.56	67,326.92	67,326.92	–	N/A
	Total		672,575.56	673,269.25	650,606.36	672,575.56	673,269.25	650,606.36	(22,662.89)	N/A

Note 1: The difference between the actual investment amount and the proposed investment amount was the unused proceeds as at 30 June 2019. The Company has compared, item by item, the proposed investment projects stated in the H Share prospectus with the specific usage as disclosed. As of 30 June 2019, H Share proceeds proposed to be used but not used by the Company amounted to RMB226.6289 million. The Company will use the remaining H Share proceeds according to the actual development needs. Among these, H Share proceeds (equivalent to RMB70.8119 million) used for enhancing investment and market-making capacity and intended to be invested in trading and institutional client services will be specifically used to expand the scale of investment in FICC, stocks and derivatives, and enhancing market-making capabilities of various types of products; H share proceeds (equivalent to RMB33.3131 million) used on product seed fund and intended to be invested in the investment management business will be specifically used for posterior investment when issuing the asset management products of the securities company, the capital increase of China Securities Funds and China Securities Capital, and the offering of alternative investment services, after which the proceeds raised will be used according to actual needs; the H Share proceeds intended to be used for enhancing cross-border business capacity and international competitiveness (equivalent to RMB122.5039 million) will be maintained at the overseas fundraising account temporarily and remitted to the overseas subsidiaries for further use according to the actual business needs of the overseas subsidiaries after obtaining the approval of the relevant regulatory authorities.

Note 2: The actual investment of proceeds raised through overseas listed foreign shares is translated into RMB equivalent based on the actual exchange rate. Amount in the designated bank account for proceeds raised will be transferred to the Company's own general account upon the approval given by the Company for the purposes of the actual investment projects. Proceeds raised would not be separated from other proceeds within the self-owned general account. The Company recognised the actual use of the proceeds raised by further review and approval on the use and payment of the proceeds within the general account pursuant to the purposes of the actual investment projects.

Note 3: The difference between proposed investment before and after fundraising was mainly the difference arising from foreign exchange translation.

The Company has made no guarantee on benefits generated from the use of proceeds upon the issuance of overseas listed foreign shares. A portion of proceeds raised through overseas listed foreign shares has already been used on the work proposed in the prospectus upon being paid up; correspondingly, net assets and net capital of the Company were both increased. Since proceeds used in all of the investment projects of proceeds raised include original self-owned proceeds and proceeds raised, it is not possible to separately calculate the benefits realized with the proceeds raised as of 30 June 2019.

2. Proceeds raised through domestic listed RMB ordinary shares

Pursuant to the prospectus for domestic listed RMB ordinary shares of the Company in 2018, the proceeds raised is planned to be fully used on replenishing the working capital of the Company. As of 30 June 2019, the actual amount invested in the projects involving the use of the proceeds amounted to RMB2,068.6972 million.

The use of proceeds raised through domestic listed RMB ordinary shares of the Company as of 30 June 2019 is as follows:

Unit: RMB ten thousands

Total proceeds raised:	206,869.72	The accumulated amount of proceeds raised that has been used:	206,869.72
Total amount of proceeds raised with purpose changed:	Nil	Total amount of raised proceeds used in each year:	206,869.72
Proportion of raised proceeds with purpose changed:	Nil	2018:	206,869.72

Investment project			Total investment of proceeds raised			Total investment out of raised proceeds as of 30 June 2019				The date on which the project is ready for use (or the completion progress of the project as of the closing date)
No.	Proposed investment project	Actual investment project	Proposed investment amount before fundraising	Proposed investment amount after fundraising	Actual investment	Proposed investment amount before fundraising	Proposed investment amount after fundraising	Actual investment	Difference between actual investment and proposed investment after fundraising	
1	Replenishing working capital of the Company	Replenishing working capital of the Company	206,869.72	206,869.72	206,869.72	206,869.72	206,869.72	206,869.72	–	N/A
	Total		206,869.72	206,869.72	206,869.72	206,869.72	206,869.72	206,869.72	–	N/A

The Company has made no guarantee on benefits generated from the use of proceeds upon the issuance of domestic listed RMB ordinary shares. Proceeds raised through domestic listed RMB ordinary shares has been fully used on the work proposed in the prospectus upon being paid up; correspondingly, net assets and net capital of the Company were both increased. Since proceeds used in all of the investment projects of proceeds raised include original self-owned proceeds and raised proceeds, it is not possible to separately calculate the benefits realized with the raised proceeds as of 30 June 2019.

(III) Bond Financing

In the first half of 2019, the Company non-publicly issued three tranches of subordinated bonds with a total issuance amount of RMB14.5 billion, all of which was used for repayment of debt financing instruments falling due, redeemed or repurchased; three tranches of short-term financing bonds with a total issuance amount of RMB9.0 billion; and 435 tranches of structured notes with a total issuance amount of approximately RMB14.5 billion, all of which was used to replenish liquidity of the Company.

As of 30 June 2019, the balance of outstanding bonds of the Company amounted to RMB67.2 billion, with the balances of corporate bonds, perpetual subordinated bonds, subordinated bonds, US Dollar bonds and short-term financing bonds amounting to RMB32.3 billion, RMB5.0 billion, RMB19.5 billion, USD0.2 billion (equivalent to approximately RMB1.4 billion) and RMB9.0 billion, respectively. In addition, as of 30 June 2019, the balance of structured notes issued by the Company was approximately RMB7.2 billion. The above utilization of proceeds was in line with the disclosure provided in the offering documents. In the second half of 2019, the Company will continue to utilize the proceeds in accordance with the Company's operation and development strategies with reference to capital market conditions.

In the second half of 2019, the Company will continue to issue subordinated bonds, perpetual subordinated bonds, short-term financing bonds, financial bonds, beneficiary certificates and other financing instruments permitted by regulatory authorities according to the Company's capital needs with reference to the market conditions.

Subsequent Events

From the end of the Reporting Period to the date of this report, the Company publicly issued one tranche of short-term financing bonds and one tranche of financial bonds, with the total issuance size amounting to RMB7.0 billion.

(i) In July 2019, the Company publicly issued a 90-day fixed rate commercial paper with a face value of RMB3.0 billion ("19 CSC CP004"). The bond pays the principal and interest at at 2.70% per annum at maturity and is not guaranteed.

(ii) In August 2019, the Company publicly issued a 3-year fixed rate financial bond with a face value of RMB4.0 billion ("19 CSC Financial Bond 01"). The bond pays interest annually at 3.52% per annum and is not guaranteed.

In addition, in August 2019, the application for non-public issuance of A Shares was accepted by CSRC.

X. RISK MANAGEMENT

(I) Overview

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

(II) Structure of Risk Management

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

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

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

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

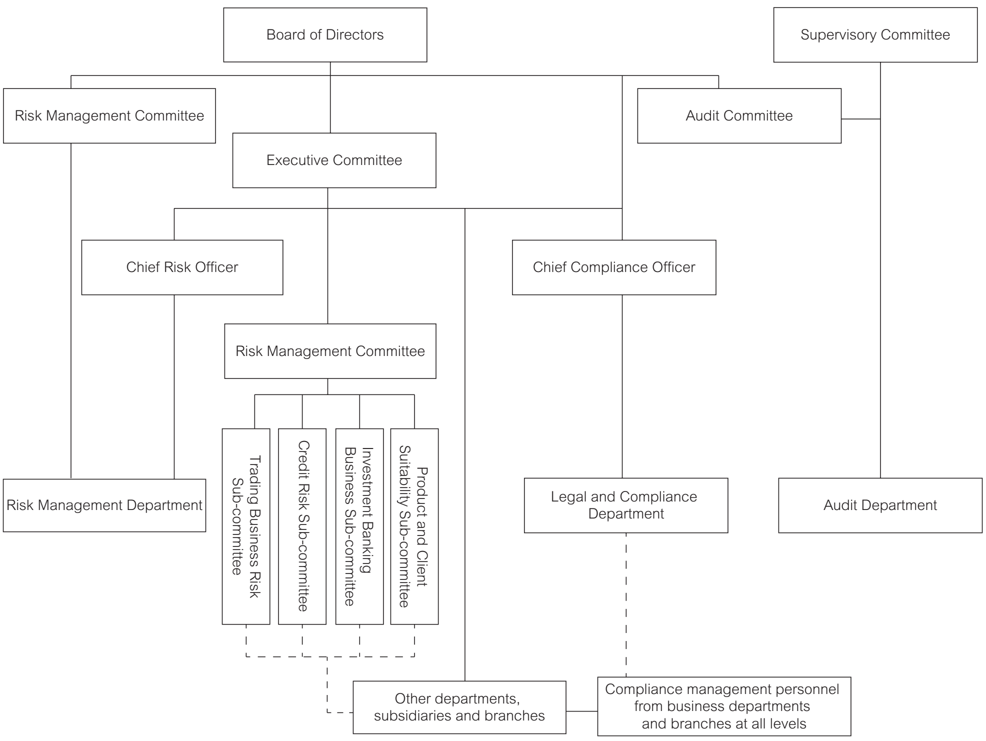
The Risk Management Committee under the Executive Committee of the Company is responsible for determining the Company's risk appetite, risk tolerance level and major risk limits; approving risk limits and risk control standards specific to each business line; formulating and promoting the implementation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

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

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

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

Structure Diagram of Risk Management



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

(III) Risk Management Mechanism

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

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

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

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

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

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

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

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

In the first half of 2019, the Company strengthened the management of credit risk, liquidity risk and new business risk, achieving positive progress in centralized credit approvals of clients, product liquidity risk management, as well as risk identification and business preparation of the technological innovation business.

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

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

1. Strategic Risk Management

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

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

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

2. Credit Risk Management

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

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

Credit risk arising from bond investments is primarily due to counterparty defaults, credit issuer defaults or decline in the creditworthiness of issuers, among others. The Company establishes ratings and credit lines for counterparties and maintains black lists to manage its counterparty credit risk, and sets a number of credit limits to control risks on credit facilities, including minimum ratings for credit products and maximum credit exposure of a single borrower. In the first half of 2019, with significant market fluctuation and the increasing number of default cases, the Company further improved the credit quality of investment portfolio and the capability of credit risk management through the strengthening due diligence on investment objects and counterparties as well as optimization of credit rating system.

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

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

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

3. Liquidity Risk Management

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

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

The Asset and Liability Management Committee is responsible for organizing and managing the asset and liability allocation plan of the Company, reviewing and approving the internal valuation interest rate of capital and emergency plans for liquidity risk. The Company established the Treasury Operations Department to initiate the management of the liquidity of its proprietary funds, accounting for expanding mid- and long-term stable funding channels, reasonably adjusting the asset allocation among various business lines, and steadily optimizing its assets and liabilities structure. The Company has improved its daily practice for liquidity risk management and control mechanism with the assistance of classified liquidity reserve system, refining internal funds transfer pricing (FTP) system, as well as establishing and optimizing liquidity emergency plans and stress tests. In addition, in the first half of 2019, the Company carried out initial public offering of A Shares and various debt financing instruments to further improve the liquidity. In the first half of 2019, the Company maintained adequate liquidity reserve through the issuance of subordinated bonds and other mid-to-long-term debt financing instruments, and improved the liquidity risk contingency plan to ensure that liquidity risk is measurable and controllable.

4. Market Risk Management

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

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

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

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

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

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

In the first half of 2019, the Company expanded the scale of its proprietary business, with market risks effectively controlled within the scope of various risk limits.

5. Operational Risk

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

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

The Risk Management Department of the Company monitors and assesses the operational risks of various businesses including the brokerage business, and also implements regular risk control evaluation. It examines the key risks of various business and management lines, and establishes and implements key control measures in practical business procedures. The business departments are organized to conduct self-evaluation of risk and control to identify new material risks and take appropriate risk control measures. Statistical analysis on various types of operational risk events is performed at least on an annual basis to calculate the frequency of their occurrence and the level of losses, as well as to assess the changing trend of risk and risk allocations. In the first half of 2019, the Company continued the early warnings of various risks and risk-related education, and prepared six issues of briefings on risk-related education; actively identified risks in and formulated risk control measures for the technological innovation business, and improve relevant contingency plan; strengthened the specific application of operational risk management tools such as the Key Risk Indicators (KRI) and the Risk Control Self-Assessment (RCSA), Loss Data Collection (LDC), etc.

6. Information Technology Risk Management

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

The Information Technology Department of the Company is responsible for the management of planning, establishment and operation maintenance of the information technology system. The Company carries out centralized management and backup of the data in transaction system, implementation of mutual separation of development, testing and operation maintenance of information technology system, as well as mutual separation of data management and application system, and implements strict control of access authority and track record, controls the choice of relevant software, hardware and external suppliers of information technology system, performs real-time and automatic monitoring of the connection of important communication network and operation of the significant business system. In addition, the emergency management of business continuity of the Company is centrally led by the Risk Management Department, and the Information Technology Department is responsible for the technical support work. In the first half of 2019, the Company took the initiative in the upgrading and capacity expansion of the relevant technical systems for the STAR Market of SSE business, and conducted capacity testing and emergency drills to ensure safe and stable operation of the systems.

7. Legal Risk and Compliance Risk Management

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

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

8. Reputation Risk Management

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

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

XI. OTHER STATEMENT

Save as disclosed in this interim report, from 1 January 2019 to 30 June 2019, there are no material changes affecting the Company's performance that need to be disclosed under paragraphs 32 and 40(2) of Appendix 16 to the Listing Rules.

SECTION 4 SIGNIFICANT EVENTS

I. MATERIAL LITIGATION AND ARBITRATION

During the Reporting Period, the Group had no major litigation or arbitration that involves an amount exceeding RMB10 million and accounting for more than 10 percent of the absolute value of the Company's latest audited net assets to be disclosed under the SSE Listing Rules.

As of the date of the Report, the Company, as the subject of bond issuance, has issued the following interim announcements on involvement in litigation and arbitration on the bond section on the website of SSE:

Summary and type of events	Index for inquiries
The case that the Company, as the applicant, applied for arbitration in relation to the event of default in stock-pledged repurchase business by Wang Yue, the financier.	Announcement on Involvement in Arbitration of CSC Financial Co., Ltd. issued on the bond section on the website of SSE on 22 July 2019
The case that Beijing Runxin Dingtai Investment Center (L.P.) (北京潤信鼎泰投資中心(有限合夥)), the Privately Offered Fund for which Beijing Runxin Dingtai Capital Management Co., Ltd. (北京潤信鼎泰資本管理有限公司), an indirect wholly-owned subsidiary of the Company and China Capital Management Limited (中信建投資本管理有限公司), a wholly-owned subsidiary of the Company act as the mangers, as the plaintiff, applied for litigation in relation to the event of default in equity investment by Guangdong Southern Radio, Film and Television Media Group Co., Ltd. (廣東南方廣播影視傳媒集團有限公司) and Guangdong South Lead TV & Film Co., Ltd. (廣東南方領航影視傳播有限公司).	Announcement on Involvement in Litigation and Arbitration of Subsidiaries of CSC Financial Co., Ltd. issued on the bond section on the website of SSE on 29 July 2019
The case that China Securities (International) Brokerage Company Limited (中信建投(國際)證券有限公司), an indirect wholly-owned subsidiary of the Company, applied for litigation in relation to the event of default in stock-pledged repurchase business by Ho Born Investment Holdings Limited (浩邦投資控股有限公司), the financier, and Shi Hongliu, the guarantor.	Announcement on Involvement in Litigation and Arbitration of Subsidiaries of CSC Financial Co., Ltd. issued on the bond section on the website of SSE on 29 July 2019
The case that China Securities Funds Management Limited (中信建投基金管理有限公司), a holding subsidiary of the Company, on behalf of "CSC – China Minsheng Bank – Jinan RCB Asset Management Plan No. 1" (中信建投-民生銀行-濟南農商1號資產管理計劃) under its management, as the applicant, applied for arbitration in relation to the event of default in bonds by Wuxi Wuzhou International Decoration Co., Ltd. (無錫五洲國際裝飾城有限公司) and Wuzhou International Holdings Limited (五洲國際控股有限公司).	Announcement on Involvement in Litigation and Arbitration of Subsidiaries of CSC Financial Co., Ltd. issued on the bond section on the website of SSE on 29 July 2019

Summary and type of events	Index for inquiries
The case that the Company, as the applicant, applied for arbitration in relation to the event of default in stock-pledged repurchase business by Huang Qingle, the financier, Huang Huiting and Huang Zhihong, the guarantors.	Announcement on Involvement in Litigation and Arbitration of CSC Financial Co., Ltd. issued on the bond section on the website of SSE on 12 August 2019
The case that the Company, as the applicant, applied for arbitration in relation to the event of default in stock-pledged repurchase business by Beijing Shouhang Ripple Tube Manufacturing Co., Ltd. (北京首航波紋管製造有限公司), the financier, and Huang Qingle, Huang Huiting and Huang Zhihong, the guarantors.	Announcement on Involvement in Litigation and Arbitration of CSC Financial Co., Ltd. issued on the bond section on the website of SSE on 12 August 2019
The case that the Company, as the applicant, applied for execution in relation to the event of default in stock-pledged repurchase business by Huang Ruibing, the financier, Wang Jinhua, joint debtor.	Announcement on Involvement in Litigation and Arbitration of CSC Financial Co., Ltd. issued on the bond section on the website of SSE on 12 August 2019
The case that the Company, as the applicant, applied for arbitration in relation to the event of default in collateralized stock repurchase business by Feng Xianchao, the financier.	Announcement on Involvement in Litigation, Arbitration and Update of CSC Financial Co., Ltd. issued on the bond section on the website of SSE on 20 August 2019
Update on the case that the Company, as a third party, was involved in a lawsuit filed against Shanghai Bikong Longxiang Investment Management Co., Ltd. (上海碧空龍翔投資管理有限公司) by Xinjiang Investment Development (Group) Co., Ltd. (新疆投資發展(集團)有限公司) in respect of dispute of trading in securities investment funds.	Announcement on Involvement in Litigation, Arbitration and Update of CSC Financial Co., Ltd. issued on the bond section on the website of SSE on 20 August 2019

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

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

III. RATING CLASSIFICATION OF THE COMPANY BY SECURITIES REGULATORS

In 2019, under the classification base on securities firms by the CSRC, the Company was rated "Class A Grade AA" for ten consecutive years. The Company is one of the only three PRC securities firms in the industry which received such a rating for eight consecutive years during 2010 and 2019 with such a rating being the highest rank granted by the CSRC. In addition, under the classification base on securities firm by the CSRC, China Securities Futures, a wholly-owned subsidiary of the Company, was rated "Class A Grade AA" for three consecutive years from 2016 to 2018. Such a rating is the highest rank granted by the CSRC.

