



中州证券

Central China Securities Co., Ltd.

(a joint stock company incorporated in 2002 in Henan Province, the People's Republic of China with limited liability under the Chinese corporate name “中原证券股份有限公司” and carrying on business in Hong Kong as “中州证券”)

(2002 年於中華人民共和國河南省成立的股份有限公司，中文公司名稱為「中原证券股份有限公司」，在香港以「中州证券」名義開展業務)

Stock Code 股份代號 : 01375

Interim Report
中期報告

2020



IMPORTANT NOTICE

- I. The Board and the Supervisory Committee and the Directors, Supervisors and senior management of the Company warrant the truthfulness, accuracy and completeness of the contents of this report and that there is no false representation, misleading statement contained herein or material omission from this report, for which they will assume joint and several liabilities.
- II. All Directors have attended the Board meetings.
- III. The 2020 interim financial statements of the Group are unaudited. As approved by the 2019 Annual General Meeting of the Company, the Company has adopted China Accounting Standards for Business Enterprises to prepare relevant financial information in this report. The interim financial statements set out in this report have been reviewed by ShineWing Certified Public Accountants (Special General Partnership).
- IV. Mr. Jian Mingjun, head of the Company, Mr. Chang Junsheng, the person in charge of accounting affairs, Mr. Li Zhaoxin, the Chief Accountant and Mr. Guo Liangyong, head of the accounting department (head of financial division) warrant that the financial statements set out in this report are true, accurate and complete.
- V. The plan for profit distribution or capitalization of capital reserve for the Reporting Period considered by the Board

The Company is not to distribute profit (i.e. not to distribute any cash dividend or scrip dividend), nor capitalize capital reserve into share capital for the first half of 2020.
- VI. Risks relating to forward-looking statements

The forward-looking statements in this report including future plans and development strategies do not constitute a substantive commitment of the Company to investors. Investors and related persons should understand the difference between plans, forecasts and commitments and be aware of the investment risks.
- VII. There was no appropriation of funds of the Company by the controlling shareholder or its related/connected parties for non-operating purposes during the Reporting Period.
- VIII. The Company had made no guarantee to external parties against the stipulated decision-making process during the Reporting Period.

IMPORTANT NOTICE

IX. Material risk alert

The Company's business is largely dependent on the Chinese economy and market condition as most assets of the Company are located in China and the income is mainly derived from domestic securities market. The operating results of the Company and the performance of the securities market are strongly correlated. The securities market is relatively cyclical and volatile as it may be affected by a number of factors, including macro-economic performance and policies, the level of market development, fluctuations in financial market and investors' actions. It may be difficult for the Company to effectively defend itself from market risks in the event of extreme securities market condition and inadequate hedging strategies.

As China gradually widens the restrictions to foreign-invested securities companies, foreign investment will keep an ongoing development both in scope and in depth. In the face of more intense competition in China's securities industry, the Company's business may be materially and adversely affected if it fails to compete effectively. The challenges from internet finance in recent years have already led to a declining commission rate and market share of the Company's brokerage business. It is expected that the commission rate and market share of securities brokerage business may continue to go downward, and the spreads of capital-based intermediary business may further narrow down, all of which may adversely affect the Company's profit growth. As the capital market reform continues to develop, the Company's investment banking business will be challenging in terms of customer base expansion, pricing and ability in distribution, which may cause adverse impact on the income of the Company's investment banking business. Besides, along with the intensified competitions in the asset management industry and deleveraging of the financial sector, the asset under management of the Company may be reduced, which may result in a negative impact on the asset management fees or performance rewards charged by the Company. Against the backdrop of continuous industry innovation, the Company has been committed to providing its customers with new products and services in order to strengthen its competitive position in the industry. However, business innovation also leads to new risk exposures to the Company. Moreover, the Company's operation relies on the management and professionals. Due to keen market competition for this kind of talents, failure in attracting or retaining these talents may have adverse impact on the Company's business.

The Company manages risks according to internal risk management framework and procedures, but certain risk management measures are based on historical market data or past experience which may fail to predict future risks accurately, especially, it may lack effectiveness for extreme market events. For example, where there are inadequate countermeasures taken by the Company in connection with the policies issued by the State with a view to preventing and defusing financial risks and stabilising capital market and untimely adjustment to business structure, the financing businesses (such as securities-backed lending) of the Company may take greater risks; where there are inadequate forecasts to an instant crash appearing in share prices of companies listed in Hong Kong, the Company's international businesses may take greater risks. The Company has further exposure to various risks, such as failure of information technologies, which would result in adverse impact on business operation. Any force majeure, including but not limited to the outbreak of the COVID-19 pandemic in China and some countries and regions abroad since early 2020, may limit the level of economic activity in the affected areas, which may adversely affect the Company's business, financial conditions and operating results. For the risks in the Company's operation, investors are advised to refer to Section 4 "Discussion and Analysis on Business Operation II. (I) Potential risks" in this report.

This report has been prepared by the Company in both Chinese and English. In the event of any discrepancies between the English version and the Chinese version, the Chinese version shall prevail.

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SECTION 1 DEFINITIONS

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

DEFINITIONS OF COMMON TERMS

Company, Parent Company or Central China Securities	Central China Securities Co., Ltd.
Group	the Company and its subsidiaries
Board	the board of Directors of the Company
Director(s)	director(s) of the Company
Supervisory Committee	the Supervisory Committee of the Company
Supervisor(s)	supervisor(s) of the Company
Hong Kong Listing Rules	the Rules Governing the Listing of Security on the Hong Kong Stock Exchange
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules
Corporate Governance Code	Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Hong Kong Listing Rules
this report	this interim report
SSE	the Shanghai Stock Exchange
SSE Composite Index	composite stock price index of the SSE
SZSE	the Shenzhen Stock Exchange
SZSE Component Index	component stock price index of the SZSE
Wind Info	Shanghai Wind Information Co., Ltd. (上海萬得信息技術股份有限公司)
IPO	the initial public offering
A shares	domestic listed ordinary shares with a nominal value of RMB1.00 each in the share capital of the Company, which are listed and traded on the SSE
H shares	overseas listed foreign ordinary shares with a nominal value of RMB1.00 each in the share capital of the Company, which are listed and traded on the Main Board of the Hong Kong Stock Exchange

SECTION 1 DEFINITIONS

Reporting Period/Period	1 January 2020 to 30 June 2020
end of the Reporting Period/end of the Period	30 June 2020
PRC or China	the People's Republic of China
CSRC	the China Securities Regulatory Commission (中國證券監督管理委員會)
CSF	China Securities Finance Corporation Limited (中國證券金融股份有限公司)
Henan Provincial Government	Henan Provincial People's Government (河南省人民政府)
Henan Bureau of the CSRC	Henan Bureau of China Securities Regulatory Commission (中國證券監督管理委員會河南監管局)
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
STAR Market	science and technology innovation board of SSE
New Third Board	National Equities Exchange and Quotations
Henan Investment Group	Henan Investment Group Co., Ltd. (河南投資集團有限公司)
Central China Futures	Central China Futures Co., Ltd. (中原期貨股份有限公司)
ZDKY Venture Capital	Zhongding Kaiyuan Venture Capital Management Co., Ltd. (中鼎開源創業投資管理有限公司)
ZZKY Venture Capital	Henan Zhongzheng Kaiyuan Venture Capital Fund Management Co., Ltd. (河南中證開元創業投資基金管理有限公司)
Central China Blue Ocean	Central China Blue Ocean Investment Management Company Limited (中州藍海投資管理有限公司)
Central China International	Central China International Financial Holdings Company Limited (中州國際金融控股有限公司)
Equity Exchange Co.	Central China Equity Exchange Co., Ltd. (中原股權交易中心股份有限公司)
Central China Micro-lending	Henan Central China Micro-lending Company Limited (河南省中原小額貸款有限公司)
Yuxin Investment	Yuxin Investment Management (Shanghai) Co., Ltd. (豫新投資管理(上海)有限公司)

SECTION 1 DEFINITIONS

Zhongyuan Trust	Zhongyuan Trust Co., Ltd. (中原信託有限公司)
Articles of Association	the prevailing valid Articles of Association of the Company
Securities Law	the Securities Law of the PRC (《中華人民共和國證券法》)
RMB	the lawful currency of China Renminbi, with the basic unit “yuan”
HK\$	Hong Kong dollars and cents, the lawful currency of Hong Kong

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

I. INFORMATION ABOUT THE COMPANY

Chinese name of the Company	中原证券股份有限公司
Chinese abbreviation of the Company	中原证券
English name of the Company	CENTRAL CHINA SECURITIES CO., LTD.
English abbreviation of the Company	CCSC
Legal representative of the Company	Jian Mingjun
President of the Company	Chang Junsheng

Registered capital and net capital

Unit: Yuan Currency: RMB

	At the end of the Reporting Period	At the end of last year
Registered capital	3,869,070,700.00	3,869,070,700.00
Net capital	6,550,935,506.82	6,316,632,921.18

Qualifications for each individual business of the Company

1. Securities brokerage
2. Securities investment consulting
3. Financial advisory services relating to securities trading and securities investment activities
4. Proprietary trading of securities
5. Financial advisory services for merger, acquisition and restructuring of listed companies
6. Securities asset management
7. Entrusted investment management business
8. Stock lead underwriting business
9. Entrusted on-line securities business
10. Sponsorship of offering and listing of securities
11. Proxy sale of open-end securities investment funds
12. "SSE 50ETF" participant broker
13. Buyout repurchase of T-bonds on SSE
14. IPO book-building and placement

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

15. Sponsorship of shareholder structure reform
16. Warrant trading
17. Clearing participants of China Securities Depository and Clearing Corporation Limited
18. Foreign exchange business
19. National inter-bank lending and borrowing business
20. Primary dealer of Integrated Electronic Platform of Fixed-income Securities of SSE
21. Qualified investor of block trading system
22. Trading in the inter-bank bond market
23. Intermediary introduction business for futures companies
24. Agency system host securities dealer business
25. Sponsoring broker of New Third Board
26. Passed the globally recognised standard ISO/IEC20000 for IT service management field
27. Direct investment business
28. Margin financing and securities lending business
29. Agency sale of financial products
30. Underwriting of private placement bonds for small and medium-sized enterprises
31. Exchange-quoted bond pledged repo business
32. Agreed repurchase type securities trading business
33. Fund business
34. Capital refinancing business
35. Agency service for registration of pledge of securities
36. Stock-pledged repo business
37. Securities refinancing and lending business
38. Shanghai-Hong Kong Stock Connect business on SSE

