



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

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

Stock Code: 06881



# 2020

INTERIM REPORT



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# DEFINITIONS

“A Share(s)”	domestic share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which is (are) listed on the SSE and traded in Renminbi
“Articles of Association”	the articles of association of the Company (as amended from time to time)
“Board” or “Board of Directors”	the board of Directors of the Company
“bp”	unit of measurement for the change in interest rate of bonds and notes, one bp equals to 1% of a percentage point
“CG Code”	Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Stock Exchange Listing Rules
“China” or “PRC”	the Peoples’ Republic of China excluding, for the purpose of this interim report, Hong Kong, the Macau Special Administrative Region and Taiwan region
“Company”	China Galaxy Securities Co., Ltd. (中國銀河證券股份有限公司), a joint stock limited company incorporated in the PRC on 26 January 2007, H Shares of which are listed on the Hong Kong Stock Exchange (Stock Code: 06881), and A Shares of which are listed on the SSE (Stock Code: 601881)
“Company Law”	the Company Law of the PRC
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	director(s) of the Company
“End of the Reporting Period”	30 June 2020
“ETF”	exchange-traded funds
“Galaxy Capital”	Galaxy Capital Management Company Limited (銀河創新資本管理有限公司), owned as to 100% by the Company and a wholly-owned subsidiary of the Company
“Galaxy Financial Holdings”	China Galaxy Financial Holdings Company Limited (中國銀河金融控股有限責任公司), the controlling shareholder of the Company, which holds 51.16% of the issued share capital of the Company as at the End of the Reporting Period

# DEFINITIONS

“Galaxy Futures”	Galaxy Futures Company Limited (銀河期貨有限公司), owned as to 100% by the Company and a wholly-owned subsidiary of the Company
“Galaxy Investment”	China Galaxy Investment Management Company Limited (中國銀河投資管理有限公司), owned as to 100% by Galaxy Financial Holdings and a wholly-owned subsidiary of Galaxy Financial Holdings
“Galaxy International Holdings”	China Galaxy International Financial Holdings Company Limited (中國銀河國際金融控股有限公司), owned as to 100% by the Company and a wholly-owned subsidiary of the Company
“Galaxy Jinhui”	Galaxy Jinhui Securities Assets Management Co., Ltd. (銀河金匯證券資產管理有限公司), owned as to 100% by the Company and a wholly-owned subsidiary of the Company
“Galaxy Yuanhui”	Galaxy Yuanhui Investment Co., Ltd. (銀河源匯投資有限公司), owned as to 100% by the Company and a wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which is (are) subscribed for and traded in HK dollars and listed on the Hong Kong Stock Exchange
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Huijin”	Central Huijin Investment Ltd. (中央匯金投資有限責任公司), which currently holds an equity interest of approximately 69.07% of Galaxy Financial Holdings
“IPO”	initial public offering
“Stock Exchange Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“MOF bonds”	debt instruments issued by the Ministry of Finance of the PRC on behalf of the PRC government
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in the Appendix 10 to the Stock Exchange Listing Rules
“New OTC Board”	National Equities Exchange and Quotations for medium and small-sized enterprises
“Reporting Period”	the six-month period ended 30 June 2020

# DEFINITIONS

“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Securities Law”	the Securities Law of the People’s Republic of China
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time)
“SSE”	the Shanghai Stock Exchange (上海證券交易所)
“SSE Listing Rules”	the Rules Governing the Listing of Securities on the Shanghai Stock Exchange (as amended from time to time)
“Supervisor(s)”	supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company
“SZCI”	the Shenzhen Component Index
“SZGEI”	the SZSE Growth Enterprise Index
“SZSE”	the Shenzhen Stock Exchange (深圳證券交易所)
“US\$” or “U.S. dollars” or “USD”	United States dollars, the lawful currency of the United States
“VaR”	value at risk

*This interim report has been prepared in Chinese and English. Except for the financial statements and its notes, in case of any discrepancy between the Chinese and English versions, the Chinese version shall prevail.*

# COMPANY INFORMATION

## NAME OF THE COMPANY

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

## BOARD SECRETARY

Mr. Wu Chengming

## JOINT COMPANY SECRETARIES

Mr. Wu Chengming, Mr. Lee Kwok Fai Kenneth

## AUTHORIZED REPRESENTATIVES

Mr. Liu Dingping, Mr. Lee Kwok Fai Kenneth

## HEADQUARTERS IN THE PRC

Registered address: 2-6/F, Tower C, Corporate Square,  
35 Finance Street, Xicheng District,  
Beijing, the PRC, 100033

Office address: 2-6/F, Tower C, Corporate Square,  
35 Finance Street, Xicheng District,  
Beijing, the PRC, 100033

Website of the Company: [www.chinastock.com.cn](http://www.chinastock.com.cn)

Email address: [zgyh@chinastock.com.cn](mailto:zgyh@chinastock.com.cn)

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## AUDITORS

Domestic: Ernst & Young Hua Ming LLP

International: Ernst & Young

## HONG KONG LEGAL ADVISOR

Latham & Watkins LLP

## STOCK CODE

Hong Kong Stock Exchange  
H Share Stock Code: 06881

SSE

A Share Stock Code: 601881

## SHARE REGISTRARS

Share Registrar for A Shares: China Securities Depository and  
Clearing Corporation Limited

Share Registrar for H Shares: Computershare Hong Kong Investor  
Services Limited

# FINANCIAL HIGHLIGHTS

(Accounting data and financial indicators contained in this report are prepared in accordance with the International Financial Reporting Standards)

## MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

Items	January - June 2020	January-June 2019	Increase/ decrease from the same period of last year
<b>Operating results (RMB'000)</b>			
Revenue and other income	14,520,567	10,633,551	36.55%
Profit before income tax	4,581,071	3,396,200	34.89%
Profit for the period – attributable to owners of the Company	3,552,441	2,595,002	36.90%
Net cash from/(used in) operating activities	10,602,937	7,866,120	34.79%
<b>Earnings per share (RMB per share)</b>			
Basic earnings per share	0.35	0.26	34.62%
<b>Profitability ratio</b>			
Weighted average return on net assets	4.89%	3.85%	increased by 1.04 percentage points

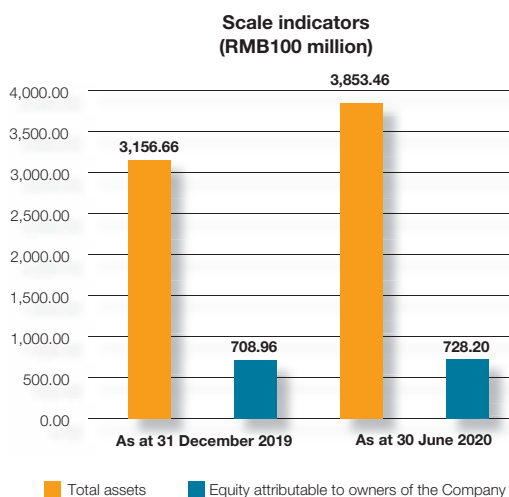
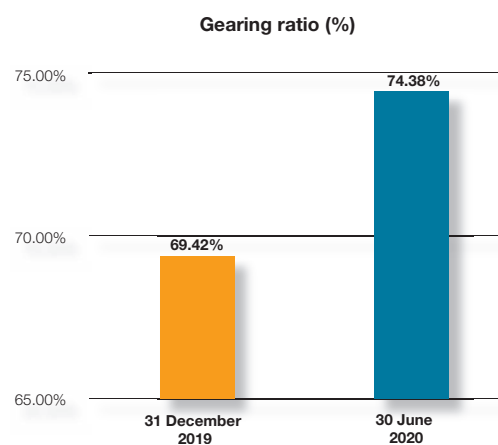
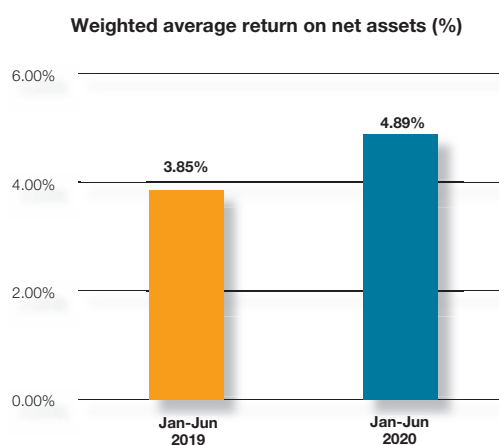
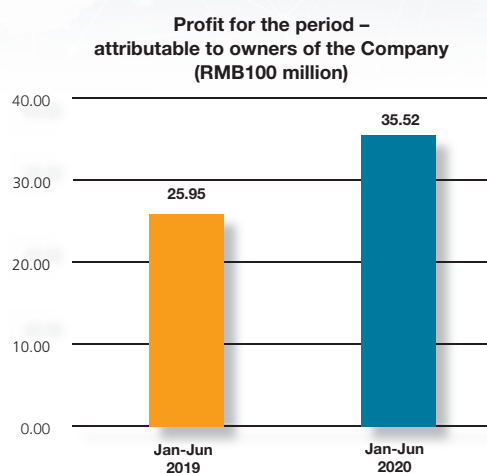
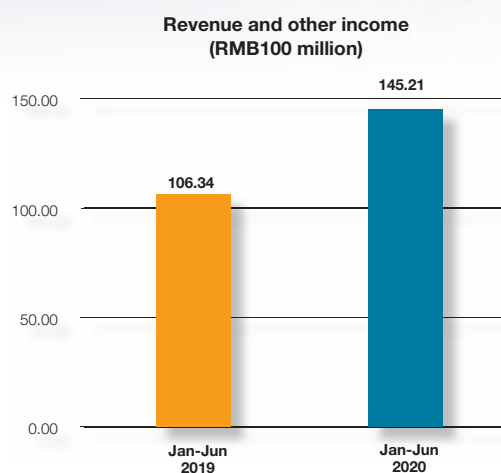
Items	As at 30 June 2020	As at 31 December 2019	Increase/ decrease from the end of last year
<b>Scale indicators (RMB'000)</b>			
Total assets	385,346,064	315,665,878	22.07%
Total liabilities	311,766,211	243,744,179	27.91%
Accounts payable to brokerage clients	98,122,140	80,508,860	21.88%
Equity attributable to owners of the Company	72,819,814	70,895,595	2.71%
<b>Total share capital (in thousand shares)</b>	<b>10,137,259</b>	10,137,259	0.00%
<b>Net assets value per share attributable to owners of the Company (RMB per share)</b>	<b>7.18</b>	6.99	2.71%
<b>Gearing ratio (%)<sup>1</sup></b>	<b>74.38%</b>	69.42%	increased by 4.96 percentage points

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

### Description of differences on accounting data by domestic and foreign accounting standards:

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

# FINANCIAL HIGHLIGHTS





# COMPANY BUSINESS OVERVIEW

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

### (I) Types of principal businesses in which the Group operates

The Group is committed to becoming a leading investment bank and a systemically important securities financial institution in the Asian capital market, and provides comprehensive securities services, including brokerage, sales and trading, investment banking, investment management and overseas business.

The principal businesses of the Group include:

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

#### **Brokerage, Sales and Trading**

1. Brokerage and wealth management: The Group executes trades on behalf of clients in stocks, funds, bonds, derivatives and futures, and provides comprehensive wealth management services to its clients.
2. Institutional sales and investment research: The Group markets and sells securities products and services to institutional investor clients and provides professional research services to facilitate their investment decisions.
3. Margin financing and securities lending and stocks pledge: The Group provides guaranteed or collateralized margin financing and securities lending services, which provide financial leverage for its clients to meet their financing demands and vitalize their equity assets.
4. Asset management: The Group charges management and advisory fees through providing professional asset management services for individual and institutional clients in the form of collective asset management schemes, targeted asset management schemes and special asset management schemes.

# COMPANY BUSINESS OVERVIEW

## **Investment Banking**

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

## **Investment Management**

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

## **Overseas Business**

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

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

## **(II) Operational model of the Group**

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

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

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

# COMPANY BUSINESS OVERVIEW

## (III) Development characteristics of the industry of the Group

### 1. Economic environment

In the first half of 2020, due to the impacts of the macro environment such as the COVID-19 pandemic, global production and personnel flows experienced a significant slowdown while trade and logistics were affected significantly. China well proceeded with various tasks in relation to the COVID-19 prevention and control, as well as economic and social development. In the first half of 2020, the economy experienced a rebound after a decline. The economic growth in the second quarter made a turnaround to positive, with major indicators recording a restorative growth and the economic operation recovering steadily.

### 2. Market environment

During the Reporting Period, the overall stock market performed satisfactorily due to the policy support and sufficient liquidity. The SZCI and SZGEI rose by 14.97% and 35.60%, respectively. The average daily turnover of A Shares amounted to RMB753.648 billion, representing a year-on-year increase of 28.61%. As at the End of the Reporting Period, the balance of margin financing and securities lending in both Shanghai and Shenzhen markets amounted to RMB1.163768 trillion, representing an increase of 14.17% as compared with the beginning of the year. During the Reporting Period, the aggregated scale of equity financing businesses such as IPOs, issue of new shares, placements, preference shares, and convertible bonds was RMB648.662 billion, representing a year-on-year increase of 5.9%.

### 3. Industry situation

During the Reporting Period, the business activities of the securities industry recovered significantly due to the economic environment and market conditions. According to the data in the unaudited financial statements of the parent companies of securities firms published by the Securities Association of China (the "SAC"), during the Reporting Period, the securities industry of China achieved revenue and net profit of RMB213.36 billion and RMB83.11 billion, representing a year-on-year increase of 19.4% and 24.7%, respectively. As at the end of the Reporting Period, the total assets and net assets of the securities industry amounted to RMB8.03 trillion and RMB2.09 trillion, respectively.

## (IV) The position of the Group in the industry

The Group is committed to becoming a leading investment bank and a systemically important securities financial institution in the Asian capital market. Its mission is to focus on the implementation of national strategies, support the development of the real economy, serve residents' wealth management, practise corporate social responsibilities, and achieve the organic combination of corporate value, shareholder returns, employee benefits as well as social responsibilities. Since its establishment, the Group has continued to maintain a strong comprehensive competitiveness. The Company's capital scale, profitability, business strength and risk management capabilities have always been at the top of the industry. According to the data in the unaudited financial statements of the parent companies of securities firms published by the SAC, in the first half of 2020, the Company ranked tenth and ninth in the industry in terms of revenue and net profit, respectively, and ranked eighth, eighth and fourth in the industry in terms of total assets, net assets and net capital, respectively.

# COMPANY BUSINESS OVERVIEW

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

As at 30 June 2020, the total assets of the Group amounted to RMB385.346 billion, representing an increase of 22.07% as compared with the end of last year. Among them, the items with greater changes were:

Monetary funds amounted to RMB91.842 billion, representing an increase of 30.59% as compared with the end of last year, which was mainly due to an increase in the size of clients' funds. Advances to customers amounted to RMB62.043 billion, representing an increase of 5.66% as compared with the end of last year, which was mainly due to the expansion of the business scale of advances to customers. Derivative financial assets amounted to RMB691 million, representing an increase of 231.50% as compared with the end of last year, which was mainly due to the expansion of the business scale of options. Receivables were RMB12.541 billion, representing an increase of 145.08% as compared with the end of last year, which was mainly due to an increase in the settlement amounts receivable of overseas subsidiaries. Financial assets held for trading amounted to RMB88.357 billion, representing an increase of 19.34% as compared with the end of last year, which was mainly due to an increase in investment scale of bonds and stocks. Other debt investments amounted to RMB38.533 billion, representing an increase of 67.41% as compared with the end of last year, which was mainly due to an increase in bond investment. Other assets amounted to RMB4.357 billion, representing an increase of 27.19% as compared with the end of last year, which was mainly due to an increase over-the-counter option performance bond.

Among them: overseas assets amounted to RMB33.076 billion, representing 8.58% of the total assets.

## III. ANALYSIS ON CORE COMPETITIVENESS DURING THE REPORTING PERIOD

### (I) Brokerage business is at a leading position of the market

The Company has a leading market position in its brokerage business. According to the unaudited data published by the SAC, during the Reporting Period, net income of the Company from its securities brokerage business ranked second in the industry in terms of individual securities company with a market share of 5.07%. Net income of the Company from the agency sales of financial products business ranked second in the industry in terms of individual securities company with a market share of 6.82%. The huge client base and client assets of the Company provide enormous potential for its business growth, and become a powerful driving force for the development and innovation of its businesses such as margin financing and securities lending, stock pledge and institutional sales.

### (II) Having a strong channel network with reasonable strategic layout

As at the End of the Reporting Period, the Company had 5 subsidiaries, 36 branches and 492 securities brokerage branches in central cities in 31 provinces, autonomous regions and municipalities directly under the Central Government across China. It is the securities company with the largest number of branches in China, laying an important foundation for its strong sales capability. The Company is accelerating the transformation of traditional securities brokerage branches to wealth management centers to secure high-end clients for the Company in developed regions, and benefit from the rapid economic growth and urbanization process in developing regions so as to grasp overseas business opportunities.

# COMPANY BUSINESS OVERVIEW

## **(III) Possessing a large and stable client base**

As at the End of the Reporting Period, the Company had 11,640,000 brokerage clients, representing a year-on-year increase of 7.39%, and served over 500 corporate clients in the investment banking business. Benefitted from its client base, the Company has significant potential for cross-selling among its business lines, helping itself quickly seize opportunities to develop new business.

## **(IV) Unique advantages from its shareholders**

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

## **(V) Having a high-quality and professional staff team**

Most of the Company's employees come from large state-owned financial institutions and state agencies, and have been working in the Company since its establishment. The vast majority of its staff members have a high degree of loyalty to the Company with excellent quality and have become experts in various fields, who are the Company's valuable assets.

# MANAGEMENT DISCUSSION AND ANALYSIS

## I. OVERALL OPERATION OF THE COMPANY

In the first half of 2020, the Company carried out operation and management system reform led by party building and implemented the business model of “Dual-wheel Drive and Coordinated Development”. The Company, on the basis of risk prevention and control, actively optimized business structure and profit model, taking the enhancement of core competitiveness as the starting point, continuously deepening reform and innovation, fully unleashing its development vitality, and striving to promote high-quality development of the Company. Furthermore, the Company actively promoted the wealth management transformation, steadily developed its credit business, successively implemented the innovation projects of investment business, and expedited and enlarged its international business. The Company’s reform and transformation have attained positive results, its operating performance improved significantly with continued progress in income structure. During the Reporting Period, the Group achieved revenue and other income of RMB14.521 billion, representing a year-on-year increase of 36.55%, and net profit attributable to owners of the Company of RMB3.552 billion, representing a year-on-year increase of 36.90%; the weighted average return on net assets was 4.89%, representing a year-on-year increase of 1.04 percentage points.

## II. ANALYSIS OF MAJOR BUSINESS

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

### 1. Brokerage, sales and trading business

During the Reporting Period, benefiting from active tradings in the A Share market, favorable online marketing results and a significant increase in risk appetite in the capital market, the Company seized market opportunities to promote wealth management transformation, and achieved a year-on-year growth of revenue from securities trading commissions while stabilizing market ranking and market share. During the Reporting Period, the Group’s brokerage business achieved revenue and other income of RMB6.394 billion, representing a year-on-year increase of 5.72%.

#### (1) Securities brokerage

During the Reporting Period, the wealth management business of the Company adhered to the “+ Internet” and vigorously developed the “Online Galaxy” and “Intelligent Galaxy” projects, as a result of which, online transactions accounted for more than 99%. The Group comprehensively promoted the transformation of the wealth management business and enhanced service capability and quality, striving to create a one-stop integrated financial service platform. The Company actively improved the promotion of businesses with institutional clients and continuously optimized customer structure and transaction structure. As at the End of the Reporting Period, the Company had 11,640,000 brokerage clients, representing a year-on-year increase of 7.39%. Among them, the Company provided 2,989 clients with PB trading service, representing a year-on-year increase of 29.0%; the number of managers providing comprehensive fund services was 1,910, representing a year-on-year increase of 6%. As at the End of the Reporting Period, the Company had 1,545 online fund service products, representing a year-on-year increase of 18%; the scale of its online products reached RMB63.9 billion, representing a year-on-year increase of 3%. During the Reporting Period, the Company’s securities brokerage business achieved a net income of RMB2.288 billion, ranking second in the industry.

# MANAGEMENT DISCUSSION AND ANALYSIS

The Company carried out supply-side structural reform in product innovation, introduced quality products, and accelerated the online construction of product sales and services. During the Reporting Period, net income from the distribution of financial products was RMB315 million, ranking second in the industry. The sales of various products totalled RMB47.199 billion, of which the sales of public offering products (excluding monetary funds) were RMB25.962 billion, representing a year-on-year increase of 151.02%. As at the End of the Reporting Period, product distribution business maintained a scale of RMB126.521 billion, representing a year-on-year increase of 7.8%.

The Company obtained the qualification for pilot of the first batch of public fund investment advisory of securities companies. The “Wealth Star-Fund Steward” project was launched on 15 May 2020. As at the End of the Reporting Period, it has been opened to 25 business departments, becoming the first securities company to launch such business online in Beijing and the first large-scale securities company in the industry to launch online business. As at the End of the Reporting Period, “Wealth Star-Fund Steward” had a total of 1,270 contracted clients, and accumulated entrusted assets of RMB24 million.

In addition, for its research and institutional sales and trading business, the Company has prepared special reports on convertible bonds, reports on allocation of major assets, compiled standard templates for stock pledged listed company report, constructed ETF fund investment portfolios, improved stock pool systems, and constantly enriched researched products for promoting research productization. Meanwhile, the Company continuously enhanced the research and service abilities of institutional sales and provided institutional investors with timely and efficient communication services through various methods such as teleconferences and one-on-one customer roadshows to lift market confidence.

## **(2) Futures brokerage**

Galaxy Futures adhered to the development principle of “specializing in bulk commodities and scaling in financial futures”, actively responded to changes in the macro context, fully explored the model for off-site account opening for customers, deeply expanded financial institution customer development, enhanced industrial customer retention and focused on the upgrade of internet marketing capabilities. As at the End of the Reporting Period, the number of accounts newly opened was 12,764, representing a year-on-year increase of 122.84%, of which the customer expansion of internet traffic referral accounted for approximately 40%. During the Reporting Period, the revenue and other income from the Group’s futures brokerage business amounted to RMB3.180 billion, representing a year-on-year increase of 246.32%; daily average interest of futures brokerage customers amounted to RMB22.717 billion, representing a year-on-year increase of 38.9%; total trading amount was RMB4.1 trillion (one-side), representing a year-on-year increase of 32.27%. Galaxy Futures had total assets under management of RMB3.662 billion providing 30 products of its asset management business, representing a year-on-year increase of 65.18% and 3.45% respectively. As at the End of the Reporting Period, Galaxy Futures had a total of 50 branches, representing an increase of 3 branches from the end of 2019.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **(3) Margin financing and securities lending and stock pledge**

The credit business of the Company adhered to the working principle of “stabilizing scale, adjusting structure, controlling risks and guaranteeing profits” by facilitating its margin financing and securities lending business to become a platform attracting trading-driven high-net-worth clients and professional investors and driving its stock pledge business to continuously improve the ability to achieve collaborative development among business segments and enhance the Company’s comprehensive competitiveness. For the margin financing and securities lending business, the Company adhered to the customer-centered principle and strengthened the application of financial technologies, optimized the customer service system; continuously optimized its customer structure and business structure, focused on developing professional investors and institutional customers, vigorously developed the securities lending business; strictly controlled the concentration of securities lending, and improved its risk management ability to properly mitigate risks. For stock pledge business, the Company focused on quality customers, raised project access standard and continuously optimized the project structure. At the same time, comprehensive service capabilities are generally improved through means such as risk differentiation identification, business collaboration, and system support. As at the End of the Reporting Period, the balance of the margin financing and securities lending of the Company amounted to RMB58.4 billion, representing an increase of 7.35% as compared with that at the end of last year, and the balance of the proprietary stock pledge business of the Company amounted to RMB25.9 billion, representing a decrease of 6.16% as compared with that at the end of last year.