IV. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the Reporting Period, the Company strictly complied with the Corporate Governance Code contained in Appendix 14 to the Hong Kong Listing Rules ("**Corporate Governance Code**"), followed all code provisions and met the requirements of part of the recommended best practices set out in the Corporate Governance Code.

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

During the Reporting Period, there was no repurchase, sale or redemption of securities of the Company made by the Company or any of its subsidiaries.

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

As of June 30, 2019, the paid-up registered capital of China Securities Investment was RMB2.5 billion. In May 2019, the Board of the Group considered and approved the matter in respect of capital contributions to China Securities Investment with an amount of RMB1.2 billion. The industrial and commercial changes in registration is currently under process. Upon completion of the registration, the paid-up registered capital of China Securities Investment will increase to RMB3.7 billion.

VII. DIVIDEND

The Board of Directors did not present the proposal in relation to the distribution of any 2019 interim dividends for the six months ended 30 June 2019.

I. SHARE CAPITAL STRUCTURE OF THE COMPANY

As of 30 June 2019, the share capital structure of the Company was as follows:

Name of Shareholders	Type of Shares	Number of Shares	Percentage in the total number of Shares
BSCOMC (北京國管中心)	A Shares	2,684,309,017	35.11%
Central Huijin (中央匯金)	A Shares	2,386,052,459	31.21%
HKSCC Nominees Limited (香港中央結算（代理人）有限公司) *(note)*			
Glasslake Holdings (鏡湖控股) *(note))*	H Shares	351,647,000	4.60%
CSRF (結構調整基金) *(note)*	H Shares	112,740,500	1.47%
Other Shares held under the name of HKSCC Nominee Limited	H Shares	796,343,685	10.42%
Other Shares held under the name of HKSCC Nominee Limited	A Shares	3,388,314	0.04%
CITIC Securities (中信証券)	A Shares	427,000,000	5.58%
Tengyun Investment (騰雲投資)	A Shares	300,000,000	3.92%
Shanghai Shangyan (上海商言)	A Shares	150,624,815	1.97%
Century Jinyuan (世紀金源)	A Shares	25,537,418	0.33%
Other public holders of A Shares	A Shares	408,449,453	5.34%
Other public holders of H Shares	H Shares	292,577	0.01%
Total		7,646,385,238	100.00%

Note: As of 30 June 2019, the Company noted from the Shareholders' interests disclosed on the Hong Kong Stock Exchange that Glasslake Holdings held 351,647,000 H Shares of the Company, representing 4.60% of the total share capital of the Company and CSRF held 112,740,500 H Shares of the Company, representing 1.47% of the total share capital of the Company. The total number of H Shares of the Company held by HKSCC Nominees Limited acting as the nominee for all institutional and individual investors that maintain an account with it was 1,260,731,185 H Shares as of 30 June 2019. Save for 351,647,000 H Shares and 112,740,500 H Shares of the Company held by Glasslake Holdings and CSRF, respectively, to the knowledge of the Company, the number of remaining H Shares of the Company held under the name of HKSCC Nominees Limited was 796,343,685 H Shares.

II. SHAREHOLDERS

As of 30 June 2019, the total number of Shareholders as shown on the register of members of the Company was 133,609, of which 133,537 were A Shareholders and 72 were H Share registered Shareholders. The H Share registered Shareholders include HKSCC Nominees Limited, which held H Shares and A Shares of the Company as the nominee for all institutional and individual investors that maintained an account with it as of 30 June 2019.

III. SHAREHOLDERS' INTERESTS AND SHORT POSITIONS REQUIRED TO BE DISCLOSED UNDER THE SECURITIES AND FUTURES ORDINANCE ("SFO")

To the knowledge of the Directors, as of 30 June 2019, the following Shareholders (except Directors, Supervisors and senior management) had interests or short positions in the Shares and underlying Shares of the Company required to be recorded in the register to be kept by the Company under Section 336 of the SFO:

Name	Capacity	Number of Shares Directly or Indirectly Held	Class of Shares	Nature of Interest	Approximate Percentage of Shareholding in the Total Issued Ordinary Share Capital	Approximate Percentage of Shareholding in the Relevant Class of Shares
1. BSCOMC (北京國管中心)	Beneficial owner	2,684,309,017	A Shares	Long positions	35.11%	42.04%
2. Central Huijin (中央匯金)	Beneficial owner	2,386,052,459	A Shares	Long positions	31.21%	37.37%
3. CITIC Securities (中信証券)	Beneficial owner	427,000,000	A Shares	Long positions	5.58%	6.69%
4. Tengyun Investment (騰雲投資) *(Note 1)*	Beneficial owner	300,000,000	A Shares	Long positions	3.92%	4.70%
5. Shanghai Shangyan Investment Center (上海商言)	Beneficial owner	150,624,815	A Shares	Long positions	1.97%	2.36%
6 Century Jinyuan Investment Group Limited (世紀金源) *(Note 1)*	Beneficial owner	25,537,418	A Shares	Long positions	0.33%	0.40%
7. Huang Tao (黃濤) *(Note 1)*	Interest of Controlled Corporation	325,537,418	A Shares	Long positions	4.26%	5.10%
8. Huang Shiying (黃世熒) *(Note 1)*	Interest of Controlled Corporation	325,537,418	A Shares	Long positions	4.26%	5.10%
9. Glasslake Holdings (鏡湖控股) *(Note 2)*	Beneficial owner	351,647,000	H Shares	Long positions	4.60%	27.89%
10. Affluent East Investments Limited (東滿投資有限公司) *(Note 2)*	Interest of Controlled Corporation	351,647,000	H Shares	Long positions	4.60%	27.89%
11. CITIC Limited (中信股份) *(Note 2)*	Interest of Controlled Corporation	351,647,000	H Shares	Long positions	4.60%	27.89%
12. CITIC Group (中信集團) *(Note 2)*	Interest of Controlled Corporation	351,647,000	H Shares	Long positions	4.60%	27.89%
13. CSRF (結構調整基金) *(Note 3)*	Beneficial owner	112,740,500	H Shares	Long positions	1.47%	8.94%
14. CCB Investment (建信投資) *(Note 3)*	Interest of Controlled Corporation	112,740,500	H Shares	Long positions	1.47%	8.94%

Notes:

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

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

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

Save as disclosed above, as of 30 June 2019, to the knowledge of the Directors, no other person (except Directors, Supervisors and senior management) had interests or short positions in the Shares and underlying Shares of the Company required to be recorded in the register to be kept by the Company under Section 336 of the SFO.

SECTION 6 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

I. THE BOARD OF DIRECTORS AND THE BOARD COMMITTEE

Composition of the Board of Directors

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

Board Committees under the Board

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

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

During the Reporting Period, all Directors faithfully and diligently performed their duties entitled by laws and regulations, and have protected the overall interests of the Company and its Shareholders, especially the legitimate interests of minority Shareholders. The Audit Committee of the Board of the Company has reviewed the accounting policies adopted by the Company, discussed matters including the 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 and this interim report, and no disagreement was proposed in respect of the accounting policies adopted by the Company and financial reports thereof. The external auditor of the Company has reviewed the interim financial information in accordance with the International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”.

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

II. THE SUPERVISORY COMMITTEE

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

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

III. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Positions	Changes
ZHAO Ming	employee representative Supervisor	Elected
LU Ya	employee representative Supervisor Member of Executive Committee, Chief Risk Officer	Resigned Appointed
DING Jianqiang	Member of Executive Committee, Chief Compliance Officer	Appointed
XIAO Gang	Member of Executive Committee	Appointed
PENG Wende	Member of Executive Committee	Appointed
HU Bin	Member of Executive Committee	Resigned

On 16 March 2019, Mr. ZHAO Ming was elected as an employee representative Supervisor of the second session of the Supervisory Committee of the Company at the fifth meeting of the first session of the employee representative meeting of the Company. Ms. LU Ya ceased to serve as employee representative Supervisor of the Company. In April, 2019, the Company received the approval of the qualification of Mr. ZHAO Ming as a Supervisor of the securities company from the Beijing Office of the CSRC, and Mr. ZHAO Ming duly performed the duties as an employee representative Supervisor.

On 18 March 2019, the eleventh meeting of the second session of the Board of the Company was convened to appoint Mr. DING Jianqiang, Ms. LU Ya and Mr. XIAO Gang as members of the Executive Committee of the Company, and appoint Mr. DING Jianqiang as Chief Compliance Officer of the Company and Ms. LU Ya as Chief Risk Officer of the Company. In April, 2019, the Company received the approval of the qualification of the above personnel as senior management personnel of the securities company from the Beijing Office of the CSRC. Mr. DING Jianqiang and Mr. XIAO Gang duly performed the duties as members of the Executive Committee of the Company, and Ms. LU duly performed the duties as a member of the Executive Committee and Chief Risk Officer of the Company. In May, 2019, the Company received the approval of the qualification of Mr. DING Jianqiang as Chief Compliance Officer of the Company, and Mr. DING Jianqiang duly performed the duties as Chief Risk Officer. Mr. ZHOU Zhigang, member of the Executive Committee, ceased to serve as the Chief Compliance Officer and the Chief Risk Officer of the Company.

On 28 May 2019, the thirteenth meeting of the second session of the Board of the Company supplemented Mr. PENG Wende as a member of the Executive Committee of the Company. In August, 2019, the Company received the approval of the qualification of Mr. PENG Wende as a senior management personnel of the securities company from the Beijing Office of the CSRC. Mr. PENG Wende duly performed the duties as a member of the Executive Committee of the Company.

On 28 May 2019, the thirteenth meeting of the second session of the Board of the Company agreed that Mr. HU Bin ceased to serve as a member of the Executive Committee of the Company due to work arrangement.

IV. DEALING IN SECURITIES BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Hong Kong Listing Rules (the "**Model Code**") in respect of the securities transactions entered into by its Directors and Supervisors. The Company has made specific inquiries to all Directors and Supervisors on any non-compliance with the Model Code. All the Directors and Supervisors have confirmed that they have completely complied with the provisions and standards of the Model Code during the period from 1 January 2019 up to the date of announcement of 2019 interim results.

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

To the best knowledge of all Directors, as of 30 June 2019, no Directors, Supervisors or senior management of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of the Company's associated corporations (as defined in Part XV of the SFO), which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or required, pursuant to the Model Code under Appendix 10 to the Hong Kong Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange.

As of 30 June 2019, no Directors and Supervisors or any of their spouses or children under 18 years of age had been granted the rights to purchase Shares or debentures of the Company for the benefit or exercise any aforesaid rights by themselves, nor have any Directors and Supervisors or any of their spouses or children under 18 years of age been granted the aforesaid rights from any other corporate body due to the arrangement made by the Company or any its subsidiaries.

VI. RIGHTS OF DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

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

VII. EMPLOYEES

(I) Number and Composition of Employees

As of 30 June 2019, the Group had 9,185 employees in total (excluding brokers and dispatched employees), among which the Company had 8,298 employees (excluding brokers and dispatched employees). The composition is as follows:

Item		The Group		The Company	
		Number of employees	Percentage (%)	Number of employees	Percentage (%)
Professional structure	Brokerage business	5,745	62.55%	5,537	66.73%
	Investment banking	947	10.31%	882	10.63%
	Information technology	476	5.18%	408	4.92%
	Financial planning	317	3.45%	267	3.22%
	Administration	54	0.59%	18	0.22%
	Research	191	2.08%	152	1.83%
	Fixed income business	115	1.25%	112	1.35%
	Asset management business	215	2.34%	116	1.40%
	Margin financing and securities lending businesses	51	0.56%	44	0.53%
	Security investment	79	0.86%	67	0.81%
	Settlement	125	1.36%	97	1.17%
	Legal and compliance/audit	441	4.80%	413	4.98%
	Risk management	81	0.88%	53	0.64%
	Others	348	3.79%	132	1.59%
	Total	9,185	100.00%	8,298	100.00%

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

(II) Relevant Information of Securities Brokers

As of 30 June 2019, the Company had a total of 175 business departments that had implemented a securities broker system. There was a total of 1,630 brokers who obtained professional brokerage qualifications as reviewed and approved by the Securities Association of China.

(III) Employee Remuneration

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

(IV) Training Program

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

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

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

3. The Company strengthened the training of reserve management talents in branches by enhancing integrated training on self-management, team management, systematic thinking and problem analysis and solving ability as well as improving their management awareness and level.

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

5. The Company attached high importance to recruitment at university campuses, and commenced a series of enrollment and trainee cultivation program to recruit outstanding graduates and students with working and placement opportunities. As of 30 June 2019, the headquarters of the Company provided over 800 internship positions for the on-campus students, and hired 94 new graduates. The Company provided a 70-hour online orientation for new staff members of headquarters and branches, and organized concentrated training for new entrants.