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

39. Market-making business on the National Equities Exchange and Quotations
40. Piloting of issuing short-term corporate bonds
41. Piloting of OTC market business
42. Piloting of internet securities business
43. Option brokerage business on SSE
44. Market-making business on quotation system of inter-institutional private products
45. Shenzhen-Hong Kong Stock Connect business on SZSE

II. CONTACT PERSONS AND CONTACT METHODS

	Secretary to the Board	Representative of securities affairs
Name	Zhu Qiben	Yang Feng
Address	19F, Hailian Building, 20 Business Outer Ring Road, Zhengdong New District, Zhengzhou City, Henan Province, China (Postcode: 450018)	19F, Hailian Building, 20 Business Outer Ring Road, Zhengdong New District, Zhengzhou City, Henan Province, China (Postcode: 450018)
Tel	0371-69177590	0371-69177590
Fax	0371-86505911	0371-86505911
Email address	zhuqb@ccnew.com	yangfeng@ccnew.com

III. BASIC PROFILE

Registered address of the Company	10 Business Outer Ring Road, Zhengdong New District, Zhengzhou City, Henan Province, China
Postcode of the registered address of the Company	450018
Office address of the Company	10 Business Outer Ring Road, Zhengdong New District, Zhengzhou City, Henan Province, China
Postcode of the office address of the Company	450018
Website of the Company	http://www.ccnew.com
Email address	investor@ccnew.com
Principal place of business in Hong Kong	40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong

IV. INFORMATION DISCLOSURE AND PLACE FOR INSPECTION

Designated newspaper for disclosure of the Company's information	China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily
Website designated by CSRC for publishing this report	http://www.sse.com.cn
Website designated by the Hong Kong Stock Exchange for publishing this report	http://www.hkexnews.hk
Place for inspection of the Company's report	19F, 10 Business Outer Ring Road, Zhengdong New District, Zhengzhou City, Henan Province, China

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

V. SHARES OF THE COMPANY

Class of Shares	Stock Exchange of Listing	Stock Name	Stock Code
A shares	SSE	中原证券	601375
H shares	Hong Kong Stock Exchange	中州证券	01375

VI. OTHER RELEVANT INFORMATION

Accounting firm engaged by the Company	Name	ShineWing Certified Public Accountants (Special General Partnership)
	Office address	8F, Fu Hua Mansion, No. 8 Chaoyangmen Beidajie, Dongcheng District, Beijing City, China
Sponsor performing the duty of continuous supervision during the Reporting Period	Names of signing accountants	Yan Fanqing and Cui Weiwei
	Name	Huatai United Securities Co., Ltd.
	Office address	6F, Block A, Fengming International Building, No. 22, Fengsheng Hutong, Xicheng District, Beijing, China
	Names of signing sponsors	Sun Zexia and Wu Ling
	Term of continuous supervision	11 October 2019–31 December 2021
Legal advisors as to PRC Law	Beijing Junzhi Law Firm	
Legal advisors as to Hong Kong (PRC) Law	Linklaters	
A share registrar	China Securities Depository and Clearing Corporation Limited, Shanghai Branch	
H share registrar	Computershare Hong Kong Investor Services Limited	
Unified social credit code	91410000744078476K	

VII. PRINCIPAL ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE COMPANY

Accounting data and financial indicators set out herein are prepared in accordance with China Accounting Standards for Business Enterprises.

Principal accounting data

Unit: Yuan Currency: RMB

Item	January-June 2020	January-June 2019	Growth of the Period from last period (%)
Revenue	1,249,975,323.25	1,287,144,859.79	-2.89
Total profit	58,419,447.21	354,151,639.95	-83.50
Net profits attributable to shareholders of the parent	30,850,805.92	239,926,940.64	-87.14
Net profits attributable to shareholders of the parent after excluding non-recurring profit or loss	28,191,631.67	236,880,246.93	-88.10
Net cash flow from operation activities	3,066,071,606.88	3,591,696,065.84	-14.63
Other comprehensive income	4,318,809.85	6,700,022.99	-35.54

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

	30 June 2020	31 December 2019	Growth of the end of the Period from the end of last period (%)
Total assets	47,657,411,534.75	43,569,902,415.77	9.38
Total liabilities	37,127,056,703.08	33,072,115,962.00	12.26
Accounts payable to brokerage clients	10,918,482,823.86	8,895,066,941.34	22.75
Equity attributable to shareholders of the parent	9,706,377,628.52	9,671,208,012.75	0.36

Share capital (shares)	3,869,070,700.00	3,869,070,700.00	—
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Net assets per share attributable to shareholders of the parent (RMB/share)	2.51	2.50	0.40
Total equity of owners	10,530,354,831.67	10,497,786,453.77	0.31

Key financial indicators	January-June 2020	January-June 2019	Growth of the Period from the last period (%)
Basic earnings per share (RMB/share)	0.01	0.06	-83.33
Diluted earnings per share (RMB/share)	0.01	0.06	-83.33
Basic earnings per share after excluding non-recurring profit or loss (RMB/share)	0.01	0.06	-83.33
Weighted average return on net assets (%) ^{Note 1}	0.32	2.38	Decrease by 2.06 percentage points
Weighted average return on net assets after excluding non-recurring profit or loss (%)	0.29	2.35	Decrease by 2.06 percentage points

	30 June 2020	31 December 2019	Growth of the end of the Period from the end of last period (%)
Gearing ratio (%) ^{Note 2}	71.34	69.73	Increase by 1.61 percentage points

Notes:

1. Weighted average return of net assets and earnings per share are disclosed in accordance with *No. 9 Rule of Information Disclosure and Preparation of Companies Issuing Public Securities — the Calculation and Disclosure of the Return on Net Assets and Earnings Per Share*
2. Gearing ratio = (total liabilities – accounts payable to brokerage clients – accounts payable to underwriting clients)/(total assets – accounts payable to brokerage clients – accounts payable to underwriting clients)

SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

VIII. NET CAPITAL AND RISK CONTROL INDICATORS OF THE PARENT COMPANY

Unit: Yuan Currency: RMB

Items	As at the end of the Reporting Period	As at the end of last year
Net capital	6,550,935,506.82	6,316,632,921.18
Net assets	10,044,624,473.77	9,931,785,470.13
Sum of various risk capital provisions	3,530,758,804.97	2,935,782,395.38
Total on-and-off balance sheet assets	34,690,734,522.33	31,975,334,104.74
Risk coverage ratio (%)	185.54	215.16
Capital leverage ratio (%)	14.27	15.49
Liquidity coverage ratio (%)	169.69	195.70
Net stable funding ratio (%)	143.19	129.38
Net capital/net assets (%)	65.22	63.60
Net capital/liabilities (%)	27.23	29.07
Net assets/liabilities (%)	41.76	45.71
Proprietary equity securities and its derivatives/net capital (%)	4.28	11.00
Proprietary non-equity securities and its derivatives/net capital (%)	263.67	255.03
Amount of margin financing (securities lending inclusive)/net capital (%)	115.14	118.96

Note 1: The net capital and risk control indicators as at the end of the Reporting Period have been adjusted in accordance with Provisions on the Calculation Basis for Risk Control Indicators of Securities Companies (CSRC Announcement [2020] No. 10).

Note 2: During the Reporting Period, the Company's major risk control indicators, such as net capital, are in compliance with the regulatory requirements.

The items and amounts of non-recurring profit or loss

Unit: Yuan Currency: RMB

The items of non-recurring profit or loss	Amount	Notes (if applicable)
Gain or loss from disposal of non-current assets	-19,043.79	
The government subsidizes recognized into the profit or loss for the period, but has strong relationship with the Company's operating business, excluding the government subsidizes the Company continues to enjoy in line with national policies and in a fixed amount or quantity according to certain standards	8,902,725.63	Mainly attributable to government grants
Other non-operating income/expenses other than the above items	-6,340,210.41	Mainly attributable to the external donations
Effect of minority interests	721,112.20	
Effect on income tax	-605,409.38	
Total	2,659,174.25	

SECTION 3 SUMMARY OF THE COMPANY'S BUSINESS

I. PARTICULARS OF THE PRINCIPAL BUSINESSES ENGAGED BY THE COMPANY, OPERATING MODELS AND INDUSTRIAL STATUS DURING THE REPORTING PERIOD

(I) Principal businesses engaged by the Company and operating models during the Reporting Period

The Company is principally engaged in the securities brokerage business, credit business, futures business, investment banking business, investment management business, proprietary trading business and overseas business.

The securities brokerage business of the Company refers to the Company's business of trading of stocks, funds and bonds on behalf of the customers based on their engagement, and providing investment consultancy services and financial planning services. The Company is in return for customers' commissions and other service charges, etc.

The credit business of the Company refers to the Company providing customers with financing services such as margin financing and securities lending, securities repurchase, and securities-backed lending. The Company is in return for charging interest.

The futures business of the Company contains futures brokerage business, futures asset management business, futures investment consultation business, and risk management service. The Company is in return for transaction and delivery fees through futures brokerage business, for management fees and excess income distribution through futures asset management business, for investment consultation fees through futures investment consultation business, and for income by establishing risk management subsidiary to conduct base trading, OTC derivatives and other risk management services.

The investment banking business of the Company mainly includes the underwriting and sponsorship business of equity securities, the underwriting business of bond products, the financial advisory business regarding mergers, acquisitions and restructuring, and business for the New Third Board. The Company obtains the corresponding returns such as underwriting fee, sponsorship fee and financial advisory fee by providing the aforesaid financial services to customers.

The investment management business of the Company is mainly comprised of asset management business, private fund management business and alternative investment business. The Company earns management fees and excess income distribution through asset management business and private fund management business, meanwhile, it obtains investment revenues from proprietary capital investment.

The scope of investment of the proprietary trading business of the Company includes publicly offered stocks, bonds, funds, derivatives and other financial products approved by the CSRC. The Company obtains investment revenues through investment in the above-mentioned products.

The business scope of the Company's overseas business covers capital market services, including securities brokerage, margin financial, futures brokerage, investment banking services, securities research, and proprietary investment, etc.

SECTION 3 SUMMARY OF THE COMPANY'S BUSINESS

(II) Development stage and cyclical characteristic of the industry which the Company belongs to and its industry position during the Reporting Period

The securities industry is a special industry rooted in capital market. The overall industry performance is closely related to the capital market and the macro-economy, showing a significant cyclicity. With the proposal of the goal of “creating a standardized, transparent, open, vibrant and resilient capital market” on the Central Economic Working Conference, the positioning of capital markets increases unprecedentedly, and a new round of reform and opening up in capital market begins. In early 2020, against the backdrop of the rapid advancement of a series of policies and measures helping the real economy to fight the COVID-19 pandemic, the core function of the capital market to serve the high-quality development of the real economy has been further strengthened, market confidence has been further enhanced, and the vitality of the multi-level capital market has been further stimulated. As a special industry rooted in capital market, the securities industry is bound to take the lead to benefit and enters into the fast lane with high quality development, and a new round of upward cycle is officially open.