## **(4) Asset management**

Galaxy Jinhui focuses on the deepening of customer service quality, diversified product line layout, and collaborative cooperation in key areas in its business development. By strengthening fixed income + active management of product innovation, it has consolidated the foundation of management capabilities of investment and research and advanced market adaptability. During the Reporting Period, due to the impact of “Guiding Opinions on Regulating Asset Management Business of Financial Institutions” (hereinafter referred to as “New Asset Management Regulations”), the Group’s assets management business achieved revenue and other income of RMB339 million, representing a year-on-year decrease of 8.41%. As at the End of the Reporting Period, the size of the assets under management of Galaxy Jinhui amounted to RMB196.680 billion, representing a decrease of 6.5% from the end of last year, among which, the active management scale was RMB82.130 billion, accounting for more than 41% and representing a year-on-year increase of approximately 6 percentage points. In particular, the size of collective asset management business was RMB59,717 billion, the single asset management business entrusted scale was RMB137.588 billion, and the size of special asset management business was RMB2.375 billion.



# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. Investment banking business

During the Reporting Period, the investment banking business of the Company seized the opportunity of multi-level capital market reforms, adhered to the business principles of “all-employee contracting, full-licensed operation, comprehensive coordination, and full-process risk control”. At the same time, the Company actively implemented national strategies and served the real economy, so that significant results have been achieved in supporting epidemic prevention and control and developing inclusive finance. During the Reporting Period, revenue and other income from the investment banking business of the Company was RMB250 million, representing a year-on-year decrease of 14.10%, which was mainly due to the adjustment in business structure.

### (1) Equity financing and financial advisory

According to Wind Information statistics, equity financing in China's capital market amounted to RMB648.663 billion during the Reporting Period, representing a year-on-year increase of 5.91%, and equity underwriting by the Company amounted RMB14.361 billion, representing a year-on-year increase of 95.33%. Among them mergers and acquisitions and reorganization business achieved breakthroughs. The Company served as the independent financial adviser and main underwriter of Harbin High-Tech and the Beixin Road and Bridge reorganization project. The Company has continuously strengthened its project reserves and improved its comprehensive service capabilities. There are 8 IPO projects and 5 refinancing projects under review. The number of projects under review has increased significantly compared with the same period last year.

### (2) Bond Financing

According to Wind Information statistics, the total issuance of China's credit bond market during the Reporting Period was RMB9,214.520 billion, representing a year-on-year increase of 39.30%. During the Reporting Period, the bond underwriting amount of securities of the Company was RMB46.823 billion, representing a year-on-year increase of 34.02%. Among them, the amount of non-policy financial bonds underwritten increased by 56.84% year-on-year. The Company made every effort to support the financing of local government bond issuance projects and ancillary services, and participated in the issuance of local government bonds in 27 provinces (cities). During the Reporting Period, we have underwritten a total of RMB7.633 billion of local government bonds, representing a year-on-year increase of 131.09%. The Company actively advocated and promoted the green finance development, and continued to strengthen the creation of various types of innovative bonds. During the Reporting Period, it successfully issued a green financial bond with a financing scale of RMB1.5 billion. The Company has actively fulfilled the social responsibilities of financial enterprises, increased financial support to the regions and industries that were heavily affected by the pandemic, and issued 6 bonds for COVID-19 prevention and control, raising a total of RMB6.1 billion, of which, an amount of RMB2.6 billion was raised for two enterprises in Hubei region to support enterprises there to recover from the pandemic.

### (3) New OTC Board

With the reform of the New OTC Board being steadily implemented, the Company completed 3 placing projects of companies listed on the New OTC Board with a financing scale of RMB708 million, accounting for 6.66% of the total financing of the New OTC Board. The Company actively engaged target companies intending to go public on the New OTC Board and properly arranged their listing in the selected layer, and 4 projects proposed for listing on the selected layer have commenced the guidance stage.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. Investment management business

### (1) Proprietary trading and other securities trading services

During the Reporting Period, the Company has continuously enhanced its search on proprietary investment, sought diversified development by timely expanding the scale of proprietary investment, optimizing debt management, and enriching its investment tools, in order to continuously improve business processes, strengthen business risk prevention and control, and actively respond to severe turbulence in both domestic and overseas capital markets. During the Reporting Period, revenue and other income from proprietary and other securities trading services of the Group was RMB3.079 billion, representing a year-on-year increase of 16.09%.

#### ① *Proprietary investment*

During the Reporting Period, for fixed income investment business, the Company actively optimized its business structure and profit model, implemented and strengthened underlying assets of bond investment, flexibly used derivatives to control interest risks and expanded its bond investment scale to generate stable returns. For equity investment business, the Company accelerated its business transformation, actively explored a business model with multiple strategies, and continued to train its team to improve its investment management capabilities. As at the End of the Reporting Period, the Company's dealer-quoted bond repurchase business (the product of "Daily Profits" (天天利)) continued to rank No. 1 in the scale of dealer-quoted pledged bond repurchase business of the SSE; its market-making business scale and profit maintained a vigorous growth momentum, and ranked among the top 3 in the assessment of the national debts and futures market making business.

The Company paid great attention to the possession of qualifications of various innovative businesses, seized the opportunity of deepening reform and development of the capital market, and assisted in the optimization and upgrading of proprietary investment business. First, with the successful implementation of the interest rate option business, the first batch of transactions was successfully completed, helping the Company conduct interest rate risk management operation and better serve enterprises. Second, the qualification for spot gold proprietary trading business approved by the China Securities Regulatory Commission was obtained, which helped the Company enrich the trading strategy tools and financing channels, expand the source of self-operating income, and enhance the Company's market influence and ability to serve the real economy. Third, business categories including equity return swaps, income certificates and standard bond forwards were enriched, which was conducive to the expansion of investment, scope optimization of investment structure and profit model of the Company.

#### ② *Other securities trading services*

For serving shareholders with large holding of shares, the Company continued to expand its pool of assets, expand its liability sources, and incorporate placement of shares into its business scope and thus achieved an effective combination of hedging risks, controlling drawdowns and obtaining stable returns. In terms of OTC derivatives business, the Company actively developed cross-border and income interchange business to serve cross-border needs of its clients. At the same time, it continued to provide on-site exchange-quoted bond repurchase products and floating income-linked income certificates products for institutional clients and retail clients to meet their needs for wealth management and allocation of major assets.

In terms of the share transfer market-making and proprietary business, the Company steadily fulfilled its obligation to make price quotes on the New OTC Board, achieving both liquidity provision and quote quality improvement. As at the End of the Reporting Period, the Company provided 11 stocks with market-making quote services. In accordance with relevant regulatory provisions and requirements, the equity transfer proprietary investment business has completed the establishment of the business system and the upgrade of risk control system for transactions. As at the publication date this report, the Company actively participated in the public issuance of the first batch of selected layer enterprises.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (2) Private equity investment

Galaxy Capital developed private equity fund business in key areas based on national and regional policies to lend support to the continuous growth and expansion of regional quality enterprises and development of the real economy by promoting the establishment of private equity fund platforms and fund investment operations. Through the development of business synergy in all aspects with other business lines of the Company, Galaxy Capital successfully integrated into the “enterprise-centered” investment and financing business comprehensive service system. With its timely and accurate identification of investment conflicts of interest and prevention of conflicts of interest risks, the research and establishment of a number of thematic funds were promoted by Galaxy Capital by making use of the comprehensive development, integration and utilization of the internal advantageous resources of the Group. During the Reporting Period, operating income of Galaxy Capital was RMB0.4667 billion, representing a year-on-year decrease of 99.12%, mainly due to a violent fluctuation in the fair value of equity securities held.

## (3) Alternative asset investment

During the Reporting Period, while striving to realize the potential appreciation of owned assets, Galaxy Yuanhui also attracted high-quality customer resources, discovered high-quality investment and financing projects and nurtured high-quality wealth management products for the Company, through proactive investment activities which facilitated the flowing of its funds into technological innovative companies and innovative investment products. Galaxy Yuanhui operates in compliance with the law, focuses on innovative enterprises, and carries out a visionary layout in high-tech fields such as advanced manufacturing, medical equipment, and corporate services. A number of investment projects have been listed on the sci-tech board. During the Reporting Period, operating income of Galaxy Yuanhui was RMB180 million, representing a year-on-year increase of 185.71%.

## 4. Overseas business

During the Reporting Period, the Hong Kong stock market has undergone a substantial adjustment in the first quarter of 2020, and a volatile and slowly upward trend was shown in the second quarter of 2020. Galaxy International Holdings adopted various measures to diversify its sources of income. While consolidating its three traditional businesses, being brokerage business, financing business and investment banking business, it vigorously consolidated proprietary securities trading, and developed and advanced its fixed income business, all of which maintained steady development. During the Reporting Period, Galaxy International Holdings recorded revenue and other income of RMB1.244 billion on a consolidated basis, representing a year-on-year increase of 108.11%. The trading volume of the brokerage business of Galaxy International Holdings increased by 31.45% year-on-year, driving the growth of commissions of brokerage business and interest income; investment banking business completed the underwriting of 4 companies on the Hong Kong main board. The debt underwriting business completed the underwriting of issuance of USD bonds of 4 companies.

During the Reporting Period, CGS-CIMB Securities International Pte. Ltd. (a subsidiary of Galaxy International Holdings, abbreviated as “CGS-CIMB Securities”) continued to maintain its leading position in the stock brokerage business in Singapore and Malaysia. Affected by the robust trading activities in the market, commissions of brokerage business of CGS-CIMB Securities and interest income achieved rapid growth, and its income sources were further expanded. During the Reporting Period, CGS-CIMB Securities realized a profit after taxation of S\$7.673 million (approximately RMB38,988,800), which was a significant increase in profitability as compared with a loss of S\$6.7937 million during the same period last year; CGS-CIMB Holdings Sdn. Bhd. (a joint venture subsidiary of Galaxy International Holdings, abbreviated as “CGS-CIMB Holdings”) realized a profit after taxation of S\$10,984,200 (approximately RMB55,814,000), and its profitability remained stable and has been improving.

# MANAGEMENT DISCUSSION AND ANALYSIS

## III. CHALLENGES AND PROSPECTS FOR THE SECOND HALF OF 2020

In the second half of 2020, in the face of the development environment of the securities industry where opportunities and challenges coexist, guided by President Xi Jinping's Thought on Socialism with Chinese Characteristics for a New Era, the Company will enhance the "Four Consciousnesses", uphold the "Four Confidences", endeavor to "Upholding the Two Aspects", earnestly implement the "Three Major Missions" of financial work and the work requirements of "Six Stabilities" and "Six Guarantees", adhere to the strategy as the guidance, development as the top priority, reform as the driving force, technology as support, talent as guarantee and risk control as the bottom line, and coordinate four key missions including strict Party governance, business development, epidemic prevention and control and capacity building comprehensively, in order to minimize the impact of the pandemic and promote high-quality development of the Company.

Firstly, the Company will expedite the development of "customer-centered" wealth management business system. The brokerage business adheres to "+ Internet" and vigorously promotes the construction of "Online Galaxy" and "Smart Galaxy"; at the same time, it actively develops institutional professional strategic transactions, and continues to optimize customer structure, transaction structure and revenue structure. Credit business adheres to the overall idea of "stabilizing scale, adjusting structure, ensuring returns, and controlling risks", and stabilizes relative scale while ensuring that risks are controllable. The asset management business meets the requirements of the "new asset management regulations", returns to the origin of asset management, continues to promote the construction of the investment and research system, strengthens internal and external business collaboration, and enhances the creation of financial products and professional services. The agency product business has increased its independent product creation efforts to create a leading financial product supermarket.

Secondly, the Company will expedite the development of the "enterprise-centered" investment and financing business system. The investment banking business adheres to the development principle of "full contract, full license management, full risk control, and full coordination" to create a cross-line and cross-market integrated value chain to provide customers with diversified and full-cycle comprehensive financial service solutions.

Thirdly, the Company will accelerate the development of the "Asia-centered" international business. The Company insists on using Galaxy International Holdings as its platform to strengthen its international business, continue to consolidate its base in Southeast Asia, cover Asia, choose opportunities to enter Russia and Africa, and focus on the international business layout in Europe and America. The Company will build a business model based on overseas local business and cross-border collaborative business as the core, take advantage of abundant customer resources and network resources, and enhances key services for "One Belt One Road", the Greater Bay Area, Hainan Free Trade Zone and "bringing in", "exporting" enterprises as well as other national strategies to realize the extended application of the Company's various businesses in international scenarios.

Fourthly, the Company will continue to steadily optimize self-operated investment and sales transaction business, and continue to consolidate and improve investment capabilities.

Fifthly, the Company will accelerate the marketization of its subsidiaries, such as Galaxy Futures, Galaxy Yuanhui and Galaxy Capital, to effectively enhance their profitability.

# MANAGEMENT DISCUSSION AND ANALYSIS

## IV. ANALYSIS OF FINANCIAL STATEMENTS

### Liquidity, financial resources and share capital structure

During the Reporting Period, the Group continuously maintained its profitability and realized capital preservation and appreciation. As at 30 June 2020, net assets attributable to owners of the Company amounted to RMB72.820 billion, representing an increase of RMB1.924 billion or 2.71% as compared with RMB70.896 billion as at the end of 2019, which was mainly due to an increase in profits of RMB3.552 billion in the first half of the year, the capital reserve increased by RMB202 million due to the acquisition of minority shares of Galaxy Futures by the Company, the general risk reserve accrued by Galaxy Jinhui, a subsidiary, in accordance with the Securities Law and supplemented by the acquisition of minority shares of Galaxy Futures amounted to a total of RMB96 million, a decrease in other comprehensive income of RMB0.208 billion, as well as the reduction of final dividend distribution of RMB1.622 billion for the year of 2019.

Asset structure was constantly improved and asset quality and liquidity remained satisfactory. As at 30 June 2020, total assets of the Group, excluding clients' funds, amounted to RMB287.224 billion, representing an increase of RMB52.067 billion or 22.14% as compared with the comparable data of total assets of RMB235.157 billion as at the end of 2019. In particular, cash and bank balances accounted for 7% of the total assets. Investment assets, which mainly consisted of investments in high liquidity financial assets, accounted for 54% of the total assets. Margin financing and securities lending business rose slightly, with advances to its customers accounting for 22% of the total assets. Financial assets held under resale agreements accounted for 10% of the total assets.

The gearing ratio of the Group increased slightly. As at 30 June 2020, the own gearing ratio of the Company was 74.38%, representing an increase of 4.96 percentage points as compared with 69.42% as at the end of 2019. Operating leverage rate (own asset/net assets attributable to the parent company) of the Company was 3.94 times, representing an increase of 18.67% as compared with 3.32 times as at the end of 2019. The increase in leverage ratio was mainly attributable to an increase in the Company's own liabilities.

Currently, the Company is raising short-term capital by issuing income certificates and short-term commercial papers, etc. Meanwhile, the Company is also raising long-term capital by various means, including the issuance of long-term corporate bonds and subordinated debts, based on the market conditions and its own needs. At present, the Company has obtained comprehensive credit lines from various commercial banks and can use the above debt financing instruments to raise funds based on its business needs.

Excluding the effect of changes in customers' margins, the net increase in cash and cash equivalents of the Company during the Reporting Period was RMB1.964 billion, representing a decrease of RMB6.860 billion as compared with RMB8.824 billion for the same period of 2019. The net cash flow from the operating activities of the Company during the Reporting Period was RMB10.603 billion, representing a year-on-year increase of RMB2.737 billion as compared with RMB7.866 billion for the same period of 2019, which was mainly due to the increase in securities brokerage; the net cash flow from the investing activities of the Company during the Reporting Period was RMB-17.586 billion, representing a decrease of RMB19.791 billion as compared with RMB2.205 billion for the same period of 2019, which was mainly due to the cash outflow resulting from other debt investment; the net cash flow from the financing activities of the Company during the Reporting Period was RMB8.947 billion, representing an increase of RMB10.194 billion as compared with RMB-1.247 billion for the same period of 2019, which was mainly due to an increase in financing scale of bonds in the first half of 2020.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Profitability analysis of the Company during the Reporting Period

In the first half of 2020, the Group realized revenue and other income of RMB14.521 billion, representing an increase of 36.55% as compared to the same period of last year, of which brokerage business realized revenue and other income of RMB6.394 billion, representing an increase of 5.72% as compared to the same period of last year; futures business realized revenue and other income of RMB3.180 billion, representing an increase of 246.32% as compared to the same period of last year; proprietary trading and other securities trading services realized revenue and other income of RMB3.079 billion, representing an increase of 16.09% as compared to the same period of last year; investment banking business realized revenue and other income of RMB250 million, representing a decrease of 14.10% as compared to the same period of last year; asset management business realized revenue and other income of RMB339 million, representing a decrease of 8.41% as compared to the same of last year; private equity and alternative investment business realized revenue and other income of RMB183 million, representing an increase of 50.84% as compared to the same period of last year; overseas business realized revenue and other income of RMB1.244 billion, representing a year-on-year increase of 108.11%. In the first half of 2020, expenses paid by the Group amounted to RMB9.966 billion, representing an increase of 37.70% as compared to the same period of last year.

In the first half of 2020, the Group realized net profits attributable to owners of the Company of RMB3.552 billion, representing an increase of 36.90% as compared to the same period of last year; the Group realized earnings per share of RMB0.35, representing an increase of 34.62% as compared to the same period of last year; and the weighted average return on net assets amounted to 4.89%, representing an increase of 1.04 percentage points as compared to the same period of last year.

## Asset structure and quality

As at 30 June 2020, total assets of the Group amounted to RMB385.346 billion, representing an increase of 22.07% as compared to the end of 2019. Monetary fund amounted to RMB91.842 billion, representing 23.83% of the total assets. Advances to customers amounted to RMB62.043 billion, representing 16.10% of the total assets. Financial assets purchased under resale agreements amounted to RMB28.281 billion, representing 7.34% of the total assets. Refundable deposits amounted to RMB13.905 billion, representing 3.61% of the total assets. Financial assets held for trading amounted to RMB88.357 billion, representing 22.93% of the total assets. Other debt investments amounted to RMB38.533 billion, representing 10.00% of the total assets. Investment in other equity instruments amounted to RMB23.384 billion, representing 6.07% of the total asset. The Group's assets were highly liquid with reasonable structure. In addition, according to the requirement of accounting policy, the Group made provision for corresponding impairment of financial instruments and confirmed loss reserves based on expected credit losses, and the asset quality was favorable.

As at 30 June 2020, total liabilities of the Group amounted to RMB311.766 billion, excluding securities brokerage services, the Group's own liabilities amounted to RMB213.644 billion, of which the Group's own current liabilities and own long-term liabilities amounted to RMB177.137 billion and RMB36.507 billion, representing a share of 82.91% and 17.09%, respectively. The Group's own liabilities were mainly comprised of short-term financing payables of RMB32.345 billion, representing a share of 15.14%; financial assets sold under repurchase agreements of RMB75.189 billion, representing a share of 35.19%; and bond payables, including long-term subordinated bonds, long-term corporate bonds and long-term income certificates, of RMB59.152 billion, representing a share of 27.69%. The gearing ratio of the Group was 74.38%, which represented a reasonable liabilities structure. The Group did not have any unpaid due debts and its business was in sound condition with strong profitability and good long-term and short-term solvency as well as favorable liquidity.

# MANAGEMENT DISCUSSION AND ANALYSIS

## V. ESTABLISHMENT AND DISPOSAL OF SECURITIES BRANCHES AND BRANCH OFFICES

### 1. Establishment and disposal of securities branches and branch offices

As at the End of the Reporting Period, the Company had established 36 branch offices and 492 securities branches.

#### (1) Cancellation of branch

In October 2019, the Company received the Approval from the CSRC Yunnan Office for the Cancellation of Hekou Fu'an Road Securities Branch by China Galaxy Securities Co., Ltd. (Yun Zheng Jian Xu Ke [2019] No. 11) (《雲南證監局關於核准中國銀河證券股份有限公司撤銷河口福安路證券營業部的批覆》(雲證監許可[2019]11號)). In January 2020, the cancellation procedure of branch was completed and the "Securities and Futures Business License" was returned to CSRC Yunnan Office.

#### (2) Relocation of branch offices and securities branches

The Company has constantly adjusted and optimized the branch layout. During the Reporting Period, the Company relocated 18 branches within the same city, including 2 branch offices and 16 securities branches.

##### ① Relocation of branch offices

No.	Province/ autonomous region/ municipality	Branch offices	Current addresses
1	Henan Province	Henan Branch	No. 202-206, 2nd Floor, Lifeng International Building, No. 6 Shangxian Street, Longzi Lake, Zhengdong New District, Zhengzhou City, Henan Province
2	Inner Mongolia Autonomous Region	Inner Mongolia Branch	Shop 101, Block B, Bolton Plaza, Ulanqab East Road, Saihan District, Hohhot, Inner Mongolia Autonomous Region

##### ② Relocation of securities branches

No.	Province/ autonomous region/ municipality	Original name of securities branches	Current name of securities branches	Current addresses
1	Zhejiang Province	Tongxiang Zhenxing East Road Securities Branch	Tongxiang Century Avenue Securities Branch	No. 1149, 1151 & 1153, Century Avenue, Wutong Street, Tongxing City, Jiaxing City, Zhejiang Province
2	Zhejiang Province	Taizhou Youdian Street Securities Branch	Taizhou Yinzuo North Street Securities Branch	Lane 965 No.20-1 – 38-1 (even number), Lane 967 No. 23-1 – 43.1 (odd number), Lane 967 No. 41, Yinzuo North Street, Lubei Street, Luqiao District, Taizhou City, Zhejiang Province
3	Guangdong Province	Guangzhou Guangzhou Avenue Central Securities Branch	Guangzhou Nansha Haibin Road Securities Branch	115, 116, 117, 126 & 127, No. 169, Haibin Road, Nansha Street, Nansha District, Guangzhou

# MANAGEMENT DISCUSSION AND ANALYSIS

No.	Province/ autonomous region/ municipality	Original name of securities branches	Current name of securities branches	Current addresses
4	Guangdong Province	Shenzhen Pingshan Kengzi Xinfu Street Securities Branch	Shenzhen Pingshan Securities Branch	810, 811, 812, Zhongtian Meijing Building, No. 2009 Pingshan Avenue, Liulian Community, Pingshan Street, Pingshan District, Shenzhen
5	Guangdong Province	Shantou Songshan Road Securities Branch	Shantou Songshan Road Securities Branch	Rooms 504, 505 & 506, Building 7, Fenggezhuang West District, Songshan Road, Longhu District, Shantou City, Guangdong Province
6	Guangdong Province	Shenzhen Shennan Avenue Securities Branch	Shenzhen Shennan Avenue Securities Branch	Unit 4501, Block A, Caiwuwei Jingji 100 Building, No. 5016 Shennan East Road, Luohu District, Shenzhen City
7	Guangdong Province	Shenzhen Fuyong Avenue Securities Branch	Shenzhen Jintian Road Securities Branch	2004, Zhongzhou Building, No. 3088 Jintian Road, Gangxia Community, Futian Street, Futian District, Shenzhen
8	Shanghai City	Shanghai Xinchang Road Securities Branch	Shanghai Xinzha Road Securities Branch	Room 603-604, No. 356 Xinzha Road, Huangpu District, Shanghai
9	Hubei Province	Xiangyang Securities Branch	Xiangyang Securities Branch	No. 301 & 302, 3/F, Tower 5, Minfa Century New City, Changhong Road, Fancheng District, Xiangyang City
10	Shandong Province	Linyi Yimeng Road Securities Branch	Linyi Yimeng Road Securities Branch	Shops 110-201 & 111-211, Building 8, South of the Intersection of Yimeng Road and Yinqueshan Road (Dayuan North District), Lanshan District, Linyi City, Shandong Province
11	Fujian Province	Xiamen Haitian Road Securities Branch	Xiamen Haitian Road Securities Branch	Units 39-5 & 39-6, No. 39 Haitian Road, Huli District, Xiamen City
12	Henan Province	Zhengzhou Jiankang Street Securities Branch	Zhengzhou Intelligence Island Securities Branch	202-206, 2/F, Lifeng International Building, No. 6 Shangxian Street, Longzi Lake, Zhengdong New District, Zhengzhou
13	Henan Province	Xuchang Xuji Avenue Securities Branch	Xuchang Wenfeng Road Securities Branch	No. 1732, Wenfeng Middle Road, Weidu District, Xuchang City, Henan Province
14	Guizhou Province	Zunyi Kunming Road Securities Branch	Zunyi Xianggang Road Securities Branch	D2/F, Yinggang Tower, Xianggang Road, Huichuan District, Zunyi City, Guizhou Province
15	Xinjiang Uyghur Autonomous Region	Changji Securities Branch	Changji Securities Branch	2/F, Changji Post Branch Office Building Attached Building, No.2 Yan'an North Road, Changji City, Xinjiang (Zone 1 Hill 2 Tower 1)
16	Inner Mongolia Autonomous Region	Hohhot Xinhua East Street Securities Branch	Hohhot Ulanqab East Street Securities Branch	Shop 101, Tower B, Bolton Plaza, Ulanqab East Road, Saihan District, Hohhot, Inner Mongolia Autonomous Region



# MANAGEMENT DISCUSSION AND ANALYSIS

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

On 21 November 2018, the Company and RBS Asia Futures Limited entered into the Equity Transfer Agreement, pursuant to which RBS Asia Futures Limited agreed to sell and the Company agreed to acquire 16.68% equity interest in Galaxy Futures. On 26 May 2020, the relevant procedures for filing with the industrial and commercial authority of the transaction were completed, and the Company has become interested in 100% equity interest in Galaxy Futures. For details, please refer to the announcement dated 27 May 2020 disclosed by the Company.