(V) Relationship with Employees

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

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Board of Directors of CSC Financial Co., Ltd.
(incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 63 to 148, which comprises the interim condensed consolidated statement of financial position of CSC Financial Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2019 and the interim condensed consolidated income statement, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 August 2019

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2019
(In RMB thousands, unless otherwise stated)

	Note	**Six months ended 30 June** **2019** **(Unaudited)**	2018 (Unaudited)
Revenue			
Fee and commission income	6	**4,034,133**	3,655,500
Interest income	7	**3,036,803**	3,577,727
Net investment gains	8	**1,501,263**	935,330
		8,572,199	8,168,557
Other income	9	**40,680**	21,859
Total revenue and other income		**8,612,879**	8,190,416
Fee and commission expenses	10	**(472,900)**	(435,341)
Interest expenses	10	**(2,224,063)**	(2,485,551)
Staff costs	10	**(2,144,647)**	(1,953,365)
Tax and surcharges		**(43,350)**	(42,670)
Other operating expenses and costs	10	**(764,780)**	(779,389)
Credit impairment losses	11	**99,904**	(256,297)
Total expenses		**(5,549,836)**	(5,952,613)
Operating profit		**3,063,043**	2,237,803
Share of profits and losses of associates		**1,772**	1,256
Profit before income tax		**3,064,815**	2,239,059
Income tax expense	12	**(722,888)**	(532,669)
Profit for the period		**2,341,927**	1,706,390
Attributable to:			
Equity holders of the Company		**2,329,515**	1,692,862
Non-controlling interests		**12,412**	13,528
		2,341,927	1,706,390
Earnings per share attributable to ordinary equity holders of the Company (expressed in RMB yuan per share)			
– Basic and diluted	14	**0.30**	0.23

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019

(In RMB thousands, unless otherwise stated)

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Profit for the period	**2,341,927**	1,706,390
Other comprehensive income		
Items that may be reclassified to profit or loss in subsequent period		
Net gains on investments in debt instruments measured at fair value through other comprehensive income	**129,615**	252,607
Net (losses)/gains on investments in debt instruments measured at fair value through other comprehensive income reclassified to profit or loss on disposal	**(43,307)**	36,169
Income tax relating to these items	**(20,903)**	(71,208)
	65,405	217,568
Share of other comprehensive income of associates	**(1,352)**	1,131
Foreign currency translation differences	**6,735**	47,491
Items that will not be reclassified subsequently to profit or loss		
Net gains/(losses) on investments in equity instruments designated as at fair value through other comprehensive income	**213,744**	(140,911)
Income tax relating to these items	**(51,986)**	35,228
	161,758	(105,683)
Other comprehensive income for the period, net of tax	**232,546**	160,507
Total comprehensive income for the period	**2,574,473**	1,866,897
Attributable to:		
Equity holders of the Company	**2,562,061**	1,853,369
Non-controlling interests	**12,412**	13,528
	2,574,473	1,866,897

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

(In RMB thousands, unless otherwise stated)

	Note	**30 June 2019 (Unaudited)**	31 December 2018 (Audited)
Non-current assets			
Property, plant and equipment	15	**438,125**	451,376
Right-of-use assets	16	**957,089**	
Investment properties		**46,792**	47,742
Intangible assets	17	**182,467**	186,915
Investment in associates	19	**163,129**	162,713
Financial assets at fair value through profit or loss	27	**3,103,298**	2,978,326
Financial assets at fair value through other comprehensive income	20	**3,211,494**	3,003,549
Financial assets at amortized costs		**–**	67,276
Financial assets held under resale agreements	21	**2,964,794**	3,449,017
Refundable deposits	22	**2,398,312**	1,880,554
Deferred tax assets	23	**1,089,047**	974,506
Other non-current assets	24	**150,387**	175,859
Total non-current assets		**14,704,934**	13,377,833
Current assets			
Margin accounts	25	**26,909,725**	25,148,083
Accounts receivable	26	**2,603,130**	1,440,038
Financial assets at fair value through profit or loss	27	**69,513,683**	54,347,744
Financial assets at fair value through other comprehensive income	20	**31,361,585**	27,965,580
Financial assets at amortized cost		**–**	119,787
Derivative financial assets	28	**943,984**	1,239,584
Financial assets held under resale agreements	21	**25,814,170**	20,348,220
Cash held on behalf of clients	29	**51,005,258**	33,698,335
Cash and bank balances	30	**24,980,984**	17,055,809
Other current assets	31	**372,970**	341,300
Total current assets		**233,505,489**	181,704,480
Total assets		**248,210,423**	195,082,313

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2019

(In RMB thousands, unless otherwise stated)

	Note	**30 June 2019 (Unaudited)**	31 December 2018 (Audited)
Current liabilities			
Accounts payable to brokerage clients	32	**52,877,220**	35,038,585
Lease liabilities	41	**303,022**	
Derivative financial liabilities	28	**444,254**	177,461
Financial liabilities at fair value through profit or loss	33	**328,625**	1,252,581
Financial assets sold under repurchase agreements	34	**47,548,015**	32,531,875
Placements from banks and other financial institutions	35	**7,938,775**	4,048,839
Taxes payable	36	**651,760**	302,981
Short-term borrowings	37	**972,537**	1,118,475
Short-term financing instruments payable	38	**15,265,582**	13,753,706
Other current liabilities	39	**30,471,327**	20,997,043
Total current liabilities		**156,801,117**	109,221,546
Net current assets		**76,704,372**	72,482,934
Total assets less current liabilities		**91,409,306**	85,860,767
Non-current liabilities			
Bonds in issue	40	**41,347,548**	37,650,008
Lease liabilities	41	**614,029**	
Deferred tax liabilities	23	**374,738**	342,642
Other non-current liabilities		**5,120**	4,720
Total non-current liabilities		**42,341,435**	37,997,370
Net assets		**49,067,871**	47,863,397

AS AT 30 JUNE 2019

(In RMB thousands, unless otherwise stated)

	Note	**30 June 2019 (Unaudited)**	31 December 2018 (Audited)
Equity			
Share capital	42	**7,646,385**	7,646,385
Other equity instruments	43	**5,000,000**	5,000,000
Reserves	44	**19,686,784**	19,425,664
Retained earnings		**16,429,789**	15,505,197
Equity attributable to equity holders of the Company		**48,762,958**	47,577,246
Non-controlling interests		**304,913**	286,151
Total equity		**49,067,871**	47,863,397

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

Approved and authorized for issue by the Board of Directors on 23 August 2019.

Wang Changqing
Chairman

Li Geping
Executive Director and President

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2019

(In RMB thousands, unless otherwise stated)

		Attributable to equity holders of the Company										
				Reserves								
	Note	Share capital	Other equity instruments	Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Foreign currency translation reserve	Retained earnings	Subtotal	Non-controlling interests	Total
At 1 January 2019		7,646,385	5,000,000	8,753,213	3,013,066	7,535,426	(32,746)	156,705	15,505,197	47,577,246	286,151	47,863,397
Profit for the period		–	–	–	–	–	–	–	2,329,515	2,329,515	12,412	2,341,927
Other comprehensive income for the period		–	–	–	–	–	225,811	6,735	–	232,546	–	232,546
Total comprehensive income for the period		–	–	–	–	–	225,811	6,735	2,329,515	2,562,061	12,412	2,574,473
Capital injected by equity holders												
– Capital injected by subsidiaries' non-controlling equity holders		–	–	–	–	–	–	–	–	–	8,350	8,350
Appropriation to general reserve	44	–	–	–	–	28,574	–	–	(28,574)	–	–	–
Dividends to equity holders		–	–	–	–	–	–	–	(1,376,349)	(1,376,349)	–	(1,376,349)
Dividends to non-controlling interests		–	–	–	–	–	–	–	–	–	(2,000)	(2,000)
At 30 June 2019 (Unaudited)		7,646,385	5,000,000	8,753,213	3,013,066	7,564,000	193,065	163,440	16,429,789	48,762,958	304,913	49,067,871

(In RMB thousands, unless otherwise stated)

		Attributable to equity holders of the Company										
				Reserves								
	Note	Share capital	Other equity instruments	Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Foreign currency translation reserve	Retained earnings	Subtotal	Non–controlling interests	Total
At 1 January 2018		7,246,385	5,000,000	7,084,516	2,698,328	6,915,734	(246,786)	41,885	15,022,518	43,762,580	245,111	44,007,691
Profit for the period		–	–	–	–	–	–	–	1,692,862	1,692,862	13,528	1,706,390
Other comprehensive income for the period		–	–	–	–	–	113,016	47,491	–	160,507	–	160,507
Total comprehensive income for the period		–	–	–	–	–	113,016	47,491	1,692,862	1,853,369	13,528	1,866,897
Capital injected by equity holders												
– Issuance of A shares	42	400,000	–	1,668,697	–	–	–	–	–	2,068,697	–	2,068,697
– Capital injected by subsidiaries' non-controlling equity holders		–	–	–	–	–	–	–	–	–	18,139	18,139
Appropriation to general reserve	44	–	–	–	–	3,753	–	–	(3,753)	–	–	–
Dividends to non-controlling interests		–	–	–	–	–	–	–	–	–	(9,000)	(9,000)
At 30 June 2018 (Unaudited)		7,646,385	5,000,000	8,753,213	2,698,328	6,919,487	(133,770)	89,376	16,711,627	47,684,646	267,778	47,952,424

The accompanying notes 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

(In RMB thousands, unless otherwise stated)

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Profit before income tax	**3,064,815**	2,239,059
Adjustments for:		
Interest expenses on bonds in issue, short-term financing instruments payable, borrowings and lease liabilities	**1,415,039**	1,448,803
Dividend income and interest income from financial assets at fair value through other comprehensive income	**(602,639)**	(590,684)
Net gains from disposal of financial assets at fair value through other comprehensive income	**(41,489)**	(17,107)
Interest income and net gains from disposal of financial assets at amortized costs	**(1,235)**	(15,690)
Net gains/losses attributable to other interest holders of consolidated structured entities	**374,980**	154,083
Net gains from disposal of investments in associates and joint ventures	**–**	(207)
Share of profits/losses from associates and joint ventures	**(1,772)**	(1,256)
Net gains on disposal of property, plant, equipment and other assets	**(133)**	(122)
Revaluation gains/losses on financial instruments at fair value through profit or loss	**(400,253)**	(416,655)
Net foreign exchange losses	**(33)**	28,829
Depreciation and amortization	**268,601**	125,811
Credit impairment losses	**(99,904)**	256,297
	3,975,977	3,211,161
Net changes in operating assets		
Margin accounts	**(1,795,657)**	10,481,434
Financial assets at fair value through profit or loss	**(14,014,866)**	(8,948,782)
Cash held on behalf of clients	**(17,320,605)**	(2,010,768)
Financial assets held under resale agreements	**(4,947,511)**	(119,153)
Other operating assets	**(2,251,344)**	(491,700)
	(40,329,983)	(1,088,969)
Net changes in operating liabilities		
Accounts payable to brokerage clients	**17,838,635**	1,891,873
Financial liabilities at fair value through profit or loss	**(896,651)**	817,884
Financial assets sold under repurchase agreements	**14,993,123**	6,243,642
Placements from banks and other financial institutions	**3,900,000**	(5,000,000)
Other operating liabilities	**1,568,876**	526,418
	37,403,983	4,479,817

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2019

(In RMB thousands, unless otherwise stated)

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Net cash inflow from operating activities before tax	**1,049,977**	6,602,009
Income tax paid	**(507,840)**	(466,541)
Net cash inflow from operating activities	**542,137**	6,135,468
Cash flows from investing activities		
Net cash flow from purchase or disposal of financial assets at fair value through other comprehensive income	**(3,182,462)**	(3,302,333)
Dividend income and interest income received from financial assets at fair value through other comprehensive income	**516,302**	465,913
Cash paid for purchase of property, plant and equipment, intangible assets and other assets	**(71,222)**	(76,594)
Net cash flow from purchase or disposal of financial assets at amortized costs	**186,305**	(127,458)
Net cash flow from investments in associates	**28,207**	–
Other cash flows from investing activities	**60,864**	41,690
Net cash outflow from investing activities	**(2,462,006)**	(2,998,782)
Cash flows from financing activities		
Cash inflows from public offering	**–**	2,168,000
Cash inflows from capital injected by non-controlling interests	**8,350**	18,175
Cash inflows from borrowing activities	**23,403,883**	11,287,797
Cash inflows from issuing bonds	**38,007,736**	41,906,772
Cash outflows from distribution to other equity instrument holders	**(294,000)**	(294,000)
Cash outflows from distribution to subsidiaries' non- controlling equity holders	**(2,000)**	–
Repayments of debts	**(49,960,199)**	(51,019,042)
Repayments of interest on debts	**(1,378,986)**	(1,293,394)
Other cash outflows from financing activities	**(308,859)**	(193,170)
Net cash inflow from financing activities	**9,475,925**	2,581,138
Net change in cash and cash equivalents	**7,556,056**	5,717,824
Cash and cash equivalents at the beginning of the period	**16,841,813**	11,183,962
Effect of exchange rate changes on cash and cash equivalents	**11,886**	18,662
Cash and cash equivalents at the end of the period *(Note 45)*	**24,409,755**	16,920,448

The accompanying notes 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

(In RMB thousands, unless otherwise stated)

1 GENERAL INFORMATION

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

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

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

The Company completed its initial public offering of domestic listed shares (“A shares”) on the Shanghai Stock Exchange on 20 June 2018. The Company issued a total of 400,000,000 shares with a nominal value of RMB1 per share. After this issuance, the registered capital of the Company increased to RMB7,646,385,238.00. The Company completed the industrial and commercial registration for these changes on 18 February 2019.

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

2 BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”, as well as with all applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The interim condensed consolidated financial statements should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2018, which have been audited.

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The unaudited interim condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value. Except for those described below, the accounting policies used in preparing the interim condensed consolidated financial statements are the same as those adopted in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018.

3.1 Amendments to the accounting standards effective in 2019 and adopted by the Group

In the current interim period, the Group has adopted the following International Financial Reporting Standards ("IFRSs") and amendments issued by the International Accounting Standards Board ("IASB"), that are mandatorily effective for the current interim period. Descriptions of these standards and amendments were disclosed in the Group's annual consolidated financial statements for the year ended 31 December 2018.

(1)	IFRIC 23	Uncertainty over Income Tax Treatments
(2)	IFRS 16	Leases
(3)	Amendments to IFRS3, IFRS 11, IAS 12 and IAS 23	The Annual Improvements to IFRSs 2015–2017 Cycle
(4)	Amendments to IFRS 9	Prepayment Features with Negative Compensation
(5)	Amendments to IAS 19	Employee Benefits Regarding Plan Amendment, Curtailment or Settlement
(6)	Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures

The new accounting standard IFRS 16 Leases and its impact is disclosed in Note 3.3 Changes in principal accounting policies. The adoption of the other standards and amendments does not have a significant impact on the operating results, comprehensive income, or financial position of the Group.

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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

The Group has not adopted the following new and amended standards that have been issued but are not yet effective.

			Effective for annual periods beginning on or after
(1)	IFRS 17	Insurance Contracts	1 January 2022
(2)	Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/ removed. Early application of the amendments continues to be permitted.
(3)	Amendments to IAS 1 and IAS 8	The Definition of Material	1 January 2020
(4)	Amendments to IFRS 3	The Definition of A Business	1 January 2020

Descriptions of these standards and amendments were disclosed in the Group's annual consolidated financial statements for the year ended 31 December 2018. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

3.3 Changes in principal accounting policies

In January 2016 the International Accounting Standards Board (IASB) issued IFRS 16, 'Leases', which addresses the definition of a lease, recognition and measurement of leases. IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts, unless the underlying asset is of low value or of short lease term, in the statement of financial position. The impact of the Group's adoption of IFRS 16 'Leases' as a lessee since 1 January 2019 has been described in Note 3.4. Specific accounting policies which have been significantly impacted by IFRS 16 are described as follows:

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

3.3 Changes in principal accounting policies (Continued)

Leases

(1) Initial measurement of the right-of-use asset and lease liability

Initial measurement of the right-of-use asset

The right-of-use asset is defined as the right of underlying assets in the lease term for the Group as a lessee. The lease term is defined as the non-cancellable period of the lease for the Group as a lessee.

At the commencement date, a lessee shall measure the right-of-use asset at cost. The cost of the right-of-use asset shall comprise:

(a) the amount of the initial measurement of the lease liability;

(b) any lease payments made at or before the commencement date, less any lease incentives received;

(c) any initial direct costs incurred by the lessee; and

(d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Initial direct costs are defined as incremental costs that would not have been incurred if a lease had not been obtained.

Initial measurement of the lease liability

At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.

The lessee uses as the discount rate the interest rate implicit in the lease – this is the rate of interest that causes the present value of lease payments and the unguaranteed residual value to equal the sum of the fair value of the underlying asset and any initial direct costs of the lessor.

The incremental borrowing rate is defined as the rate of interest that a lessee would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the cost of the right-of-use asset in a similar economic environment.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

3.3 Changes in principal accounting policies (Continued)

Leases (Continued)

(2) Subsequent measurement of the right-of-use asset and lease liability

Subsequent measurement of the right-of-use asset

At the commencement date, the Group as a lessee shall measure the right-of-use asset at cost and apply the depreciation requirements in IAS 16 Property, Plant and Equipment in depreciating the right-of-use asset. If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Subsequent measurement of the lease liability

After the commencement date, the Group shall recognise interest on the lease liability in profit or loss. Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability.