According to the statistics of the Securities Association of China, as of 30 June 2020, there were 134 securities companies in China, with total assets and net assets of RMB8.03 trillion and RMB2.09 trillion, respectively, representing an increase of 10.61% and 3.47% as compared to the end of 2019, respectively, with total operating income and net profit of RMB213.404 billion and RMB83.147 billion, respectively, representing a year-on-year increase of 19.26% and 24.73%, respectively.

Currently, the Company is the only securities company that was registered in Henan Province as a legal person. After over 10 years of development, the Company has developed itself into a comprehensive securities company with distinctive advantages in the region. In July 2020, with the completion of the non-public issuance of A shares by the Company, the Company's capital strengths will be significantly enhanced, which will help to further optimize the Company's business structure and comprehensively improve the Company's ability to withstand risks, and thereby enhancing the Company's ability to serve the real economy. According to the statistics of the Securities Association of China, in the first half of 2020, the Company ranked 42nd, 51st and 69th in terms of total assets, net assets and net capital, respectively; and ranked 64th and 86th in terms of total operating income and net profit, respectively.

SECTION 3 SUMMARY OF THE COMPANY'S BUSINESS

II. ANALYSIS ON CORE COMPETITIVENESS DURING THE REPORTING PERIOD

(I) Advantage of the synergy throughout the whole industrial chain, which are led by the investment banking business

Focusing on the business strategy of “strengthening investment banking business and making excellent investments”, the Company continued to deepen the reform of investment banking and vigorously introduced professional talents such as sponsor representatives, with professional capabilities and industry ranking significantly improved and reserve projects significantly increased. The leading role of driving the investment, asset management and wealth management businesses has become increasingly prominent.

(II) Advantage of A+H listing platforms

The Company is the eighth securities company in China listed on the main board both in Hong Kong and mainland China. Not only does the Company have the smooth channels to replenish net capital and operating capital and rich means for development, but also the brand and social influence improves significantly, thus expanding its development prospect. The Company completed the non-public issuance of A shares on 30 July 2020, significantly enhanced the net capital strength of the Company, accelerate the characteristic business formation of the Company, and enhance its core competitiveness.

(III) Comprehensive financial operation advantage

Currently, the Company owns such subsidiaries as Equity Exchange Co., Central China Futures, Central China Blue Ocean, ZDKY Venture Capital, Central China International and Central China Micro-lending with good momentum of development. The Company is now leading the establishment of Zhongyuan Life Insurance Co, Ltd.* (中原人壽保險股份有限公司) (provisional name) and has preliminarily formed a comprehensive structure for financial operation.

(IV) Advantage of “base area”

As the only securities company as a legal person in Henan Province, the Company is endowed with the “base area” of the largest economic province in China’s central and western areas. The Company has deeply explored the Henan market for a long time and established deep cooperation with the local government, enterprises and individual customers, with a stable customer base and several businesses ranking at the top in terms of regional market share.

SECTION 4 DISCUSSION AND ANALYSIS ON BUSINESS OPERATION

I. DISCUSSION AND ANALYSIS ON BUSINESS OPERATION

(I) Overall business performance

Since the beginning of this year, in face of a complex and changeable environment, the Company has put emphasis both on epidemic prevention and control and on business development in accordance with its work plans formulated at the beginning of the year. Focused on improving professional service levels, building core competitiveness, continuously deepening reforms, the Company has comprehensively improved professional standards, fixed work posts and defined personnel quota and implemented rank management for all employees. The effectiveness of the reform continued to emerge. Wealth management, fix-income investment, investment banking and investment and other main business have maintained a good momentum of rapid development. In particular, the successful completion of the non-public issuance of A shares has brought the Company's development to a new level, opening up a new round of high-quality development.

The Company adhered to the main theme of seeking progress while maintaining stability in wealth management, reshaped the organizational structure of branches, and continued to improve professional service level and service support capabilities. The transformation results have further emerged. Both the balances of margin financing and securities lending, and sales of public funds have increased greatly as compared with the same period of last year. The equity underwriting amount of the Company in Shanghai and Shenzhen stock markets ranked 15th, and the amount of additional issuance of funds in which investment bank was the lead underwriter ranked 6th; the Company's fixed-income investment business continued to perform well; Equity Exchange Co., which is controlled by the Company, has actively explored hierarchical precise services, improved the efficiency of center service, vigorously promoted the guidance restructuring, and significantly improved the ability to serve the real economy.

(II) Analysis of principal operations

1. Securities brokerage business

Market environment

As a number of basic rules and regulations including the new Securities Law and the ChiNext registration system were gradually reformed in the first half of 2020, the trading activity was significantly increased. The SSE Composite Index closed at 2,984.67 points, representing a decrease of 2.15% as compared to the end of last year, the SZSE Component Index closed at 11,992.35 points, representing an increase of 14.97% as compared to the end of last year, and the ChiNext Index closed at 2,438.20 points, representing an increase of 35.60% as compared to the end of last year. The trading volume of the two markets increased, hitting RMB94.7 trillion in the first half of the year, representing a year-on-year increase of 28.39%. [Source: Wind Info]

SECTION 4 DISCUSSION AND ANALYSIS ON BUSINESS OPERATION

Business measures and performance

In the first half of 2020, the Company developed its securities brokerage business primarily in Henan market with the focus on customer operation and actively seized the new opportunity of deepening the development of capital market. We accelerated the layout of online and offline channels and continuously strengthened digital and intelligent application through the building of “three terminals and a wechat” (「三端一微」) platform and the provision of services, such as the Caishengbao (財升寶) application. At the same time, centering on the development of comprehensive service capabilities of subsidiaries, the Company strengthened the cooperation between banks and securities companies as well as the cooperation between securities companies and enterprises. The Company also implemented the system of management of all posts and ranks in its branches, improved the professional ability of management, business support personnel and business personnel, and focused on basic customers, basic assets and core customers in respect of investment advisory business and sales of funds to improve customer satisfaction. As of the end of the Reporting Period, Caishengbao application ranked 21st overall, and its official WeChat account ranked 11th in terms of average monthly influence, both of which were greatly improved over the same period last year. [Source: Qianfan.analysis.cn and gsdata.cn]

During the Reporting Period, the Company's A-share fund trading volume reached RMB845.272 billion, with a market share of 4.46%, and the number of new customers reached 0.1123 million. The balance of margin financing and securities lending was RMB5.968 billion, representing a year-on-year increase of 18.79%. The trading volume of stock options was 1.9585 million, representing a year-on-year increase of 80.8%. The sales of public funds reached RMB1.737 billion, representing a year-on-year increase of 281.76%. The sales of beneficiary certificates reached RMB1.387 billion, representing a year-on-year decrease of 32.83%.

Outlook

In the second half of 2020, the Company will continue to develop its securities brokerage business in Henan. With a focus on customers' life cycle and demand, we will strengthen data-driven operation, make full use of technologies, channels and platforms of the Internet, especially mobile Internet, implement the strategy of high-quality fund and service, and promote online self-service and standardization, offline specialization and personalization, striving to become a leading financial expert for investors in Henan market.

2. Credit business

Market environment

With the active trading in A-share market in the first half of 2020, the targets and the market scale of margin financing and securities lending kept expanding. As of the end of the Reporting Period, the balance of margin financing and securities lending was approximately RMB1.16 trillion, representing an increase of 14.17% as compared to the end of last year. At the same time, the risk in the securities-backed lending business was alleviated, and the overall scale of securities-backed lending business in the industry continued to decline as in the previous year.

SECTION 4 DISCUSSION AND ANALYSIS ON BUSINESS OPERATION

Business measures and performance

In the first half of 2020, while focusing on customer service in the credit business, the Company constantly strengthened the risk management system, improved the refined management, and steadily promoted the sustainable and healthy development of its businesses. In terms of margin financing and securities lending, the Company strengthened the customer base and expanded the business scale by carrying out the “growing together and going forward for our dreams” activity regarding margin financing and securities lending, i.e. a special marketing service for core customers, and a series of training lectures. In terms of securities-backed lending, the Company set up the Pledged Financing Department to manage its pledged financing business. We figured out the nature of the business, reclassified it from transaction business to quasi credit business, and strengthened the professional quality and risk control of the business by redesigning the operational process and improving the relevant rules and regulations of pledged financing business.

During the Reporting Period, the Company had 2,307 new accounts of margin financing and securities lending, representing a year-on-year increase of 50.39%, with an average daily balance of RMB5.662 billion, representing a year-on-year increase of 20.34%. The balance of financing amount under the stock-pledged repo business was RMB2.470 billion, representing a decrease of 8.79% as compared to the end of last year.

Outlook

In the second half of 2020, the Company will refine the setting of the risk indicator system, improve the business system and process, optimize the customer structure, allocate more capital to both margin financing and securities lending, and enlarge the business scale to further accelerate its business development. The Company will no longer simply pursue the improvement in the business volume of securities-backed lending. Instead, in accordance with the new positioning of the Company, i.e. providing comprehensive financial services and highlighting the business collaboration, the Company will serve its core customers and maintain an appropriate business scale while managing well the existing projects. We will gradually reduce projects with potential risks to further defuse business risks.

3. Futures business

The Company carried out its futures brokerage business, futures investment consultation and asset management business through Central China Futures, a subsidiary of the Company, and carried out its risk management business through Yuxin Investment, a subsidiary of Central China Futures.