## VII. BOND FINANCING ACTIVITIES OF THE COMPANY

- Subordinated bonds issued during the Reporting Period are detailed as follows. Such bonds were listed on the SSE.

Unit: RMB100 million

Bond abbreviation	Issue method	Issue size	Use of proceeds	Value date	Maturity date	Coupon rate
20 Galaxy C1	Non-public	10	The raised proceeds are used to repay debt financing instruments that are due or sold back	2020-01-14	2022-01-14	3.65%
20 Galaxy C2	Non-public	40	The raised proceeds are used to repay debt financing instruments that are due or sold back	2020-01-14	2023-01-14	3.75%

- Corporate bonds issued non-publicly during the Reporting Period are detailed as follows. Such bonds were listed on the SSE.

Unit: RMB100 million

Bond abbreviation	Issue method	Issue size	Use of proceeds	Value date	Maturity date	Coupon rate
20 Galaxy F1	Non-public	32	The raised proceeds are used to repay debt financing instruments that are due or sold back	2020-02-17	2022-02-17	3.15%
20 Galaxy F2	Non-public	18	The raised proceeds are used to repay debt financing instruments that are due or sold back	2020-02-17	2023-02-17	3.25%
20 Galaxy F3	Non-public	40	The raised proceeds are mainly used to repay debt financing instruments that are due or sold back	2020-03-11	2023-03-11	2.88%
20 Galaxy F4	Non-public	10	The raised proceeds are used to repay debt financing instruments that are due or sold back	2020-03-11	2023-03-11	3.03%

# MANAGEMENT DISCUSSION AND ANALYSIS

3. Short-term commercial papers issued during the Reporting Period are detailed as follows. Such bonds were listed on the national inter-bank bond market.

Unit: RMB100 million

<b>Bond abbreviation</b>	<b>Issue method</b>	<b>Issue size</b>	<b>Use of proceeds</b>	<b>Value date</b>	<b>Maturity date</b>	<b>Coupon rate</b>
20 Galaxy Securities CP001	Public	20	The raised proceeds are used to fulfill the Company's liquidity needs and supplement working capital	2020-01-15	2020-04-15	2.75%
20 Galaxy Securities CP002	Public	30	The raised proceeds are used to fulfill the Company's liquidity needs and supplement working capital	2020-02-24	2020-05-25	2.50%
20 Galaxy Securities CP003	Public	40	The raised proceeds are used to fulfill the Company's liquidity needs and supplement working capital	2020-03-23	2020-06-22	1.89%
20 Galaxy Securities CP004	Public	40	The raised proceeds are used to fulfill the Company's liquidity needs and supplement working capital	2020-04-21	2020-07-21	1.40%
20 Galaxy Securities CP005	Public	40	The raised proceeds are used to fulfill the Company's liquidity needs and supplement working capital	2020-05-20	2020-08-19	1.55%
20 Galaxy Securities CP006	Public	40	The raised proceeds are used to fulfill the Company's liquidity needs and supplement working capital	2020-06-08	2020-09-04	2.10%
20 Galaxy Securities CP007	Public	40	The raised proceeds are used to fulfill the Company's liquidity needs and supplement working capital	2020-06-22	2020-09-18	2.20%

4. On 29 June 2020, the Resolution Regarding the Issuance of Perpetual Subordinated Bonds was considered and approved at the 2019 annual general meeting of the Company, which proposed to apply for the issuance of perpetual subordinated bonds of not more than RMB15 billion (RMB15 billion inclusive) by the Company in tranches according to its needs for business development. The resolution shall be valid for 24 months from the date of consideration and approval at the annual general meeting. Please refer to announcements of the Company dated 13 May 2020 and 29 June 2020 for details. On 12 August 2020, the CSRC issued the "Reply to the Opinions Concerning the Public Issuance of Perpetual Subordinated Bonds by China Galaxy Securities Co., Ltd." (Organization Department Han [2020] No. 2153) to the Company. Pursuant to the letter, the CSRC had no objection to the Company's public issuance of perpetual subordinated bonds. Please refer to the announcement of the Company dated 16 August 2020 for details.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

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

- (1) In August 2016 and August 2017, the Company provided a net capital guarantee of RMB1 billion and RMB2 billion, respectively, to Galaxy Jinhui, a subsidiary of the Company, to meet its business development needs.
- (2) On 22 June 2017, the “Resolution on Increase of Net Capital Guarantee Provided to Galaxy Jinhui” was considered and approved at the 2016 annual general meeting of the Company and the Company agreed to further provide a net capital guarantee of RMB3 billion to Galaxy Jinhui to meet its business development needs. As at 30 June 2020, the guarantee had not been performed.
- (3) On 26 February 2019, the “Resolution on the Review and Approval of the Provision of Bank Loan Guarantee by Galaxy International Holdings to CGS-CIMB Securities” was considered and approved at the 48th meeting (extraordinary) of the third session of the Board of Directors of the Company. According to the business development needs, it was agreed that Galaxy International Holdings would provide loan guarantees to CGS-CIMB Securities in coming three years with a limit of not more than RMB3.5 billion. As at 30 June 2020, the performed amount of the guarantee letter executed by Galaxy International Holdings was RMB965 million.

During the Reporting Period, there was no off balance sheet item or contingent liability which may have a material impact on the financial condition and operating results of the Company, such as material mortgage and pledge.

## IX. ANALYSIS ON MAJOR CONTROLLED COMPANIES AND INVESTEEES

- (1) Galaxy Futures Company Limited has a registered capital of RMB1.2 billion, in which the Company holds an equity interest of 100%. Its major business scope is commodity futures brokerage, financial futures brokerage, futures investment consultancy, assets management and sale of funds. According to the financial statements prepared in accordance with the China Accounting Standards for Business Enterprises, as at the End of the Reporting Period, the total assets and net assets of Galaxy Futures were RMB28.800 billion and RMB2.266 billion, respectively. In the first half of 2020, it achieved an operating income and a net profit of RMB3.167 billion and RMB161 million, respectively.
- (2) Galaxy Capital Management Company Limited has a registered capital of RMB1.0 billion, in which the Company holds an equity interest of 100%. Its major business scope is assets management, project investment and investment management. According to the financial statements prepared in accordance with the China Accounting Standards for Business Enterprises, as at the End of the Reporting Period, the total assets and net assets of Galaxy Capital were RMB1.272 billion and RMB1.056 billion, respectively. In the first half of 2020, it achieved an operating income and a net profit of RMB0.4667 million and RMB-6 million, respectively.
- (3) Galaxy International Holdings Company Limited has a registered capital of HK\$3.261 billion, in which the Company holds an equity interest of 100%. Its major business scope is to provide services of securities and futures brokerage, research and analysis, investment banking, margin financing and securities lending, asset management, wealth management, foreign exchange transactions and derivatives, etc. in regions and countries such as Hong Kong of China, Singapore, Malaysia, Indonesia, Thailand, India, South Korea, Britain and the United States through a number of wholly-owned subsidiaries and CGS-CIMB Securities and CGS-CIMB Holdings. According to the financial statements prepared in accordance with the China Accounting Standards for Business Enterprises, as at the End of the Reporting Period, the total assets and net assets of Galaxy International Holdings were RMB32.853 billion and RMB4.217 billion, respectively. In the first half of 2020, it achieved an operating income and a net profit of approximately RMB830 million and RMB88 million, respectively.

# MANAGEMENT DISCUSSION AND ANALYSIS

- (4) Galaxy Jinhui Securities Assets Management Co., Ltd. has a registered capital of RMB1.0 billion, in which the Company holds an equity interest of 100%. Its major business scope is securities assets management. According to the financial statements prepared in accordance with the China Accounting Standards for Business Enterprises, as at the End of the Reporting Period, the total assets and net assets of Galaxy Jinhui were RMB1.959 billion and RMB1.256 billion, respectively. In the first half of 2020, it achieved an operating income and a net profit of RMB318 million and RMB28 million, respectively.
- (5) Galaxy Yuanhui Investment Co., Ltd. has a registered capital of RMB3.0 billion, in which the Company holds an equity interest of 100%. Its major business scope is proprietary investment to enterprises business (including equity investment or bond investment), or to invest in other investment funds related to equity investment and bond investment. According to the financial statements prepared in accordance with the China Accounting Standards for Business Enterprises, as at the End of the Reporting Period, the total assets and net assets of Galaxy Yuanhui were RMB3.306 billion and RMB3.192 billion, respectively. In the first half of 2020, it achieved an operating income and a net profit of RMB180 million and RMB114 million, respectively.

## **X. STRUCTURED ENTITIES CONTROLLED BY THE COMPANY**

As at 30 June 2020, the Group consolidated 38 structured entities, including asset management schemes and partnerships. For asset management schemes with the Group as the manager and partnerships with the Group as a general partner or the investment manager, it identified the control right over certain asset management schemes and certain partnerships and incorporated them into the consolidation after considering its investment decision-making right on them, the exposure to variable returns and other factors. As at 30 June 2020, the total assets of the above structured entities incorporated into the consolidation were RMB4.427 billion.

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

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

As at the End of the Reporting Period, line of credit granted to the Group amounted to approximately RMB403.075 billion; the cap of borrowing for national inter-bank lending business of the Company (the parent company) approved by the People's Bank of China amounted to RMB20.0 billion; and the cap for dealer-quoted bond repurchase transactions in interbank bond market amounted to RMB30.0 billion.

## **XII. NUMBER OF EMPLOYEES, REMUNERATION AND TRAINING PLAN**

As at the End of the Reporting Period, the Group had 11,127 employees (including sales account managers), of which 8,633 were employees of the Company (including sales account managers).

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

# MANAGEMENT DISCUSSION AND ANALYSIS

In terms of trainings for employees, the Company has adhered to the management model that combines project management with quota management. The Company has reasonably distributed training resources, enhanced training efficiency, and put more efforts on training so as to achieve the objective of the overall appreciation of human capital. During the Reporting Period, the Company organized over 20 training sessions which trained more than 10,000 employees. In order to improve the general quality, professionalism, implementation capability and innovation of the professional personnel of each business line, the content of the training involved management training, business training, general skills training for employees, professional skills training, and training for new employees, etc.

## XIII. RISK MANAGEMENT

During the Reporting Period, by pursuing a sound risk management culture, continuously strengthening the construction of comprehensive risk management system, and further improving the comprehensive risk management system and comprehensive risk management organizational system, the Company clarified the risk management responsibilities of the “three-layer defense”. It implemented hierarchical risk indicator management, continued to optimize the mechanism for risk identification, assessment, measurement, monitoring, reporting and response, attached importance to and strengthened the construction of risk management talent teams, continued to promote the construction of various risk management systems, deepened the vertical risk management of its subsidiaries and effectively improved its risk management ability. Besides, the Company has always attached great importance to compliance risk. It has gradually established and improved an internal control mechanism for all staff and the whole process to ensure its operation in compliance with laws and regulations. The Company continued to increase IT investment, conducted IT basic research and construction, promoted the comprehensive and in-depth independent development to ensure safe and steady system operation, and established and improved a customer service system to provide effective support for its business development. To meet the needs of business development, operation and management, the Company actively assigned additional risk control, compliance and IT personnel to further enhance its core competitiveness of comprehensive risk management.

### (I) Major risks affecting the operation of the Company

The operating activities of the Company expose to risks mainly including market risk, credit risk, liquidity risk, operational risk, etc. During the Reporting Period, the Company adopted effective measures and actively responded to risks so as to comprehensively prevent the occurrence of significant risks and ensure the secure operation of business activities.

#### (1) Market risk

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

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

Securities price risk mainly relates to the Company’s proprietary investment and market making businesses. In order to effectively control risks, the Company mainly adopts the following measures: firstly, constructing securities portfolios and using financial derivatives for effective risk hedging; secondly, the risk exposures of the Company’s positions were managed on a unified basis. Through the defensive lines of the internal risk division of the business department and the risk management department, the Company implemented independent risk monitoring, analysis and reporting to discover and handle risks in a timely manner; thirdly, carrying out risk quota management to control risk exposure scale, concentration ratio and loss quota, and making adjustment from time to time to respond to the ever-changing market conditions, business development conditions or risk tolerance of the Company; fourthly, using quantitative methods such as VaR and combining with other methods, such as scenario analysis and stress testing to assess the relative and absolute risk of portfolios.

# MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the Company made active use of such ways as risk hedging and limit management, and effectively monitored and managed the position risks of the securities held by the Company. As at the End of the Reporting Period, the VaR of the Company's total investment portfolio amounted to approximately RMB148 million.

- ② Interest rate risk refers to the risks resulting from the change in interest rate. The assets of the Company exposed to interest rate risks mainly include bank deposits, clearing settlement fund, refundable deposits and debt equities, etc. The Company used sensitivity analysis as the main instrument for monitoring interest rate risks. Meanwhile, the Company reduced the interest rate risks of portfolios by allocating the duration and convexity of its investment portfolios of fixed income. During the Reporting Period, the overall interest rate risk of the Company was under control.
- ③ Currency rate risk is originated from the fluctuation of the fair value or future cash flows of financial instruments resulting from the change of currency rates of other countries. Given that the Company settles most of its transactions in RMB and the proportion of foreign currency assets, liabilities and proceeds of the Company in its total assets, liabilities and proceeds is small, the currency risk actually encountered by the Company is not significant. With the gradual expansion of overseas businesses as well as the progress in the internationalization of RMB, the currency rate risks of the Company will appear gradually. The Company will adopt reasonable and effective measures to hedge and manage currency rate risks.

## (2) Credit risk

Credit risk refers to the risk of incurring losses resulting from the failure of the borrower or counterparty to timely fulfill its contractual obligations. The Company managed credit risk mainly by evaluating credit risk in advance and following up credit risk afterward. On one hand, the Company has established and improved counterparty credit-rating and credit limit management mechanism to determine the threshold for entry of the business and client's credit qualification differentiation standards and adjusted the credit limit of clients in a timely manner based on their credit rating to control risk concentration. On the other hand, within the duration of business, the Company regularly evaluated and monitored the credit risks, continuously traced significant events that would affect clients' credit, closely monitored the credit exposure of clients, and identified, reported and dealt with risk of default in a timely manner.

During the Reporting Period, the Company's bond investment credit risk appetite remained relatively stable. The investors of credit bonds were mainly central enterprises and state-owned enterprises, with ratings of AA+ above (AA+ inclusive) accounting for 90%. They generally had high credit rating and low default risk. As at the End of the Reporting Period, the Company maintained an average margin ratio of 275% for its margin financing and securities lending clients with outstanding liabilities and an average margin ratio of 323% for its stock-pledged repurchase clients with outstanding liabilities. The overall credit risk of the Company was within the acceptable range.

## (3) Liquidity risk

Liquidity risk refers to the risk resulting from the failure to make payment, settlement, reimbursement, redemption and to meet obligations in connection with financial liabilities due to shortage of funds in the ordinary course of business of the Company.

To cope with and manage liquidity risk effectively, the Company has strengthened the real-time monitoring and management of usage of large amounts of funds in order to achieve centralized fund allocation and coordinated liquidity risk management; included the requirements, such as debt financing and leverage ratio in the risk limit and established and continued to optimize the liquidity risk indicator system; monitored and reported the liquidity of the Company on a daily basis in order to make risk warning in a timely manner; conducted regular stress tests to analyze and evaluate the level of liquidity risk; continued to optimize asset-debt structure to build a multi-level liquidity reserve system; and achieved the diversification of capital replenishment channels through accessing the currency market, capital market and bank credit. During the Reporting Period, the overall liquidity risk of the Company was under control. Various financial indicators had excellent performance. The liquidity risk control indicators met regulatory requirements continuously.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **(4) Operational risk**

Operational risk refers to the risk of incurring losses resulting from internal events including the defect of the Company's process, misconduct of personnel or system failures, or from such external events as natural disaster and fraud.

In order to manage operational risk effectively, the Company has established a well-established internal control system and regularly carried out effective assessment of internal control and compliance management throughout the Company. The risk management department has a designated second-level department for operational risk management to assist with the regulation and optimization of relevant business procedures, to identify, analyze and monitor operational risks, and to implement the unified management of risk events and data loss. Besides, the Company has constantly strengthened the suitability of behaviors and standardization of operations of personnel at all positions through internal training, supervision and assessment, etc., and promoted and optimized the functions of the systems. During the Reporting Period, the overall operational risk of the Company was under control.

## **(5) Cyber Security Risk**

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

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

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

The Company always attached great importance to risk management, continuously enhanced the establishment of the comprehensive risk management system, strengthened the risk management methods and tools, speeded up the construction of the information system for risk management, carried out risk management throughout the whole process, and actively promoted the financial statements consolidation management system to promote the deepening of the Group's risk management, so as to support and ensure the reform and transformation and business development of the Company.

### **(1) Deepening the establishment of the comprehensive risk management system of the Group**

With a top-down approach, the Board and the management of the Company attached great importance to risk management. The Company firmly consolidated its moral spirit, completed its important mission of preventing and resolving financial risks, organized leaders to deepen the Group's comprehensive risk management work, continuously improved the risk management environment, enhanced risk management guarantees and improved the level of risk management. The Company established group risk appetite, optimized the hierarchical risk limit management system, continued to improve the risk management system, strengthened risk monitoring, continuously optimized the risk reporting system, strengthened the promotion and training of risk management culture and incorporated its subsidiaries into the unified risk management system.

### **(2) Strengthening the risk management methods and tools**

By enhancing the risk management methods and tools, the Company fully identified the risks in a timely manner, prudentially evaluated all kinds of risks, constantly monitored risks, actively responded to various risks, and timely and comprehensively reported risks. The Company continuously enhanced risk evaluation and measurement methods, developed and applied a series of professional risk management methods and tools, to evaluate its risk levels and adopted corresponding methods which mainly included: enhancing such market risk evaluation techniques such as sensitivity analysis, scenario analysis, VaR, and pressure tests, etc.; continuously optimising internal credit rating systems to promote the unified customer management system; gradually establishing basic tools for operational risks, such as loss database, key risk indicators, risk control and self-evaluation; adopting liquidity risk evaluation measures such as financing capability analysis, asset realization analysis, dynamic and static cash flow forecasts, and stress tests; and further improving economic capital management and exploring the ways of using operating capital.

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

The Company established a group risk management system in accordance with the principle of "clear structure, comprehensive coverage, complementary, complete functions and sharing within the Group" to enhance the information, automation and intelligence level of risk management, which strongly supported the implementation of the comprehensive risk management system. The idea of "integrated design, use in advance in case of urgent demands, planning the implementation as a whole and crushing one by one" was adopted, and the data integration and governance were used as basis and the demands for risk management were used as a guide to design the overall structure of the risk management system and to cooperate in synchronization in completing the transformation of relevant production system and supporting system. As at the End of the Reporting Period, the Company had established the market risk measuring system, internal credit rating system, operational risk management system, financing risk monitoring system, liquidity risk management system, statement consolidation management system, risk engines etc. All kinds of risk management system have been stably advanced.



# MANAGEMENT DISCUSSION AND ANALYSIS

## **(4) Adopting a risk management throughout the whole process**

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

## **(5) Implementing a vertical risk management approach of “full coverage with penetration”**

Starting with statement consolidation management, the Company continuously promoted vertical risk management for its subsidiaries. The Company set up an unified vertical risk management mechanism for subsidiaries, formulated a differentiated subsidiaries’ risk management plan, controlled the subsidiary’s basic system, important credit limits, major investment decisions, new business and new products and other important risks-involved matters, and collected various risk data of the subsidiaries which were in turn incorporated in the Group’s risk monitoring reports, implemented the management of personnels in key risk positions of subsidiaries, and effectively strengthened the risk management and control of subsidiaries.

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

The Company has a sound organizational system for risk control indicator management. Management and monitoring of risk control indicators, stress test, internal audit review and other related work are carried out by designated staff of related departments. In 2020, the Company has conducted dynamic monitoring of routine net capital and liquidity risk control indicators using the risk control indicator dynamic monitoring system, realising real-time and dynamic monitoring and pre-warning of the Company’s net capital and liquidity risk control indicators. On 23 January 2020, the CSRC issued “Regulations on the Calculation Standards for Risk Control Indexes of Securities Companies” [Announcement No. 10], effective as from 1 June 2020. The Company completed the upgrade and transformation of the dynamic monitoring system for risk control indicators before 1 June 2020 to meet the regulatory requirements for dynamic monitoring of risk control indicators. In order to prevent any shock and impact on risk control indicators at the end of the period due to various factors, such as maturity of large debts, effective measures have been promptly taken, such as short-term borrowings and issuance of long-term bonds through earlier calculation and predicting net capital and liquidity risk control indicators at the end of the period, so as to prevent the possible risk of exceeding the limit of risk control indicators. The dynamic monitoring in the first half of 2020 showed that all of the Company’s net capital and liquidity risk control indicators continued to conform to regulatory provisions. Based on the market and business development needs, we carried out stress test mechanism and sensitivity analysis on both regular and ad hoc basis to analyze the conditions which may appear in the future and their impact on the net capital and liquidity risk control indicator of the Company, and formulated the relevant response measures to ensure that all risk control indicators reached the target levels.

In 2020, the Company made efforts to realize the strategic target of “building a carrier securities broker and a modern investment bank” by strengthening the management of liabilities and assets as well as the match management of assets and liabilities, so as to ensure the safety of the Company’s liquidity, the reasonable pricing of assets and optimization of asset allocation for striving to enhance the Company’s management level of assets and liabilities. The Company established a dynamic top-up mechanism and made long-term top-up plans for net capital. The Company raised short-term capital to increase its liquidity coverage rate by way of issuing income certificates and short-term commercial papers, etc. It replenished the long-term available stable fund to increase the net stable fund rate through the issuance of long-term corporate bonds and subordinated bonds. The Company adhered to prudent financial principles so as to ensure a dynamic balance between the business development and risk resistance capability of the Company. The Company made proper capital allocation and debt financing arrangements. When the capital adequacy target continued to fall or there were potentially significant adverse factors, the Company could start the financing programme at an appropriate time based on the market conditions to guarantee the capital adequacy. As at the end of June 2020, the Company issued 9 long-term subordinated debts to replenish net capital of subsidiaries with RMB11.950 billion and enhance their net capital strength.

# MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the Company's net capital and other risk control indicators continued to meet relevant regulatory requirements. As of the End of the Reporting Period, the major risk control indicators of the Company are as follows:

Items	As at 30 June 2020	As at 31 December 2019
Net capital (RMB)	<b>67,671,992,406.75</b>	69,016,811,519.68
Net assets (RMB)	<b>70,427,171,061.63</b>	68,812,993,726.55
Net Capital/Sum of risk provisions (%)	<b>282.85%</b>	367.00%
Net Capital/Net Assets (%)	<b>96.09%</b>	100.30%
Net Capital/Liabilities (%)	<b>36.49%</b>	45.69%
Net Assets/Liabilities (%)	<b>37.97%</b>	45.56%
Proprietary Equity Securities and Securities Derivatives/ Net Capital (%)	<b>22.14%</b>	18.39%
Proprietary fixed-income securities/Net Capital (%)	<b>189.11%</b>	138.40%
Capital Leverage (%)	<b>21.81%</b>	25.42%
Liquidity Coverage (%)	<b>256.27%</b>	307.93%
Net Stable Funding Ratio (%)	<b>131.16%</b>	125.88%

As of 30 June 2020, the Company's relevant risk control indicators, including its net capital and liquidity, complied with relevant regulatory requirements on net capital.

## XIV. CONNECTED TRANSACTIONS

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

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

On 2 May 2013, the Company entered into the Securities and Financial Services Framework Agreement with Galaxy Financial Holdings, pursuant to which, the Group shall provide securities and financial services based on normal commercial terms to Galaxy Financial Holdings and its subsidiaries ("Galaxy Financial Holdings Group"), including (1) securities brokerage services; (2) sales agency services; (3) leasing of exchange trading units; and (4) other related securities and financial services. The Group shall receive service charges and commissions from Galaxy Financial Holdings Group for the provision of such services and shall pay interest to Galaxy Financial Holdings Group in respect of its funds entrusted to the Group in connection with such services. The service charges and commissions receivable and interest payable by the Group shall be determined based on negotiation between the parties with reference to the prevailing market rates and shall be in compliance with the applicable laws and regulations. The framework agreement came into force on the listing date of H Shares (being 22 May 2013) for a term of three years. On 29 December 2015, the Company and Galaxy Financial Holdings entered into the Supplemental Agreement to the Securities and Financial Services Framework Agreement, whereby the term of the framework agreement was renewed to 31 December 2018. On 21 December 2018, the Company and Galaxy Financial Holdings entered into the "Second Supplemental Agreement to the Securities and Financial Services Framework Agreement", whereby the term of the Framework Agreement was further extended to 31 December 2021. Galaxy Financial Holdings is the controlling shareholder and therefore a connected person of the Company. As such, the above transactions constitute continuing connected transactions of the Company under the Stock Exchange Listing Rules.

# MANAGEMENT DISCUSSION AND ANALYSIS

For the three years ending 31 December 2021, the annual caps of the service charges and commissions payable by Galaxy Financial Holdings Group to the Group for the provision of securities and financial services under the framework agreement and the supplemental agreement will be RMB267 million, RMB320 million and RMB416 million, respectively, and the annual caps of the interest payable by the Group to Galaxy Financial Holdings Group for the entrusted funds will be RMB10 million, RMB15 million and RMB20 million, respectively. As the applicable percentage ratios under the Stock Exchange Listing Rules in respect of the annual caps are more than 0.1% but less than 5%, the Company is subject to the reporting, announcement and annual review requirements, but are exempt from the independent shareholders' approval requirement under the Stock Exchange Listing Rules.

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

Unit: RMB million

	<b>From January to June 2020 (Actual Transaction Amount)</b>	<b>Annual cap for 2020</b>
<b>Income (inclusive of tax)</b>		
Securities brokerage services	5.52	
Sales agency services	15.27	
Leasing of exchange trading units	18.10	
Other related securities and financial services	1.13	
<b>Total</b>	<b>40.02</b>	320.00
<b>Expenses</b>		
Interest expenses	0.76	
<b>Total</b>	<b>0.76</b>	15.00

# MANAGEMENT DISCUSSION AND ANALYSIS

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

On 6 June 2017, the Company entered into the “Securities and Financial Products Transactions Framework Agreement” with Galaxy Financial Holdings, pursuant to which, the Group will conduct securities and financial products transactions with Galaxy Financial Holdings Group on normal commercial terms in its ordinary course of business, which include: (1) securities products with fixed income features; (2) fixed income related derivative products; (3) equity related products; (4) financing transactions; and (5) other related securities and financial products transactions permitted by the regulatory authorities. The securities and financial products transactions, whether conducted in the PRC interbank bond market, the PRC exchange market or the open-ended fund market, shall be conducted on normal commercial terms at the prevailing market prices or market rates of similar transactions with independent third parties. The pricings of such transactions are subject to the strict PRC regulatory supervision and the requirements of applicable PRC laws and regulations. The framework agreement became effective on 12 July 2017 upon obtaining the approvals from the independent shareholders of the Company and the shareholders of Galaxy Financial Holdings (i.e. Huijin and the Ministry of Finance of the PRC), and expired on 31 December 2019. The above transactions constitute continuing connected transactions of the Company under the Stock Exchange Listing Rules.

The resolution regarding the renewal of the aforementioned continuing connected transactions was considered and approved on a Board meeting held by the Company on 12 November 2019, and an announcement was published on that same day. However, given that Galaxy Financial Holdings still needs some time to obtain the approval of its board of directors and general meeting, the Company has not yet entered into a supplementary agreement with Galaxy Financial Holdings in relation to the renewal framework agreement, nor has it convened a general meeting to seek approval from the independent shareholders of the Company. Prior to the approval by the independent shareholders of the Company regarding the renewal of the continuing connected transactions and the execution of the supplementary agreement between the Company and Galaxy Financial Holdings, any new securities and financial products transactions of the Group with Galaxy Financial Holdings will be subject to the relevant provisions of the Stock Exchange Listing Rules and the SSE Listing Rules.

During the Reporting Period, the total amount of funds outflowed from the Group to Galaxy Financial Holdings was RMB10.64 million, mainly due to the redemption by Galaxy Insurance Brokers (Beijing) Co., Ltd. (a subsidiary of Galaxy Financial Holdings) of wealth management products issued by the Group that Galaxy Insurance purchased during the term of the framework agreement. The applicable percentage ratios for such redemption (calculated in accordance with the Stock Exchange Listing Rules) are all less than 0.1%. During the Reporting Period, the Group did not enter into any new securities and financial product transactions with Galaxy Financial Holdings Group.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **XV. ADMINISTRATIVE REGULATORY MEASURES IMPOSED ON THE COMPANY AND ITS BRANCHES DURING THE REPORTING PERIOD AND RELEVANT MATTERS**

On 22 April 2020, CSRC Beijing Branch issued the Letter of Decision on Administrative Regulatory Measures (China Galaxy Securities Co., Ltd.) ([2020] No. 64) to the Company, imposing administrative regulatory punishment measures against certain misconducts of the Company, including holding a type of non-equity securities exceeding the prescribed upper limit, and, when acting as trustee of a private equity investment fund, changing the recipient's account to transfer the fund capital to the account of the fund manager according to the unilateral instruction made by the manager, and ordering the Company to rectify the same within a prescribed period of time, to improve its internal control system, to strengthen the monitoring of risk control indicators, to timely identify and report relevant issues, to perform duties and obligation in a diligent manner when acting as trustee of private equity investment funds, and to submit a written rectification report to CSRC Beijing Branch within 30 days upon receipt of the letter.

In response to the above, the Company took it seriously and instructed the departments concerned to look into such issues comprehensively and thoroughly and to identify underlying causes. The Company adopted effective and targeted rectification measures, further reinforced its monitoring of risk control indicators, updated and improved the relevant system in accordance with the Provisions on the Calculation Basis for Risk Control Indicators of Securities Companies implemented on 1 June 2020, enhanced collaboration and management across departments in connection with risk control indicators, and took effective measures to establish a long-term mechanism. In addition, the Company further enhanced its entrustment business management, completed modifications and amendments to money transfer approval process and contract templates for non-standard products, improved its processes related to due diligence investigation and review on new managers and products, with the aim to root out the risks pertaining to private equity entrustment operations. On 22 May 2020, the Company submitted to CSRC Beijing Branch the Report on Rectification by the Company in Response to Decision on Ordering China Galaxy Securities Co., Ltd. to Take Rectification Measures.

## **XVI. CAPITAL INCREASE OF A SUBSIDIARY**

On 12 February 2020, Galaxy International Holdings, CIMB Group Sdn. Bhd. ("CIMB Group") each invested SGD15 million (totaling SGD30 million) into Galaxy – CIMB Securities, and Galaxy – CIMB Securities issued and allotted 15 million new ordinary shares to Galaxy International Holdings and CIMB Group in equal proportions at a subscription price of SGD1.00 per share. Subsequent to the capital increase, Galaxy – CIMB Securities has a capital of SGD908 million, with the shareholding ratio of both shareholders remaining unchanged.

# CHANGE IN ORDINARY SHARES AND OTHER SITUATION

## I. CHANGE IN SHARE CAPITAL

During the Reporting Period, there was no change in the total number of shares and the share capital structure of the Company.

## II. CHANGES IN RESTRICTED SHARES DURING THE REPORTING PERIOD

Unit: share(s)

Name of shareholders	Number of restricted shares at the beginning of the period	Number of shares lifted during the Reporting Period	The number of restricted shares increased during the Reporting Period	Number of restricted shares at the end of the Reporting Period	Reasons for trading restrictions	Release date
China Galaxy Financial Holdings Company Limited	5,160,610,864	5,160,610,864	0	0	Trading restriction on IPO of A Shares	23 January 2020
Account No. 1 of National Council for Social Security Fund	57,132,376	57,132,376	0	0	Trading restriction on IPO of A Shares	23 January 2020
Total	5,217,743,240	5,217,743,240	0	0	/	/

## III. SHAREHOLDERS

### (i) Total number of shareholders:

Total number of ordinary shareholders as at the End of the Reporting Period (person)	93,648
Total number of preference shareholders with voting rights restored as at the End of the Reporting Period (person)	0

Note: The total number of shareholders includes A-share ordinary shareholders and H-share registered shareholders. As at the End of the Reporting Period, there were 92,909 A-share shareholders and 739 H-share registered shareholders.

# CHANGE IN ORDINARY SHARES AND OTHER SITUATION

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

Unit: Share(s)

### Shareholdings of the top 10 shareholders

Name of shareholders (Full name)	Increase or decrease during Reporting Period	Number of shares held as at the End of Reporting Period	Percentage (%)	Number of shares subject to trading restriction held	Pledged or frozen		Nature of shareholders
					Status of shares	Number	
China Galaxy Financial Holdings Company Limited	0	5,186,538,364	51.16	0	Nil	0	State-owned legal person
HKSCC Nominees Limited (Note 1)	-11,500	3,688,082,596	36.38	0	Nil	0	Overseas legal person
China Securities Finance Corporation Limited	0	84,078,210	0.83	0	Nil	0	State-owned legal person
Hong Kong Securities Clearing Company Limited (Note 2)	51,962,340	71,288,026	0.70	0	Nil	0	Overseas legal person
Bank of Lanzhou Co., Ltd.	0	43,070,130	0.42	0	Nil	0	Domestic non-state-owned legal person
Joincare Pharmaceutical Industry Group Co., Ltd.	-2,003,137	23,979,863	0.24	0	Nil	0	Domestic non-state-owned legal person
Shanghai Rural Commercial Bank Co., Ltd.	-11,000,000	20,000,000	0.20	0	Nil	0	Domestic non-state-owned legal person
Zhongshan Financial Investment Holdings Co., Ltd.	0	19,241,213	0.19	0	Nil	0	State-owned legal person
Bank of Communications Co., Ltd. – Maxwealth Technology Empowerment Hybrid Securities Investment Fund	18,630,729	18,630,729	0.18	0	Nil	0	Other
China Construction Bank Corporation – Guotai CSI All Share Securities Company Trading Index Securities Investment Open-ended Fund	4,006,900	17,437,883	0.17	0	Nil	0	Other

Note 1: The H Shares held by HKSCC Nominees Limited are held on behalf of multiple clients.

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

# CHANGE IN ORDINARY SHARES AND OTHER SITUATION

Unit: Share(s)

## Shareholdings of the top 10 shareholders not subject to trading restriction

Name of shareholders	Number of circulating shares not subject to trading restriction held	Type and number of shares	
		Type	Number
China Galaxy Financial Holdings Company Limited	5,186,538,364	A Shares	5,186,538,364
HKSCC Nominees Limited	3,688,082,596	H Shares	3,688,082,596
China Securities Finance Corporation Limited	84,078,210	A Shares	84,078,210
Hong Kong Securities Clearing Company Limited	71,288,026	A Shares	71,288,026
Bank of Lanzhou Co., Ltd.	43,070,130	A Shares	43,070,130
Joincare Pharmaceutical Industry Group Co., Ltd.	23,979,863	A Shares	23,979,863
Shanghai Rural Commercial Bank Co., Ltd.	20,000,000	A Shares	20,000,000
Zhongshan Financial Investment Holdings Co., Ltd.	19,241,213	A Shares	19,241,213
Bank of Communications Co., Ltd. – Maxwealth Technology Empowerment Hybrid Securities Investment Fund	18,630,729	A Shares	18,630,729
China Construction Bank Corporation – Guotai CSI All Share Securities Company Trading Index Securities Investment Open-ended Fund	17,437,883	A Shares	17,437,883
Details of the connected relationship among, or concerted actions between, the above shareholders	The Company is not aware of any connected relationship among, or any concerted action between, the above shareholders. In particular, the shares held by HKSCC Nominees Limited are H Shares entrusted by overseas investors; the shares held by Hong Kong Securities Clearing Company Limited are A Shares held by overseas investors through Northbound Trading.		
Preference shareholders with voting rights restored and number of shares held	Nil		



# OTHER INFORMATION

## **I. INTERIM DIVIDEND**

The Board does not recommend to declare the payment of interim dividend to the shareholders of the Company for the six months ended 30 June 2020.

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

Based on the information available to the Company and so far as the Directors are aware, as at the End of the Reporting Period, none of the Directors, Supervisors and chief executive of the Company has interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or (ii) which are required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein, or (iii) which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

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

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

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

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

Name of substantial shareholders	Class of shares	Nature of interest	Number of shares held (share) (Note 1)	Percentage of the total number of issued shares of the Company (%)	Percentage of the total number of issued A Shares/H Shares of the Company (%)	Long positions/short positions/shares available for lending
Huijin (Note 2)	A Shares	Interests of controlled corporation	5,160,610,864	50.91	80.06	Long position
	H Shares	Interests of controlled corporation	26,585,500	0.26	0.72	Long position
Galaxy Financial Holdings (Note 2)	A Shares	Beneficial owner	5,160,610,864	50.91	80.06	Long position
	H Shares	Beneficial owner	25,927,500	0.25	0.70	Long position
	H Shares	Interests of controlled corporation	658,000	0.01	0.02	Long position
Wenze International Investment Limited (Notes 3 & 4)	H Shares	Beneficial owner	219,524,000	2.17	5.95	Long position
Wang Yili (Note 3)	H Shares	Interests of controlled corporation	219,524,000	2.17	5.95	Long position
Yan Yuqing (Note 4)	H Shares	Interests of controlled corporation	219,524,000	2.17	5.95	Long position
BlackRock, Inc. (Note 5)	H Shares	Interests of controlled corporation	187,549,095	1.85	5.08	Long position
	H Shares	Interests of controlled corporation	1,799,000	0.02	0.05	Short position

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

Note 2: As at the End of the Reporting Period, Huijin directly held approximately 69.07% equity interest in Galaxy Financial Holdings and is therefore deemed to be interested in 5,160,610,864 A Shares and 26,585,500 H Shares directly held by Galaxy Financial Holdings. Galaxy Financial Holdings held approximately 62.69% equity interest in Galaxy Insurance Brokerage (Beijing) Company Limited (銀河保險經紀(北京)有限公司) and is therefore deemed to be interested in 658,000 H Shares held by Galaxy Insurance Brokerage (Beijing) Company Limited.

Note 3: Wang Yili holds 50% equity interest in Wenze International Investment Limited and is therefore deemed to be interested in 219,524,000 H Shares held by Wenze International Investment Limited.

Note 4: Yan Yuqing holds 50% equity interest in Wenze International Investment Limited and is therefore deemed to be interested in 219,524,000 H Shares held by Wenze International Investment Limited.

Note 5: BlackRock, Inc. holds a long position in 187,549,095 H Shares and a short position in 1,799,000 H Shares through various entities under its control. In addition, the short position in 1,782,500 H Shares involve derivatives, the category of which is: unlisted derivatives – cash settled.

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

# OTHER INFORMATION

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

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

## VI. COMPLIANCE WITH THE CG CODE

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

During the Reporting Period, the Company had been in strict compliance with the CG Code. Other than code provision A.4.2, the Company has complied with all code provisions and met the requirements of most recommended best practice provisions set out in the CG Code. Under code provision A.4.2 of the CG Code, each director shall retire by rotation at least once every three years. The term of the third session of the Board and the Supervisory Committee has exceeded three years. In accordance with the Articles of Association, members of the current session of the Board and the Supervisory Committee shall continue to perform duties until the establishment of the next session of the Board and the Supervisory Committee. As the nomination of candidates for the Directors and the Supervisors of the fourth session of the Board and the Supervisory Committee has not been completed, and the election process of the Board and the Supervisory Committee is still in preparation, in order to ensure the continuity of the work of the Board and the Supervisory Committee, the election of the fourth session of the Board and the Supervisory Committee will be postponed. The Company will submit the information on nomination or re-election of new session of Directors and Supervisors at the general meeting for approval in accordance with legal procedures, if practicable.

## VII. COMPLIANCE WITH THE MODEL CODE

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

## VIII. OPERATION OF THE BOARD AND ITS SPECIAL COMMITTEES

The Board currently comprises 10 Directors, including 2 executive Directors, 4 non-executive Directors and 4 independent non-executive Directors.

## OTHER INFORMATION

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

<b>Special committees</b>	<b>Chairman</b>	<b>Members</b>
Strategy and Development Committee	Chen Gongyan	Chen Liang, Liu Dingping, Xiao Lihong, Zhang Tianli, Liu Ruizhong, Wang Zhenjun
Compliance and Risk Management Committee	Liu Dingping	Chen Liang, Xiao Lihong, Zhang Tianli, Wang Zhenjun, Liu Chun, Wang Zelan
Nomination and Remuneration Committee	Liu Ruizhong	Liu Dingping, Wang Zhenjun, Liu Chun, Law Cheuk Kin Stephen
Audit Committee	Liu Chun	Zhang Tianli, Liu Ruizhong, Wang Zhenjun, Law Cheuk Kin Stephen

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

During the Reporting Period, the Board convened 1 annual general meeting, 1 A Share class meeting and 1 H Share class meeting, and submitted 25 proposals for shareholders' consideration. The Board actively organized, supervised and followed up the implementation of the resolutions passed at general meetings. The Board convened 3 Board meetings to consider 37 proposals. The Strategy and Development Committee convened 3 meetings, the Compliance and Risk Management Committee convened 3 meetings, the Nomination and Remuneration Committee convened 3 meetings, and the Audit Committee convened 3 meetings. The special committees gave full play to their own professional strengths, provided strong support for the decision-making of the Board and further enhanced the efficiency and level of decision-making of the Board.

In particular, the Audit Committee and the management have reviewed the accounting policies adopted by the Company, discussed matters including the risk management, internal control and financial statements of the Company, and fully reviewed the consolidated interim financial information of the Company for the six months ended 30 June 2020. The external auditor of the Company has reviewed the interim financial information in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

The financial data set forth in this interim report is unaudited.

### IX. OPERATION OF THE SUPERVISORY COMMITTEE

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

<b>Supervisory Committee</b>	<b>Chairman</b>	<b>Supervisors</b>
Supervisor	Chen Jing	Tao Libin, Fang Yan, Chen Jijiang (employee Supervisor), Fan Minfei (employee Supervisor)

The Supervisors performed their duties diligently and supervised the operation of the Company in accordance with relevant laws and regulations, including the Company Law and the Securities Law of the PRC, and the relevant requirements of the Articles of Association, so as to protect the legitimate interests of the Company and its shareholders. During the Reporting Period, the Supervisory Committee convened 2 meetings.



# OTHER INFORMATION

## **X. MATERIAL LITIGATIONS**

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

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

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

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

## **XII. RELEVANT SUBSEQUENT EVENTS**

1. On 17 July 2020, the Company completed the non-public issuance of 2020 corporate bonds (third tranche) with a term of one year, an issue size of RMB4 billion and a coupon rate of 3.28%.

On 29 July 2020, the Company completed the non-public issuance of 2020 corporate bonds (fourth tranche). The first type has a term of 2 years, an issue size of RMB3 billion and a coupon rate of 3.50%, and the second type has a term of 3 years, an issue size of RMB3 billion and a coupon rate of 3.72%.

2. On 15 July 2020, the Company completed the issuance of 2020 short-term commercial paper (eighth tranche) with a term of 91 days, an issue size of RMB4 billion and an annual coupon rate of 2.55%.

On 17 August 2020, the Company completed the issuance of 2020 short-term commercial paper (ninth tranche) with a term of 88 days, an issue size of RMB4 billion and an annual coupon rate of 2.62%.

3. On 14 August 2020, the CSRC issued the “Reply for the Approval on the Registration of Public Issuance of Corporate Bonds to Professional Investors by China Galaxy Securities Co., Ltd.” (Zheng Jian Xu Ke [2020] No. 1790), approving the Company’s registration application for public issuance of corporate bonds with an aggregate face value not exceeding RMB30 billion. Please refer to the announcement disclosed by the Company on 21 August 2020.

## **XIII. EVALUATION RESULTS OF THE COMPANY BY SECURITIES REGULATORY AUTHORITY**

In the evaluation of securities companies of 2020 carried out by the CSRC, the Company was assigned an AA rating in A class.

# OTHER INFORMATION

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

1. On 29 June 2020, Mr. Law Cheuk Kin Stephen was elected as an independent Director of the third session of the Board of Directors of the Company after consideration and approval by the 2019 annual general meeting of the Company.
2. On 25 March 2020, Mr. Fan Minfei was elected as an employee Supervisor of the third session of the Supervisory Committee of the Company after consideration and approval by the fifth meeting of the second session of the employee representative meeting. Ms. Liu Zhiyi ceased to be an employee Supervisor of the Company from 25 March 2020 due to attaining the statutory retirement age.
3. On 14 August 2020, Mr. Wu Jianhui was appointed as the Chief Risk Officer of the Company, and Mr. Chen Liang, the President and Vice Chairman of the Company, ceased to serve as the Chief Risk Officer concurrently after consideration and approval by the 60th meeting (extraordinary) of the third session of the Board of Directors of the Company. For details, please refer to the announcement dated 14 August 2020 disclosed by the Company.
4. On 14 August 2020, Mr. Ke Suchun was appointed as the Company's Securities Affair Representative after consideration and approval by the 60th meeting (extraordinary) of the third session of the Board of Directors of the Company. He will take office upon obtaining the qualification from the SSE.