(3) Recognition of short-term leases and leases for which the underlying asset is of low value

Short-term leases are defined as leases with a lease term of less than 12 months from the commencement date. Leases for which the underlying asset is of low value are defined as underlying assets of low value when new. The right-of-use asset and lease liability are not recognized by the Group for short-term leases and leases for which the underlying asset is of low value.

3.4 The impact of changes in principal accounting policies

The Group has adopted IFRS 16 from 1 January 2019, and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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

In applying IFRS 16, the Group adopted the practical expedients permitted by the standard, which uses a single discount rate to a portfolio of leases with reasonably similar characteristics. The weighted average lessee's incremental borrowing rates applied to the lease liabilities on 1 January 2019 ranged from 3.89% to 4.75%. The adoption of the expedients has no significant impact on the Group's consolidated financial statements.

As permitted by the standard, operating leases with a remaining lease term of less than 12 months as at 1 January 2019 were recognized as short-term leases; and no right-of-use assets and lease liabilities were recognized. The adoption of the expedients has no significant impact on the Group's consolidated financial statements.

Operating lease commitments disclosed as at 31 December 2018	1,281,024
(Less): short-term leases recognized on a straight-line basis as expense	58,130
(Less): low-value leases recognized on a straight-line basis as expense	241
(Less): others	58,883
Subtotal	1,163,770
(Less): taxes	56,758
Adjusted operating lease commitments	1,107,012
As at 1 January 2019, the date of initial application, lease liabilities discounted using the lesse's incremental borrowing rates	1,015,112
Of which are:	
Current lease liabilities	288,900
Non-current lease liabilities	726,212
	1,015,112

Right-of use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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

The recognized right-of-use assets relate to the following types of assets:

	30 June 2019	1 January 2019
Properties and buildings	718,322	791,437
Others	238,767	257,053
Total right-of-use assets	957,089	1,048,490

3.5 Significant accounting judgements and estimates

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainties were the same as those that applied to the Group's consolidated financial statements for the year ended 31 December 2018.

4 TAXATION

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

(1) Income tax

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

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

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

4 TAXATION (CONTINUED)

(2) Value added tax

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

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

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

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

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

5 OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

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

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

(In RMB thousands, unless otherwise stated)

5 OPERATING SEGMENT INFORMATION (CONTINUED)

	For the six months ended 30 June 2019					
	Investment banking	Wealth management	Trading and institutional client services	Investment management	Others	Total
Segment revenue and other income						
Fee and commission income	1,662,644	1,530,071	388,943	452,475	–	4,034,133
Interest income	–	1,871,387	861,245	14,577	289,594	3,036,803
Net investment gains	–	–	1,203,484	297,779	–	1,501,263
Other income	200	4,419	–	16,958	19,103	40,680
Total revenue and other income	1,662,844	3,405,877	2,453,672	781,789	308,697	8,612,879
Segment expenses	(742,464)	(2,482,127)	(1,897,537)	(267,422)	(160,286)	(5,549,836)
Including: Interest expenses	(4,855)	(906,887)	(1,243,510)	(51,471)	(17,340)	(2,224,063)
Credit impairment losses	(673)	97,166	3,411	–	–	99,904
Operating profit	920,380	923,750	556,135	514,367	148,411	3,063,043
Share of profits and losses of associates	–	–	–	1,513	259	1,772
Profit before income tax	920,380	923,750	556,135	515,880	148,670	3,064,815
Income tax expense						(722,888)
Net profit for the period						2,341,927
Other segment information:						
Depreciation and amortization	69,060	93,065	64,335	28,416	13,725	268,601
Capital expenditure	17,114	27,502	15,919	6,447	4,240	71,222

(In RMB thousands, unless otherwise stated)

5 OPERATING SEGMENT INFORMATION (CONTINUED)

	For the six months ended 30 June 2018					
	Investment banking	Wealth management	Trading and institutional client services	Investment management	Others	Total
Segment revenue and other income						
Fee and commission income	1,519,719	1,230,922	474,203	430,656	–	3,655,500
Interest income *(Note 7(i))*	–	2,265,858	1,027,206	15,142	269,521	3,577,727
Net investment gains *(Note 7(i))*	–	–	718,932	216,398	–	935,330
Other income	(385)	9,562	10,235	7,171	(4,724)	21,859
Total revenue and other income	1,519,334	3,506,342	2,230,576	669,367	264,797	8,190,416
Segment expenses	(716,777)	(3,044,314)	(1,823,225)	(265,623)	(102,674)	(5,952,613)
Including: Interest expenses	(17,510)	(1,295,521)	(1,109,618)	(62,902)	–	(2,485,551)
Credit impairment losses	–	(244,174)	(9,302)	(2,821)	–	(256,297)
Operating profit	802,557	462,028	407,351	403,744	162,123	2,237,803
Share of profits and losses of associates	–	–	–	2,351	(1,095)	1,256
Profit before income tax	802,557	462,028	407,351	406,095	161,028	2,239,059
Income tax expense						(532,669)
Net profit for the period						1,706,390
Other segment information:						
Depreciation and amortisation	32,103	27,424	48,708	12,275	5,301	125,811
Capital expenditure	16,483	15,512	25,718	13,388	5,493	76,594

(In RMB thousands, unless otherwise stated)

6 FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2019	2018
Brokerage services income	**1,866,073**	1,652,845
Investment banking income	**1,662,644**	1,519,719
Asset and fund management income	**452,475**	430,656
Others	**52,941**	52,280
Total	**4,034,133**	3,655,500

7 INTEREST INCOME

	Six months ended 30 June	
	2019	2018
Margin financing and securities lending	**1,011,039**	1,577,828
Bank deposits	**827,537**	784,392
Financial assets at fair value through other comprehensive income *(i)*	**602,639**	590,684
Financial assets held under resale agreements	**595,440**	608,933
Financial assets at amortized costs *(i)*	**148**	15,690
Others	**–**	200
Total	**3,036,803**	3,577,727

(i) To conform with the current period's presentation, the Company's interest income of the period ended 30 June 2018, which was generated from financial assets at fair value through other comprehensive income and financial assets at amortized costs measured under the effective interest rate method, has been reclassified from net investment gains to interest income. The reclassification is reflected in segment report (Note 5), interest income (Note 7) and net investment gains (Note 8).

(In RMB thousands, unless otherwise stated)

8 NET INVESTMENT GAINS

	Six months ended 30 June	
	2019	2018
Net gains from disposal of financial assets at fair value through other comprehensive income	**41,489**	17,107
Net gains from financial assets at fair value through profit or loss	**2,236,447**	103,866
Net gains/(losses) from financial liabilities at fair value through profit or loss	**23,881**	(37,863)
Net (losses)/gains from derivatives	**(426,661)**	1,006,096
Net gains from disposal of financial assets at amortized costs	**1,087**	–
Net losses attributable to other interest holders of consolidated structured entities	**(374,980)**	(154,083)
Gains on disposal of an associated company	**–**	207
Total	**1,501,263**	935,330

9 OTHER INCOME

	Six months ended 30 June	
	2019	2018
Government grants	**27,703**	6,998
Rental income	**7,414**	7,780
Gains on disposal of property, plant and equipment	**133**	122
Net gains/(losses) on foreign exchange	**33**	(28,829)
Others	**5,397**	35,788
Total	**40,680**	21,859

(In RMB thousands, unless otherwise stated)

10 EXPENSES

	Six months ended 30 June	
	2019	2018
Fee and commission expenses:		
Brokerage expenses	**367,108**	318,282
Investment banking expenses	**41,428**	98,979
Others	**64,364**	18,080
Total	**472,900**	435,341
Interest expenses:		
Bonds in issue and short-term financing instruments payable	**1,379,088**	1,417,294
Financial assets sold under repurchase agreements	**530,905**	583,740
Placements from banks and other financial institutions	**166,490**	320,822
Accounts payable to brokerage clients	**83,080**	81,468
Lease liabilities	**18,538**	
Borrowings	**17,413**	31,509
Others	**28,549**	50,718
Total	**2,224,063**	2,485,551
Staff costs (including directors' and supervisors' remuneration):		
Salaries, bonuses and allowances	**1,802,894**	1,609,365
Staff benefits	**193,123**	195,117
Contributions to defined contribution schemes *(i)*	**148,630**	148,883
Total	**2,144,647**	1,953,365

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

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

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

(In RMB thousands, unless otherwise stated)

10 EXPENSES (CONTINUED)

Other operating expenses and costs:

	Six months ended 30 June	
	2019	2018
Depreciation and amortization expenses	**268,601**	125,811
Business travel expenses	**77,666**	80,253
Electronic equipment operating expenses	**52,898**	71,461
Office operating expenses	**47,368**	48,777
Leasing expenses	**47,219**	176,479
Business entertainment expenses	**45,099**	45,243
Membership fees of exchanges	**36,305**	33,452
Postal and communication expenses	**31,944**	45,403
Securities investor protection fund	**26,403**	23,347
Vehicle operating expenses	**24,648**	26,704
Auditors' remuneration	**3,708**	2,411
Others	**102,921**	100,048
Total	**764,780**	779,389

11 CREDIT IMPAIRMENT LOSSES

	Six months ended 30 June	
	2019	2018
Financial assets at fair value through other comprehensive income	**6,721**	2,821
Financial assets at amortized costs	**(4,984)**	265
Financial assets held under resale agreements	**(44,843)**	(1,636)
Margin financing	**(57,471)**	252,026
Others	**673**	2,821
(Reversal)/charge	**(99,904)**	256,297

(In RMB thousands, unless otherwise stated)

12 INCOME TAX EXPENSE

(1) Income tax

	Six months ended 30 June	
	2019	2018
Current income tax		
– Mainland China	**875,938**	593,994
– Hong Kong	**1,935**	15,439
Subtotal	**877,873**	609,433
Deferred income tax	**(154,985)**	(76,764)
Total	**722,888**	532,669

(2) Reconciliation between income tax and accounting profit

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

	Six months ended 30 June	
	2019	2018
Profit before income tax	**3,064,815**	2,239,059
Income tax at the PRC statutory income tax rate	**766,204**	559,765
Effects of different applicable rates of tax prevailing in various jurisdictions	**(5,628)**	(2,615)
Non-deductible expenses	**6,159**	6,462
Non-taxable income	**(23,238)**	(33,498)
Others	**(20,609)**	2,555
Income tax expenses at the Group's effective income tax rate	**722,888**	532,669

13 DIVIDENDS

	Six months ended 30 June	
	2019	2018
Dividends on ordinary shares proposed but not paid	**1,376,349**	–

A cash dividend of RMB1.80 (tax inclusive) per 10 ordinary shares related to the year of 2018 totalling RMB1,376 million (tax inclusive) based on 7,646,385,238 shares was approved at the annual general meeting held on 25 June 2019. The above dividend was recognized as dividends payable as at 30 June 2019 and was paid on 9 August 2019.

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

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

	Six months ended 30 June	
	2019	2018
Earnings:		
Profit attributable to equity holders of the Company	**2,329,515**	1,692,862
Less: Profit attributable to other equity instrument holders of the Company *(i)*	**–**	–
Profit attributable to ordinary equity holders of the Company	**2,329,515**	1,692,862
Shares:		
Weighted average number of ordinary shares in issue *(thousand) (Note 42)*	**7,646,385**	7,268,485
Basic and diluted earnings per share *(in RMB yuan)*	**0.30**	0.23

There were no dilutive shares during the six months ended 30 June 2019 (six months ended 30 June 2018: None).

(i) The Company issued two batches of perpetual subordinated bonds during the year ended 31 December 2015, under the terms and conditions as detailed in Note 43 Other Equity Instruments.

For the purpose of calculating basic earnings per ordinary share, profit attributable to other equity holders was deducted from the profit attributable to ordinary equity holders of the Company. No profit attributable to other equity instrument holders of the Company were declared and distributed for the six months ended 30 June 2019 and 30 June 2018.

(In RMB thousands, unless otherwise stated)

15 PROPERTY, PLANT AND EQUIPMENT

	Properties and buildings	Electronic devices	Transportation vehicles	Communication equipment	Office equipment	Security equipment	Others	Total
Cost								
1 January 2019	431,472	609,670	37,173	7,670	80,046	9,199	38,548	1,213,778
Increases	–	35,852	–	111	587	132	725	37,407
Decreases	(4)	(58,242)	(373)	(753)	(2,121)	(527)	(1,073)	(63,093)
30 June 2019	431,468	587,280	36,800	7,028	78,512	8,804	38,200	1,188,092
Accumulated depreciation								
1 January 2019	(122,179)	(491,714)	(33,116)	(6,218)	(70,140)	(7,194)	(31,841)	(762,402)
Increases	(5,856)	(39,039)	(818)	(248)	(3,186)	(293)	(1,032)	(50,472)
Decreases	2	58,119	362	730	2,125	511	1,058	62,907
30 June 2019	(128,033)	(472,634)	(33,572)	(5,736)	(71,201)	(6,976)	(31,815)	(749,967)
Net carrying amount								
30 June 2019	303,435	114,646	3,228	1,292	7,311	1,828	6,385	438,125
Cost								
1 January 2018	431,472	573,243	37,551	7,326	78,539	9,216	36,647	1,173,994
Increases	–	50,746	563	432	3,072	347	1,913	57,073
Decreases	–	(14,319)	(941)	(88)	(1,565)	(364)	(12)	(17,289)
31 December 2018	431,472	609,670	37,173	7,670	80,046	9,199	38,548	1,213,778
Accumulated depreciation								
1 January 2018	(110,467)	(411,852)	(31,960)	(5,642)	(62,181)	(6,922)	(29,767)	(658,791)
Increases	(11,712)	(93,388)	(2,069)	(662)	(9,493)	(625)	(2,086)	(120,035)
Decreases	–	13,526	913	86	1,534	353	12	16,424
31 December 2018	(122,179)	(491,714)	(33,116)	(6,218)	(70,140)	(7,194)	(31,841)	(762,402)
Net carrying amount								
31 December 2018	309,293	117,956	4,057	1,452	9,906	2,005	6,707	451,376

(In RMB thousands, unless otherwise stated)

16 RIGHT-OF-USE ASSETS

	Properties and buildings	Others	Total
Cost			
31 December 2018			
Change in accounting policy	791,437	257,053	1,048,490
1 January 2019	791,437	257,053	1,048,490
Increases	62,205	471	62,676
Decreases	–	–	–
30 June 2019	853,642	257,524	1,111,166
Accumulated depreciation			
31 December 2018			
Change in accounting policy	–	–	–
1 January 2019	–	–	–
Increases	(135,320)	(18,757)	(154,077)
Decreases	–	–	–
30 June 2019	(135,320)	(18,757)	(154,077)
Net carrying amount			
30 June 2019	718,322	238,767	957,089
31 December 2018			

(In RMB thousands, unless otherwise stated)

17 INTANGIBLE ASSETS

	Software	Trading seat rights and others	Total
Cost			
1 January 2019	**429,994**	**75,938**	**505,932**
Increases	**27,223**	**–**	**27,223**
Decreases	**(3,140)**	**–**	**(3,140)**
Effect of exchange rate change	**62**	**–**	**62**
30 June 2019	**454,139**	**75,938**	**530,077**
Accumulated amortization			
1 January 2019	**(249,417)**	**(69,600)**	**(319,017)**
Increases	**(31,454)**	**–**	**(31,454)**
Decreases	**2,910**	**–**	**2,910**
Effect of exchange rate change	**(49)**	**–**	**(49)**
30 June 2019	**(278,010)**	**(69,600)**	**(347,610)**
Net carrying amount			
30 June 2019	**176,129**	**6,338**	**182,467**
Cost			
1 January 2018	354,791	75,918	430,709
Increases	74,770	–	74,770
Decreases	(39)	–	(39)
Effect of exchange rate change	472	20	492
31 December 2018	429,994	75,938	505,932
Accumulated amortization			
1 January 2018	(191,217)	(69,600)	(260,817)
Increases	(57,910)	–	(57,910)
Decreases	39	–	39
Effect of exchange rate change	(329)	–	(329)
31 December 2018	(249,417)	(69,600)	(319,017)
Net carrying amount			
31 December 2018	180,577	6,338	186,915

(In RMB thousands, unless otherwise stated)

18 INVESTMENTS IN SUBSIDIARIES

	30 June 2019	31 December 2018
Investments in subsidiaries	**4,493,123**	4,093,123

General information of the Company's principal subsidiaries are as follows:

Name of subsidiaries	Principal operating place	Place of registration	Registered share capital	Proportion of voting rights 30 June 2019	Proportion of voting rights 31 December 2018	Directly/ Indirectly hold	Principal activities
China Futures Co., Ltd.	Chongqing	Chongqing	RMB700 million	**100%**	100%	Directly	Futures brokerage
China Capital Management Co., Ltd. *(i)*	Beijing	Beijing	RMB1,650 million	**100%**	100%	Directly	Project investment
China Securities (International) Finance Holding Co., Ltd.	Hong Kong	Hong Kong	Not applicable	**100%**	100%	Directly	Shareholding and investment
China Fund Management Co., Ltd.	Beijing	Beijing	RMB300 million	**55%**	55%	Directly	Funds business, asset management
China Securities Investment Co., Ltd. *(i)*	Beijing	Beijing	RMB2,500 million	**100%**	100%	Directly	Investment management, equity investment management，investment consultancy and project management

(i) During the six months ended 30 June 2019, the Company increased capital investment of RMB100 million and RMB300 million in China Capital Management Co., Ltd. and China Securities Investment Co., Ltd. respectively.