Market environment

In the first half of 2020, the economic situation was complex and changeable both at home and abroad. On the one hand, global trade and cross-border investment suffered heavy losses; the circulation of both the industrial value chain and the supply chain was blocked; the commodity market was volatile; and the uncertainties in the futures market increased. On the other hand, affected by the drastic fluctuation in global financial market and the expansion of commodity futures and options, the trading scale in domestic futures market increased significantly, but the overall income of the industry grew slowly. During the Reporting Period, the accumulated transaction amount in China’s futures market was RMB165.47 trillion, representing a year-on-year increase of 28.70%. The accumulated trading volume was 2.522 billion lots, representing a year-on-year increase of 45.35%. [Source: China Futures Association]

SECTION 4 DISCUSSION AND ANALYSIS ON BUSINESS OPERATION

Business measures and performance

Confronted with risks and challenges in the first half of 2020, Central China Futures overcame difficulties, took advantages of synergism, and steadily developed its three main businesses, i.e. futures brokerage business, futures asset management and risk management. In terms of futures brokerage business, Central China Futures focused on main industries, expanded the business coverage, and helped customers successfully apply for soda ash, ferrosilicon and silicon manganese industrial bases by tapping into the three core industrial value chains of chemicals, breeding and nonferrous metals, and cooperating with Central China Futures Research Institute. In terms of futures asset management business, Central China Futures followed the new regulations for asset management, sped up transformation and adjustment, and steadily defused the repayment risk and liquidity risk of existing products. It also actively planned for the design and issuance of FOF products, and strengthened the establishment of compliance risk control mechanism by amending relevant systems and improving the personnel allocation for compliance risk control, so as to lay a solid foundation for transformation and development. Yuxin Investment, a subsidiary of Central China Futures engaged in risk management, gradually built an over-the-counter cooperation platform for derivatives, obtained the qualification of designated delivery warehouse (factory) of ferrosilicon and silicon manganese issued by Zhengzhou Commodity Exchange, and continuously expanded the business scale of basis trading, warehouse receipts and market making, striving to maximize its revenue.

As of the end of the Reporting Period, futures brokerage business acquired 1,135 new customers and served a total of 0.0276 million customers, of which institutional clients increased by 7.71% year on year. The total number of transactions was 9.9243 million lots, representing a year-on-year increase of 5.83%, and the total transaction amount was RMB569.734 billion, representing a year-on-year increase of 9.93%. It had 8 existing asset management schemes in futures asset management business with AUM net value of RMB1.457 billion as at the Reporting Period. During the Reporting Period, Yuxin Investment's total purchases of goods amounted to RMB547 million, representing a year-on-year increase of 99.11%; its total revenue from sales of goods was RMB396 million, representing a year-on-year increase of 89.50%; and its revenue from market making business was RMB8 million, representing a year-on-year increase of 61.87%.

Outlook

In the second half of 2020, Central China Futures will comprehensively improve its compliance risk management and continuously promote the coordinated development of the three main businesses. It will speed up building teams specialized in equity of asset management by establishing a service marketing system for strategic customers and retail customers, diversify the existing risk management services, and actively develop new varieties, with a view to better serve the real economy as a player in the futures market at a higher level and in a deeper field.

SECTION 4 DISCUSSION AND ANALYSIS ON BUSINESS OPERATION

4. Investment banking business

Market environment

The successive introduction of the registration system for STAR Market and ChiNext Market, and the new regulations for merger, acquisition, restructuring and refinancing provided market opportunities for the development of investment banking business. In the first half of 2020, 119 enterprises completed their initial offering either in SSE or SZSE, raising a total of RMB139.274 billion, representing a year-on-year increase of 130.85%. The refinancing fund raised by listed companies was RMB387.105 billion, representing a year-on-year decrease of 29.89%. 64 companies were newly listed in the New Third Board market, raising a total of RMB11.326 billion, representing a year-on-year decrease of 34.40%. The total amount of bonds issued by various institutions was RMB25.90 trillion, representing a year-on-year increase of 19.41%. [Source: Wind Info]

Business measures and performance

During the Reporting Period, the investment banking business of the Company fastened on the market development opportunities, made greater efforts in exploring the STAR Market, exerted local advantages, further cultivated the capital markets in Henan and improved the service to large enterprises under the management of Henan Provincial Government, achieving all-round development in various fields. The Company completed 2 refinancing projects of listed companies, with a lead equity underwriting amount in SSE and SZSE totaling RMB7.630 billion in the first half of the year, representing a year-on-year increase of 296.16%. The Company completed 1 enterprise bond project, 8 corporate bond projects and 1 financial bond project, with a lead bond underwriting amount totaling RMB7.380 billion in the first half of 2020, representing a year-on-year increase of 70.24%.

As of the end of the Reporting Period, the Company ranked 15th in terms of underwriting amount in equity in SSE and SZSE, and ranked 6th in terms of lead underwriting amount raised from additional issuance. In the 2020 Junding Awards of China's Investment Banks (2020年中國區投資銀行君鼎獎) hosted by Securities Times, the Company was granted two awards: the "Junding Award of Outstanding New Investment Bank" (新銳投行君鼎獎) and the "Junding Award of Investment Bank for Financial Advisory Services of Merger, Acquisition and Restructuring" (併購重組財務顧問投行君鼎獎). Due to its outstanding performance in the COVID-19 pandemic prevention and control, the Company was commended and awarded the title of "Advanced Anti-Epidemic Unit" (抗疫先進單位) by China Mergers & Acquisitions Association. [Source: Wind Info]

Outlook

In the second half of 2020, the Company will continue to deepen investment banking reform, vigorously develop debt financing business while consolidating equity financing, mergers, acquisitions and restructuring business, and seize the opportunities brought by the development of STAR Market and the reform of ChiNext Market and New Third Board. We will make greater efforts in exploring such investment banking projects as high-tech industries and high-quality small and medium-sized enterprises, and promote the application of mature key projects in an orderly manner. In the meantime, we will build professional equity and debt sales teams to constantly improve our business capabilities. While exerting local advantages to deeply explore Henan market, we will actively tap into the broad market outside the province and in developed regions, so as to form a new pattern for the development of investment banking based primarily on the market within the province supported by the market outside the province and overseas market.

SECTION 4 DISCUSSION AND ANALYSIS ON BUSINESS OPERATION

5. Investment management business

(1) Asset management

Market environment

With the implementation of the new regulations for asset management and relevant supporting rules, functional supervision and behavioral supervision were gradually united in asset management industry in the first half of 2020. As the competition in asset management industry intensified, resources were gradually concentrated to top institutions, leaving those in small and medium size under greater pressure. Under a new operational framework, asset management institutions need to return to active management, cultivate innovation capabilities in asset allocation, risk pricing and product service, and gradually complete net worth transformation and upgrading, so as to optimize the allocation of resources and build differentiated advantages. Asset management business of securities companies will focus on private placement, FOF/MOM, transformation of large collective products, etc. for some time to come.

Business measures and performance

In the first half of 2020, while enhancing the management of existing products in asset management business and centering on improving active management capacity, the Company adopted differentiated and moderately scaled business strategy, actively deployed equity investment business, and gradually enriched the asset management product line, thereby promoting the transformation of the Company's wealth management. On the one hand, we steadily established standardized products while strengthening our own ability of compliance and risk control. On the other hand, we actively promoted the rectification of large collective products to lay a foundation for asset management business in the future.

As of the end of the Reporting Period, the size of the asset management business of the Company amounted to RMB6.836 billion in aggregate, including 3 publicly-offered collective asset management schemes in the amount of RMB2.220 billion, 9 collective asset management schemes in the amount of RMB2.766 billion, 5 separately managed asset management schemes in the amount of RMB1.251 billion and 2 specialized asset management schemes in the amount of RMB599 million.

Outlook

In the second half of 2020, the Company will continue to promote the transformation and development in asset management business. Guided by "focusing on investment in standardized products", we will strive to improve active management capacity and strengthen such professional capabilities as risk identification, asset allocation and research support. We will see to it that the business scale matches the management capacity, steadily carry out new businesses and gradually build a product system catering to our customers' demand.

SECTION 4 DISCUSSION AND ANALYSIS ON BUSINESS OPERATION

(2) *Private fund management*

The Company carried out its private fund management business through ZDKY Venture Capital, a subsidiary of the Company, and its subsidiaries.

Market environment

As the global economy was impacted by the epidemic in the first half of 2020, the financing, investment and exit of equity investment market were all affected to some extent. After the rapid development in the past few years, China's equity investment market was entering a period of integration. 1,069 new funds in the market completed a new round of fundraising, raising a total of RMB431.840 billion, representing a year-on-year decrease of 29.5%. There were 2,865 investment cases with a total investment amount of RMB266.925 billion, representing a year-on-year decrease of 32.7% and 21.5%, respectively. [Source: Zero2IPO]

Business measures and performance

In the first half of 2020, ZDKY Venture Capital carried out project due diligence on a number of enterprises focusing on sci-tech industry, new energy, new materials, modern service industry and other sectors, and widely approached potential partners for fund cooperation. At the same time, ZDKY Venture Capital actively carried out post-investment management to boost corporate growth and enhance corporate value, and completed the exit of several invested projects. As of the end of the Reporting Period, ZDKY Venture Capital and its subordinate institutions filed and managed 15 private funds, with a scale of RMB5.100 billion.

Outlook

In the second half of 2020, ZDKY Venture Capital will, under the basic working concept of "invest and gain", continue to deeply explore Henan market while keeping risks under control, and take full advantage of the investment opportunities in Beijing, Shanghai, Guangzhou, Shenzhen and other developed markets to create new sources of profits. By cooperating with large-scale state-owned investment platforms in the province, state-owned enterprises, listed companies, industry leaders and national strategic partners, ZDKY Venture Capital will promote the establishment of private placement funds and merger and acquisition funds of listed companies to expand the size of funds under management and improve revenue. Meanwhile, it will seek diversified exit channels for investing projects, and help enterprises exit and grow larger and stronger by means of market promotion, introduction of purchasers and strategic investors, etc.

SECTION 4 DISCUSSION AND ANALYSIS ON BUSINESS OPERATION

(3) *Alternative investment*

The Company carried out its alternative investment business through Central China Blue Ocean, a subsidiary of the Company.

Market environment

In the first half of 2020, China accelerated the in-depth reform of the capital market with brilliant performance in STAR Market and steadily promoted the registration system of ChiNext Market. The Regulation on the Management of Alternative Investment Subsidiaries of Securities Companies (Revised Draft) (《證券公司另類投資子公司管理規範（修訂意見稿）》) issued by the Securities Association of China further specified the business scope of alternative subsidiaries and improved the institutional basis for alternative subsidiaries to engage in strategic placement. However, due to macro-economic adjustment and continuous changes in international trade, enterprises were developing in a more complex and changeable environment, and the operational risk related to the invested projects of alternative subsidiaries might increase, making it more difficult to achieve return on investment.

Business measures and performance

In the first half of 2020, Central China Blue Ocean further optimized its investment strategy, that is, mainly focusing on equity investment with financial asset investment as a supplement. It actively invested in leading enterprises in such fields as advanced manufacturing, pharmaceutical technology, financial services, innovative technology and artificial intelligence, and tailored such financing projects for the invested enterprises as IPO, merger, acquisition, restructuring and backdoor listing, which could strongly support the development of real economy while generating return. At the same time, Central China Blue Ocean strengthened risk control and risk resolution, enhanced compliance management, and refined investment management systems in a timely manner to improve its governance.