## **XV. DETAILS OF, REASONS FOR AND IMPACT FROM THE CHANGES TO THE ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND AUDIT METHODS COMPARED WITH THE PREVIOUS ACCOUNTING PERIOD**

On 27 March 2020, it was considered and approved at the 57th meeting of the third session of the Board of the Company to make changes to the accounting policies and accounting estimates of the Company. In accordance with the actual operating conditions of the Company, the recognition standards for the Company's fixed assets and intangible assets were increased from RMB2,000 to RMB5,000, with effect from 27 March 2020. According to the relevant provisions of the accounting standards, changes in the recognition standards for fixed assets and intangible assets are changes in accounting estimates, and future application methods are used for subsequent processing. After evaluation, the change has no impact on the Company's 2019 financial statements, nor will it have a significant impact on the financial position, operating results and cash flow in 2020.

## XVI. MATERIAL CONTRACTS AND PERFORMANCE THEREOF

### 1. Lease

Name of lessor	Name of lessee	Leased assets	Amount of leased assets (RMB)	Commencement date of lease	Termination date of lease	Lease income	Determination basis for lease income	Impact of lease income on the Company	Connected transaction or not
TravelSky Technology Limited	The Group	Leasing of machine room and office area	117,365,396.25	1 April 2019	31 March 2029	N/A	Property lease contract	N/A	No
China United Network Communications Group Co., Ltd.	The Group	Housing	53,763,075.06	1 November 2015	31 October 2020	N/A	Property lease contract	N/A	No
China Life Real Estate Investment Management Co., Ltd.	The Group	Housing	51,676,258.71	6 September 2017	5 September 2022	N/A	Property lease contract	N/A	No
Shanghai Jingang North Bund Real Estate Company Limited	The Group	Housing	45,095,664.24	1 June 2019	30 September 2023	N/A	Property lease contract	N/A	No
Wing On Company Limited	The Group	Housing	73,486,517.73	1 August 2017	31 July 2023	N/A	Property lease contract	N/A	No
Wing On Company Limited	The Group	Housing	50,435,239.95	1 March 2020	31 July 2023	N/A	Property lease contract	N/A	No
S.L. Development Pte. Ltd	The Group	Housing	82,507,905.98	1 January 2017	31 December 2021	N/A	Property lease contract	N/A	No
Beijing West Mine Construction Co., Ltd.	The Group	Housing	536,277,129.86	1 January 2021	31 December 2025	N/A	Property lease contract	N/A	No

*Note 1:* On 3 July 2020, the Group and Beijing West Mine Construction Co., Ltd. entered into a property lease contract for the lease of Qinghai Financial Building in Fengtai District, Beijing, with the total contract amount of RMB536 million. The commencement date of the lease is 1 January 2021 and it will expire on 31 December 2025.

In addition, the commencement date and expiry date of the property lease contract entered into by the Group and Galaxy Investment Management Co., Ltd. regarding the lease of Corporate Square in Financial Street, Beijing were 1 January 2017 and 31 December 2019, respectively. Currently, details of the lease renewal between the Group and Galaxy Investment Management Co., Ltd. are set out in the relevant announcement disclosed on the same date of this report.

### Lease description

During the Reporting Period, the Group and TravelSky Technology Limited entered into a cooperation agreement (leasing of machine room), under which the rent for the first half of 2020 was RMB5.8682 million. The Group and China United Network Communications Group Co., Ltd. entered into a property lease contract, under which the rent for the first half of 2020 was RMB5.5617 million. The Group and China Life Real Estate Investment Management Co., Ltd. entered into a property lease contract, under which the rent for the first half of 2020 was RMB5.44 million. The Group and Shanghai Jingang North Bund Real Estate Company Limited entered into a property lease contract, under which the rent for the first half of 2020 was RMB3.61 million. The Group and Wing On Company Limited entered into a property lease contract, under which the rent for the first half of 2020 was HK\$12,731,200 (equivalent to RMB11,628,700). The Group and S.L. Development Pte. Ltd entered into a property lease contract, under which the rent for the first half of 2020 was SGD1,594,700 (equivalent to RMB8,102,700). The above-mentioned contract amounts shall be paid on a quarterly or monthly basis. Save as disclosed in this report, the Company was not engaged in any material lease (with an amount of over RMB10 million) during the Reporting Period, and no such matters were carried forward to the Reporting Period from the previous period.

### 2. Other material contracts

As at the End of the Reporting Period, the data center service contract dated December 2017 (RMB10,293,300) entered into between the Company and Shanghai Stock Exchange Technology Co., Ltd. is still being performed. Save for the above, the Company was not engaged in any material purchases (with an amount of over RMB10 million) during the Reporting Period and no such matters were carried forward to the Reporting Period from the previous period.



A stylized world map in light blue tones, overlaid with a network of white lines and dots representing global connectivity. The map is centered on the Atlantic Ocean.

# REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

CHINA GALAXY SECURITIES CO., LTD.  
(Incorporated in the People's Republic  
of China with Limited Liability)  
Report and Interim Condensed Consolidated Financial Information (Unaudited)  
For the six months ended 30 June 2020  
(Prepared under International Financial  
Reporting Standards)

# REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

## TO THE BOARD OF DIRECTORS OF CHINA GALAXY SECURITIES CO., LTD.

*(Incorporated in the People's Republic of China with limited liability)*

### INTRODUCTION

We have reviewed the accompanying interim financial information of China Galaxy Securities Co., Ltd. (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 50 to 116, which comprise the interim condensed consolidated statement of financial position as at 30 June 2020 and the related interim condensed consolidated statement of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) issued by the International Accounting Standards Board.

The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made 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 condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34.

#### **Ernst & Young**

*Certified Public Accountants*

Hong Kong

28 August 2020

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020  
(Amounts in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June	
		2020 (Unaudited)	2019 (Unaudited)
<b>CONTINUING OPERATIONS</b>			
<b>Revenue</b>			
Commission and fee income	5	4,068,572	3,220,201
Interest income	6	4,885,572	4,733,503
Investment income and gains or losses	7	2,927,658	2,115,765
		<b>11,881,802</b>	10,069,469
<b>Other income and gains</b>	8	<b>2,638,765</b>	564,082
<b>Total revenue, gains and other income</b>		<b>14,520,567</b>	10,633,551
Impairment losses, net of reversal	14	(59,267)	(33,572)
Depreciation and amortization	9	(385,090)	(342,182)
Staff costs	10	(2,726,718)	(2,466,549)
Commission and fee expenses	11	(388,935)	(160,035)
Interest expenses	12	(2,941,441)	(3,103,507)
Other operating expenses	13	(3,464,501)	(1,131,853)
<b>Total expenses</b>		<b>(9,965,952)</b>	(7,237,698)
<b>Share of result of a joint venture</b>		<b>26,456</b>	347
<b>Profit before income tax</b>		<b>4,581,071</b>	3,396,200
Income tax expense	15	(985,517)	(791,151)
<b>Profit for the period</b>		<b>3,595,554</b>	2,605,049
Profit for the period attributable to:			
Owners of the Company		3,552,441	2,595,002
Non-controlling interests		43,113	10,047
Earnings per share (Expressed in RMB per share)			
– Basic	16	0.35	0.26

The accompanying notes form an integral part of this interim financial information.

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

For the six months ended 30 June 2020  
(Amounts in thousands of Renminbi, unless otherwise stated)

	<b>Six months ended 30 June</b>	
	<b>2020</b> <b>(Unaudited)</b>	2019 (Unaudited)
<b>Profit for the period</b>	<b>3,595,554</b>	2,605,049
Other comprehensive income:		
<i>Items that will not be reclassified to profit or loss:</i>		
Fair value gains/(losses) on investments in equity instruments measured at fair value through other comprehensive income	<b>(62,412)</b>	512,276
Income tax effect on changes in fair value	<b>15,603</b>	(128,069)
Share of other comprehensive income of a joint venture, net of related income tax	–	(391)
Subtotal	<b>(46,809)</b>	383,816
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	<b>25,322</b>	47,427
Debt instruments measured at fair value through other comprehensive income:		
Fair value changes arising during the period	<b>81,315</b>	69,909
Reclassification adjustments included in profit or loss	<b>(301,128)</b>	(36,749)
Income tax that may be reclassified subsequently	<b>54,953</b>	(8,290)
Fair value gain/(losses) on hedging instruments designated in cash flow hedges	<b>(4,084)</b>	20,205
Share of other comprehensive expense of a joint venture, net of income tax	–	5,518
Subtotal	<b>(143,622)</b>	98,020
Other comprehensive income/(expense) for the period (net of tax)	<b>(190,431)</b>	481,836
Total comprehensive income for the period (net of tax)	<b>3,405,123</b>	3,086,885
Total comprehensive income for the period attributable to:		
Owners of the Company	<b>3,344,270</b>	3,067,429
Non-controlling interests	<b>60,853</b>	19,456
	<b>3,405,123</b>	3,086,885

The accompanying notes form an integral part of this interim financial information.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

(Amounts in thousands of Renminbi, unless otherwise stated)

	Note	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	18	395,663	382,820
Investment properties		7,936	8,034
Right-of-use assets	19	1,196,877	1,339,654
Goodwill	20	443,788	439,539
Other intangible assets	21	485,016	493,538
Interest in a joint venture	22	1,375,266	1,320,136
Financial assets measured at fair value through profit or loss	23	4,713,875	2,339,832
Debt instruments measured at fair value through other comprehensive income	25	133,596	100,053
Equity instruments measured at fair value through other comprehensive income	26	23,383,742	19,349,092
Debt instruments measured at amortized cost	27	3,841,396	4,314,343
Financial assets held under resale agreements	24	12,110,192	13,609,000
Deposits with exchanges and a non-bank financial institution	29	1,946,980	472,763
Other receivables and prepayments	28	1,138,931	1,106,599
Advances to customers	31	200,759	199,235
Deferred tax assets	30	73,059	99,832
Total non-current assets		51,447,076	45,574,470
<b>Current assets</b>			
Advances to customers	31	61,842,570	58,522,084
Accounts receivable	32	12,540,526	5,116,838
Tax recoverable		697,442	370,823
Other receivables and prepayments	28	2,426,481	1,841,999
Financial assets measured at fair value through profit or loss	23	83,642,710	71,699,287
Debt instruments measured at fair value through other comprehensive income	25	38,399,215	22,917,437
Equity instruments measured at fair value through other comprehensive income	26	154	156
Debt instruments measured at amortized cost	27	384,722	716,953
Financial assets held under resale agreements	24	16,171,118	16,829,084
Derivative financial assets	33	691,178	208,503
Deposits with exchanges and a non-bank financial institution	29	11,957,969	10,262,493
Clearing settlement funds	34	13,303,041	11,276,475
Bank balances	35	91,841,862	70,329,276
Total current assets		333,898,988	270,091,408
Total assets		385,346,064	315,665,878

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020  
(Amounts in thousands of Renminbi, unless otherwise stated)

	Note	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	36	10,137,259	10,137,259
Reserves		41,932,513	41,842,422
Retained profits		20,750,042	18,915,914
Equity attributable to owners of the Company		72,819,814	70,895,595
Non-controlling interests		760,039	1,026,104
Total equity		73,579,853	71,921,699
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Bonds payable	37	33,784,570	31,142,519
Financing payables	38	521,650	1,433,758
Financial liabilities measured at fair value through profit or loss	39	201,885	52,741
Other payables and accruals	40	469,853	466,476
Lease liabilities	19	896,198	822,767
Deferred tax liabilities	30	632,825	261,392
Total non-current liabilities		36,506,981	34,179,653

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

(Amounts in thousands of Renminbi, unless otherwise stated)

	Note	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
<b>Current liabilities</b>			
Bonds payable	37	21,529,179	26,522,572
Due to banks and other financial institutions	41	13,759,620	13,952,727
Financing payables	38	35,661,521	22,584,027
Accounts payable to brokerage clients	42	98,122,140	80,508,860
Accrued staff costs	43	3,225,011	3,354,729
Other payables and accruals	40	23,116,416	5,087,712
Lease liabilities	19	323,596	513,957
Current tax liabilities		45,984	49,155
Financial liabilities measured at fair value through profit or loss	39	3,714,695	1,665,341
Derivative financial liabilities	33	572,290	469,792
Financial assets sold under repurchase agreements	44	75,188,778	54,855,654
Total current liabilities		275,259,230	209,564,526
Total liabilities		311,766,211	243,744,179
Total equity and liabilities		385,346,064	315,665,878
Net current assets		58,639,758	60,526,882
Total assets less current liabilities		110,086,834	106,101,352

Approved and authorised for issue by the Board of Directors on 28 August 2020.

**Chen Gongyan**

*DIRECTOR*

**Chen Liang**

*DIRECTOR*

The accompanying notes form an integral part of this interim financial information.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020  
(Amounts in thousands of Renminbi, unless otherwise stated)

## Equity attributable to owners of the Company

	Reserves									Non-controlling interests	Total equity
	Share capital	Capital reserves	Investment revaluation reserve	Hedging reserve	Translation reserves	General reserves	Other reserves	Retained profits	Subtotal		
At 1 January 2020 (audited)	10,137,259	25,022,896	613,277	330	259,843	16,017,019	(70,943)	18,915,914	70,895,595	1,026,104	71,921,699
Profit for the period	-	-	-	-	-	-	-	3,552,441	3,552,441	43,113	3,595,554
Other comprehensive income for the period	-	-	(211,669)	(4,084)	7,582	-	-	-	(208,171)	17,740	(190,431)
Total comprehensive income for the period	-	-	(211,669)	(4,084)	7,582	-	-	3,552,441	3,344,270	60,853	3,405,123
Appropriation to general reserves	-	-	-	-	-	96,351	-	(96,351)	-	-	-
Capital injection by non-controlling shareholders of subsidiary	-	-	-	-	-	-	-	-	-	75,432	75,432
Dividend declared (Note 17)	-	-	-	-	-	-	-	(1,621,962)	(1,621,962)	-	(1,621,962)
Acquisition of non-controlling interests	-	201,911	-	-	-	-	-	-	201,911	(402,350)	(200,439)
At 30 June 2020 (unaudited)	10,137,259	25,224,807	401,608	(3,754)	267,425	16,113,370	(70,943)	20,750,042	72,819,814	760,039	73,579,853

The accompanying notes form an integral part of this interim financial information.



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

(Amounts in thousands of Renminbi, unless otherwise stated)

Equity attributable to owners of the Company

	Reserves								Subtotal	Non-controlling interests	Total equity
	Share capital	Capital reserves	Investment revaluation reserve	Hedging reserve	Translation reserves	General reserves	Other reserves	Retained profits			
At 1 January 2019 (audited)	10,137,259	25,022,896	155,601	(20,205)	139,749	14,536,634	(70,069)	16,080,223	65,982,088	355,773	66,337,861
Profit for the period	-	-	-	-	-	-	-	2,595,002	2,595,002	10,047	2,605,049
Other comprehensive income for the period	-	-	409,077	20,205	38,018	-	5,127	-	472,427	9,409	481,836
Total comprehensive income for the period	-	-	409,077	20,205	38,018	-	5,127	2,595,002	3,067,429	19,456	3,086,885
Appropriation to general reserves	-	-	-	-	-	-	-	-	-	-	-
Dividends declared (Note 17)	-	-	-	-	-	-	-	(912,353)	(912,353)	-	(912,353)
The amount of a share-based payment included in a shareholder's equity	-	67	-	-	-	-	-	-	67	-	67
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	646,770	646,770
Transfer within equity	-	-	-	-	-	-	-	-	-	-	-
At 30 June 2019 (unaudited)	10,137,259	25,022,963	564,678	-	177,767	14,536,634	(64,942)	17,762,872	68,137,231	1,021,999	69,159,230

The accompanying notes form an integral part of this interim financial information.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020  
(Amounts in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June	
		2020 (Unaudited)	2019 (Unaudited)
<b>OPERATING ACTIVITIES</b>			
Operating cash flows before movements in working capital		6,762,276	4,484,716
(Increase)/decrease in advances to customers		(3,348,557)	(8,519,333)
(Increase)/decrease in financial assets held under resale agreements		2,162,146	6,828,659
(Increase)/decrease in financial assets at fair value through profit or loss and derivative financial assets		(14,848,797)	(10,472,347)
(Increase)/decrease in clearing settlement funds-clients		(1,407,654)	1,925,823
(Increase)/decrease in cash held on behalf of customers		(20,584,763)	(25,049,014)
Increase/(decrease) in accounts payable to brokerage clients, accrued staff costs and other payables and accruals		33,873,724	27,454,567
Increase/(decrease) in financial assets sold under repurchase agreements		20,341,384	15,994,685
Increase/(decrease) in placements from a non-bank financial institution		(1,544,000)	(1,700,000)
Other working capital items		(8,950,809)	(1,394,083)
Cash from/(used in) operations		12,454,950	9,553,673
Income taxes paid		(846,545)	(866,977)
Interest paid		(1,005,468)	(820,576)
<b>NET CASH FROM/(USED IN) OPERATING ACTIVITIES</b>		<b>10,602,937</b>	<b>7,866,120</b>
<b>INVESTING ACTIVITIES</b>			
Dividends and interest received from investments		625,333	1,308,445
Purchases of property and equipment and other intangible assets		(256,534)	(113,805)
Proceeds from disposals of property and equipment and other intangible assets		5,525	7,219
Capital injection to a joint venture		(3,300)	(1,069,656)
Acquisition of a subsidiary, net of cash acquired		–	1,212,189
Purchases of financial assets at fair value through profit or loss		–	(1,817,335)
Proceeds from disposals of financial assets at fair value through profit or loss		–	2,921,012
Purchases of debt instruments at fair value through other comprehensive income		(36,649,718)	(9,423,133)
Proceeds from disposals of debt instruments at fair value through other comprehensive income		21,461,307	6,585,586
Purchases of equity instruments at fair value through other comprehensive income		(4,097,059)	(550,447)
Purchases of debt instruments measured at amortized cost		(592,589)	(144,618)
Proceeds from disposals of debt instruments measured at amortized cost		1,434,576	3,964,571
Placement of bank deposits with original maturity of more than three months		(539,156)	(1,732,904)
Maturity of bank deposits with original maturity of more than three months		1,025,519	1,058,018
<b>NET CASH (USED IN)/FROM INVESTING ACTIVITIES</b>		<b>(17,586,096)</b>	<b>2,205,142</b>

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020  
(Amounts in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June	
		2020 (Unaudited)	2019 (Unaudited)
<b>FINANCING ACTIVITIES</b>			
Transaction costs paid on issuance of bonds and financing payables		(56,604)	(52,830)
Cash injection by third-party holders to consolidated structured entities		13,077	17,658
Cash repayment to third-party interests in consolidated structured entities		(8,680)	(1,243,803)
Proceeds from borrowing and financing payables		36,694,032	19,996,370
Proceeds from bonds issued		15,000,000	14,000,000
Repayment of borrowing and financing payables		(22,465,599)	(16,574,712)
Repayment of bonds issued		(16,720,000)	(14,100,112)
Interest paid in respect of bonds, borrowing and financing payables		(3,233,366)	(2,535,825)
Dividends paid		–	(580,165)
Payment of lease liabilities		(112,197)	(173,591)
Capital injection by non-controlling shareholders of subsidiaries		75,432	–
Cash payment to acquire additional interests in subsidiaries		(239,424)	–
<b>NET CASH (USED IN)/FROM FINANCING ACTIVITIES</b>		<b>8,946,671</b>	<b>(1,247,010)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>1,963,512</b>	<b>8,824,252</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>		<b>10,499,839</b>	<b>8,645,592</b>
Effect of foreign exchange rate changes		22,872	4,662
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	45	<b>12,486,223</b>	<b>17,474,506</b>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:</b>			
Interest received		5,803,782	5,932,346
Total interest paid		(4,238,834)	(3,356,434)

The accompanying notes form an integral part of this interim financial information.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020  
(Amounts in thousands of Renminbi, unless otherwise stated)

## 1. GENERAL INFORMATION

Pursuant to the approval from the China Securities Regulatory Commission (the “CSRC”), China Galaxy Securities Co., Ltd. (the “Company”) was established in Beijing, the People’s Republic of China (the “PRC”) on 26 January 2007. In May 2013, the Company issued H shares which were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”). On 23 January 2017, the Company completed its A-Share Offering of 600 million shares on the Shanghai Stock Exchange.

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

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

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

The unaudited interim financial information was approved by the Board of Directors (the “Board”) on August 28, 2020.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The interim condensed consolidated financial information for the six months ended 30 June 2020 has been prepared in accordance with IAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements as at 31 December 2019.

The interim condensed consolidated financial information has been prepared on a historical cost basis, except for certain financial instruments that are measured at fair value. The interim condensed consolidated financial information are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020  
(Amounts in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of new standards effective as of 1 January 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments and interpretations apply for the first time in 2020, but do not have a significant impact on the interim condensed consolidated financial information of the Group.

Amendments to IFRS 3

*Definition of a Business*

Amendments to IFRS 7, IFRS 9 and IAS 39

*Interest Rate Benchmark Reform*

Amendments to IAS 1 and IAS 8

*Definition of Material*

Amendments to IFRS 16

*Covid-19-Related Rent Concessions*

IFRS 3 Amendments clarify and provide additional guidance on the definition of a business. The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the interim condensed consolidated financial information of the Group, but may impact future periods should the Group enter into any business combinations.

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the interim condensed consolidated financial information of the Group as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8 provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

IFRS 16 Amendment provides for rent relief during COVID-19, which provides an exemption for lessees. For lease payments due before June 2021, lessees are not required to apply the guidance on accounting treatment of lease changes in IFRS 16 for rent relief granted due to the impact of COVID-19. The amendment is applicable for annual reporting periods beginning on or after 1 June 2020 and permit earlier application.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020  
(Amounts in thousands of Renminbi, unless otherwise stated)

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 New standards, interpretations and amendments adopted by the Group (Continued)

Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2020 :

		<b>Effective for annual periods beginning on or after</b>
IFRS 3 Amendments	<i>Reference to the Conceptual Framework</i>	1 January 2022
IAS 16 Amendments	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>	1 January 2022
IAS 37 Amendments	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>	1 January 2022
IAS 1 Amendments	<i>Classification of Liabilities as Current or Non-current</i>	1 January 2023
IFRS 17 and Amendments	<i>Insurance Contracts</i>	1 January 2023
IFRS 10 and IAS 28 Amendments	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Effective date has been deferred indefinitely
Annual Improvements to IFRSs 2018-2020 Cycle (issued in May 2020)		1 January 2022

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2019.

## 4. SEGMENT REPORTING

Information reported to the board of directors of the Company, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance focuses on the nature of products sold and services provided by the Group, which is also consistent with the Group's basis of organization, whereby the businesses are organized and managed separately as individual strategic business units that offer different products and serve different markets. Segment information is measured in accordance with the accounting policies and measurement criteria adopted by each segment when reporting to the board of directors, which are consistent with the accounting and measurement criteria in the preparation of the interim condensed consolidated financial information.

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

- (a) Securities brokerage: This segment engages in the provision of securities dealing and broking, margin financing to margin clients and securities lending;
- (b) Futures brokerage: This segment engages in futures dealing and broking, futures information consulting and training;
- (c) Proprietary trading and other securities trading services: This segment engages in trading of equities, bonds, funds, derivatives and other financial products for the Group;

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020  
(Amounts in thousands of Renminbi, unless otherwise stated)

## 4. SEGMENT REPORTING (CONTINUED)

- (d) Investment banking: This segment engages in the provision of corporate finance services including underwriting of equity and debt securities and financial advisory services to institutional clients;
- (e) Asset management: This segment engages in the provision of portfolio management, investment advisory and transaction execution services;
- (f) Private equity and alternative investment: This segment makes equity investments in private companies and realizes capital gains by exiting from these private equity investments through initial public offerings or share sales, or receives dividends from these portfolio companies; and
- (g) Overseas business: This segment mainly represents the business operations in securities brokerage, futures brokerage, securities research, investment banking, margin financing, money lending, asset management and insurance brokerage business that are carried out overseas; and

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

Inter-segment transactions, if any, are conducted with reference to the prices charged to third parties and there was no change in the basis during both periods. Segment profit or loss represents the profit earned or loss incurred by each segment without allocation of income tax expenses. This is the measure reported to CODM for the purposes of resource allocation and performance assessment.