(In RMB thousands, unless otherwise stated)

19 INVESTMENTS IN ASSOCIATES

	30 June 2019	31 December 2018
Investments in associates	**163,129**	162,713

The following table illustrates details of investments in associates:

Name	**1 January 2019**	**Addition in capital investments**	**Reduction in capital investments**	**Movements under equity method**	**Other**	**30 June 2019**
Zhongguancun Equity Trading Service Group Co., Ltd.	**47,565**	**–**	**–**	**(1,093)**	**–**	**46,472**
Jiangsu DDBS Environment Remediation Co., LTD	**44,075**	**–**	**–**	**2,242**	**–**	**46,317**
Beijing Tinavi Medical Technology Co., Ltd.	**23,723**	**–**	**–**	**–**	**–**	**23,723**
Guangdong South Lead TV & Film Co., Ltd.	**30,000**	**–**	**–**	**–**	**–**	**30,000**
Shenzhen MALONG TECHNOLOGIES Co., Ltd.	**15,000**	**–**	**–**	**–**	**–**	**15,000**
Beijing Haifu Capital Management Co., Ltd.	**1,250**	**–**	**–**	**–**	**–**	**1,250**
Xinjin Global Industrial Fund LP	**1,100**	**–**	**–**	**(729)**	**(4)**	**367**
Total	**162,713**	**–**	**–**	**420**	**(4)**	**163,129**

(In RMB thousands, unless otherwise stated)

19 INVESTMENT IN ASSOCIATES (CONTINUED)

Name	1 January 2018	Addition in capital investments	Reduction in capital investments	Movements under equity method	31 December 2018
Zhongguancun Equity Trading Service Group Co., Ltd.	48,424	–	–	(859)	47,565
Jiangsu DDBS Environment Remediation Co., LTD	42,066	–	–	2,009	44,075
Beijing Tinavi Medical Technology Co., Ltd.	25,000	–	(1,277)	–	23,723
Guangdong South Lead TV & Film Co., Ltd.	30,000	–	–	–	30,000
CITIC Agri Fund Management Co., Ltd.	2,070	–	(2,070)	–	–
CITIC City Development Equity Investment Fund Management (Shenzhen) Co., Ltd.	38,482	–	(46,337)	7,855	–
CITIC Engineering Equity Investment Fund Management (Wuhan) Co., Ltd.	5,250	–	(5,250)	–	–
Shenzhen MALONG TECHNOLOGIES Co., Ltd.	15,000	–	–	–	15,000
Beijing Haifu Capital Management Co., Ltd.	–	1,250	–	–	1,250
Xinjin Global Industrial Fund LP	–	1,100	–	–	1,100
Total	206,292	2,350	(54,934)	9,005	162,713

As at 30 June 2019 and 31 December 2018, there were no accumulated allowance for impairment as there were no impairment evidence on the Group's investments in associates.

(In RMB thousands, unless otherwise stated)

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2019	31 December 2018
Non-current		
Equity instruments (i)	**3,211,494**	3,003,549
Analyzed into:		
Unlisted	**3,211,494**	3,003,549
Current		
Debt instruments	**31,301,200**	27,911,317
Equity instruments	**60,385**	54,263
Subtotal	**31,361,585**	27,965,580
Analyzed into:		
Listed in Hong Kong	**276,286**	54,263
Listed outside Hong Kong	**30,975,244**	27,861,137
Unlisted	**110,055**	50,180
Subtotal	**31,361,585**	27,965,580
Total	**34,573,079**	30,969,129

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

As at 30 June 2019, based on investment account report provided by CSF, the balance of cost and fair value of the Company's specific investment were RMB3,075.00 million and RMB3,211.49 million, respectively. As at 31 December 2018, the balance of cost and fair value of the Company's specific investment were RMB3,075.00 million and RMB3,003.55 million, respectively.

(ii) As at 30 June 2019, the fair value of securities classified as financial assets at fair value through other comprehensive income of the Group which were pledged as collateral for repurchase agreements (Note 34), placements from CSF and securities borrowing business were RMB24,820.90 million (31 December 2018: RMB20,429.96 million).

(In RMB thousands, unless otherwise stated)

21 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	30 June 2019	31 December 2018
Non-current		
Analyzed by collateral:		
Stock	**2,969,379**	3,473,093
Allowance for credit impairment losses	**(4,585)**	(24,076)
Subtotal	**2,964,794**	3,449,017
Current		
Analyzed by collateral:		
Stock	**13,217,778**	10,462,732
Debts	**12,565,081**	9,841,933
Others	**101,481**	139,075
	25,884,340	20,443,740
Allowance for credit impairment losses	**(70,170)**	(95,520)
Subtotal	**25,814,170**	20,348,220
Total	**28,778,964**	23,797,237

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

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

	30 June 2019	31 December 2018
Collateral received	**62,444,657**	40,733,860
Collateral allowed to be re-pledged	**153,399**	1,056,752
Including: Collateral re-pledged	**52,434**	887,603

(In RMB thousands, unless otherwise stated)

22 REFUNDABLE DEPOSITS

	30 June 2019	31 December 2018
Performance bonds	**1,992,223**	1,330,872
Trading deposits	**374,012**	520,452
Credit deposits	**32,077**	29,230
Total	**2,398,312**	1,880,554

23 DEFERRED TAX ASSETS AND LIABILITIES

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

Deferred tax assets	**Salaries, bonuses, and allowances payable**	**Fair value changes of financial instruments**	**Allowance for credit impairment losses**	**Others**	**Total**
1 January 2019	**529,303**	**84,035**	**335,650**	**25,518**	**974,506**
Credited/(debited) to the statement of profit or loss	**172,079**	**(32,384)**	**(23,767)**	**(511)**	**115,417**
Debited to other comprehensive income	**–**	**(876)**	**–**	**–**	**(876)**
30 June 2019	**701,382**	**50,775**	**311,883**	**25,007**	**1,089,047**

Deferred tax assets	Salaries, bonuses, and allowances payable	Fair value changes of financial instruments	Allowance for credit impairment losses	Others	Total
1 January 2018	631,255	88,000	50,077	8,130	777,462
Credited/(debited) to the statement of profit or loss	(101,952)	74,454	284,950	17,388	274,840
Credited/(debited) to other comprehensive income	–	(78,419)	623	–	(77,796)
31 December 2018	529,303	84,035	335,650	25,518	974,506

(In RMB thousands, unless otherwise stated)

23 DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

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

Deferred tax liabilities	**Fair value changes of financial instruments**	**Others**	**Total**
1 January 2019	**331,291**	**11,351**	**342,642**
Credited to the statement of profit or loss	**(31,713)**	**(7,855)**	**(39,568)**
Debited to other comprehensive income	**71,664**	**–**	**71,664**
30 June 2019	**371,242**	**3,496**	**374,738**

Deferred tax liabilities	Fair value changes of financial instruments	Others	Total
1 January 2018	23,628	1,859	25,487
Debited to the statement of profit or loss	306,468	9,492	315,960
Debited to other comprehensive income	1,195	–	1,195
31 December 2018	331,291	11,351	342,642

24 OTHER NON-CURRENT ASSETS

As at 30 June 2019 and 31 December 2018, other non-current assets of the Group represented long-term deferred expenses incurred on leasehold improvements of property, plant and equipment.

(In RMB thousands, unless otherwise stated)

25 MARGIN ACCOUNTS

	30 June 2019	31 December 2018
Margin accounts		
– Individuals	**25,678,144**	23,181,956
– Institutions	**2,373,513**	3,165,251
	28,051,657	26,347,207
Allowance for credit impairment losses	**(1,141,932)**	(1,199,124)
Total	**26,909,725**	25,148,083

Margin accounts are funds that the Group provided to clients in margin financing business. As at 30 June 2019 and 31 December 2018, no margin accounts were pledged for repurchase agreements (Note 34).

As at 30 June 2019, the Group received collateral with fair value amounted to RMB88,419.62 million (31 December 2018: RMB71,398.60 million), in connection with its margin financing business.

26 ACCOUNTS RECEIVABLE

	30 June 2019	31 December 2018
Clearing funds receivable	**162,979**	356,704
Assets management fee receivable	**96,118**	89,704
Clearing settlement fund and refundable deposits advanced on behalf of sponsored structured entities	**24,298**	24,106
Others	**2,321,962**	971,701
	2,605,357	1,442,215
Allowance for credit impairment losses	**(2,227)**	(2,177)
Total	**2,603,130**	1,440,038

(In RMB thousands, unless otherwise stated)

27 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2019	31 December 2018
Current		
Financial assets at fair value through profit or loss (Mandatory)		
Debt instruments	**40,972,200**	30,800,069
Equity investments	**4,059,903**	2,381,992
Fund investments	**4,746,711**	5,016,279
Others	**19,734,869**	16,149,404
Subtotal	**69,513,683**	54,347,744
Analyzed into:		
Listed in Hong Kong	**385,279**	1,183,452
Listed outside Hong Kong	**50,869,608**	37,985,448
Unlisted	**18,258,796**	15,178,844
Subtotal	**69,513,683**	54,347,744
Non-current		
Financial assets at fair value through profit or loss (Mandatory)		
Equity investments	**2,431,748**	1,954,384
Others	**671,550**	1,023,942
Subtotal	**3,103,298**	2,978,326
Analyzed into:		
Listed outside Hong Kong	**482,068**	190,240
Unlisted	**2,621,230**	2,788,086
Subtotal	**3,103,298**	2,978,326
Total	**72,616,981**	57,326,070

As at 30 June 2019, the fair value of financial assets pledged as collateral for repurchase agreements (Note 34), placements from CSF, future business and securities borrowing business by the Group totaled RMB27,604.86 million (31 December 2018: RMB22,019.04 million).

As at 30 June 2019, financial assets held by the Group included securities lent amounted to RMB110.13 million (31 December 2018: RMB45.02 million).

As at 30 June 2019, the fair value of financial assets at fair value through profit or loss (mandatory) in restricted period held by the Group was RMB462.47 million (31 December 2018: RMB18.09 million).

(In RMB thousands, unless otherwise stated)

28 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 30 June 2019		
	Nominal value	**Fair value**	
		Assets	**Liabilities**
Interest rate derivatives	**103,416,818**	**25,282**	**27,531**
Equity derivatives	**82,621,926**	**897,223**	**392,925**
Credit derivatives	**100,000**	**98**	**413**
Others	**3,029,205**	**21,381**	**23,385**
Total	**189,167,949**	**943,984**	**444,254**

	As at 31 December 2018		
	Nominal value	Fair value	
		Assets	Liabilities
Interest rate derivatives	89,898,955	10,734	10,158
Equity derivatives	89,161,627	1,224,396	159,452
Credit derivatives	60,000	–	347
Others	1,306,726	4,454	7,504
Total	180,427,308	1,239,584	177,461

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in futures were settled daily and the corresponding payments or receipts were included in "cash and bank balances". Accordingly, the amount of mark-to-market gains or losses of unexpired futures contracts included derivative financial instruments above was nil. As at 30 June 2019,the fair value of the Group's unexpired futures contracts was RMB16.87 million (31 December 2018: RMB2.55 million).

29 CASH HELD ON BEHALF OF CLIENTS

The Group maintains segregated deposit accounts with banks and authorized institutions to hold cash on behalf of customers arising from its normal course of business. The Group has recorded the related amounts as cash held on behalf of clients and the corresponding liabilities as accounts payable to brokerage clients (Note 32). In Mainland China, the use of cash held on behalf of clients for securities trading and settlement is restricted and governed by relevant third-party custodian regulations issued by the CSRC. In Hong Kong, the "Securities and Futures (Client Money) Rules" under the Securities and Futures Ordinance impose similar restrictions.

(In RMB thousands, unless otherwise stated)

30 CASH AND BANK BALANCES

	30 June 2019	31 December 2018
Cash on hand	**32**	38
Deposits in banks	**24,980,952**	17,055,771
Total	**24,980,984**	17,055,809

As at 30 June 2019, the Group had restricted deposits of RMB554.60 million (31 December 2018: RMB206.78 million).

31 OTHER CURRENT ASSETS

	30 June 2019	31 December 2018
Interest receivable (i)	**87,790**	35,957
Deferred expenses	**16,641**	43,794
Prepaid expenses	**4,508**	9,979
Others	**302,878**	290,417
	411,817	380,147
Allowance for credit impairment losses	**(38,847)**	(38,847)
Total	**372,970**	341,300

(i) As at 30 June 2019 and 31 December 2018, interest income of financial assets accrued under effective interest rate method, which was overdue but not received, was reflected in interest receivables under other current assets. Interest receivables not yet due were included in the carrying amount of the related financial assets.

32 ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

Accounts payable to brokerage clients represent the amounts received from and repayable to clients arising from the ordinary course of the Group's securities brokerage business. For more details, please refer to Cash held on behalf of clients (Note 29).

(In RMB thousands, unless otherwise stated)

33 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2019	31 December 2018
Current		
Financial liabilities at fair value through profit or loss (Held for trading)		
Debt instruments	**328,625**	1,252,581

34 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	30 June 2019	31 December 2018
Current		
Analyzed by collateral:		
Debt securities *(Notes 20 and 27)*	**35,478,233**	25,247,836
Gold	**4,638,854**	833,097
Others *(Notes 27)*	**7,430,928**	6,450,942
Total	**47,548,015**	32,531,875

35 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2019	31 December 2018
Placements from banks	**4,901,270**	–
Placements from CSF *(Notes 20 and 27)*	**3,037,505**	4,048,839
Total	**7,938,775**	4,048,839

36 TAXES PAYABLE

	30 June 2019	31 December 2018
Income tax	**480,852**	110,820
Value added tax	**102,439**	134,993
Others	**68,469**	57,168
Total	**651,760**	302,981

(In RMB thousands, unless otherwise stated)

37 SHORT-TERM BORROWINGS

	30 June 2019	31 December 2018
Analyzed by nature:		
Credit borrowings	**972,537**	1,118,475
Total	**972,537**	1,118,475

As at 30 June 2019 and 31 December 2018, the Group had variable-rate borrowings which carried interest at HIBOR or LIBOR plus a margin.

38 SHORT-TERM FINANCING INSTRUMENTS PAYABLE

Name	**Issue date**	**Maturity date**	**Coupon rate**	**1 January 2019**	**Increase**	**Decrease**	**30 June 2019**
19 CSC CP001	25/04/2019	24/07/2019	3.00%	–	3,016,520	–	3,016,520
19 CSC CP002	24/05/2019	22/08/2019	2.99%	–	3,009,339	–	3,009,339
19 CSC CP003	14/06/2019	12/09/2019	3.06%	–	3,004,275	–	3,004,275
18 CSC D1	12/02/2018	28/01/2019	5.34%	3,046,921	592	(3,047,513)	–
18 CSC D2	14/05/2018	24/04/2019	4.70%	2,982,426	37,817	(3,020,243)	–
Structured notes (i)				7,724,359	14,631,489	(16,120,400)	6,235,448
Total				13,753,706	23,700,032	(22,188,156)	15,265,582

Name	Issue date	Maturity date	Coupon rate	1 January 2018	Increase	Decrease	31 December 2018
17 CSC D3	22/03/2017	22/03/2018	4.80%	3,112,438	23,277	(3,135,715)	–
17 CSC D4	21/07/2017	21/07/2018	4.74%	3,570,662	86,148	(3,656,810)	–
17 CSC D5	12/09/2017	12/09/2018	4.85%	4,965,232	165,256	(5,130,488)	–
17 CSC D6	20/11/2017	20/11/2018	5.20%	3,926,217	176,519	(4,102,736)	–
18 CSC D1	12/02/2018	28/01/2019	5.34%	–	3,046,921	–	3,046,921
18 CSC D2	14/05/2018	24/04/2019	4.70%	–	2,982,426	–	2,982,426
Structured notes (i)				12,517,218	52,085,115	(56,877,974)	7,724,359
Total				28,091,767	58,565,662	(72,903,723)	13,753,706

As at 30 June 2019 and 31 December 2018, there were no defaults related to any short-term financing instruments payable by the Group.