As of the end of the Reporting Period, the investment scale of Central China Blue Ocean amounted to RMB2.21 billion, including 23 equity investments and 8 financial product investments. During the Reporting Period, new investments amounted to RMB26.8403 million, including equity investments of RMB10.9250 million and financial product investments of RMB15.9153 million. 3 investment projects of various types were withdrawn, and the recovered investment amount reached RMB135 million.

Outlook

In the second half of 2020, Central China Blue Ocean will, while keeping risks under strict control, take listing, merger, acquisition and restructuring of the invested enterprises as main withdrawing modes. Relying on the advantages of the Group's platform, Central China Blue Ocean will concentrate on Pre-IPO investments and follow-up investments in STAR Market, invest its limited funds in highly predictable projects with high quality, and compress and gradually recover inefficient investments, so as to actively defuse risks related to existing investments, develop steadily and contribute more stable profits to the Company.

SECTION 4 DISCUSSION AND ANALYSIS ON BUSINESS OPERATION

6. Proprietary trading

Market environment

In the first half of 2020, the A-share market experienced significant fluctuations, with the SSE Composite Index falling by 2.15%, the SZSE Component Index rising by 14.97%, and the ChiNext Index rising by 35.60%. The bond market presented an overall trend of shock and differentiation. Market liquidity was sufficient; credit risk was exposed to some extent; and structural differentiation gradually emerged. As China's economy became stable, the yield on the 10-year treasury bond rose after falling down, and the Comprehensive Full Price Index of ChinaBond increased by 0.84%. [Source: Wind Info]

Business measures and performance

In the first half of 2020, the Company continued to improve its internal control system, strengthen prior risk control and market access, and optimize the control of market and credit risks for its proprietary trading business. In terms of equity investment, we strengthened the research on macro industries and product varieties, kept an eye on the structural opportunities in the market, and strengthened our investment and research capabilities, so as to optimize our investment strategies. In terms of investment trading, we continuously transformed our business model, actively built diversified strategies, and enriched our business products to further stabilize our income structure. We also further studied the law of markets to capture opportunities presented in market fluctuations. In terms of sales transaction, we strengthened customer maintenance and development and deeply explored the sales market to increase the revenue from bond sales business.

Outlook

In the second half of 2020, while developing its existing proprietary trading business, the Company will actively develop new businesses and promote their rapid development. For equity investment, the Company will, under the principle of "starting stably", focus on strengthening its investment capacity, continue to conduct in-depth research, make prudent decisions and properly select individual stocks, with a view to pursue stable growth of investment income under controllable risks. For fixed-income investment business, the Company will adjust its investment strategy in a timely manner based on market changes, so as to reasonably avoid large withdrawal or loss of profits caused by market fluctuations. We will utilize a variety of derivative portfolios to effectively hedge interest rate risks and increase our chance to gain profits. Furthermore, we will comprehensively analyze our customers to improve the all-round services offered to them, promote the continuous and sound development of sales transaction business, and expand the source of profits.

SECTION 4 DISCUSSION AND ANALYSIS ON BUSINESS OPERATION

7. Overseas business

The Company carried out its overseas business through Central China International, a subsidiary of the Company, and its subsidiaries.

Market environment

In the first half of 2020, Hong Kong market fluctuated with a downward trend, but trading remained active. As of the end of the Reporting Period, the Hang Seng Index closed at 24,427.19 points, representing a decrease of 13.35% as compared to the end of last year. During the Reporting Period, the average daily turnover was HK\$117.5 billion, representing a year-on-year increase of 20%. The number of new IPOs in Hong Kong market decreased by 23.8% as compared to the same period last year. However, as overseas-listed Chinese companies like NETEASE and JD returned to Hong Kong market, the total amount raised in IPOs hit HK\$87.514 billion, representing a year-on-year increase of 21.8%. [Source: Website of Hong Kong Stock Exchange]

Business measures and performance

In the first half of 2020, focusing on “business transformation and steady development”, Central China International optimized its organizational structure and business model, turned to wealth management business, and built a financing service platform for its overseas market. It further strengthened the internal control mechanism and institutional system, improved investment capacity, and took full advantage of the synergy between domestic and overseas businesses to steadily develop its international business while providing cross-border capital market services for customers.

During the Reporting Period, the accumulative trading volume of securities brokerage business in Hong Kong market was HK\$7.676 billion, ranking 132nd in terms of brokerage turnover among 629 participants of the Hong Kong Stock Exchange. As of the end of the Reporting Period, there were 7,142 securities brokerage accounts, representing a year-on-year increase of 1.84% as compared to the end of last year, 1.76 million cumulative futures transactions, and 192 futures customers’ accounts in an amount of HK\$55.2516 million. Due to the COVID-19 pandemic, certain scheduled investment banking projects were postponed. The investment banking business completed 1 compliance adviser project and signed 3 new compliance adviser projects during the Reporting Period, showing a decline in the number of projects as at the end of last year.

Outlook

In the second half of 2020, there are still great uncertainties in Hong Kong market, Central China International will continue to focus on light assets and low-risk business, and be led by investment banking business, strengthen financing service capacity in both domestic and overseas markets, so as to drive the investment and institutional business, accelerate the transformation of economic business to high-end wealth management business, improve the compliance and risk control system, and actively reduce leverage and defuse risks. It will upgrade its licensed main businesses and improve the linkage mechanism of business lines between Hong Kong and the Mainland, so as to create a professional and international business platform for the Company.

SECTION 4 DISCUSSION AND ANALYSIS ON BUSINESS OPERATION

8. Others

(1) Regional equity market business

The Company carried out its regional equity market business through Equity Exchange Co., a subsidiary of the Company.

Market environment

In the first half of 2020, Henan Local Financial Supervision and Administration Bureau (河南省地方金融監督管理局), Henan Bureau of China Banking and Insurance Regulatory Commission (河南銀保監局) and Henan Bureau of the CSRC jointly issued the Opinions on Standardizing the Equity Registration and Custody of Non-listed Joint Stock Companies in Henan Province (Yu Jin Fa [2020] No. 63) (《關於規範開展全省非上市股份有限公司股權登記託管工作的意見》(豫金發[2020]63號)), which specified the responsibility and force of Equity Exchange Co. in registration and custody. The General Office of Henan Provincial Government issued the Opinions on Accelerating the Listing of Enterprises (Yu Zheng Ban [2020] No. 22) (《關於加快推進企業上市掛牌工作的意見》(豫政辦[2020]22號)), which specified the development goals and direction of Equity Exchange Co. in the next three to four years.

Business measures and performance

In the first half of 2020, by highlighting Zhengzhou's regional advantages, Equity Exchange Co., with the help of big data resources, further digested the requirements from enterprises, explored accurate services by classification, while at the same time ensured the implementation of equity custody policies of commercial banks, expanded the size of custody from commercial banks with Equity Exchange Co., to maintain a sound development trend.

During the Reporting Period, Equity Exchange Co. had 284 newly listed enterprises with a financing amount of RMB1.30 billion, of which RMB225 million was from the issuance of 5 convertible bonds. 42 more commercial banks were under the custody of Equity Exchange Co., and the total number of commercial banks as well as shares under custody were 126 and 54.206 billion shares, respectively. As of the end of the Reporting Period, there were 422 enterprises and 58.574 billion shares under the custody of Equity Exchange Co. in a total financing amount of RMB7.528 billion.

Outlook

With the introduction of two favorable policies in the first half of 2020, Equity Exchange Co. will, in the second half of 2020, continue to follow the concept of high-quality development, give full play to the advantages of SSE Henan Base of Capital Market Service (上交所資本市場服務河南基地), and provide practical services for enterprises to be listed. It will focus on market resources, promote enterprise guidance and reform, and improve its service ability as a platform. It will also tap into the market to expand the share of custody business and exercise strict self-discipline to keep the market in order.

SECTION 4 DISCUSSION AND ANALYSIS ON BUSINESS OPERATION

(2) *Micro-lending business*

The Company carried out its micro-lending business through Central China Micro-lending, a subsidiary of the Company.

Market environment

In the first half of 2020, the micro-lending industry in Henan Province continued the trend of polarization. Restricted by small amount of registered capital, limited financing channels, high financing costs and weak risk control ability, a number of micro-lending companies exited one after another. On the contrary, micro-lending companies set up by large enterprises further expanded their assets and loan size by increasing registered capital and borrowing from substantial shareholders, carried out businesses related to shareholders' industrial value chains, and were therefore able to develop steadily. Meanwhile, classified rating and differentiated supervision on micro-lending companies implemented in Guangdong, Jiangsu, Hunan and some other provinces further standardized the micro-lending industry and promoted business innovation.

Business measures and performance

In the first half of 2020, Central China Micro-lending actively figured out customers' difficulties and financing needs to improve its service efficiency. For customers in such industries as food production, medical and health care and breeding who were affected by the epidemic, it allowed delayed repayment and repayment by installment and adjusted interest payment based on its own situation and under controllable risks, so as to better serve the real economy. Central China Micro-lending actively followed the latest policies of the state and Henan Province to support the development of the real economy, and was granted the Special Contribution Award for Opening Up and Investment Promotion in Kaifeng Urban-Rural Integration Demonstration Zone in 2019. During the Reporting Period, the loans provided by Central China Micro-lending totaled RMB179 million. As of the end of the Reporting Period, the balance of loans amounted to RMB1.079 billion.

Outlook

In the second half of 2020, Central China Micro-lending will further adjust and optimize customer structure, strengthen risk control measures, and continue to promote business transformation. That is, it will accumulate and serve more high-quality large enterprise customers along industrial value chains of substantial shareholders, and vigorously develop loans for small and medium-sized enterprises. In the meantime, Central China Micro-lending will moderately develop consumer financial services according to the market environment to gradually form a stable business model and unique competitive advantages, thereby laying a solid foundation for its sustainable and stable development.