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

The Group operates in Mainland China, Hong Kong and other overseas areas, representing the location of both income from external customers and assets of the Group. Segment revenue and all assets of the Group in respect of the overseas business segment are attributable to operations in Hong Kong and other overseas areas, while other segment revenue and assets of the Group are attributable to operations in Mainland China. No single customer contributes more than 10% to the Group's revenue for the six months 30 June 2020 and 2019.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020  
(Amounts in thousands of Renminbi, unless otherwise stated)

## 4. SEGMENT REPORTING (CONTINUED)

The operating and reportable segment information provided to the CODM for the six months ended 30 June 2020 and 2019 is as follows:

	Securities brokerage	Futures brokerage	Proprietary trading and other securities trading services	Investment banking	Asset management	Private equity and alternative investments	Overseas business	Reportable segment total	Others	Eliminations	Consolidated total
<b>For the six months ended 30 June 2020 (Unaudited)</b>											
<b>Segment revenue and results</b>											
Revenue and net investment gains											
– External	6,178,856	590,563	3,078,501	249,824	335,047	180,585	1,221,190	11,834,566	47,236	-	11,881,802
– Inter-segment	198,183	1,063	-	-	3,434	-	-	202,680	200,001	(402,681)	-
Other income and gains	16,833	2,588,630	-	-	1,000	1,941	22,686	2,631,090	7,675	-	2,638,765
Segment revenue and other income	6,393,872	3,180,256	3,078,501	249,824	339,481	182,526	1,243,876	14,668,336	254,912	(402,681)	14,520,567
Segment expenses	(4,011,965)	(2,967,108)	(980,849)	(250,049)	(292,923)	(38,749)	(1,154,826)	(9,696,469)	(471,239)	201,756	(9,965,952)
Segment result	2,381,907	213,148	2,097,652	(225)	46,558	143,777	89,050	4,971,867	(216,327)	(200,925)	4,554,615
Share of result of a joint venture	-	-	-	-	-	-	26,456	26,456	-	-	26,456
Profit/(loss) before income tax	2,381,907	213,148	2,097,652	(225)	46,558	143,777	115,506	4,998,323	(216,327)	(200,925)	4,581,071



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020  
(Amounts in thousands of Renminbi, unless otherwise stated)

## 4. SEGMENT REPORTING (CONTINUED)

	Securities brokerage	Futures brokerage	Proprietary trading and other securities services	Investment banking	Asset management	Private equity and alternative investments	Overseas business	Reportable segment total	Others	Eliminations	Consolidated total
<b>As at 30 June 2020 (Unaudited)</b>											
<b>Segment assets and liabilities</b>											
Segment assets	165,224,822	28,794,183	141,616,892	1,456,551	1,940,665	4,592,041	31,456,108	375,081,262	147,409,290	(138,592,813)	383,897,739
Interest in joint venture	-	-	-	-	-	-	1,375,266	1,375,266	-	-	1,375,266
Deferred tax assets											73,059
Group's total assets											385,346,064
Segment liabilities	157,399,453	26,507,052	139,322,994	626,842	695,150	271,858	28,637,606	353,460,955	92,886,005	(135,213,574)	311,133,386
Deferred tax liabilities											632,825
Group's total liabilities											311,766,211
<b>For the six months ended 30 June 2020 (Unaudited)</b>											
<b>Other segment information</b>											
Depreciation and amortization	238,695	21,858	7,902	12,916	4,803	2,590	48,445	337,209	47,881	-	385,090
Impairment losses	18,047	8,878	7,369	761	15,708	(7,636)	15,745	58,872	395	-	59,267
Additions to non-current assets	17,384	6,390	-	-	65	87	24,371	48,297	85,510	-	133,807
Interest income from operations	3,526,513	170,181	71,072	71	12,544	1,665	309,947	4,091,993	82,096	-	4,174,089
Interest income from investments	-	2,483	705,394	-	3,606	-	-	711,483	-	-	711,483
Interest expenses	209,263	359	812,833	-	12,454	-	135,688	1,170,597	1,770,844	-	2,941,441

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 4. SEGMENT REPORTING (CONTINUED)

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

	Securities brokerage	Futures brokerage	Proprietary trading and other securities trading services	Investment banking	Asset management	Private equity and alternative investments	Overseas business	Reportable segment total	Others	Eliminations	Consolidated total
As at 31 December 2019 (Audited)											
<b>Segment assets and liabilities</b>											
Segment assets	144,710,107	21,354,629	112,567,848	760,511	1,923,005	4,524,751	21,248,041	307,088,892	135,157,735	(126,680,581)	315,566,046
Deferred tax assets											99,832
Group's total assets											315,665,878
Segment liabilities	143,907,004	19,237,892	109,665,478	888,612	612,634	265,293	17,262,267	291,839,180	78,315,474	(126,671,867)	243,482,787
Deferred tax liabilities											261,392
Group's total liabilities											243,744,179

For the six months ended											
30 June 2019 (Unaudited)											
<b>Other segment information</b>											
Depreciation and amortization	209,539	19,669	4,913	9,348	4,797	1,809	28,699	278,774	63,408	-	342,182
Impairment losses	(4,021)	11,613	2,307	107	11,731	(5,455)	2,331	18,613	14,959	-	33,572
Additions to non-current assets	29,158	6,799	-	-	77	56	17,019	53,109	44,159	-	97,268
Interest income from operations	3,460,356	181,700	133,879	151	14,345	4,513	257,277	4,052,221	84,740	-	4,136,961
Interest income from investments	-	3,532	575,223	-	17,787	-	-	596,542	-	-	596,542
Interest expenses	169,816	7,425	626,718	9,921	16,079	2,207	111,441	943,607	2,159,900	-	3,103,507

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 5. COMMISSION AND FEE INCOME

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Commission on securities dealing and broking and handling fee income	3,265,778	2,465,444
Underwriting and sponsors' fees	249,624	223,417
Commission on futures and option contracts dealing and broking and handling fee income	161,964	133,260
Consultancy and financial advisory fee income	48,025	47,680
Asset management fee income	310,582	325,932
Others	32,599	24,468
	<b>4,068,572</b>	3,220,201

## 6. INTEREST INCOME

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Deposits with exchanges and a non-bank financial institution and bank balances	1,107,049	1,076,431
Advances to customers and securities lending	2,174,860	1,837,032
Financial assets held under resale agreements	892,180	1,223,498
Debt instruments measured at fair value through other comprehensive income	631,523	463,455
Debt instruments measured at amortized cost	79,960	133,087
	<b>4,885,572</b>	4,733,503

## 7. INVESTMENT INCOME AND GAINS OR LOSSES

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Realized and unrealized gains/(losses) from		
– debt instruments measured at FVTOCI	312,978	36,051
– debt instruments measured at amortized cost	2,143	65,927
– financial assets measured at FVTPL	3,685,986	3,116,075
– financial liabilities designated at FVTPL	(443,750)	(153,436)
– derivatives	(788,383)	(1,023,868)
– financial liabilities held for trading	57,883	5,870
Dividend income from		
– equity instruments measured at FVTOCI	100,801	69,146
	<b>2,927,658</b>	2,115,765

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 8. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Income from bulk commodity trading	2,559,213	514,536
Government grants	8,179	8,088
Gains on disposals of property and equipment and other intangible assets	109	332
Foreign exchange gains/(losses)	17,626	3,855
Gross rental income	2,671	6,985
Others	50,967	30,286
	<b>2,638,765</b>	564,082

These government grants were received by the Group from the local governments to support operations in designated locations.

## 9. DEPRECIATION AND AMORTIZATION

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Depreciation for right-of-use assets	257,600	227,137
Depreciation for property and equipment	88,520	84,484
Depreciation for investment properties	98	–
Amortization of other intangible assets	38,872	30,561
	<b>385,090</b>	342,182

## 10. STAFF COSTS

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Salaries, bonus and allowances	2,333,400	1,990,201
Social welfare	209,732	306,975
Contributions to annuity schemes	80,726	50,433
Supplementary retirement benefits	3,463	–
Others	99,397	118,940
	<b>2,726,718</b>	2,466,549

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020  
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## 11. COMMISSION AND FEE EXPENSES

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Securities and futures dealing and broking expenses	373,421	157,528
Underwriting and sponsors' fee expenses	12,145	937
Other service expenses	3,369	1,570
	<b>388,935</b>	160,035

## 12. INTEREST EXPENSES

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Presented below are interest expenses on the following liabilities:		
– Bonds payable	1,450,048	1,995,388
– Financial assets sold under repurchase agreements	739,378	527,268
– Financing payables	320,787	149,867
– Accounts payable to brokerage clients	131,577	181,409
– Due to banks and other financial institutions	262,268	150,502
– Third-party interests in consolidated structured entities and others	37,383	99,073
	<b>2,941,441</b>	3,103,507

## 13. OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
General and administrative expenses	307,294	220,052
Value-added tax and surcharges	62,790	56,082
Minimum operating lease rentals in respect of rented premises	41,813	58,120
Data transmission expenses	146,776	88,600
Securities investor protection funds	35,403	30,102
Business travel expenses	11,816	39,514
Utilities expenses	16,348	17,859
Auditors' remuneration	4,920	–
Cost of commodity trading	2,650,382	516,454
Sundry expenses	186,959	105,070
	<b>3,464,501</b>	1,131,853

For the six months ended 30 June 2020, included in "Other operating expenses" were operating lease expenses related to lease liabilities of RMB25 million.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020  
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## 14. IMPAIRMENT LOSSES, NET OF REVERSAL

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Impairment losses recognized/(reversed) on:		
– Financial assets held under resale agreements (Note 24)	(1,921)	(1,092)
– Advances to customers (Note 31)	24,592	3,047
– Accounts receivable (Note 32)	10,585	961
– Other receivables (Note 28)	(4,723)	17,424
– Debt instruments measured at FVTOCI (Note 25)	11,850	2,494
– Debt instruments measured at amortized cost (Note 27)	6,933	(1,739)
– Bank balances	2,851	864
– Inventories	8,878	11,613
– Intangible assets	222	–
	<b>59,267</b>	33,572

## 15. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Current income tax		
PRC Enterprise Income Tax	497,785	424,787
Overseas Profits Tax	9,439	17,101
Underprovision in prior periods:		
PRC Enterprise Income Tax	9,531	112
Overseas Profits Tax	–	–
Subtotal	<b>516,755</b>	442,000
Deferred income tax	<b>468,762</b>	349,151
	<b>985,517</b>	791,151

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

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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 16. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic earnings per share attributable to owners of the Company is based on the profit attributable to owners of the Company and the number of ordinary shares in issue during the year.

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Profit attributable to owners of the Company	3,552,441	2,595,002
Weighted average number of shares in issue (thousand)	10,137,259	10,137,259
Basic earnings per share (in RMB)	0.35	0.26

No diluted earnings per share was presented for the six months ended 30 June 2020 and 2019 as there were no potential ordinary shares in issue during the periods.

## 17. DIVIDENDS

Dividends for ordinary shareholders of the Company declared during the six months:

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Dividends declared	1,621,962	912,353

A dividend in respect of 2019 of RMB1.6 per 10 shares (inclusive of tax), or a total of RMB1,621.96 million, based on a total of 10,137,258,757 shares in issue, was approved at the Annual General Meeting on 29 June 2020.

A dividend in respect of 2018 of RMB0.9 per 10 shares (inclusive of tax), or a total of RMB912.35 million, based on a total of 10,137,258,757 shares in issue, was approved at the Annual General Meeting on 28 May 2019.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 18. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Electronic and communication equipment	Motor vehicles	Office equipment	Leasehold improvements	Construction in progress	Total
<b>COST</b>							
As at 1 January 2019 (Audited)	248,829	762,131	90,165	133,842	356,064	-	1,591,031
Additions	20	104,157	1,311	10,986	50,973	-	167,447
Acquisition of subsidiaries	1,341	8,870	1,116	4,061	6,865	-	22,253
Exchange gains/(losses)	(95)	(666)	517	(191)	581	-	146
Disposals/write-off	-	(45,981)	(7,192)	(10,850)	(46,925)	-	(110,948)
As at 31 December 2019 (Audited)	250,095	828,511	85,917	137,848	367,558	-	1,669,929
<b>ACCUMULATED DEPRECIATION</b>							
As at 1 January 2019 (Audited)	152,395	652,104	81,877	107,061	233,098	-	1,226,535
Charge for the year	10,957	65,023	2,192	11,421	75,284	-	164,877
Disposals/write-off	-	(39,953)	(6,975)	(10,450)	(46,925)	-	(104,303)
As at 31 December 2019 (Audited)	163,352	677,174	77,094	108,032	261,457	-	1,287,109
<b>CARRYING VALUE</b>							
As at 31 December 2019 (Audited)	86,743	151,337	8,823	29,816	106,101	-	382,820
<b>COST</b>							
As at 1 January 2020 (Audited)	250,095	828,511	85,917	137,848	367,558	-	1,669,929
Additions	624	47,299	2,147	2,283	21,222	27,600	101,175
Exchange gains/(losses)	962	197	(113)	(33)	(398)	-	615
Disposals/write-off	-	(8,136)	(4,296)	(4,130)	(39,020)	-	(55,582)
As at 30 June 2020 (Unaudited)	251,681	867,871	83,655	135,968	349,362	27,600	1,716,137
<b>ACCUMULATED DEPRECIATION</b>							
As at 1 January 2020 (Audited)	163,352	677,174	77,094	108,032	261,457	-	1,287,109
Charge for the period	7,123	40,955	1,293	6,246	32,903	-	88,520
Disposals/write-off	-	(7,843)	(4,250)	(4,042)	(39,020)	-	(55,155)
As at 30 June 2020 (Unaudited)	170,475	710,286	74,137	110,236	255,340	-	1,320,474
<b>CARRYING VALUE</b>							
As at 30 June 2020 (Unaudited)	81,206	157,585	9,518	25,732	94,022	27,600	395,663



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 19. LEASES

### (a) RIGHT-OF-USE ASSETS

	<b>Buildings</b>
<b>Cost</b>	
As at 1 January 2019 (Audited)	1,487,214
Additions	329,147
Acquisition of subsidiaries	8,993
Deductions	(8,570)
Exchange differences	928
As at 31 December 2019 (Audited)	1,817,712
<b>Accumulated depreciation</b>	
As at 1 January 2019 (Audited)	–
Charge for the year	483,386
Deductions	(5,328)
As at 31 December 2019 (Audited)	478,058
<b>Net book value</b>	
As at 1 January 2019 (Audited)	1,487,214
As at 31 December 2019 (Audited)	1,339,654
<b>Cost</b>	
As at 1 January 2020 (Audited)	<b>1,817,712</b>
Additions	<b>106,214</b>
Deductions	<b>(26,777)</b>
Exchange differences	<b>9,119</b>
As at 30 June 2020 (Unaudited)	<b>1,906,268</b>
<b>Accumulated depreciation</b>	
As at 1 January 2020 (Audited)	<b>478,058</b>
Charge for the period	<b>257,600</b>
Deductions	<b>(26,267)</b>
As at 30 June 2020 (Unaudited)	<b>709,391</b>
<b>Net book value</b>	
As at 1 January 2020 (Audited)	<b>1,339,654</b>
As at 30 June 2020 (Unaudited)	<b>1,196,877</b>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 19. LEASES (CONTINUED)

### (b) LEASE LIABILITIES

The Group's lease liability is analysed by the maturity date-undiscounted analysis

	As at 30 June 2020 (Unaudited)		As at 31 December 2019 (Audited)	
	Lease liability	Undiscounted lease liability	Lease liability	Undiscounted lease liability
Less than 1 year	323,596	350,934	513,957	546,693
Over 1 years	896,198	1,005,394	822,767	941,105
Total	1,219,794	1,356,328	1,336,724	1,487,798

## 20. GOODWILL

	Goodwill
<b>Gross carrying amount</b>	
As at 1 January 2019 (Audited)	223,278
Acquisition of a subsidiary	206,653
Exchange gains	9,608
<b>As at 31 December 2019 (Audited)</b>	439,539
<b>Accumulated impairment losses</b>	
As at 1 January 2019 (Audited)	-
Impairment losses recognized during the year	-
<b>As at 31 December 2019 (Audited)</b>	-
<b>Net book value</b>	
As at 31 December 2019 (Audited)	439,539
<b>Gross carrying amount</b>	
As at 1 January 2020 (Audited)	439,539
Acquisition of a subsidiary	-
Exchange gains	4,249
<b>As at 30 June 2020 (Unaudited)</b>	443,788
<b>Accumulated impairment losses</b>	
As at 1 January 2020 (Audited)	-
Impairment losses recognized during the reporting period	-
<b>As at 30 June 2020 (Unaudited)</b>	-
<b>Net book value</b>	
As at 30 June 2020 (Unaudited)	443,788

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 20. GOODWILL (CONTINUED)

The Group acquired the securities brokerage business, investment banking business together with the relevant assets and liabilities, and the interest in Galaxy Futures Company Limited from China Galaxy Securities LLC. (the “former Galaxy”) in January 2007. The Group recognized the excess of acquisition cost over the fair value of the net identifiable assets acquired as the goodwill. As at 30 June 2020 and 31 December 2019, the gross carrying amount and net book value of goodwill were both RMB223 million.

The recoverable amount of the securities brokerage CGU has been determined based on a value in use calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and at a discount rate that reflected specific risks relating to the CGU. The cash flows beyond the 5-year period are assumed to remain unchanged.

The Group acquired the CGS-CIMB in April 2019. The Group recognized the excess of acquisition cost over the fair value of the net identifiable assets acquired as the goodwill. As at 30 June 2020, the gross carrying amount and net book value of goodwill were RMB221 million (31 December 2019: RMB216 million).

The recoverable amount of the cash-generating units is based on the present value of expected future cash flows, which was determined on financial forecasts approved by management covering an eight-year period and a pre-tax discount rate of 12.50%, which reflected specific risks related to the cash-generating units. The cash flows beyond the eight-year budget period were extrapolated using an estimated long-term growth rate of 2%, which does not exceed the long-term average growth rate for the business in which the cash-generating units operate. Other major assumptions for the recoverable amount estimation relate to the estimation of cash inflows/outflows which include budgeted income and profit margins. Such estimation is based on the cash-generating units’ past performance and management’s expectations for the market development.

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## 21. OTHER INTANGIBLE ASSETS

	Trading rights	Trademark	Computer software and others	Total
<b>COST</b>				
As at 1 January 2019 (Audited)	303,910	–	361,464	665,374
Additions	–	7,784	68,527	76,311
Acquisition of subsidiaries	1,573	–	117,379	118,952
Exchange gains	48	68	(22,203)	(22,087)
Disposals/write-off	–	–	(9,960)	(9,960)
As at 31 December 2019 (Audited)	305,531	7,852	515,207	828,590
<b>ACCUMULATED AMORTIZATION</b>				
As at 1 January 2019 (Audited)	–	–	273,707	273,707
Charge for the year	–	1,668	64,999	66,667
Disposals/write-off	–	–	(5,322)	(5,322)
As at 31 December 2019 (Audited)	–	1,668	333,384	335,052
<b>CARRYING VALUE</b>				
As at 31 December 2019 (Audited)	305,531	6,184	181,823	493,538
<b>COST</b>				
As at 1 January 2020 (Audited)	305,531	7,852	515,207	828,590
Additions	–	–	32,550	32,550
Exchange gains	(428)	(2,744)	12,666	9,494
Disposals/write-off	–	–	(11,731)	(11,731)
As at 30 June 2020 (Unaudited)	305,103	5,108	548,692	858,903
<b>ACCUMULATED AMORTIZATION</b>				
As at 1 January 2020 (Audited)	–	1,668	333,384	335,052
Charge for the period	–	1,147	37,725	38,872
Disposals/write-off	–	–	(259)	(259)
As at 30 June 2020 (Unaudited)	–	2,815	370,850	373,665
<b>IMPAIRMENT</b>				
As at 1 January 2020 (Audited)	–	–	–	–
Charge for the period	–	–	222	222
As at 30 June 2020 (Unaudited)	–	–	222	222
<b>CARRYING VALUE</b>				
As at 30 June 2020 (Unaudited)	305,103	2,293	177,620	485,016

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 21. OTHER INTANGIBLE ASSETS (CONTINUED)

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

### Impairment testing on intangible assets with indefinite useful lives

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

The respective recoverable amounts of these trading rights or CGUs where the trading rights are allocated to, using a value in use calculation, exceed their carrying amounts. Accordingly, there was no impairment of the trading rights as at 30 June 2020 and 31 December 2019.

## 22. INTEREST IN A JOINT VENTURE

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

	<b>As at 30 June 2020 (Unaudited)</b>	As at 31 December 2019 (Audited)
As at 1 January	1,320,136	876,823
Cost of investment in a joint venture	3,300	1,276,265
Share of post-acquisition profits and other comprehensive income	26,456	17,294
Disposals	–	(859,340)
Exchange adjustments and other	25,374	9,094
	<b>1,375,266</b>	1,320,136

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

	Country of incorporation/ registration	Principal place of business	Proportion of ownership interest held by the Group 30/06/2020	Proportion of voting rights held by the Group 30/06/2020	Principal activities
CGS-CIMB Holdings Sdn. Bhd.	Malaysia	Malaysia	50%	50%	Securities and futures broking, securities margin trading and research
China Securities Lize real estate (Beijing) Co., Ltd*	China	China	16.50%	34.00%	Real estate development and property management

\* The joint venture does not have an official English name.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 23. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	<b>As at 30 June 2020 (Unaudited)</b>	As at 31 December 2019 (Audited)
<b>Non-current</b>		
Funds	<b>263,194</b>	–
Trust schemes (a)	–	115,290
Other investments (b)	<b>4,450,681</b>	2,224,542
	<b>4,713,875</b>	2,339,832
<b>Current</b>		
Debt securities	<b>57,643,151</b>	47,983,207
Equity securities	<b>9,448,155</b>	5,802,802
Funds	<b>9,001,815</b>	10,699,749
Structured deposits and wealth management products	<b>3,933,116</b>	2,548,066
Trust schemes (a)	<b>69,401</b>	432,141
Other investments (b)	<b>2,574,266</b>	3,440,857
Add: Accrued interest	<b>972,806</b>	792,465
	<b>83,642,710</b>	71,699,287

- (a) The balance mainly represents investments in trust schemes which were issued and managed by a non-bank financial institution. Underlying assets of these trust schemes are asset-backed securities issued by a bank. The schemes bear effective interest at rates of 7.63%-9.33% per annum.
- (b) The balance mainly represents investments in: (i) collective asset management schemes issued and managed by the Group, whereby the Group's interest in and exposure to them are not significant, (ii) targeted asset management schemes (or trust investments) managed by non-bank financial institutions, which mainly invest in debt securities, publicly traded equity securities listed in the PRC, funds and loans, (iii) limited partnerships managed by non-bank financial institutions, which mainly invest in unlisted enterprises, (iv) equity investments in unlisted enterprises, and (v) perpetual bond.

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## 24. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	<b>As at 30 June 2020 (Unaudited)</b>	As at 31 December 2019 (Audited)
<b>Non-current</b>		
Analyzed by collateral type:		
Equity securities	12,122,095	13,622,331
Less: Impairment	(11,903)	(13,331)
	<b>12,110,192</b>	13,609,000
Analyzed by market of collateral:		
Stock exchanges	12,110,192	13,609,000
<b>Current</b>		
Analyzed by collateral type:		
Equity securities	14,208,188	14,743,573
Debt securities	2,207,694	2,344,731
Add: Accrued interest	102,792	92,280
Less: Impairment	(347,556)	(351,500)
	<b>16,171,118</b>	16,829,084
Analyzed by market of collateral:		
Stock exchanges	16,171,118	16,829,084

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

	<b>Six months ended 30 June 2020 (Unaudited)</b>	Year ended 31 December 2019 (Audited)
At the beginning of the period/year	364,831	114,762
Impairment losses recognized, net of reversal (Note 14)	(1,921)	254,129
Transfer out	(3,451)	(4,060)
At the end of the period/year	<b>359,459</b>	364,831

As at 30 June 2020, the fair values of collateral received by the Group were approximately RMB81,428 million (31 December 2019: RMB83,049 million).