As at 30 June 2019 and 31 December 2018, the interests of short-term financing instruments payable measured by the effective interest rate method were included in the carrying amount of the related financial assets, which amounted to RMB109.75 million and RMB265.66 million, respectively.

(i) As at 30 June 2019 and 31 December 2018, the Group had issued two types of structured notes. One type accrues interests at a fixed annual rate in the range of 0.40%–4.90% and 3.00%–5.20%, respectively. The other one accrues interests at floating rate linked to certain stock and commodity indexes.

(In RMB thousands, unless otherwise stated)

39 OTHER CURRENT LIABILITIES

	30 June 2019	31 December 2018
Amounts due to other holders of consolidated structured entities	**8,174,975**	8,100,791
Bonds in issue with maturity within one year (1)	**13,612,300**	7,202,701
Salaries, bonuses and allowances payable	**3,005,897**	2,340,803
Settlement deposits payable	**266,247**	95,908
Accounts payable to underwriting clients	**91,050**	24,667
Futures settlement risk funds payable	**86,154**	81,629
Provision	**53,041**	50,570
Securities investor protection fund payable	**26,442**	24,143
Dividends payable *(Note 13)*	**1,376,349**	294,000
Funds payable to securities holders	**6,090**	6,090
Others (2)	**3,772,782**	2,775,741
Total	**30,471,327**	20,997,043

(1) Bonds in issue with maturity within one year as at 30 June 2019 and 31 December 2018 were as follows:

	30 June 2019	31 December 2018
17 Xintou G1 (i)	**4,000,939**	–
17 Xintou G2 (ii)	**3,014,226**	–
18 Xintou F1 (iii)	**4,038,696**	–
16 Xintou G1 (iv)	**–**	3,056,832
16 Xintou G2 (v)	**1,538,701**	1,516,000
“Zhi Yingbao”-070 (vi)	**–**	1,554,066
“Zhi Yingbao”-078 (vii)	**500,616**	500,678
“Zhi Yingbao”-079 (viii)	**514,384**	503,970
Gushouxin series (ix)	**4,738**	71,155
Total	**13,612,300**	7,202,701

39 OTHER CURRENT LIABILITIES (CONTINUED)

(1) Bonds in issue with maturity within one year as at 30 June 2019 and 31 December 2018 were as follows (Continued):

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

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

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

(iv) In May 2016, the Company publicly issued a 5-year fixed rate corporate bond with a face value of RMB3 billion, which offers the options, at the end of the third year, for the Company to redeem it at face value or increase the coupon rate, or the investors to put back the bond. The bond pays interest annually at 3.14% per annum and is not guaranteed. The corporate bond has been redeemed in May 2019.

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

(vi) In March 2017, the Company issued a 2-year fixed rate structured note, with a face value of RMB1.5 billion. The structured note pays interest annually at 4.60% per annum and is not guaranteed. The principal and interest have been repaid in March 2019.

(vii) In October 2018, the Company issued a 396-day fixed rate structured note, with a face value of RMB0.5 billion. The structured note pays interest quarterly at 4.50% per year and is not guaranteed.

(viii) In October 2018, the Company issued a 397-days fixed rate structured note, with a face value of RMB0.5 billion. The structured note pays the principal and interest at maturity at 4.20% per year and is not guaranteed.

(ix) As at 30 June 2019，the Company had two types of structured notes named "Gushouxin series" amounted to RMB4.74 million (31 December 2018: RMB71.16 million) with remaining tenure of less than one year. One type accrues interests at a fixed annual rate in the range of 3.20%–4.60% (31 December 2018: 3.70%–5.00%), while the other type accrues interests at floating rate linked to one or more stock indexes. The principal and interest of these structured notes are payable at maturity and are not guaranteed.

(2) Interest payables accrued and not yet due for bonds in issue, short-term financing instruments payable and short-term borrowings are included with the principal amounts disclosed in Notes 37, 38, 39(1) and 40, respectively. The movements of such interest payable from 1 January 2019 to 30 June 2019 largely represented cash payments of interest expenses of RMB1,378.99 million and accretion of interest payables of RMB1,406.08 million. Except for the accretion of interest payables, the Group did not have any significant non-cash changes to liabilities arising from financing activities during the six months ended 30 June 2019.

(In RMB thousands, unless otherwise stated)

40 BONDS IN ISSUE

	30 June 2019	31 December 2018
Corporate bonds in issue	**21,595,050**	32,626,527
Subordinated bonds in issue	**19,752,498**	5,023,481
Total	**41,347,548**	37,650,008

(1) As at 30 June 2019 and 31 December 2018, there were no defaults related to any bonds in issue.

(2) The details of bonds in issue

		30 June 2019	31 December 2018
Corporate bonds			
15 Xintou 01	(i)	**1,864,646**	1,826,094
17 Xintou G1	(39(1)(i))	**–**	4,087,902
17 Xintou G2	(39(1)(ii))	**–**	3,086,006
CSCIFN15B2009	(ii)	**1,381,958**	1,377,817
17 Xintou F1	(iii)	**5,154,984**	5,034,840
17 Xintou F2	(iv)	**3,025,406**	2,949,329
18 Xintou F1	(39(1)(iii))	**–**	4,143,789
18 Xintou F2	(v)	**3,992,497**	4,092,222
18 Xintou F3	(vi)	**3,591,302**	3,505,710
18 Xintou F4	(vii)	**2,584,257**	2,522,818
Subtotal		**21,595,050**	32,626,527
Subordinated bonds			
18 Xintou C1	(viii)	**5,133,688**	5,023,481
19 Xintou C1	(ix)	**5,588,464**	–
19 Xintou C2	(x)	**5,024,466**	–
19 Xintou C3	(xi)	**4,005,880**	–
Subtotal		**19,752,498**	5,023,481
Total		**41,347,548**	37,650,008

40 BONDS IN ISSUE (CONTINUED)

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

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

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

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

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

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

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

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

(viii) In November 2018, the Company privately issued a 3-year fixed rate subordinated bond with a face value of RMB5 billion. The bond pays interest annually at 4.38% per annum and is not guaranteed.

(ix) In January 2019, the Company privately issued a 3-year fixed rate subordinated bond with a face value of RMB5.5 billion. The bond pays interest annually at 4.00% per annum and is not guaranteed.

(x) In April 2019, the Company privately issued a 3-year fixed rate subordinated bond with a face value of RMB5 billion. The bond pays interest annually at 4.20% per annum and is not guaranteed.

(xi) In May 2019, the Company privately issued a 3-year fixed rate subordinated bond with a face value of RMB4 billion. The bond pays interest annually at 4.12% per annum and is not guaranteed.

41 LEASE LIABILITIES

	30 June 2019	31 December 2018
Non-current		
Lease liabilities	**614,029**	
Current		
Lease liabilities	**303,022**	
Total	**917,051**	

As at 30 June 2019, the Group's leases committed but not yet commenced were RMB49.13 million.

42 SHARE CAPITAL

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

	30 June 2019	31 December 2018
Issued and fully paid ordinary shares of RMB1 each *(in thousands)*		
– A shares	**6,385,361**	6,385,361
– H shares	**1,261,024**	1,261,024
Total	**7,646,385**	7,646,385

The Company completed its initial public offering of A shares on the Shanghai Stock Exchange on 20 June 2018, whereby the Company issued 400,000,000 A shares with a face value of RMB1 per share for a total consideration of RMB2,068,697,180.29, resulting in a capital reserve of RMB1,668,697,180.29.

43 OTHER EQUITY INSTRUMENTS

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

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

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

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

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

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

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

44 RESERVES

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

(1) Capital reserve

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

(2) Surplus reserves

(i) Statutory surplus reserve

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

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

44 RESERVES (CONTINUED)

(2) Surplus reserves

(ii) Discretionary surplus reserve

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

(3) General reserve

Pursuant to the requirements of regulatory authorities, including the Ministry of Finance and the CSRC, the Company is required to appropriate 10% of its profit for the year for the general risk reserve and 10% for the transaction risk reserve. These reserves may be used to offset accumulated losses of the Company but shall not be declared as dividends or converted into share capital.

In addition, the Group as the mutual fund manager shall accrue general risk reserve at a proportion of no less than 10% of management fee income. The accruement could be suspended on condition that the ending balance of risk reserve reached 1% of the aggregate of net asset values of the mutual funds, which are under management, at the end of last quarter.

The Group as the mutual fund custodian shall accrue general risk reserve at a proportion of no less than 2.5% of custodian fee income. The accruement could be suspended on condition that the ending balance of risk reserve reached 0.25% of the aggregate of net asset values of the mutual funds, which are under custody, at the end of last quarter.

Regulatory reserves represent reserves that are established by subsidiaries and branches in certain countries or jurisdictions outside Mainland China in accordance with the regulatory requirements in their respective territories are also included herein.

(4) Investment revaluation reserve

The investment revaluation reserve represents the fair value changes of financial assets at fair value through other comprehensive income.

(5) Foreign currency translation reserve

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

(6) Distributable profits

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

(In RMB thousands, unless otherwise stated)

45 CASH AND CASH EQUIVALENTS

	30 June 2019	30 June 2018
Cash and bank balances	**24,980,984**	16,970,560
Less: Restricted deposits *(Note 30)*	**(554,596)**	(50,112)
Interest receivable	**(16,633)**	–
Cash and cash equivalents	**24,409,755**	16,920,448

46 COMMITMENTS AND CONTINGENT LIABILITIES

(1) Capital commitments

	30 June 2019	31 December 2018
Contracted, but not provided for	**3,737**	14,683

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

(2) Legal proceedings

The Company and its subsidiaries are subject to claims and are parties to legal and regulatory proceedings in their ordinary course of businesses. As at 30 June 2019 and 31 December 2018, management of the Group believes that the Group was not involved in any material legal, or arbitration proceedings that if adversely determined, would have material impact on its financial position or results of operations of the Group.

(In RMB thousands, unless otherwise stated)

47 RELATED PARTY DISCLOSURES

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

As at 30 June 2019, Beijing State-Owned Capital Operation and Management Center owned 35.11% of the equity interest and voting rights of the Company (31 December 2018: 35.11%).

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

The transactions between Beijing State-owned Capital Operation and Management Center and the Group are in the ordinary course of business under normal commercial terms and conditions. Corresponding transactions and balances with this institution were as follows:

	Six months ended 30 June	
	2019	2018
Fee and commission income	**8,525**	8
Interest expenses	**(10)**	(6)

	30 June 2019	31 December 2018
Financial assets at fair value through other comprehensive income	**90,226**	–
Accounts payable to brokerage clients	**7,179**	5,247

(2) Central Huijin and companies under Central Huijin

As at 30 June 2019, Central Huijin Investment Limited ("Central Huijin") owned 31.21% of the equity interest and voting rights of the Company (31 December 2018: 31.21%).

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

(In RMB thousands, unless otherwise stated)

47 RELATED PARTY DISCLOSURES (CONTINUED)

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

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

	Six months ended 30 June	
	2019	2018
Fee and commission income	**49,401**	20,003
Interest income	**118,041**	108,746
Fee and commission expenses	**(38,476)**	(13,897)
Interest expenses	**(64,918)**	(87,696)

	30 June 2019	31 December 2018
Assets		
Financial assets at fair value through other comprehensive income	**41,226**	484,786
Financial assets at fair value through profit or loss	**3,311,749**	858,624
Financial assets held under resale agreements	**505,579**	370,663
Derivative financial assets	**78,860**	81,332
Cash held on behalf of clients	**10,329,341**	5,619,507
Cash and bank balances	**3,909,339**	1,591,835
Accounts receivable	**32,529**	19,159
Right-of-use assets	**2,779**	
Liabilities		
Accounts payable to brokerage clients	**8,264**	1,630
Derivative financial liabilities	**8,694**	9,661
Financial assets sold under repurchase agreements	**1,994,824**	898,307
Other current liabilities	**3,822**	–
Accounts payable	**122,180**	153,894
Lease liabilities	**2,805**	

(In RMB thousands, unless otherwise stated)

47 RELATED PARTY DISCLOSURES (CONTINUED)

(3) Government related entities

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

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

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

(4) Other major shareholders and its related parties

	Six months ended 30 June	
	2019	2018
Fee and commission income	**19,134**	14,498
Interest income	**29,549**	28,106
Fee and commission expense	**(17,542)**	(12,859)
Interest expenses	**(30,153)**	(14,658)

(In RMB thousands, unless otherwise stated)

47 RELATED PARTY DISCLOSURES (CONTINUED)

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

	30 June 2019	31 December 2018
Assets		
Financial assets at fair value through other comprehensive income	**516,500**	544,144
Financial assets at fair value through profit or loss	**1,690,142**	57,743
Financial assets held under resale agreement	**–**	103,576
Derivative financial assets	**97,735**	2,618
Cash held on behalf of clients	**1,471,718**	1,195,192
Cash and bank balances	**1,213,925**	780,482
Accounts receivable	**11,226**	11,610
Liabilities		
Accounts payable to brokerage clients	**158,452**	148,181
Derivative financial liabilities	**11,002**	7,427
Financial assets sold under repurchase agreements	**572,640**	–
Short-term borrowings	**880,419**	877,525
Accounts payable	**80,767**	2,009

(5) The Group's associates

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

(6) Key management personnel

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

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

	Six months ended 30 June	
	2019	2018
Salaries, bonuses and allowances	**96,999**	41,672
Staff benefits	**570**	1,386
Contributions to defined contribution schemes	**796**	842
Total	**98,365**	43,900

48 FAIR VALUE AND FAIR VALUE HIERARCHY

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

Fair value hierarchy

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

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

Level 2: where the inputs are observable for the assets and liabilities, either directly or indirectly, other than quoted prices in Level 1.

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

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

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

For certain unlisted equity securities (private equity securities), thinly traded equity securities, unlisted asset management plans, certain over-the-counter derivative contracts and trust plans, the management uses counterparty quotations or valuation techniques to determine their fair value. Valuation techniques used include comparable company methods, discounted cash flow models and Blake-Scholes option pricing model. The fair value measurement of these financial instruments may use unobservable inputs that may have significant impact on the valuation results, and therefore, the Group includes them as Level 3 assets and liabilities. The unobservable parameters that may have impacts on the valuation include, among others, weighted average cost of capital, liquidity discount, and price to book ratio. As at 30 June 2019 and 31 December 2018, fair value changes resulting from the changes in the unobservable inputs were not significant. The Group has implemented internal control procedures to monitor and control the Group's exposures to such financial instruments.