SECTION 4 DISCUSSION AND ANALYSIS ON BUSINESS OPERATION

(III) Analysis on principal businesses

1. Analysis of changes in relevant items in the financial statements

Unit: Yuan Currency: RMB

Item	Amount for the Period	Amount for corresponding period last year	Change (%)
Operating revenue	1,249,975,323.25	1,287,144,859.79	-2.89
Operating costs	1,185,589,385.64	934,048,893.79	26.93
Net cash flow from operating activities	3,066,071,606.88	3,591,696,065.84	-14.63
Net cash flow from investment activities	-35,427,401.10	-906,059,895.64	N/A
Net cash flow from financing activities	-441,325,534.43	-406,050,991.25	N/A

The items in the consolidated income statement with changes in excess of 30% are as follows:

Item	Amount for the Period	Amount for corresponding period last year	Change (%)	Reason for change
Net interest income	18,374,722.76	60,314,647.70	-69.54	Mainly attributable to the decrease in interest income from financial assets purchased under resale agreements
Other income	8,509,397.02	3,243,562.04	162.35	Mainly attributable to the increase in revenue from government grants in relation to the daily operations of the Company
Gains on the changes in fair value	-65,586,204.75	90,082,423.72	-172.81	Mainly attributable to the changes in the fair value of financial assets held for trading
Gains on foreign exchange	-2,759,526.70	-115,348.84	N/A	Mainly attributable to the fluctuation in exchange rate
Other operating income	414,430,890.62	216,587,502.54	91.35	Mainly attributable to the increase in sales income from bulk commodity
Gains from assets disposal	564.81	-9,825.97	N/A	Mainly attributable to the increase in gains from disposal of fixed assets
Credit impairment loss	140,402,125.30	80,366,175.44	74.70	Mainly attributable to the increase in provision for the impairment of financial assets purchased under resale agreements
Other assets impairment losses	22,934,995.27	3,912,122.41	486.25	Mainly attributable to the increase in provision for inventory falling price
Other operating costs	392,750,309.63	208,519,016.75	88.35	Mainly attributable to the increase in sales cost from bulk commodity
Non-operating expenditures	7,102,510.91	118,845.31	5,876.27	Mainly attributable to the increase in external donation expenditures
Income tax expenses	24,735,859.16	73,283,003.09	-66.25	Mainly attributable to the deferred impact of income tax expenses
Other comprehensive income after tax, net	4,318,809.85	6,700,022.99	-35.54	Mainly attributable to the changes in the fair value of other debt investment

SECTION 4 DISCUSSION AND ANALYSIS ON BUSINESS OPERATION

During the Reporting Period, the Group realized operating revenue of RMB1,250 million, representing a decrease of 2.89% as compared to the same period of 2019, of which futures brokerage business accounting for RMB454 million, representing an increase of RMB199 million (including the increase in sales income from bulk commodity of the subsidiary, Yuxin Investment, of RMB188 million); securities brokerage business accounting for RMB343 million, representing an increase of RMB45 million; headquarters and other business accounting for RMB201 million, representing an increase of RMB66 million; credit business accounting for RMB122 million, representing an increase of RMB24 million; investment banking business accounting for RMB82 million, representing an increase of RMB8 million; investment management business accounting for RMB51 million, representing a decrease of RMB67 million; proprietary trading business accounting for RMB50 million, representing a decrease of RMB185 million; overseas business accounting for RMB-45 million, representing a decrease of RMB127 million.

During the Reporting Period, the Group's total operating expenses were RMB1,186 million, representing an increase of 26.93% as compared to the same period of 2019, which was mainly due to the increase of both the sales costs from bulk commodity trading of subsidiaries (including the increase in sales cost of bulk commodity of the subsidiary, Yuxin Investment, of RMB185 million) and the credit impairment loss as compared to the same period of last year. Among which, the credit impairment loss increased by RMB60.0359 million or 74.70%, which was mainly attributable to the increase in expected credit impairment loss of securities-backed lending business. The Company assesses the credit risk of each business in accordance with the principles of prudence and adequate provision, and makes provision for impairment through the "expected loss model". The Company will continue to monitor the market value of collaterals and the credit status of financiers, prudently evaluate the risks of stock pledged repurchase business. In the event of adverse factors such as a decline in the market value of collaterals, the Company will strictly comply with the Accounting Standards for Business and the Company's accounting policies and provisions to make full provision for the current impairment.

During the Reporting Period, the Group's net profits attributable to shareholders of the listed company were RMB30.8508 million, representing a decrease of 87.14% as compared to the same period of 2019, which was mainly due to the decrease in the revenue from proprietary business and overseas business as result of the fluctuation in capital market; the provision of impairment by the Company increased year-on-year.

Reasons for change in net cash flow from operating activities: mainly due to the decrease in the capital inflow as result of decrease in the size of purchasing under resale agreement business.

Reasons for change in net cash flow from investment activities: mainly due to the decrease of cash paid for the investment.

Reasons for change in net cash flow from financing activities: mainly due to the decrease of cash received from bonds issuance.

SECTION 4 DISCUSSION AND ANALYSIS ON BUSINESS OPERATION

2. Analysis of assets and liabilities

Unit: Yuan Currency: RMB

Item	Amount at the end of the Period	Proportion among total assets at the end of the Period (%)	Amount at the end of last year	Proportion among total assets at the end of last year (%)	Change of amount at the end of the Period compared with that of the end of last year (%)	Description
Monetary resources	12,634,141,865.39	26.51	9,331,748,561.52	21.42	35.39	Mainly due to the increase of deposits from customers
Margin financing	6,418,453,778.69	13.47	6,060,740,196.56	13.91	5.90	Mainly due to the increase of scale in margin financing
Refundable deposits	764,222,849.71	1.60	395,169,735.95	0.91	93.39	Mainly due to the increase of performance guarantee
Amounts receivable	98,394,746.29	0.21	153,912,302.37	0.35	-36.07	Mainly due to the decrease of interest payments of bonds receivable
Financial assets held for trading	18,794,702,163.17	39.44	17,227,018,646.76	39.54	9.10	Mainly due to the increase of debt investments
Short-term financing payables	4,667,962,527.24	9.79	4,455,447,124.75	10.23	4.77	Mainly due to the increase of beneficiary certificates
Interbank borrowings	2,608,651,111.12	5.47	2,361,159,583.32	5.42	10.48	Mainly due to the increase of refinancing funds
Derivative financial liabilities	48,280.00	0.00	83,740.00	0.00	-42.35	Mainly due to the decrease of option size
Financial assets sold under repurchase agreements	11,089,400,605.91	23.27	8,721,088,626.07	20.02	27.16	Mainly due to the increase of sell-out repo and pledge sell repo
Accounts payable to brokerage clients	10,918,482,823.86	22.91	8,895,066,941.34	20.42	22.75	Mainly due to the increase of funds from customers
Taxes payable	108,127,053.50	0.23	56,986,010.70	0.13	89.74	Mainly due to the increase of corporate income tax
Amounts payable	97,911,163.21	0.21	183,081,131.54	0.42	-46.52	Mainly due to the decrease of securities settlements
Contract liabilities	27,025,121.94	0.06	20,444,852.57	0.05	32.19	Mainly due to the increase of trade advance
Bonds payable	4,564,045,857.99	9.58	4,623,940,375.96	10.61	-1.30	Mainly due to certain bonds with the remaining maturity less than one year divided into short-term financing payables
Deferred income tax liabilities	11,549,669.78	0.02	8,258,284.47	0.02	39.86	Mainly due to the change in fair value of financial assets

SECTION 4 DISCUSSION AND ANALYSIS ON BUSINESS OPERATION

Other descriptions:

As of 30 June 2020, total assets of the Group amounted to RMB47,657 million, representing an increase of RMB4,087 million or 9.38% as compared to the end of last year. Among which, monetary funds, clearing settlement funds and refundable deposits accounted for 31.82% of the total assets, financial assets accounted for 42.29% of the total assets, financing funds accounted for 13.47% of the total assets, investment properties, fixed assets and construction in progress accounted for 0.50% of the total assets, long-term equity investments accounted for 2.22% of the total assets, financial assets purchased under resale agreements accounted for 4.78% of the total assets, and other assets such as right-of-use assets accounted for 4.92% of the total assets.

As of 30 June 2020, the total liabilities of the Group amounted to RMB37.127 billion, representing an increase of RMB4.055 billion or 12.26% from the end of last year. Among which, accounts payable to brokerage clients (including securities brokerage for margin transaction) accounted for 29.41% of the total liabilities, bonds payable and short-term notes repayable accounted for 24.87% of the total liabilities, financial assets sold under repurchase agreements accounted for 29.87% of the total liabilities, bank borrowings accounted for 3.48% of the total liabilities, interbank borrowings accounted for 7.03% of the total liabilities, financial liabilities held for trading accounted for 2.19% of total liabilities, and other liabilities such as staff costs payable and tax payable accounted for 3.15% of total liabilities.

As of 30 June 2020, the Group's equity attributable to shareholders of the parent amounted to RMB9,706 million, representing an increase of RMB35 million or 0.36% as compared to the end of last year.

Our gearing ratio remained stable. As of 30 June 2020, the gearing ratio of the Group after deducting accounts payable to brokerage clients was 71.34%, as compared to the gearing ratio of 69.73% as at the end of 2019.

3. Access to and ability of financing

Currently the Company meets its operating capital requirement through equity financing and debt financing. As a company listed on both domestic and overseas markets, the Company can obtain equity financing through channels such as further issuance of shares as approved by relevant authorities and according to market conditions and its own needs. Debt financing of the Company primarily consists of long-term financing through the public issuance of corporate bonds, subordinated bonds and private bonds. In addition, the Company obtains short-term funds from investors such as commercial banks through platforms including the SSE, SZSE and the national interbank funding center, and by way of bond repurchases, interbank borrowing and lending, transfer financing and the issuance of beneficiary certificates.

To maintain the liquidity and profitability of its assets, the Company's proprietary capital is centrally managed by its Treasury Department, with comprehensive management systems and corresponding business processes in place. In addition, the Company has been granted comprehensive credit lines with relatively large limit by several banks. The existing financing channels of the Company are effective and sufficient to meet its business development funding needs.

SECTION 4 DISCUSSION AND ANALYSIS ON BUSINESS OPERATION

(IV) Analysis of investments

1. Overall analysis on external equity investments

As at the end of the Reporting Period, the Group has long-term equity investments of RMB1,059 million, representing a decrease of RMB46 million or 4.11% as compared to the end of last year.

(1) Material equity investments

Please refer to Note 11 to the Items of Consolidated Financial Statements as set out in this report.

(2) Material non-equity investments

There were no material non-equity investments during the Reporting Period.