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 25. DEBT INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<b>As at 30 June 2020 (Unaudited)</b>	As at 31 December 2019 (Audited)
<b>Non-current</b>		
Debt securities	<b>133,596</b>	100,053
<b>Current</b>		
Debt securities	<b>37,652,213</b>	22,416,030
Add: Accrued interest	<b>747,002</b>	501,407
	<b>38,399,215</b>	22,917,437

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

	<b>Six months ended 30 June 2020 (Unaudited)</b>	Year ended 31 December 2019 (Audited)
At the beginning of the period/year	<b>98,339</b>	28,522
Impairment losses recognized, net of reversal (Note 14)	<b>11,850</b>	69,817
At the end of the period/year	<b>110,189</b>	98,339



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## 26. EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<b>As at 30 June 2020 (Unaudited)</b>	As at 31 December 2019 (Audited)
<b>Non-current</b>		
Perpetual bonds	<b>15,621,512</b>	11,350,447
Equity investments <sup>(2)</sup>	<b>7,762,230</b>	7,998,645
	<b>23,383,742</b>	19,349,092
	<b>As at 30 June 2020 (Unaudited)</b>	As at 31 December 2019 (Audited)
<b>Current</b>		
Equity investments <sup>(2)</sup>	<b>154</b>	156
	<b>154</b>	156

- (1) These equity instruments are neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies. At the date of initial application of IFRS 9, the Group elected to present in OCI the subsequent changes in fair value of these investments previously classified as available-for-sale financial assets carried at fair value under IAS 39.
- (2) As at 30 June 2020, the cost and fair value of the Company's investment managed by CSFCL were RMB7,800 million and RMB7,762 million, respectively.
- (3) During the period, the Group did not dispose of any investment in a perpetual bond.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 27. DEBT INSTRUMENTS MEASURED AT AMORTIZED COST

	<b>As at 30 June 2020 (Unaudited)</b>	As at 31 December 2019 (Audited)
<b>Non-current</b>		
Debt securities <sup>(1)</sup>	<b>3,860,902</b>	4,326,289
Less: Impairment	<b>(19,506)</b>	(11,946)
	<b>3,841,396</b>	4,314,343
<b>Current</b>		
Debt securities <sup>(1)</sup>	<b>93,017</b>	588,173
Others	<b>193,816</b>	75,259
Add: Accrued interest	<b>103,595</b>	59,854
Less: Impairment <sup>(2)</sup>	<b>(5,706)</b>	(6,333)
	<b>384,722</b>	716,953

(1) As at 30 June 2020, the interest rates on these debt securities are between 3.12%-8.30% per annum. (31 December 2019: 3.12%-7.45% per annum).

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

	<b>Six months ended 30 June 2020 (Unaudited)</b>	Year ended 31 December 2019 (Audited)
At the beginning of the period/year	<b>18,279</b>	8,946
Impairment losses recognized, net of reversal (Note 14)	<b>6,933</b>	9,333
At the end of the period/year	<b>25,212</b>	18,279

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 28. OTHER RECEIVABLES AND PREPAYMENTS

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
<b>Non-current</b>		
Prepayments	1,138,931	1,088,840
Others	–	17,759
	<b>1,138,931</b>	1,106,599
<b>Current</b>		
Prepaid taxes	22,267	5,101
Interest receivable	37,542	19,138
Prepayments	330,303	192,049
Assets disposal receivable	35,000	40,000
Margin financing clients receivable	256,088	256,764
Inventories	810,250	810,304
Others	1,235,507	821,533
Subtotal	2,726,957	2,144,889
Less: Impairment	(300,476)	(302,890)
Total	<b>2,426,481</b>	1,841,999

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

	Six months ended 30 June 2020 (Unaudited)	Year ended 31 December 2019 (Audited)
At the beginning of the period/year	302,890	307,816
Impairment losses recognized, net of reversal (Note 14)	(4,723)	67,247
Amounts written off	–	(52,195)
Exchange difference and others	2,309	(19,978)
At the end of the period/year	<b>300,476</b>	302,890

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 29. DEPOSITS WITH EXCHANGES AND A NON-BANK FINANCIAL INSTITUTION

	<b>As at 30 June 2020 (Unaudited)</b>	As at 31 December 2019 (Audited)
<b>Non-current</b>		
Deposits with stock exchanges	<b>626,956</b>	107,648
Deposits with futures and commodity exchanges	<b>800,331</b>	17,031
Guarantee fund paid to the Shenzhen Stock Exchange	<b>162,435</b>	111,913
Others	<b>357,258</b>	236,171
	<b>1,946,980</b>	472,763
<b>Current</b>		
Deposits with futures and commodity exchanges	<b>11,785,238</b>	10,061,335
Deposits with CSFCL	<b>172,731</b>	201,158
	<b>11,957,969</b>	10,262,493

## 30. DEFERRED TAXATION

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

	<b>As at 30 June 2020 (Unaudited)</b>	As at 31 December 2019 (Audited)
Deferred tax assets	<b>73,059</b>	99,832
Deferred tax liabilities	<b>632,825</b>	261,392
	<b>(559,766)</b>	(161,560)

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020  
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## 30. DEFERRED TAXATION (CONTINUED)

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

	Changes in fair value of financial assets at fair value through profit or loss	Changes in fair value of financial assets at FVTOCI	Accrued staff costs	Allowance for impairment losses	Accrued interest expenses	Accrued expenses	Changes in fair value of derivative instruments	Accrued interest income	Others	Total
As at 1 January 2019 (Audited)	275,231	(51,866)	310,036	150,701	570,037	15,424	(30,966)	(768,637)	(2,602)	467,358
(Charge)/credit to profit or loss	(480,755)	-	(78,984)	76,371	(4,071)	6,891	70,273	(80,695)	(20,005)	(510,975)
Charge to other comprehensive income	-	(152,558)	-	-	-	-	-	-	-	(152,558)
Deferred taxes acquired in business combinations	-	-	12,781	2,301	-	-	-	-	19,533	34,615
As at 31 December 2019 (Audited)	(205,524)	(204,424)	243,833	229,373	565,966	22,315	39,307	(849,332)	(3,074)	(161,560)
(Charge)/credit to profit or loss	(180,251)	-	(142,179)	(6,334)	(165,239)	39,679	85,812	(104,490)	4,240	(468,762)
Credit to other comprehensive income	-	70,556	-	-	-	-	-	-	-	70,556
As at 30 June 2020 (Unaudited)	(385,775)	(133,868)	101,654	223,039	400,727	61,994	125,119	(953,822)	1,166	(559,766)

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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 31. ADVANCES TO CUSTOMERS

	<b>As at 30 June 2020 (Unaudited)</b>	As at 31 December 2019 (Audited)
<b>Non-current</b>		
Loans to margin clients	<b>129,362</b>	129,213
Other loans and advances	<b>71,397</b>	70,022
	<b>200,759</b>	199,235
<b>Current</b>		
Loans to margin clients	<b>59,303,831</b>	55,471,007
Other loans and advances	<b>791,760</b>	1,139,634
Add: Accrued interest	<b>1,904,767</b>	2,042,685
Less: Impairment	<b>(157,788)</b>	(131,242)
	<b>61,842,570</b>	58,522,084

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

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

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

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

	<b>Six months ended 30 June 2020 (Unaudited)</b>	Year ended 31 December 2019 (Audited)
At the beginning of the period/year	<b>131,242</b>	101,695
Acquisition of subsidiaries	–	7,335
Impairment losses recognized, net of reversal (Note 14)	<b>24,592</b>	(3,944)
Exchange difference and others	<b>1,954</b>	26,156
At the end of the period/year	<b>157,788</b>	131,242

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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 32. ACCOUNTS RECEIVABLE

	<b>As at 30 June 2020 (Unaudited)</b>	As at 31 December 2019 (Audited)
Accounts receivable of:		
Client securities settlement	11,064,907	2,051,576
Brokers and dealers	531,921	1,019,158
Clearing house	201,965	1,611,298
Underwriting and sponsors fee	189,052	180,803
Trading rights rental commission	54,322	49,437
Asset management and funds distribution handling fees	286,901	210,441
Others	312,083	122,412
Subtotal	12,641,151	5,245,125
Less: Impairment	(100,625)	(128,287)
Total	12,540,526	5,116,838

An aging analysis of accounts receivable, based on the revenue recognition dates, is as follows:

	<b>As at 30 June 2020 (Unaudited)</b>	As at 31 December 2019 (Audited)
Within 1 year	12,391,934	4,976,822
Between 1 and 2 years	39,171	42,448
Between 2 and 3 years	27,696	20,637
Over 3 years	81,725	76,931
	12,540,526	5,116,838

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

	<b>Six months ended 30 June 2020 (Unaudited)</b>	Year ended 31 December 2019 (Audited)
At the beginning of the period/year	128,287	83,291
Impact of acquisition of subsidiaries	-	33,588
Impairment losses recognized, net of reversal (Note 14)	10,585	11,493
Amounts written off	-	(2,740)
Exchange difference and others	(38,247)	2,655
At the end of the period/year	100,625	128,287

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## 33. DERIVATIVE FINANCIAL INSTRUMENTS

	AS at 30 June 2020			As at 31 December 2019		
	(Unaudited)			(Audited)		
	Nominal amounts	Asset	Liability	Nominal amounts	Asset	Liability
Hedging instruments:						
Currency forward	187,045	1,744	445	1,125	62	1,063
Non-hedging instruments:						
Equity Derivatives						
Equity return swap	1,733,133	88,096	166,770	2,743,602	28,228	171,100
Options	44,317,673	591,486	405,075	76,822,540	170,361	297,617
Stock index futures	5,818,071	–	–	3,462,808	–	12
Interest Rate Derivatives						
Interest Rate swaps	223,670,001	–	–	106,300,001	–	–
Other derivatives						
Treasury bond futures	36,546,500	–	–	28,944,196	–	–
Commodity Futures	4,816,241	–	–	5,388,390	–	–
Other forward contract	39,636	9,852	–	39,636	9,852	–
<b>Total</b>	<b>317,128,300</b>	<b>691,178</b>	<b>572,290</b>	223,702,298	208,503	469,792

- (1) Under the daily mark-to-market and settlement arrangement, stock index futures, interest rate swap, treasury bond futures and commodity futures were settled daily and the corresponding receipts and payments were included in bank balances and clearing settlement funds.

## 34. CLEARING SETTLEMENT FUNDS

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Clearing settlement funds held with clearing houses for:		
– House accounts	2,366,190	1,756,699
– Clients accounts	10,892,726	9,485,072
Add: Accrued interest	44,125	34,704
<b>Total</b>	<b>13,303,041</b>	11,276,475

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



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## 35. BANK BALANCES

	<b>As at 30 June 2020 (Unaudited)</b>	As at 31 December 2019 (Audited)
House accounts	10,838,723	9,888,277
Cash held on behalf of customers	80,866,720	60,281,957
Add: Accrued interest	136,419	159,042
	<b>91,841,862</b>	70,329,276

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

The Group maintains accounts with banks to hold customers' deposits arising from normal business transactions. The corresponding liabilities are recorded as accounts payable to brokerage clients (Note 42).

As at 30 June 2020, the ECLs allowance for bank balances amounted to RMB6 million (31 December 2019: RMB3 million).

## 36. SHARE CAPITAL

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

	<b>As at 30 June 2020 (Unaudited)</b>	As at 31 December 2019 (Audited)
Issued and fully paid ordinary shares of RMB1 each (in thousands)		
Domestic shares	6,446,274	6,446,274
H shares	3,690,985	3,690,985
	<b>10,137,259</b>	10,137,259
Share capital (in RMB'000)		
Domestic shares	6,446,274	6,446,274
H shares	3,690,985	3,690,985
	<b>10,137,259</b>	10,137,259

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## 37. BONDS PAYABLE

As at 30 June 2020 and 31 December 2019, bonds payable comprised subordinated bonds and corporate bonds.

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

### Non-current

Issue date	Maturity date	Coupon rate	As at	As at
			30 June 2020	31 December 2019
			Carrying amount	Carrying amount
			(Unaudited)	(Audited)
1 June 2016	1 June 2021	3.35%	–	610,425
23 August 2016	23 August 2021	3.14%	1,023,763	1,006,606
16 January 2018	17 January 2021	5.65%	–	1,578,676
9 February 2018	12 February 2021	5.70%	–	1,048,738
14 March 2018	14 March 2021	5.15%	–	2,596,015
18 April 2018	19 April 2021	5.30%	–	3,314,386
24 October 2018	25 October 2021	4.48%	5,145,563	5,030,725
14 December 2018	17 December 2021	4.28%	1,531,977	1,499,022
29 January 2019	30 January 2022	4.05%	4,060,360	4,139,064
26 February 2019	27 February 2022	4.20%	3,442,133	3,511,590
7 March 2019	11 March 2021	4.10%	–	3,299,354
7 March 2019	11 March 2022	4.25%	3,437,608	3,507,918
14 January 2020	14 January 2022	3.65%	1,014,070	–
14 January 2020	14 January 2023	3.75%	4,056,873	–
17 February 2020	17 February 2022	3.15%	3,227,722	–
17 February 2020	17 February 2023	3.25%	1,815,788	–
11 March 2020	11 March 2022	2.88%	4,022,770	–
11 March 2020	11 March 2023	3.03%	1,005,943	–
			<b>33,784,570</b>	31,142,519

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 37. BONDS PAYABLE (CONTINUED)

### Current

Issue date	Maturity date	Coupon rate	As at	As at
			30 June 2020	31 December 2019
			Carrying amount	Carrying amount
			(Unaudited)	(Audited)
4 February 2015	4 February 2020	4.80%	–	1,043,279
27 April 2017	28 April 2020	4.99%	–	4,878,855
10 July 2017	10 July 2020	4.55%	5,222,513	5,102,786
18 September 2017	18 September 2020	4.69%	4,145,833	4,047,259
16 January 2018	17 January 2020	5.55%	–	3,685,735
9 February 2018	12 February 2020	5.60%	–	1,259,232
18 April 2018	19 April 2020	5.20%	–	828,914
23 May 2018	24 May 2020	5.38%	–	5,676,512
18 April 2018	19 April 2021	5.30%	3,230,901	–
7 March 2019	11 March 2021	4.10%	3,236,593	–
1 June 2016	1 June 2021	3.35%	600,772	–
16 January 2018	17 January 2021	5.65%	1,537,365	–
9 February 2018	12 February 2021	5.70%	1,020,946	–
14 March 2018	14 March 2021	5.15%	2,534,256	–
			<b>21,529,179</b>	26,522,572

All of these bonds are denominated in RMB.

## 38. FINANCING PAYABLES

	As at	As at
	30 June	31 December
	2020	2019
	(Unaudited)	(Audited)
	Carrying	Carrying
	Amount	Amount
<b>Non-current</b>		
Financing notes <sup>(2)</sup>	521,650	1,433,758
<b>Total</b>	<b>521,650</b>	1,433,758
<b>Current</b>		
Short-term bond payables <sup>(1)</sup>	16,025,490	8,023,543
Financing notes <sup>(2)</sup>	19,475,128	13,967,102
Derivative debenture <sup>(3)</sup>	160,903	593,382
<b>Total</b>	<b>35,661,521</b>	22,584,027

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 38. FINANCING PAYABLE (CONTINUED)

### (1) Short-term bond payables

The details of short-term bond payables as at 30 June 2020 are as follows:

Name	Issue amount RMB'000	Issue date	Maturity date	Coupon rate
20 CGS CP004	4,000,000	21 April 2020	21 July 2020	1.40%
20 CGS CP005	4,000,000	20 May 2020	19 August 2020	1.55%
20 CGS CP006	4,000,000	8 June 2020	4 September 2020	2.10%
20 CGS CP007	4,000,000	22 June 2020	18 September 2020	2.20%

### (2) Financing notes

Financing notes are a special type of financing allowed by CSRC.

As at 30 June 2020, for financing notes issued by the Company, their coupon rates are from 1.60% to 6.00% (31 December 2019: 2.65% to 6.66%). Their principals and interests are not associated with any particular securities.

### (3) Derivative debenture

Derivative debentures are debentures which the Group offers to general investors, who are institutional investors and high net worth investors, and are issued under conditions approved by the Office of the Thai Securities and Exchange Commission.

## 39. FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

### (1) Financial liabilities held for trading:

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
<b>Current</b>		
Equity Securities	623	–
Securities lending	919,223	6,798
	<b>919,846</b>	6,798

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## 39. FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

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

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
<b>Non-current</b>		
Structured products embedded with equity swaps	201,885	52,741
	<b>201,885</b>	52,741
<b>Current</b>		
Financing payables linked to stock index	765,542	454,649
Structured products embedded with equity swaps	2,029,307	1,203,894
	<b>2,794,849</b>	1,658,543

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

Structured products embedded with equity swaps are payable to the clients at maturity of the corresponding derivatives and its balance is linked to the performance of the corresponding equity swaps.

## 40. OTHER PAYABLES AND ACCRUALS

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
<b>Non-current</b>		
Third-party interests in consolidated structured entities	469,853	466,476
	<b>469,853</b>	466,476
<b>Current</b>		
Third-party interests in consolidated structured entities	199,468	198,447
Customer deposits for derivative trading	2,146,612	406,282
Payables to margin clients	2,653,181	795,661
Settlement deposits payable	14,476,729	1,923,726
Value-added tax and other taxes	155,086	313,928
Accrued expenses	474,280	302,371
Sundry payables	52,005	77,734
Payable for the securities investor protection fund	61,348	63,879
Dividends payable	1,621,962	-
Payables to commodity trading clients	379,200	386,157
Payable for acquisition of non-controlling interests	239,424	-
Others	657,121	619,527
	<b>23,116,416</b>	5,087,712

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## 41. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	<b>As at 30 June 2020 (Unaudited)</b>	As at 31 December 2019 (Audited)
Secured short-term bank loans	–	45,000
Unsecured short-term bank loans <sup>(1)</sup>	<b>9,750,964</b>	9,896,392
Margin funds loans <sup>(2)</sup>	<b>4,000,000</b>	4,000,000
Add: Accrued interest	<b>8,656</b>	11,335
	<b>13,759,620</b>	13,952,727

(1) As at 30 June 2020, the unsecured short-term bank loans bear variable interest rate of 1 week or 1 month hibor/libor plus 150 to 200 basis points (31 December 2019: 1.73%-11.05% per annum) and are repayable within 1 to 2 months (31 December 2019: within 1 year).

(2) The margin funds loans borrowed by the Group from CSFCL are secured by cash collateral of RMB173 million (31 December 2019: RMB201 million) and shares listed in the PRC with a fair value of approximately RMB906 million (31 December 2019: RMB824 million). These margin funds loans bear interest at 2.50% per annum (31 December 2019: 3.25% per annum) and are repayable within 6 months (31 December 2019: within 6 months).

## 42. ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

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

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

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

As at 30 June 2020, included in the Group's accounts payable to brokerage clients were approximately RMB9,544 million (31 December 2019: RMB6,910 million) received from clients for margin financing and securities lending arrangement.

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## 43. ACCRUED STAFF COSTS

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Salaries, bonus and allowances	2,619,940	2,689,406
Social welfare	15,992	15,820
Annuity schemes	16,801	11,263
Supplementary retirement benefits	415,281	418,018
Early retirement benefits	727	893
Others	156,270	219,329
	<b>3,225,011</b>	3,354,729

## 44. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
<b>Current</b>		
Analyzed by collateral type:		
Debt securities	74,214,554	53,851,967
Funds	890,212	911,415
Add: Accrued interest	84,012	92,272
	<b>75,188,778</b>	54,855,654
Analyzed by market of collateral:		
Stock exchanges	48,467,052	38,951,248
Interbank bond market	26,637,714	15,812,134
Add: Accrued interest	84,012	92,272
	<b>75,188,778</b>	54,855,654

Financial assets sold under repurchase agreements bear effective interest at 1.65%-6.25% per annum (31 December 2019: 2.00%-4.20% per annum).

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 45. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	<b>As at 30 June 2020 (Unaudited)</b>	As at 31 December 2019 (Audited)
Bank balances – house accounts	<b>10,120,033</b>	8,743,140
Clearing settlement funds – house accounts	<b>2,366,190</b>	1,756,699
	<b>12,486,223</b>	10,499,839

Cash and cash equivalents do not include bank deposits with original maturity of more than three months held by the Group and restricted bank deposits. As at 30 June 2020, bank deposits with original maturity of more than three months held by the Group were RMB718 million (31 December 2019: RMB1,757 million) and RMB308 million are restricted for use (31 December 2019: Nil).

## 46. INTERESTS IN STRUCTURED ENTITIES

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

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

As at 30 June 2020, the total assets of the consolidated structured entities are RMB4,427 million (31 December 2019: RMB5,611 million). The carrying amount of third party interests in the consolidated structured entities are RMB669 million (31 December 2019: RMB665 million).

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

The size of unconsolidated structured entities managed by the Group amounted to RMB203,022 million as at 30 June 2020 (31 December 2019: RMB213,017 million). The Group's interests are equal to the maximum exposure to loss of interests held by the Group in these unconsolidated structured entities, which amounted to RMB222 million as at 30 June 2020 (31 December 2019: RMB233 million).

During the period, management fee income and investment gains from the unconsolidated structured entities managed by the Group amounted to RMB195 million as at 30 June 2020 (Six months ended 30 June 2019: RMB326 million).



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## 46. INTERESTS IN STRUCTURED ENTITIES (CONTINUED)

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

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

The carrying amount of the related accounts in the consolidated statement of financial position is equal to the maximum exposure to loss of interests held by the Group in the unconsolidated structured entities as at 30 June 2020 and 31 December 2019, which are listed below:

	<b>As at 30 June 2020</b>	As at 31 December 2019
	<b>Financial assets measured at fair value through profit or loss (Unaudited)</b>	Financial assets measured at fair value through profit or loss (Audited)
Carrying amount of interests held by the Group		
– Funds	<b>9,265,009</b>	10,699,748
– Trust schemes and wealth management products	<b>3,340,676</b>	2,643,098
– Others	<b>2,045,758</b>	2,045,673
Total	<b>14,651,443</b>	15,388,519

## 47. CAPITAL COMMITMENTS

	<b>As at 30 June 2020</b>	As at 31 December 2019
	<b>(Unaudited)</b>	(Audited)
Contracted but not provided for		
Property and equipment	<b>74,955</b>	81,318
Leasehold improvements	<b>34,227</b>	32,322
	<b>109,182</b>	113,640

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 48. RELATED PARTY TRANSACTIONS

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

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

Galaxy Financial Holdings is a financial holding company approved by the State Council of the PRC and was established in Beijing on 8 August 2005. Galaxy Financial Holdings owned 5,187,196,364 shares (31 December 2019: 5,187,196,364 shares), representing 51.17% of the entire equity interest of the Company as at 30 June 2020 (31 December 2019: 51.17%). The shareholders of Galaxy Financial Holdings are Central Huijin Investment Ltd. ("Central Huijin") with 69.07% equity interest, the Ministry of Finance (the "MOF") with 29.32% equity interest and the National Council for Social Security Fund (the "SSF") with 1.61% equity interest.

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

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

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

During the six months ended 30 June 2020 and 30 June 2019, the Group provided securities brokerage and asset management services to Galaxy Financial Holdings and its subsidiaries and details of the significant transactions and balances as at 30 June 2020 and 31 December 2019 are set out below.