(In RMB thousands, unless otherwise stated)

48 FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

(1) Financial instruments recorded at fair value

	30 June 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss (Mandatory)				
– Debt instruments	**7,922,240**	**33,049,960**	**–**	**40,972,200**
– Equity investments	**3,804,866**	**383,754**	**2,303,031**	**6,491,651**
– Fund investments	**2,320,125**	**2,426,586**	**–**	**4,746,711**
– Others	**–**	**18,520,955**	**1,885,464**	**20,406,419**
Subtotal	**14,047,231**	**54,381,255**	**4,188,495**	**72,616,981**
Derivative financial assets	**21,716**	**595,238**	**327,030**	**943,984**
Financial assets at fair value through other comprehensive income				
– Debt instruments	**771,767**	**30,529,433**	**–**	**31,301,200**
– Equity instruments	**60,384**	**3,211,495**	**–**	**3,271,879**
Subtotal	**832,151**	**33,740,928**	**–**	**34,573,079**
Total assets	**14,901,098**	**88,717,421**	**4,515,525**	**108,134,044**
Financial liabilities at fair value through profit or loss	**–**	**328,625**	**–**	**328,625**
Derivative financial liabilities	**25,102**	**239,509**	**179,643**	**444,254**
Total liabilities	**25,102**	**568,134**	**179,643**	**772,879**

(In RMB thousands, unless otherwise stated)

48 FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

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

	31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss (Mandatory)				
– Debt instruments	6,176,097	24,523,712	100,260	30,800,069
– Equity investments	2,254,471	314,217	1,767,688	4,336,376
– Fund investments	2,981,307	2,034,972	–	5,016,279
– Others	–	15,193,498	1,979,848	17,173,346
Subtotal	11,411,875	42,066,399	3,847,796	57,326,070
Derivative financial assets	4,454	373,976	861,154	1,239,584
Financial assets at fair value through other comprehensive income				
– Debt instruments	290,849	27,620,468	–	27,911,317
– Equity instruments	54,263	3,003,549	–	3,057,812
Subtotal	345,112	30,624,017	–	30,969,129
Total assets	11,761,441	73,064,392	4,708,950	89,534,783
Financial liabilities at fair value through profit or loss	–	1,252,581	–	1,252,581
Derivative financial liabilities	7,504	126,258	43,699	177,461
Total liabilities	7,504	1,378,839	43,699	1,430,042

(In RMB thousands, unless otherwise stated)

48 FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

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

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

	Six months ends 30 June 2019		
	Financial assets at FVPL (Mandatory)	**Derivative financial assets**	**Derivative financial liabilities**
1 January 2019	**3,847,796**	**861,154**	**43,699**
Total gains or losses for the period	**205,785**	**(391,778)**	**78,356**
Increases	**1,354,463**	**238,599**	**373,204**
Decreases	**(1,289,585)**	**(380,945)**	**(315,616)**
Transfers to Level 3 from Level 2	**70,036**	**–**	**–**
Transfers to Level 1 from Level 3	**–**	**–**	**–**
30 June 2019	**4,188,495**	**327,030**	**179,643**
Gains for the period included in profit or loss for assets/liabilities held at the end of the period	**205,785**	**(391,778)**	**(78,356)**

	2018			
	Financial assets at FVPL (Mandatory)	Derivative financial assets	Financial liabilities at fair value through profit or loss (Designated)	Derivative financial liabilities
1 January 2018	1,499,428	18,529	11,640	97,664
Total gains or losses for the year	125,629	997,805	19,835	(408,034)
Increases	2,842,252	24,820	–	386,703
Decreases	(564,824)	(180,000)	(31,475)	(32,634)
Transfers to Level 3 from Level 2	5,941	–	–	–
Transfers to Level 1 from Level 3	(60,630)	–	–	–
31 December 2018	3,847,796	861,154	–	43,699
Gains for the year included in profit or loss for assets/liabilities held at the end of the year	125,629	997,805	(19,835)	408,034

(In RMB thousands, unless otherwise stated)

48 FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

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

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

(4) Transfers between Level 1 and Level 2

For the six months ended 30 June 2019, the amount of financial assets at fair value through profit and loss transferred from Level 1 to Level 2 was RMB38.75 million (2018: RMB66.26 million). No financial assets at fair value through other comprehensive income were transferred from Level 1 to Level 2 (2018: RMB10.11 million).

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

The information below summarizes the carrying amounts and fair values of those financial assets and liabilities not measured at fair value in the consolidated statement of financial position. As at 30 June 2019 and 31 December 2018, financial assets and financial liabilities for which the carrying amounts approximate fair value included financial assets held under resale agreements, refundable deposits, margin accounts, accounts receivable, cash held on behalf of clients, cash and bank balances, lease liabilities, accounts payable to brokerage clients, financial assets sold under repurchase agreements, placements from banks and other financial institutions, short-term borrowings and short-term financing instruments payable.

As at 30 June 2019 and 31 December 2018, the carrying amounts and fair value of bonds in issue (including bonds in issue with maturity within one year) are summarized below:

	30 June 2019	31 December 2018
Bonds in issue (including bonds in issue with maturity within one year)		
– Carrying amount *(Notes 39 and 40)*	**54,959,848**	44,852,709
– Fair value	**55,524,508**	45,263,891

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT

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

The Company's risk management and control system is not changed compared to 31 December 2018.

Structure of risk management

The Board

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

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

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

The Operation Management

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

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

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Structure of risk management (Continued)

The Operation Management (Continued)

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

The Department, Branch and Subsidiary

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

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

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

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Structure of risk management (Continued)

Risk management activities

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

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

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

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

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

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Structure of risk management (Continued)

Risk management activities (Continued)

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

Risk analysis and control

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

49.1 Credit risk

Credit risk refers to the risk of an economic loss caused by the failure of customers, counterparties or issuers of debt financing instruments (also referred to as financiers) to perform their contractual obligations.

Credit risks of the Company relating to the securities financing business, which includes margin financing and stock pledge repurchase agreement, are primarily attributed to a decline in value, or insufficient liquidity of collateral provided by customers; customers' failure to repay debts in full in a timely manner due to legal disputes over collateral assets; and operational misconducts including fraudulent credit information, violation of contracts and regulatory requirements. Control over credit risks for the securities financing business is managed primarily through risk management education programmes for customers, credit due diligence and verification of customers, risk assessment on collateralized (pledged) securities, setup of trading limits, daily mark to market of exposure, issuing risk notification to customers, margin calls, forced position liquidation and legal recourse. The Company performs an assessment of the need for any allowance for impairment in accordance with the relevant principles of IFRS 9.

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.1 Credit risk (Continued)

Credit risks relating to bond investments are primarily due to counterparty defaults, credit issuer defaults or a decline in the creditworthiness of issuers. The Company establishes ratings and maintains blacklists to manage its counterparty credit risk. It also sets a number of credit criteria and limits to control credit risks, including minimum ratings for credit products and maximum credit exposure limits for a single issuer. In the first half of 2019, due to the increasing number of default cases in the bond market, the Company further tightened the quality of its investment portfolio, post-investment tracking mechanism and credit risk management measures.

The Company controls credit risks relating to over-the-counter derivative transactions by setting counterparty ratings and credit lines, and setting limits on the size of transactions and related credit risk exposures before transactions can take place. The Company monitors and controls credit risk exposure of counterparties within established limits by adopting mark-to-market practices of derivative transactions and related collateral as well as forced position liquidating procedures.

In order to manage the credit risk arising from the brokerage business, securities brokerage transactions in mainland China are all carried out on a fully pledged basis, which helps to control the settlement risks associated with the brokerage business. The Company strictly complies with relevant trading and settlement rules and procedures to eliminate non-compliant financing operations for clients.

With regard to clients' credit risk from securities financing business, the Company has adopted safeguards, including KYC, serious guidances on collateral valuation and concentration percentage. The Company also manages the credit risk arising from option business through controls over security deposits, trading limits and forced customer position liquidations.

Furthermore, the Company's Risk Management Department monitors credit risk on an ongoing basis, including tracking the qualifying credit status of counterparties and bond issuers, monitoring the collateral coverage of the securities and financial business, requiring the business department to fulfill its post-investment management duties, as well as using stress testing and sensitivity analysis, amongst other techniques, to measure the credit risk of major business lines.

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.1 Credit risk (Continued)

Expected credit loss ("ECL") measurement

From the adoption date of IFRS 9 on 1 January 2018, the measurement of the ECL allowance for debt instruments, including investments in financial assets measured at amortized cost and FVOCI is an area that requires the use of models and assumptions about the future economic conditions and credit behavior of the clients (such as the likelihood of customers defaulting and the resulting losses).

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

– A financial instrument that is not credit-impaired on initial recognition is classified as "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;

– If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3".

Stage 1: The Group measures the loss allowance for a financial instrument at an amount equal to the next 12 months ECL. Stage 2 and Stage 3: The Group measures the loss allowance for a financial instrument at an amount equal to the lifetime ECL. Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. The Group has measured the loss allowance for these financial instruments at an amount equal to the lifetime ECL.

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Structure of risk management (Continued)

49.1 Credit risk (Continued)

Expected credit loss measurement (Continued)

For securities financing business and debt securities investments classified under Stages 1 and 2, management assesses credit loss allowances using the risk parameter modelling approach that incorporated key parameters, including probability of default (PD), loss given default (LGD) and exposure at default (EAD). For credit-impaired financial assets classified under Stage 3, management assesses the credit loss allowances by estimating the cash flows expected to arise from the financial assets after taking into consideration forward looking factors.

The measurement of ECL adopted by the management according to IFRS 9, involves judgements, assumptions and estimations, including

- Selection of the appropriate models and assumptions;
- Determination of the criteria for SICR;
- Establishment of the number and relative weightings of forward-looking scenarios for each type of product;

Measuring ECL – inputs, assumptions and estimation techniques

The ECL is measured on either a 12 month (12M) or Lifetime basis defending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit impaired.

ECL are the discounted product of the PD after considering the forward-looking impact, EAD and LGD.

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

– LGD represents the Group's expectation of the extent of loss on a defaulted exposure. For securities financing business, the Company determines LGD based on factors including the realizable value of collateral upon forced liquidation taking into consideration the estimated volatility over the realization period. For debt securities investments, LGD is determined based on assessed publicly available information from credit rating agencies, and type of securities.

– EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Structure of risk management (Continued)

49.1 Credit risk (Continued)

The criteria of Significant increase in credit risk (SICR)

The Company evaluates financial instruments to identify whether a SICR has occurred since initial recognition at each financial statement date. An ECL allowance of financial assets is recognized according to the stage in which the assets are classified. This took account of what reasonable information, including forward looking information, is available to identify whether a SICR had arisen. The Company considers a financial instrument to have experienced a SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

The Company considered securities financing business to have experienced a SICR if margin calls are triggered when the threshold of margin loan to collateral ratios are lower than 130%, which means collateral valuation falling short of 130% of the related margin loan amount. As at 30 June 2019 and 31 December 2018, over 90% of the securities financing balances of the Company were covered by collateral value of over 130% of related loan or repo amounts and there was no SICR.

For debt securities investments, the Company makes use of open market credit ratings. The Company considers debt securities investments to have experienced a SICR if the latest external ratings of the issuers of debt securities or the debt securities themselves underwent two levels of downward migration or more, compared with those ratings as at the acquisition date, and if the latest external rating of issuers of debt securities or the debt securities themselves were under the predetermined grading A-. As of 30 June 2019 and 31 December 2018, all the debt securities investments of the Company have been rated as investment grade or above and there was no SICR.

A backstop is applied to all relevant financial assets and they are considered to have experienced a SICR if the borrower, the counterparty, the issuer or the debtor is more than 30 days past due on its contractual payments.

The Company has used the low credit risk exemption as provided in IFRS 9 for financial instruments, such as cash and bank accounts, settlement reserve, refundable deposits, financial assets held under resale agreements (collaterized by debt securities) in the period ended 30 June 2019 and year ended 31 December 2018.

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Structure of risk management (Continued)

49.1 Credit risk (Continued)

Definition of credit-impaired assets

The Company assesses whether a financial instrument is credit-impaired in accordance with IFRS 9, in a manner consistent with its internal credit risk policies for managing financial instruments. The consideration includes quantitative criteria and qualitative criteria. The Company defines a financial instrument as credit-impaired, which is fully aligned with the definition of "in default", when it meets one or more of the following criteria:

- The borrower is more than 90 days past due on its contractual payments;
- For securities financing business, forced liquidation of a client's position is triggered based on a predetermined threshold of loan to collateral ratios; whereby the collateral valuation falls short of the related loan or repo amounts;
- The latest external ratings of issuers of debt securities or debt securities themselves are in default grade;
- The debtor, issuer, borrower or counterparty is in significant financial difficulty;
- An active market for that financial asset has disappeared because of financial difficulties;
- Concessions have been made by the Company relating to the debtor, issuer, borrower or counterparty's financial difficulty;
- It is becoming probable that the debtor, issuer, borrower, or counterparty will enter bankruptcy or undertake a financial restructuring.

When a financial asset is considered to be credit-impaired, it may be the result of multiple events, not due to a separately identifiable event.

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Structure of risk management (Continued)

49.1 Credit risk (Continued)

Forward-looking information

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Company has performed historical data analysis and identified the key economic variables impacting credit risk and ECL for each financial instrument portfolio. Key economic variables mainly include the growth rate of Domestic GDP, which under an optimistic scenario, base scenario and pessimistic scenario range from 6.2% to 6.4% for the first half of 2019 (2018: 6.5%–6.7%). The impact of these economic variables on the PD, EAD and LGD has been determined by performing historical statistical regression analysis to forecast the expected changes in these variables on default rates and on the components of LGD and EAD.

In addition to the base economic scenario, the Company's Expert team also provided other possible scenarios along with scenario weightings. The number of other scenarios used is set based on an analysis of each major product type to ensure non-linearities are captured. The number of scenarios and their attributes are reassessed at each financial statement date.

As at 30 June 2019 and 31 December 2018, the Company concluded that three scenarios appropriately captured the non-linearities of key economic variables for all portfolios. The scenario weightings are determined by a combination of statistical analysis and expert judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The probability-weight of base scenario employed by the Company was more than sum of that of optimistic scenario and pessimistic scenario.

The assessment of SICR is performed using the Lifetime PD under each of the base, and other scenarios, multiplied by the associated scenario weighting. The Group measures ECL as either a probability weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Company considers these forecasts to represent its best estimate of the possible outcomes as at the financial statement date.

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Structure of risk management (Continued)

49.1 Credit risk (Continued)

Sensitivity analysis

The allowance for credit losses is sensitive to the inputs used in internally developed models, macroeconomic variables in the forward-looking forecasts, weighting applied to economic scenarios and other factors considered when applying expert judgement. Changes in these inputs, assumptions and judgements are likely to have an impact on the assessment of SICR and the measurement of ECLs.

As mentioned above, the Company adopts three scenarios for all portfolios, being the optimistic scenario, base scenario and pessimistic scenario. A sensitivity analysis was applied to these scenarios as at 30 June 2019 and the results were as follows:

(i) The incremental impact on the ECL allowance of applying the probability weighted scenarios was no more than a 5% deviation from the base ECL scenario.

(ii) The decremental impact on the ECL allowance of increasing the weighting applied to the optimistic scenario by 10% and a corresponding reduction of 10% weighting applied to the base scenario was no more than 5% of the ECL allowance.

(iii) The incremental impact of shifting 10% of the weighting from the base case scenario to the pessimistic scenario was no more than 5% of the ECL allowance.

Meanwhile, the Company also uses sensitivity analysis to monitor the impact of changes to the credit risk classification of financial assets on ECL. As at 30 June 2019 and 31 December 2018, assuming there was no SICR since initial recognition, and all the financial assets in Stage 2 were moved to Stage 1, the decremental impact on ECL recognized in financial statements would be less than 5% of the ECL allowance.

Collateral and other credit enhancements

The Company employed a range of policies and credit enhancements to mitigate credit risk exposure to an acceptable level. The most common of these is accepting collateral through funds advanced or guarantees. The Company determined the type and amount of collateral according to the credit risk evaluation of counterparties. The collaterals under margin financing and reverse repurchase agreements are primarily stocks, debt securities, funds etc. Management tests the market value of collaterals periodically, and sends margin calls according to related agreements. It also monitors the market value fluctuation of collaterals when reviewing the measurement of the loss allowance.

(In RMB thousands, unless otherwise stated)

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Structure of risk management (Continued)

49.1 Credit risk (Continued)

Credit risk exposure analysis

As at 30 June 2019 and 31 December 2018, the clients' assets of margin loan financing were in good condition, and the coverage ratio of margin loan to underlying collateral value were over 130% for more than 90% of securities financing business and financial assets held under resale agreements (collateralized by debt securities) of the Company. High threshold of margin loans to collateral ratios indicated that PD was low. For debt securities investments, the Company employed open market credit ratings. All the debt securities investments of the Company have been rated as investment grade (AA) or above.