(3) Financial assets measured at fair value

Unit: Yuan Currency: RMB

Items	Opening balance	Closing balance	Changes in current period	The amount of impact on total current profits
Financial assets held for trading	17,227,018,646.76	18,794,702,163.17	1,567,683,516.41	374,989,858.39
Derivative financial assets	11,384,115.93	11,843,235.06	459,119.13	-101,612,695.52
Derivative financial liabilities	83,740.00	48,280.00	-35,460.00	
Other debt investment	664,695,346.48	839,372,747.75	174,677,401.27	18,883,851.13
Total	17,903,181,849.17	19,645,966,425.98	1,742,784,576.81	292,261,014.00

SECTION 4 DISCUSSION AND ANALYSIS ON BUSINESS OPERATION

(V) Analysis of major subsidiaries and companies in which the Company has invested

Central China Futures Co., Ltd.

Registered address: 4F, Zhongyuan Guangfa Finance Building, 10 Business Outer Ring Road, Zhengdong New District, Zhengzhou, Henan Province

Date of incorporation: 18 April 1993

Registered capital: RMB330 million

Shareholding proportion: 51.357%

Legal representative: Xie Xuezhu

Contact No.: 0371-68599199

Financial position: As of the end of the Reporting Period, the total assets and net assets of Central China Futures amounted to RMB1,448 million and RMB416 million respectively. During the Reporting Period, Central China Futures recorded operating income of RMB454 million and net profit of RMB4.7239 million.

Zhongding Kaiyuan Venture Capital Management Co., Ltd.

Registered address: Rooms 501-11, Building No. 1, No. 18 Courtyard, Lize Road, Fengtai District, Beijing

Date of incorporation: 8 February 2012

Registered capital: RMB680 million

Shareholding proportion: 100%

Legal representative: Li Zhaoxin

Contact No.: 0371-69177108

Financial position: As of the end of the Reporting Period, the total assets and net assets of ZDKY Venture Capital amounted to RMB1.107 billion and RMB751 million respectively. During the Reporting Period, ZDKY Venture Capital recorded operating income of RMB34.9353 million and net profit of RMB15.7438 million.

Central China International Financial Holdings Company Limited

Registered address: Suites 1505 and 1508, Two Exchange Square, 8 Connaught Place, Central, Hong Kong

Date of incorporation: 29 October 2014

Registered capital: HK\$1.0 billion

Shareholding proportion: 100%

Contact No.: 00852-25001375

Financial position: As of the end of the Reporting Period, the total assets and net assets of Central China International amounted to HK\$2,004 million and HK\$339 million respectively. During the Reporting Period, Central China International recorded operating income of HK\$-49 million and net profit of HK\$-74 million.

SECTION 4 DISCUSSION AND ANALYSIS ON BUSINESS OPERATION

Central China Blue Ocean Investment Management Company Limited

Registered address:	West to Laodong Road and north to Hongteng Road, Weidu Industry Cluster Area, Xuchang, Henan Province
Date of incorporation:	25 March 2015
Registered capital:	RMB2,256 million
Shareholding proportion:	100%
Legal representative:	Xu Haijun
Contact No.:	0371-86503971
Financial position:	As of the end of the Reporting Period, the total assets and net assets of Central China Blue Ocean amounted to RMB3.064 billion and RMB2.396 billion respectively. During the Reporting Period, Central China Blue Ocean recorded operating income of RMB58.0386 million and net profit of RMB28.6846 million.

Central China Equity Exchange Co., Ltd.

Registered address:	No. 23 Business Outer Ring Road, Zhengdong New District, Zhengzhou, Henan Province
Date of incorporation:	29 June 2015
Registered capital:	RMB350 million
Shareholding proportion:	35%
Legal representative:	Zhao Jizeng
Contact No.:	0371-61775086
Financial position:	As of the end of the Reporting Period, the total assets and net assets of Equity Exchange Co. amounted to RMB375 million and RMB357 million respectively. During the Reporting Period, Equity Exchange Co. recorded operating income of RMB53.5928 million and net profit of RMB29.7382 million.

(VI) Structured entities controlled by the Company

As of 30 June 2020, the Group consolidated 9 structured entities, which included asset management schemes and partnerships. After taking into account the factors such as investment decision rights owned by the Company, variable return exposure and the use of investment decision power to influence variable returns, the Company included the structured entities controlled by the Company in the scope of consolidated statements in respect of the structured entity who acts as a manager or investment adviser and holds a product share.

II. OTHER DISCLOSURE

(I) Potential risks

The major risks faced by the Company include credit risk, market risk, liquidity risk, operational risk, compliance risk and information technology risk. The Company measured the risks through duration analysis, sensitivity analysis, scenario analysis and internal modeling, and differentiated, prevented and managed all kinds of risks through screening, classification, analysis and other measures, with an aim to fully reveal the Company's operating risks and keep them under control, and in turn, to realize the Company's development strategies and goals and maximize the interests of both the shareholders and the Company. Specific details are set out as follows:

SECTION 4 DISCUSSION AND ANALYSIS ON BUSINESS OPERATION

1. Credit risk and policies

Credit risk refers to the risk of losses arising from a borrower, counterparty or issuer's failure to perform an agreement as agreed. Currently the Company's credit risk mainly comes from bond investment, margin financing and securities lending, and securities-backed lending, specifically in the following aspects: (1) default or ratings downgrade of investment targets; (2) a counterparty's default; (3) risk of failure to duly repay loans or securities upon expiry of product or customer contracts or when the maintenance guarantee ratio or performance guarantee ratio falls under the closing positions; and (4) receivables' becoming bad debts.

To deal with credit risks, the Company adopted the methods of collecting deposit, qualified collaterals and net settlement to mitigate the credit risks. The Company implemented access management on credit risk. Before carrying out credit risk-related business, it would conduct credit rating on customers, and only extend credit to and carry out business with those whose credit rating is within the access rating. Each business department would carry out due diligence investigation before credit rating and credit extension. For customers whose credit rating meets the access criteria, the credit line would be determined according to the specific situation. The Company regularly re-checked the access standard and discount rate, and carried out irregular rechecks in case of major changes in the market or policy or major credit events among relevant credit subjects. The detailed actions are as follows: (1) We set access criteria for bond investment business, researched and built an internal rating system, conducted whitelist management and concentration control, carried out categorized review, and continuously tracked and evaluated the credit risk of bond holdings. (2) For margin financing and securities lending, stock-pledged repo, agreed repurchase type securities trading, and securities-backed lending, we established strict standards on collateral scope and conversion rate, deposit ratio, and maintenance guarantee ratio standards according to the business characteristics, carried out front-end control from credit investigation, credit granting, marking to market, closing positions and other aspects, and conducted dynamic monitoring in the duration on the risk conditions such as concentration degree, contract expiration, maintenance guarantee ratio or performance guarantee ratio, and significant events. (3) For the credit risk of the receivables, the Company made full provision for the bad debt according to the operating conditions, cash flow conditions and bad debt provision policies of the debtor. Provision for credit impairment has been made for margin financing and securities lending, securities-backed lending and securities repurchases. (4) The Company analyzed credit risk factors in various businesses, identified potential credit risks therein, and calculated the expected and unexpected losses through default probability, default loss rate, and credit risk exposure, measured, evaluated and analyzed the credit risks of its businesses, and reduced the net risk exposure and expected loss assumed by the Company through various risk mitigation measures.

The subsidiaries are also exposed to credit risks when carrying out financing business, investment business, over-the-counter derivatives business and other businesses. The Company has incorporated the risk management of the subsidiaries into the comprehensive risk management system, and manages and controls the risks of the subsidiaries by appointing persons in charge of risk management of subsidiaries and establishing the regular and irregular risk reporting system. During the Reporting Period, the Company has further strengthened the vertical management of subsidiaries, optimized the hierarchical authorization system for investment decision-making of subsidiaries, and submitted significant investment projects exceeding the limit to the Company's investment committee for consideration; added annual risk limit management indicators for subsidiaries, and intensified risk limit and mark-to-market management; refined risk classification, conducted risk management over the businesses of subsidiaries that fall into the same category as those of the Company with the same management principle, and further improved the scale limit and risk control indicator system of the financing business and investment business of Central China International as well as the risk management system; and promoted the implementation of the project management system of subsidiaries. During the Reporting Period, the Company continued to enhance the risk management of subsidiaries. In the second half of 2020, the Company will continue to strengthen the risk tolerance of the subsidiaries in such aspects as system construction, quota system, monitoring mechanism, information system and risk report in accordance with the overall plan of the Group's comprehensive risk management, so as to improve the credit risk management and reduce credit risk exposure at the Group level.

SECTION 4 DISCUSSION AND ANALYSIS ON BUSINESS OPERATION

2. Market risk and policies

Market risk refers to the risk that the fair value of the financial instruments held is adversely affected by changes in the market prices. It consists of risk of price fluctuations of equity assets, interest rate risk, exchange rate risk, etc. Price risk mainly refers to the risk of losses of the Company's on-balance and off-balance businesses due to unfavorable changes in the price of securities products such as stocks caused by fluctuations in the securities market. Quantitatively, market price fluctuations of financial instruments held for trading will proportionately impact the Company's profit; and the market price fluctuations of available-for-sale financial instruments will proportionately impact shareholders' equity of the Company. Interest rate risk refers to the risk of fluctuations in the Company's financial position and cash flow due to interest rate changes in the market. In particular, the interest-bearing assets susceptible to market interest rate changes are mainly bank deposits, settlement reserves, refundable deposits and bond investments. Exchange rate risk refers to the possibilities that the Company may suffer losses from operating activities which involve holding or using foreign exchange due to change in exchange rate. The exchange rate fluctuation will bring some extent of exchange risks. The Company has had relatively few foreign currency assets susceptible to exchange rate fluctuations. The Company continuously strengthens the mechanism development and internal management as well as hedges and mitigates the exchange rate risk through a series of measures to support the expansion of overseas business of the Company.

To prevent market risks, the Company took the following measures: (1) implemented a strict investment authorization system. The management of the Company is responsible for breaking down and allocating business size and risk limits for stock proprietary trading and bond proprietary trading during the year within the authorization granted by the Board, while the Risk Management Headquarter is responsible for monitoring relevant indexes and warning of risks; (2) established a multi-index risk monitoring and evaluation system. A quantitative index system was established to measure and evaluate risks in proprietary businesses by such means or tools as restriction on concentrated investment, stress test, sensitivity analysis, etc.; (3) controlled trading procedures in an all-round way. The Company monitored various indexes via the investment management system, controlled the quota, bond rating and concentration ratio of proprietary bond trading in advance and responsively evaluated and reported business risks brought by market changes; as for the equity securities investment, the Company applied strict measures such as profit or loss control and position control in the daily investment; as for the derivatives business, the Company ensured that market risks were controllable and bearable by way of OTC options hedging transactions.