	<b>As at 30 June 2020 (Unaudited)</b>	As at 31 December 2019 (Audited)
Accounts receivable	<b>5,354</b>	8,807
Accounts payable to brokerage clients	<b>130,726</b>	309,569
Right-of-use assets	<b>298,786</b>	357,526
Lease liabilities	<b>330,050</b>	362,637
Financial assets measured at fair value through profit or loss	<b>511,810</b>	511,810

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## 48. RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Commission and fee income	40,020	24,430
Other income and gains	532	657
Interest expenses	759	13,178
Rental expenses paid or payable	68,093	60,361

During the period ended 30 June 2020, accounts payable to brokerage clients from Galaxy Financial Holdings amount to RMB0.07 million.

The Group's housing rental expenditure to Galaxy Investment was RMB68 million for the six months ended 30 June 2020.

#### (2) Central Huijin Group

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

The Group's material transactions with the Central Huijin Group

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Commission and fee income	30,373	50,718
Interest income from banks and other financial institutions within the Central Huijin Group	636,528	398,893
Investment gains of equity and debt securities issued by banks and other financial institutions within the Central Huijin Group	32,460	115,713
Interest expenses to brokerage clients within the Central Huijin Group	18,366	99,931
Other operating expenses	484	1,085

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 48. RELATED PARTY TRANSACTIONS (CONTINUED)

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

#### (2) Central Huijin Group (Continued)

The Group's material balances with the Central Huijin Group

	<b>As at 30 June 2020 (Unaudited)</b>	As at 31 December 2019 (Audited)
Equity and debt securities issued by banks and non-bank financial institutions within the Central Huijin Group classified as		
– financial assets measured at FVTOCI	<b>1,856,689</b>	150,608
– financial assets measured at FVTPL	<b>5,611,697</b>	2,782,844
Bank balances deposited with banks within the Central Huijin Group	<b>56,580,803</b>	44,177,987
Derivative financial assets	<b>127,514</b>	–
Accounts receivable	<b>3,056</b>	–
Derivative financial liabilities	<b>110,348</b>	652
Financing payables	<b>7,636,667</b>	–
Due to banks and other financial institutions	<b>1,304,350</b>	2,249,354
Accounts payable to brokerage clients within the Central Huijin Group	<b>1,547,193</b>	178,112
Other payables and accruals	<b>88,728</b>	997
Financial assets held under repurchase agreements	<b>8,909,550</b>	2,188,960

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

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

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

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## 48. RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

Name	Relationship
E-Capital Transfer Co., Ltd. (“E-Capital Transfer”) 證通股份有限公司	Note

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

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

*Expenses paid or payable to*

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
E-Capital Transfer	98	–

#### (2) Key management personnel compensations

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

The key management compensation six months ended 30 June 2020 and 2019 comprises:

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Salaries, allowances, bonuses, social welfare and annuity scheme contribution	22,560	19,978

The key management personnel’s final compensation packages for the six months ended 30 June 2020 have not yet been finalized in accordance with regulations of the PRC relevant authorities. Management of the Group believes that the difference between the final emoluments and that disclosed above will not have significant impact on the interim condensed consolidated financial statements of the Group.

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## 49. FINANCIAL RISK MANAGEMENT

### Overview

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

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

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

### Risk management organizational structure

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

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

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

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

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## 49. FINANCIAL RISK MANAGEMENT (Continued)

### 49.1 Credit risk

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

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

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

In order to manage the risk of its investment portfolio, except for investments in short-term bonds with rating of A-1, which represents the highest rating of the short-term bonds, the Group invests primarily in bonds with rating of AA or above. Therefore, the Group considers the credit exposure of proprietary trading business is not significant.

Margin trading assets consist of advances to customers and securities lent to customers. The main credit risk of these financial assets is customers' failure to repay the principal, interest or securities lent to them. The Group monitors margin trading clients' accounts on an individual customer basis and call for additional margin deposits, cash collateral or securities, whenever necessary. The advances to margin clients are monitored through their collateral ratios, which ensure the value of the pledged assets is sufficient to cover the advances. As at 30 June 2020 and 31 December 2019, the collateral ratios of most of the Group's margin clients were above 130%.

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

As at 30 June 2020, other than those financial assets whose carrying amounts represent maximum exposure to credit risks, the Group is also exposed to credit risks arising from security lending and borrowing activities as clients may default on returning securities borrowed. Securities lent to clients may include securities collateral received from other clients under similar lending and borrowing arrangements. Therefore, these securities may not be recognized in the consolidated statement of financial position of the Group. As at 30 June 2020, the total amount of the securities (both the Group's own securities and securities borrowed by the Group) lent to clients was RMB893 million (31 December 2019: RMB355 million).

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

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## 49. FINANCIAL RISK MANAGEMENT (Continued)

### 49.1 Credit risk (Continued)

#### Impairment under the ECLs model

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

The key inputs used for measuring ECLs based on the “probability of default” approach are the probability of default (PD), loss given default (LGD) and exposure at default (EAD); or, based on the loss rate approach, the key input is the loss rate. These figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

#### *Significant increase in credit risk*

Except for accounts receivable without significant financing component which are always measured on the lifetime ECLs basis, the Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECLs.

In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. The Group uses different criteria to determine whether credit risk has increased significantly per portfolio of assets.



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## 49. FINANCIAL RISK MANAGEMENT (Continued)

### 49.1 Credit risk (Continued)

#### Impairment under the ECLs model (Continued)

##### *Significant increase in credit risk (Continued)*

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

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

##### *Internal credit risk ratings*

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

##### *Incorporation of forward-looking information*

The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase in credit risk as well as in its measurement of ECLs. The Group generates a base case scenario of future forecast of relevant economic variables, along with a series of representative ranges of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

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## 49. FINANCIAL RISK MANAGEMENT (Continued)

### 49.1 Credit risk (Continued)

#### Impairment under the ECLs model (Continued)

##### *Measurement of ECLs*

The measurement of ECLs is a function of the PD, LGD and EAD based on the probability of default approach. The assessment of the PD and LGD is based on historical data adjusted by forward-looking information.

Generally, the ECLs is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

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

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

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

##### *Groupings based on shared risk characteristics*

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

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## 49. FINANCIAL RISK MANAGEMENT (Continued)

### 49.2 Market risk

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

Within the scope of risk partiality, the Group formulates market risk authorization for proprietary business lines, including transaction limit, risk value, sensitivity, stop loss limit, stress test, concentration and other risk indicators. According to the role and limitations of different indicators, the Group establishes complementary indicator systems of different types and levels, and manages them according to different dimensions. The Group continuously monitors the market risk status and the implementation of relevant risk authorization, and takes timely control and mitigation measures to limit, transfer and reduce market risk.

The Risk Management Department, which is independent of the business department, is the centralized department of market risk management. It identifies, evaluates, monitors and reports the market risks faced by its own funds participating in business and products, and independently evaluates and verifies the valuation methods and risk measurement models of financial instruments used in the process of business development. The Risk Management Department monitors the implementation of risk authorization of the business department, timely reveals the risks, reports the market risk status to the operation management or its authorized organization, the board of directors and its Risk Management Committee on a regular basis, and makes special risk reports on special or major risk issues from time to time. Each business department is the first person in charge of market risk management. According to the market risk monitoring results, they select the market risk hedging and risk mitigation strategies suitable for risk preference, mainly including risk dispersion and risk hedging, and actively transfers, controls and reduces market risk. Regularly or irregularly feed back the market risk management status of the Department to the risk management department.

#### Price risk

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

The securities price risk of the Group was mainly derived from the positions held in businesses such as proprietary investment, and market making business. In order to control risks effectively, the Group mainly adopted the following measures. Firstly, by creating securities investment portfolios, the Group made use of financial derivatives to carry out effective risk hedging. Secondly, the risk exposures of the Group's positions were managed on a unified basis. Through the defensive lines of the internal risk division of the business department and the risk management department, the Group implemented independent risk monitoring, analysis and reporting to discover and handle risks in a timely manner. Thirdly, the Company implemented the risk permit management to control indicators such as the scale of risk exposure, concentration level and limit of loss, and made adjustments irregularly to respond to the ever-changing market conditions, business conditions or risk tolerance. Fourthly, the Group adopted quantitative means such as VaR and combined with other methods such as scenario analysis and stress test to assess the relative and absolute risks of the portfolios.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020  
(Amounts in thousands of Renminbi, unless otherwise stated)

## 49. FINANCIAL RISK MANAGEMENT (Continued)

### 49.2 Market risk (Continued)

#### Price risk (Continued)

The Company, Galaxy International, which takes a great market risk adopts Value at Risk ("VaR") as the risk evaluation tool for measuring the market risk of the entire securities investment portfolio which comprises various financial instruments, and utilise stress testing as an effective supplement to the VaR analysis. VaR analysis is a statistical technique that estimates the potential maximum losses that could occur on risk positions due to movements in interest rates, stock prices or currency rates over a specified time period and at a given level of confidence.

The analysis of the Company's VaR (confidence level of 95% and a holding period of one trading day) by types of risks is as follows:

The Company	2020/6/30	2020/1/1-2020/6/30		
		Average	Lowest	Highest
VaR of equity price	63,988	56,607	35,824	81,156
VaR of interest rate	141,014	110,171	30,973	203,035
VaR of commodity price	70	40	9	123
VaR of foreign exchange	-	-	-	-
Total portfolio VaR	147,715	123,286	54,195	202,834

The Company	2019/12/31	2019/1/1-2019/12/31		
		Average	Lowest	Highest
VaR of equity price	39,168	46,118	22,526	115,998
VaR of interest rate	48,506	43,059	22,646	67,850
VaR of commodity price	9	109	-	491
VaR of foreign exchange	-	1	-	4
Total portfolio VaR	46,244	54,271	30,521	105,599

#### Interest rate risk

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

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## 49. FINANCIAL RISK MANAGEMENT (Continued)

### 49.2 Market risk (Continued)

#### Interest rate risk (Continued)

##### *Sensitivity analysis*

The Group uses sensitivity analysis as the main tool to monitor interest rate risk, and measures the impact on the Group's total profit and other comprehensive income without considering the impact of corporate income tax, when the interest rate changes reasonably and possibly under the assumption that other variables remain unchanged as follows:

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
<b>Profit before income tax for the period</b>		
Increase by 100 basis points	(1,552,441)	(941,310)
Decrease by 100 basis points	1,552,441	941,310

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
<b>Other comprehensive income before income tax</b>		
Increase by 100 basis points	(1,462,519)	(238,546)
Decrease by 100 basis points	1,462,519	238,546

The influence on the total profit refers to the influence of certain changes in the interest rate in the middle of the next year on the net interest-generating position interest income and the changes in the fair value after the revaluation of the trading financial assets and trading financial liabilities held at the end of the year.

The influence on other comprehensive income refers to the influence of the changes in the fair value of other debt investments held at the end of the period based on the revaluation when a certain interest rate changes.

The above sensitivity analysis assumes that the rates of return on assets and liabilities of each maturity move up or down in parallel, so it does not reflect the possible impact for only interest rate changes while the remaining interest rate remains unchanged. The forecast is also based on other simplified assumptions, including that all positions to be held to maturity.

This assumption does not represent the Group's policy on the use of funds and the management of interest rate risk, so the effects above may differ from the actual situation.

Moreover, the above analysis of the impact of interest rate changes is only an example to show the estimated changes in total profit and other comprehensive income under various projected income scenarios and the current interest rate risk profile of the Group. However, this effect does not take into account the risk management activities that management may take to manage interest rate risk.

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## 49. FINANCIAL RISK MANAGEMENT (Continued)

### 49.2 Market risk (Continued)

#### Currency risk

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

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

The foreign currency assets and liabilities held by the Group are not material compared to the total assets and liabilities. In terms of the Group's revenue structure, the majority of the business transactions are denominated in RMB, and the proportion of foreign currency transactions is not significant to the Group. The Group considers that the currency risk of the Group's operations is immaterial due to the relatively low proportion of the Group's foreign currency denominated assets, liabilities, income and expense, as compared to the Group's total assets, liabilities, income and expenses. The currency risk of the Group's business is not significant.

### 49.3 Liquidity risk

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

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

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

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

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

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

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

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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020  
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## 50. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The carrying amounts of the Group's financial assets and financial liabilities not measured at fair value approximate to their fair values as at 30 June 2020 and 31 December 2019 except for the following financial assets and financial liabilities, for which their carrying amounts including accrued interest and fair value are disclosed below:

	As at 30 June 2020	
	(Unaudited)	
	Carrying amounts	Fair value
<b>Non-current</b>		
Bonds payable	33,784,570	33,962,038
Financing payables	521,650	522,175
Financial assets held under resale agreements	12,110,192	12,257,562
Debt instruments measured at amortized cost	3,841,396	3,967,336
	As at 31 December 2019	
	(Audited)	
	Carrying amounts	Fair value
<b>Non-current</b>		
Bonds payable	31,142,519	31,475,323
Financing payables	1,433,758	1,436,328
Financial assets held under resale agreements	13,609,000	13,845,365
Debt instruments measured at amortized cost	4,314,343	4,362,401

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

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

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

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

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For the six months ended 30 June 2020  
(Amounts in thousands of Renminbi, unless otherwise stated)

## 50. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at 30 June 2020

(unaudited)

	Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>				
Debt instruments measured at FVTOCI:	17,400,035	21,132,776	–	38,532,811
– Debt securities	17,400,035	21,132,776	–	38,532,811
Equity instruments measured at FVTOCI:	11,049,806	12,334,089	–	23,383,895
– Perpetual bonds	11,049,806	4,571,706	–	15,621,512
– Equity investments	–	7,762,383	–	7,762,383
Financial assets measured at FVTPL:	25,269,789	56,898,296	6,188,500	88,356,585
– Debt securities	16,368,970	42,198,211	–	58,567,181
– Equity securities	4,937,207	166,469	4,344,479	9,448,155
– Funds	2,081,618	7,183,391	–	9,265,009
– Asset management plan	–	3,933,116	–	3,933,116
– Structured deposits and wealth management products	–	222,228	–	222,228
– Trust schemes	–	69,229	48,949	118,178
– Other investments	1,881,994	3,125,652	1,795,072	6,802,718
Derivative financial assets	132,905	89,839	468,434	691,178
<b>Total</b>	<b>53,852,535</b>	<b>90,455,000</b>	<b>6,656,934</b>	<b>150,964,469</b>
<b>Financial liabilities:</b>				
Financial liabilities held for trading:	623	919,223	–	919,846
– Securities lending	–	919,223	–	919,223
– Others	623	–	–	623
Financial liabilities designated as at fair value through profit or loss:	2,231,192	765,542	–	2,996,734
– Structured products embedded with equity swaps	2,231,192	–	–	2,231,192
– Financing payables linked to stock index	–	765,542	–	765,542
Derivative financial liabilities	136,835	167,214	268,240	572,289
<b>Total</b>	<b>2,368,650</b>	<b>1,851,979</b>	<b>268,240</b>	<b>4,488,869</b>



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For the six months ended 30 June 2020  
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## 50. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

As at 31 December 2019 (Audited)	Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>				
Debt instruments measured at FVTOCI:	11,530,832	11,486,658	–	23,017,490
– Debt securities	11,530,832	11,486,658	–	23,017,490
Equity instruments measured at FVTOCI:	8,343,372	11,005,876	–	19,349,248
– Perpetual bonds	8,343,372	3,007,075	–	11,350,447
– Equity investments	–	7,998,801	–	7,998,801
Financial assets measured at FVTPL:	23,330,240	46,459,969	4,248,910	74,039,119
– Debt securities	15,687,989	33,087,684	–	48,775,673
– Equity securities	3,294,843	161,039	2,346,921	5,802,803
– Funds	2,796,608	7,903,140	–	10,699,748
– Asset management plan	–	2,548,067	–	2,548,067
– Structured deposits and wealth management products	–	232,505	–	232,505
– Trust schemes	–	115,290	432,141	547,431
– Other investments	1,550,800	2,412,244	1,469,848	5,432,892
Derivative financial assets	70,105	28,290	110,108	208,503
<b>Total</b>	<b>43,274,549</b>	<b>68,980,793</b>	<b>4,359,018</b>	<b>116,614,360</b>
<b>Financial liabilities:</b>				
Financial liabilities held for trading:	–	6,798	–	6,798
– Securities lending	–	6,798	–	6,798
– Others	–	–	–	–
Financial liabilities designated as at fair value through profit or loss:	1,256,635	454,649	–	1,711,284
– Structured products embedded with equity swaps	1,256,635	–	–	1,256,635
– Financing payables linked to stock index	–	454,649	–	454,649
Derivative financial liabilities	81,696	172,162	215,934	469,792
<b>Total</b>	<b>1,338,331</b>	<b>633,609</b>	<b>215,934</b>	<b>2,187,874</b>

There were no significant transfers between Level 1 and 2 during the six months ended 30 June 2020 and 2019.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020  
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## 50. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

#### 50.2.1 Basis for recurring fair value measurement categorised within Level 1

For the measurement for Level 1, the Group adopts the closing price in active markets. Instruments included in Level 1 comprise primary debt securities, equity securities, funds and other investments traded on stock exchanges.

#### 50.2.2 Valuation techniques used and the qualitative information of key parameters for recurring fair value measurement categorised within Level 2

For debt instruments at FVTPL and at FVTOCI, and securities lending whose value is available on bond pricing system on the valuation date is measured using the latest valuation results published by bond pricing system. The future cash flows are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.

For equity investments at FVTOCI, unlisted funds (open-ended mutual funds), structured deposits, wealth management products and other investments at FVTPL, the fair value is calculated based on the fair value of the underlying investments which are money market instruments, debt securities and publicly traded equity investments listed in the PRC in each portfolio.

For equity securities at FVTPL traded on National Equities Exchange and Quotations, recent transaction prices and the latest quoted bid prices and adjusted based on the index of National Equities Exchange and Quotations is used.

For Financing payables linked to stock index designated as at fair value through profit or loss, the fair value is determined based on the bid prices of stock index in an active market.

For derivative financial instruments, the fair value is determined by different valuation techniques. For interest rate swaps, equity return swaps and currency forward, the fair value is measured by discounting the differences between the contract prices and market prices of the underlying financial instruments.

During the six months ended 30 June 2020, there were no significant changes of valuation techniques for Level 2.

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For the six months ended 30 June 2020  
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## 50. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

#### 50.2.3 Valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorised within Level 3

The quantitative information of fair value measurement for Level 3 is as follows:

	As at 30 June 2020 (unaudited)	As at 31 December 2019 (audited)	Valuation technique(s) and key input(s)	Significant unobservable input(s)
<b>Financial assets</b>				
Financial assets measured at FVTPL:				
– Equity securities traded on National Equities Exchange and Quotations (Note 2)	675	675	Discounted cash flow with future cash flows that are estimated based on contract terms, discounted at a rate that reflects the credit risk of underlying investments.	Discount rate
– Equity securities traded on National Equities Exchange and Quotations (Note 3)	6,861	8,223	Multiples valuation, with an adjustment of discount for lack of marketability.	Marketability discount
– Equity securities traded on stock exchanges with lock-up periods (Note 1)	4,336,943	2,338,023	The fair value is determined with reference to the quoted market prices with an adjustment of discount for lack of marketability. This discount is determined by the option pricing model. The key input is the implied volatility of the share prices of the securities.	Implied volatility
– Trust scheme (Note 2)	48,949	432,141	Discounted cash flow with future cash flows that are estimated based on contract terms, discounted at a rate that reflects the credit risk of underlying investments.	Discount rate
– Other investments (Note 1)	167,993	126,131	Calculated based on the fair value of the underlying investments which invest in listed shares with lock up periods in which the fair value is determined with reference to the quoted market prices with an adjustment of discount for lack of marketability.	Implied volatility
– Other investments (Note 2)	238,715	272,111	Discounted cash flow with future cash flows that are estimated based on contract terms, discounted at a rate that reflects the credit risk of underlying investments.	Discount rate
– Other investments (Note 3)	1,388,364	1,071,605	Multiples valuation, with an adjustment of discount for lack of marketability.	Marketability discount
<b>Derivative financial instruments:</b>				
– Over-the-counter options-assets (Note 1)	458,582	100,257	Calculated based on the Black-Scholes option pricing model.	Implied volatility
– Other forward contract-assets (Note 2)	9,852	9,852	Discounted cash flows with future cash flows that are estimated based on contractual amounts, discounted at a rate that reflects the credit risk of the counterparty.	Discount rate
<b>Total</b>	<b>6,656,934</b>	<b>4,359,018</b>		
<b>Financial liabilities</b>				
Derivative financial instruments:				
– Over-the-counter options-liabilities (Note 1)	268,240	215,934	Calculated based on the Black-Scholes option pricing model.	Implied volatility
<b>Total</b>	<b>268,240</b>	<b>215,934</b>		

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## 50. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

#### 50.2.3 Valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorised within Level 3 (Continued)

The quantitative information of fair value measurement for Level 3 is as follows: (Continued)

Notes:

- (1) The significant unobservable input to fair value measurement is the implied volatility of the underlying securities, which ranges from 18.69% to 83.50% (31 December 2019: 17.45% to 72.25%).
- (2) The unobservable input to fair value is the discount rate, determined by reference to the credit risk of underlying investments, ranging from 10.55% to 55.49% (31 December 2019: 8.76% to 10.18%). The higher is the discount rate, the lower is the fair value.
- (3) The unobservable input to fair value is the discount for lack of marketability, which ranges from 5.97% to 52.72% (31 December 2019: 13.94% to 45.12%). The higher is the discount for lack of marketability, the lower is the fair value.
- (4) As disclosed in Note 33, except for stock index futures and interest rate swap not under the daily mark-to-market and settlement arrangement are presented gross at the end of the reporting period, the other derivatives are under daily mark-to-market and settlement arrangements. Accordingly, the net position of the treasury bond futures, and commodity futures, stock index futures and interest rate swap was nil at the end of each reporting period. The above analysis only presents the fair value of derivative financial instruments.

### 50.3 Reconciliation of Level 3 fair value measurements

	<b>Financial assets measured at fair value through profit or loss</b>
Six months ended 30 June 2020 (Unaudited)	
As at 1 January 2020	<b>4,248,910</b>
Total losses:	
– in profit or loss	<b>313,975</b>
Purchases	<b>3,541,870</b>
Transfers out	<b>(1,916,256)</b>
As at 30 June 2020	<b>6,188,500</b>
Total losses for assets held at 30 June 2020 net unrealized gain recognised in profit or loss during the period	<b>836,035</b>

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## 50. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

### 50.3 Reconciliation of Level 3 fair value measurements (Continued)

	Financial assets measured at fair value through profit or loss
As at 1 January 2019	5,762,476
Total losses:	
– in profit or loss	(1,044,482)
Purchases	2,380,205
Transfers out	(2,849,289)
As at 31 December 2019	4,248,910
Total losses for assets held at 31 December 2019 net unrealized gain recognised in profit or loss during the period	1,712,765

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

## 51. EVENTS AFTER THE END OF THE REPORTING PERIOD

### Issuance of corporate bonds

Subsequent to the end of reporting period, the Company obtained approval from the Shanghai Stock Exchange and has completed the non-publicly issuance of corporate bonds of RMB4,000 million (Tranche 3), RMB6,000 million (Tranche 4) in July 2020. These bonds bear interest rates at 3.28%-3.72% per annum and the terms are from 1 year to 3 years. Proceeds from the issue will be used to increase working capital of the Company.

### Issuance of short-term financing bonds

Subsequent to the end of reporting period, the Company has completed the non-publicly issuance of short-term financing bonds of RMB4,000 million (Tranche 8), in July 2020. The bond bear interest rates at 2.55% per annum and the terms are 91 days. Proceeds from the issue will be used to increase working capital of the Company.

Subsequent to the end of reporting period, the Company has completed the non-publicly issuance of short-term financing bonds of RMB4,000 million (Tranche 9), in August 2020. The bond bear interest rates at 2.62% per annum and the terms are 88 days. Proceeds from the issue will be used to increase working capital of the Company.

For more information, please refer to :