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

	30 June 2019	31 December 2018
Financial assets at fair value through other comprehensive income	**31,301,200**	27,911,317
Financial assets at amortized costs	**–**	187,063
Financial assets held under resale agreements	**28,778,964**	23,797,237
Refundable deposits	**2,398,312**	1,880,554
Margin accounts	**26,909,725**	25,148,083
Financial assets at fair value through profit or loss	**65,700,891**	52,754,080
Derivative financial assets	**943,984**	1,239,584
Cash held on behalf of clients	**51,005,258**	33,698,335
Deposits in banks	**24,980,952**	17,055,771
Others	**2,959,459**	1,737,544
Total maximum credit risk exposure	**234,978,745**	185,409,568

(In RMB thousands, unless otherwise stated)

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Structure of risk management (Continued)

49.1 Credit risk (Continued)

Credit risk exposure analysis (Continued)

	30 June 2019			
	Stage of ECL			
	Stage 1	Stage 2	Stage 3	Total
ECL	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL (Credit-impaired)**	
Financial assets held under resale agreements				
Carrying amount	**27,385,945**	**743,484**	**724,290**	**28,853,719**
Loss allowance	**(24,099)**	**(14,627)**	**(36,029)**	**(74,755)**
Book value	**27,361,846**	**728,857**	**688,261**	**28,778,964**
Margin accounts				
Carrying amount	**26,412,912**	**15,304**	**1,623,441**	**28,051,657**
Loss allowance	**(60,023)**	**(485)**	**(1,081,424)**	**(1,141,932)**
Book value	**26,352,889**	**14,819**	**542,017**	**26,909,725**
Financial assets at fair value through other comprehensive income				
Book value	**31,291,841**	**6,911**	**2,448**	**31,301,200**
Loss allowance	**(14,429)**	**(1,112)**	**(1,367)**	**(16,908)**
Accounts receivable and Other receivables				
Carrying amount	**2,843,675**	**52,545**	**12,015**	**2,908,235**
Loss allowance	**(2,787)**	**(26,272)**	**(12,015)**	**(41,074)**
Book value	**2,840,888**	**26,273**	**–**	**2,867,161**

(In RMB thousands, unless otherwise stated)

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Structure of risk management (Continued)

49.1 Credit risk (Continued)

Credit risk exposure analysis (Continued)

	31 December 2018			
	Stage of ECL			
	Stage 1	Stage 2	Stage 3	Total
ECL	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
Financial assets held under resale agreements				
Carrying amount	22,610,412	1,198,686	107,735	23,916,833
Loss allowance	(48,389)	(51,546)	(19,661)	(119,596)
Book value	22,562,023	1,147,140	88,074	23,797,237
Margin accounts				
Carrying amount	24,266,356	203,243	1,877,608	26,347,207
Loss allowance	(88,946)	(5,485)	(1,104,693)	(1,199,124)
Book value	24,177,410	197,758	772,915	25,148,083
Financial assets at fair value through other comprehensive income				
Book value	27,901,206	6,408	3,703	27,911,317
Loss allowance	(7,978)	(1,227)	(1,005)	(10,210)
Financial assets at amortized cost				
Carrying amount	192,120	–	–	192,120
Loss allowance	(5,057)	–	–	(5,057)
Book value	187,063	–	–	187,063
Accounts receivable and Other receivables				
Carrying amount	1,668,073	52,544	12,015	1,732,632
Loss allowance	(2,737)	(26,272)	(12,015)	(41,024)
Book value	1,665,336	26,272	–	1,691,608

(In RMB thousands, unless otherwise stated)

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.1 Credit risk (Continued)

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

(i) Credit loss allowance for financial assets held under resale agreements

	Stage of ECL			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	12-month ECL	**Lifetime ECL**	**Lifetime ECL (Credit-impaired)**	
1 January 2019	**48,389**	**51,546**	**19,661**	**119,596**
Increases	**15,135**	**4,229**	**31,609**	**50,973**
Reversals	**(39,427)**	**(41,148)**	**(15,241)**	**(95,816)**
Write-offs	**–**	**–**	**–**	**–**
Foreign exchange and other movements	**2**	**–**	**–**	**2**
30 June 2019	**24,099**	**14,627**	**36,029**	**74,755**

	Stage of ECL			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2018	44,497	–	–	44,497
Increases	5,085	51,546	19,661	76,292
Reversals	(1,221)	–	–	(1,221)
Write-offs	–	–	–	–
Foreign exchange and other movements	28	–	–	28
31 December 2018	48,389	51,546	19,661	119,596

(In RMB thousands, unless otherwise stated)

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.1 Credit risk (Continued)

(ii) Credit loss allowance for financial assets at fair value through other comprehensive income

	Stage of ECL			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	12-month ECL	**Lifetime ECL**	**Lifetime ECL (Credit-impaired)**	
1 January 2019	**7,978**	**1,227**	**1,005**	**10,210**
Increases	**7,466**	**–**	**362**	**7,828**
Reversals	**(992)**	**(115)**	**–**	**(1,107)**
Write-offs	**–**	**–**	**–**	**–**
Foreign exchange and other movements	**(23)**	**–**	**–**	**(23)**
30 June 2019	**14,429**	**1,112**	**1,367**	**16,908**

	Stage of ECL			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2018	4,138	253	–	4,391
Increases	5,848	1,226	1,005	8,079
Reversals	(2,008)	(252)	–	(2,260)
Write-offs	–	–	–	–
Foreign exchange and other movements	–	–	–	–
31 December 2018	7,978	1,227	1,005	10,210

(In RMB thousands, unless otherwise stated)

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.1 Credit risk (Continued)

(iii) Credit loss allowance for margin accounts

	Stage of ECL			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	12-month ECL	**Lifetime ECL**	**Lifetime ECL (Credit-impaired)**	
1 January 2019	**88,946**	**5,485**	**1,104,693**	**1,199,124**
Increases	**6,967**	**443**	**148,215**	**155,625**
Reversals	**(36,126)**	**(5,443)**	**(171,527)**	**(213,096)**
Write-offs	**–**	**–**	**–**	**–**
Foreign exchange and other movements	**236**	**–**	**43**	**279**
30 June 2019	**60,023**	**485**	**1,081,424**	**1,141,932**

	Stage of ECL			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2018	116,742	–	4,255	120,997
Increases	–	5,485	1,097,918	1,103,403
Reversals	(27,632)	–	–	(27,632)
Write-offs	–	–	(120)	(120)
Foreign exchange and other movements	(164)	–	2,640	2,476
31 December 2018	88,946	5,485	1,104,693	1,199,124

(In RMB thousands, unless otherwise stated)

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.1 Credit risk (Continued)

(iv) Credit loss allowance for financial assets at amortized cost

	Stage of ECL			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	12-month ECL	**Lifetime ECL**	**Lifetime ECL (Credit-impaired)**	
1 January 2019	**5,057**	**–**	**–**	**5,057**
Increases	**–**	**–**	**–**	**–**
Reversals	**(4,984)**	**–**	**–**	**(4,984)**
Write-offs	**–**	**–**	**–**	**–**
Foreign exchange and other movements	**(73)**	**–**	**–**	**(73)**
30 June 2019	**–**	**–**	**–**	**–**

	Stage of ECL			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit -impaired)	
1 January 2018	12,283	–	–	12,283
Increases	–	–	–	–
Reversals	(7,552)	–	–	(7,552)
Write-offs	–	–	–	–
Foreign exchange and other movements	326	–	–	326
31 December 2018	5,057	–	–	5,057

(In RMB thousands, unless otherwise stated)

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.1 Credit risk (Continued)

(v) Credit loss allowance for accounts receivable and other receivables

	Stage of ECL			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	12-month ECL	**Lifetime ECL**	**Lifetime ECL (Credit-impaired)**	
1 January 2019	**2,737**	**26,272**	**12,015**	**41,024**
Increases	**816**	**–**	**–**	**816**
Reversals	**(143)**	**–**	**–**	**(143)**
Write-offs	**(630)**	**–**	**–**	**(630)**
Foreign exchange and other movements	**7**	**–**	**–**	**7**
30 June 2019	**2,787**	**26,272**	**12,015**	**41,074**

	Stage of ECL			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2018	1,050	26,272	12,015	39,337
Increases	4,796	–	–	4,796
Reversals	–	–	–	–
Write-offs	(3,166)	–	–	(3,166)
Foreign exchange and other movements	57	–	–	57
31 December 2018	2,737	26,272	12,015	41,024

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.1 Credit risk (Continued)

The overall decrease in the Group's ECL allowance as at 30 June 2019 compared to 1 January 2019 was primarily attributable to new financial instruments recognized, changes in PD and LGD affected by market changes and the resulted movements amongst Stage 1, Stage 2 and Stage 3.

For Stage 1, the ECL allowance has decreased for the six months ended 30 June 2019 primarily due to the reversal as a result of the increase in collateral valuation related to the securities financing businesses; which was partly offset by the increase in the related exposure. The decrease in ECL allowance for Stage 2 was also primarily due to the reversal resulting from the appreciation of collateral valuation related to the securities financing businesses. The ECL allowance for Stage 3 decreased for the six months ended 30 June 2019 due to the appreciation of the collateral valuation of financial assets held under resale agreement, which was offset by the migration of certain exposure under the financial assets held under resale agreement from Stage 2 as a result of the deterioration of their loan to collateral ratios; as well as collection of margin financing this period, which was offset by the deterioration of collateral value related to margin financing under this stage.

For the year ended 31 December 2018, the movement of ECL allowance in Stage 1 was resulted from the reversal of ECL allowance as financial assets has been held to maturity. The movement of ECL allowance in Stage 3 was primarily due to the ECL allowance of increased financial assets moved from Stage 1 to Stage3.

49.2 Liquidity risk

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

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

The Asset and Liability Management Committee is responsible for organizing and managing the asset and liability allocation plan of the Company, reviewing and approving the internal valuation interest rate of capital and emergency plans for liquidity risk. The Company established the Treasury Operations Department to initiate the management of the liquidity of its proprietary funds, accounting for expanding mid- and long-term stable funding channels, reasonably adjusting the asset allocation among various business lines, and steadily optimizing its assets and liabilities structure. The Company has improved its daily practice for liquidity risk management and control mechanism with the assistance of classified liquidity reserve system, refining internal funds transfer pricing (FTP) system, as well as establishing and optimizing liquidity emergency plans and stress tests. In addition, for the six months ended 30 June 2019, the Company issued various medium and long-term debt financing instruments, such as subordinated bonds, to maintain sufficient liquidity reserve, improve emergency plans for liquidity risk, and ensure liquidity risk under control.

(In RMB thousands, unless otherwise stated)

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.2 Liquidity risk (Continued)

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

	30 June 2019					
	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Accounts payable to brokerage clients	52,877,220	–	–	–	–	52,877,220
Derivative financial liabilities	412,482	10,540	5,597	15,635	–	444,254
Financial liabilities at fair value through profit or loss	–	328,821	–	–	–	328,821
Financial assets sold under repurchase agreements	–	42,833,349	4,847,374	–	–	47,680,723
Placements from banks and other financial institutions	–	6,944,982	1,021,739	–	–	7,966,721
Short-term borrowings	–	975,507	–	–	–	975,507
Short-term financing instruments payable	–	14,721,970	599,455	–	–	15,321,425
Bonds in issue	–	618,222	1,186,353	43,294,341	–	45,098,916
Lease liabilities	1,097	100,608	230,802	566,132	95,776	994,415
Others	6,033,290	8,872,689	12,952,113	5,030	90	27,863,212
Total	59,324,089	75,406,688	20,843,433	43,881,138	95,866	199,551,214
Cash flows from derivative financial liabilities settled on a net basis	412,482	9,638	5,460	15,635	–	443,215
Gross-settled derivative financial liabilities	–	902	138	–	–	1,040
Contractual amounts receivable	–	–	–	–	–	–
Contractual amounts payable	–	902	138	–	–	1,040

(In RMB thousands, unless otherwise stated)

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.2 Liquidity risk (Continued)

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

	31 December 2018					
	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Accounts payable to brokerage clients	35,038,585	–	–	–	–	35,038,585
Derivative financial liabilities	166,604	9,376	1,481	–	–	177,461
Financial liabilities at fair value through profit or loss	–	1,253,416	–	–	–	1,253,416
Financial assets sold under repurchase agreements	–	31,897,256	661,438	–	–	32,558,694
Placements from banks and other financial institutions	–	2,051,567	2,047,522	–	–	4,099,089
Short-term borrowings	–	1,119,592	–	–	–	1,119,592
Short-term financing instruments payable	–	9,407,743	4,444,587	–	–	13,852,330
Bonds in issue	–	237,562	1,512,945	39,323,475	–	41,073,982
Others	4,575,065	8,245,415	5,896,613	4,188	533	18,721,814
Total	39,780,254	54,221,927	14,564,586	39,327,663	533	147,894,963
Cash flows from derivative financial liabilities settled on a net basis	166,604	9,355	957	–	–	176,916
Gross-settled derivative financial liabilities	–	21	524	–	–	545
Contractual amounts receivable	–	–	–	–	–	–
Contractual amounts payable	–	21	524	–	–	545

(In RMB thousands, unless otherwise stated)

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.2 Liquidity risk (Continued)

The table below analyzes the Group's lease agreement, which were committed as at 30 June 2019 but not commenced, into the relevant maturity groupings based on their contractual maturities:

	30 June 2019				
	Within one year	After one year but not more than two years	After two years but not more than five years	After five years	Total
Lease liabilities	**9,863**	**10,120**	**21,346**	**7,805**	**49,134**

49.3 Market risk

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

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

(In RMB thousands, unless otherwise stated)

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.3 Market risk (Continued)

(1) Value at risk (VaR)

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

VaR is calculated using the Company's historical data. Although VaR analysis is a key instrument for measuring market risk, it has to rely on historical data and relevant information, and accordingly, it has certain inherent limitations so that it may not accurately predict the future changes of risk factors and in particular, cannot effectively reflect the risk under extreme market conditions. As a supplemental, the department measures the impact on risk control indicators, including net capital etc. also profit and loss of investment portfolio by extremely unfavourable changes of risk factors via routine and special stress test; raises suggestions and methods accordingly and establishes emergency plans. For option derivatives, the Company evaluates its sensitivity risk via calculating risk indicators, such as Gamma, Vega etc.

The Group's VaR was disclosed at a confidence level of 95% and with a holding period of 1 trading day, being consistent with internal risk management policy, which is easier to be compared with other securities. The Group's VaR analysis by risk categories is summarized as follows:

	30 June 2019	31 December 2018
Equity price-sensitive financial instruments	**70,979**	22,039
Interest rate-sensitive financial instruments	**103,343**	61,703

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

(In RMB thousands, unless otherwise stated)

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.3 Market risk (Continued)

(2) Interest rate risk

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

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

Interest rate sensitivity analysis of the Group are as follows:

Sensitivity to revenue	**30 June 2019**	31 December 2018
Change in basis points		
+25 basis points	**(289,422)**	(161,778)
-25 basis points	**292,577**	163,183

Sensitivity to equity	**30 June 2019**	31 December 2018
Change in basis points		
+25 basis points	**(172,022)**	(133,615)
-25 basis points	**174,178**	135,193

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.3 Market risk (Continued)

(3) Foreign currency rate risk

With respect to foreign exchange rate risk, the Group's foreign-currency-denominated assets and liabilities represent only a small portion in its entire assets and liabilities portfolio. As at 30 June 2019, the foreign exchange net exposure was approximately RMB1.892 billion. The Group manages its foreign exchange rate risk by limiting the size of its foreign-currency-denominated assets and liabilities and setting stop-loss limits for proprietary investments by its overseas subsidiaries. The majority of its income-generating business activities under the current structure are conducted in Renminbi, with only a small portion denominated in foreign currencies. Given the small portion of the foreign-currency-denominated businesses in both its assets and liabilities portfolio and income structure, the Group believes that its foreign exchange rate risk has an insignificant impact on its current operations.

(4) Other price risks

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

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.4 Capital management

The Group's objectives of capital management are:

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

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

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

including:

Risk coverage ratio = net capital/sum of various risk capital provisions x 100%,

Capital leverage ratio = core net capital/total asset on-/off-balance-sheet x 100%,

Liquidity coverage ratio = high quality liquid assets/net cash outflow in 30 days x 100%,

Net stable funding ratio = available amount of stable funding/required amount of stable funding x 100%.

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

50 EVENTS AFTER THE REPORTING PERIOD

(i) In July 2019, the Company publicly issued a 90-day fixed rate commercial paper with a face value of RMB3 billion ("19 CSC CP004"). The bond pays the principal and interest at 2.70% per annum at maturity and is not guaranteed.

(ii) In August 2019, the Company publicly issued a 3-year fixed rate financial bond with a face value of RMB4 billion ("19 CSC Financial Bond 01"). The bond pays interest annually at 3.52% per annum and is not guaranteed.

中信建投証券股份有限公司
CSC FINANCIAL CO., LTD.