3. Liquidity risk and policies

Liquidity risk refers to the risk that the Company is unable to obtain sufficient funds in time at reasonable costs to repay maturing debts, comply with other payment obligations and satisfy the funding needs for carrying on normal business. In view of the liquidity risk, the Company controls investment size of its proprietary business in a rational manner by diversifying share investments, paying attention to liquidity risk management, and keeping a low percentage ratio of positions held against all marketable securities within the same type of investments. Based on conditions such as business development, financing ability and control index of liquidity risks, the Company has rationally determined the scale and term of its debt financing, and strengthened its real time monitoring and management of significant amount of funds so as to achieve centralised allocation and coordination of capital and avoid liquidity risks resulting from centralised maturity of debts. The Company also made use of various financing methods and channels in a comprehensive manner to timely satisfy the Company's liquidity needs. Moreover, the Company used net capital and liquidity-based monitoring system for monitoring risk control indicators, and used stress tests to assess the impact of business activities on net capital and liquidity.

SECTION 4 DISCUSSION AND ANALYSIS ON BUSINESS OPERATION

4. Operational risk and policies

Operational risk refers to risk of loss resulting from defects in business procedures, misoperations, failures of information system and external events. With respect to operational risk management, (1) the Company has formulated operational risk management methods to standardize the whole process of operational risk identification, assessment, monitoring, control and reporting; (2) each unit is required to develop effective operational risk identification and assessment procedures to proactively identify operational risks existing in the business, process and system, and ensure that the internal operational risks of new products, business, process and system are fully assessed before they are launched; (3) the Company has established a real-time risk monitoring system and compiled a risk management manual for brokerage, proprietary business, asset management, financing and other businesses, and formed a risk control system for other businesses; (4) a reporting mechanism for operational risk events has been established, which requires each unit to establish an effective operational risk reporting process and report operational risk events regularly and irregularly; (5) we improved the assessment, measurement, monitoring and reporting of operational risks through the construction of risk management system.

5. Compliance risk and policies

Compliance risk refers to the risk of the Company being legally held accountable, subjected to supervisory measures, given disciplinary sanction or suffering from loss of property or reputation arising from violation of laws, regulations or rules by the Company or its personnel in their operation, management or practices.

The Company established and continuously improved a scientific and efficient compliance management system to effectively identify, evaluate and manage compliance risks. The compliance department of the Company continuously organized and tracked the changes of laws, regulations and regulatory rules, timely revised and improved the relevant rules and regulations of compliance management, and urged relevant departments to timely evaluate, revise and improve the relevant rules, regulations and business processes. In addition, we strengthened information barriers and management of conflicts of interest, carried out in-depth anti-money laundering and other work, and earnestly performed the duties of compliance review and consultation, monitoring and inspection, publicity and training, compliance effectiveness assessment, compliance assessment and accountability, integrating compliance management into the whole process of the Company's decision-making, execution, supervision and feedback. The Company has actively cultivated the compliance culture and improved the self-restraint mechanism, laying a solid foundation for its sustained and healthy development.

6. Information technology risk, policies and investment

The Company is in an industry which highly relies on information technology. Information system risk has become one of the main risks faced by securities companies. Information technology capability has become an important aspect of the core competitiveness of securities companies. Any hardware and software failure and security loopholes in the information technology systems and communication systems and insufficient emergency management capability of disaster recovery systems may severely affect the Company's ordinary business. Any failure to improve the professional abilities related to information technologies in a prompt, effective and steady way would adversely affect the Company's competitiveness, business operations and working efficiency, etc.

SECTION 4 DISCUSSION AND ANALYSIS ON BUSINESS OPERATION

As for potential information system risk, the Company has continuously invested in and improved its IT operation and management, information security control methods, information backup and emergency management capability of information systems, all-round risk management, etc., so as to ensure the safe operation of information systems.

- (1) The Company actively promotes the normalization, standardization, streamlining and refinement development of information technologies, proactively conducts self-inspection and rectification, continuously improves and optimizes the IT operation systems, promotes automation and tries smart operation and maintenance, so as to ensure the safe operation of information systems.
- (2) By investments in updating the core network equipment, integrating the communication lines, expanding the cloud computing capacity, enhancing operational monitoring and early warning, strengthening information security and updating infrastructure, the Company has laid a solid foundation for IT system operation & maintenance, further improving the robustness of the IT system.
- (3) With regard to security and emergency response, the Company has improved the security, effectiveness and stability of the IT system through penetration test and vulnerability scanning, real-time safety early warning, host security strengthening, information security inspection and self-examination, timely improvement of the emergency plan for the information system, and emergency drill.
- (4) The Company has actively implemented the Standards of Comprehensive Risk Management of Securities Companies (《證券公司全面風險管理規範》), and continued to promote the construction of comprehensive risk management system and compliance management platform system, thus greatly improving the overall compliance and risk control capacity of the Company.

In 2020, the Company constantly improved and optimized the IT operation & maintenance system, actively and quickly responded to the business demand, enhanced the investment in financial technology application, safety strengthening and infrastructure update, and adopted stable and efficient technical architecture, so as to lay a solid foundation for guaranteeing the IT operation & maintenance, and effectively support the business development of the Company.

(II) Employees, remuneration policies and training

As of the end of the Reporting Period, the Group had a total of 2,802 employees, including 2,435 employees from the Company and 367 employees from its subsidiaries. By signing letter of responsibilities on annual operation objectives, the Company revised and optimized annual incentive and restriction mechanism for all business lines, and linked incentives and restriction directly to business performances. Under a strict performance assessment mechanism, it also increased incentives for special contributors to inspire the cadres and staff. Through remuneration research, the Company formulated corresponding remuneration policies according to the characteristics and market value of different talent under the condition of ensuring a generally competitive remuneration. The Company's remuneration consists of basic salary, allowance, performance bonus and welfare. The welfare provided to employees includes basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance, maternity insurance and housing provident fund, etc. In addition, the Company also established the enterprise annuity program so as to further enhance its ability in providing enterprise welfare and security.

The Company provided tailor-made training programs to its cadres and staff, and continued to strengthen trainings so that training could be provided on a regular basis. The Company has prepared the annual training program and organized a number of professional business trainings in the first half of 2020.

SECTION 5 SIGNIFICANT EVENTS

I. SUMMARY OF GENERAL MEETING

Session of general meeting	Date of convention	Designated website for publication of the resolutions	Date of publication of the resolutions
2019 Annual General Meeting	10 June 2020	http://www.sse.com.cn/ http://www.hkexnews.hk	11 June 2020 10 June 2020
2020 First Class Meeting for Holders of A Shares	10 June 2020	http://www.sse.com.cn/ http://www.hkexnews.hk	11 June 2020 10 June 2020
2020 First Class Meeting for Holders of H Shares	10 June 2020	http://www.sse.com.cn/ http://www.hkexnews.hk	11 June 2020 10 June 2020

During the Reporting Period, the Company convened three general meetings in total, including one annual general meeting, one A share class meeting, and one H share class meeting, with the information about the meetings and resolutions set out as follows:

1. The Company convened the 2019 Annual General Meeting on 10 June 2020, and considered and approved the Work Report of the Board for the Year of 2019, the Work Report of the Supervisory Committee for the Year of 2019, the Annual Report for the Year of 2019, the Profit Distribution Plan for the Second Half of the Year of 2019, the Final Accounts Report for the Year of 2019, the Resolution on the Alignment in the Preparation of Financial Statements in Accordance with China Accounting Standards for Business Enterprises in Domestic and International Markets and the Appointment of the Auditing Firm for the Year of 2020, the Evaluations and Remuneration of the Directors for the Year of 2019, the Evaluations and Remuneration of the Supervisors for the Year of 2019, the Resolution on the Provision of Guarantee for Central China International Financial Holdings Company Limited, the Resolution on the Amendment to Articles of Association of the Company, the Resolution on the Amendments to the Rules of Procedure for the Meetings of the Board, the Resolution on the Amendments to the Rules of Procedure for the General Meetings, the Resolution on the Business Scale and Affordable Risk Limits of Securities Proprietary Trading for the Year of 2020, the Resolution on the Adjustments to the Plan of Non-public Issuance of A Shares by the Company, the Resolution on the Dilution of Immediate Return Resulting from the Non-public Issuance of A Shares by the Company and the Remedial Measures (Revised), the Resolution on the Extension of the Validity Period of the Authorization to the Board of Directors and its Authorized Persons to Deal with the Relevant Matters Relating to the Non-public Issuance of A Shares, and the Resolution on the Change of the Shareholder Representative Supervisor. In addition to the above-mentioned resolutions, the Work Report of the President for the Year of 2019 and the Duty Report of the Independent Directors for the Year of 2019 were also received.
2. The Company convened the 2020 First Class Meeting for Holders of A Shares on 10 June 2020, and considered and approved the Resolution on the Adjustments to the Plan of Non-public Issuance of A Shares by the Company and the Resolution on the Extension of the Validity Period of the Authorization to the Board of Directors and its Authorized Persons to Deal with the Relevant Matters Relating to the Non-public Issuance of A Shares.
3. The Company convened the 2020 First Class Meeting for Holders of H Shares on 10 June 2020, and considered and approved the Resolution on the Adjustments to the Plan of Non-public Issuance of A Shares by the Company and the Resolution on the Extension of the Validity Period of the Authorization to the Board of Directors and its Authorized Persons to Deal with the Relevant Matters Relating to the Non-public Issuance of A Shares.

SECTION 5 SIGNIFICANT EVENTS

II. PERFORMANCE OF UNDERTAKINGS

Undertakings by undertaking related parties including de facto controller, shareholders, related parties, acquirer and the Company made or subsisting during the Reporting Period

Background	Type of undertakings	Undertaking party	Contents of undertakings	Date and duration of undertakings	Any deadline for performance	Whether timely and strictly performed
Undertaking in relation to the initial public offering	Shares subject to trading moratorium	Henan Investment Group Co., Ltd.	Undertaking by the shareholder in relation to voluntary moratorium on trading of shares	36 months since the date of initial public offering of A shares by Central China Securities and listing on the stock exchange	Yes	Yes
	Shares subject to trading moratorium	Henan Investment Group Co., Ltd.	Undertaking by the shareholder in relation to voluntary non-reduction of shareholding	Within 12 months from the date of listing and trading of the A shares subject to trading moratorium held by Henan Investment Group Co., Ltd. under the initial public offering of A shares of Central China Securities, not to reduce its shareholding in any way	Yes	Yes
	Non-competition	Henan Investment Group Co., Ltd.	Undertaking in relation to non-competition	Regarded as long-term since entering into of the Non-competition Agreement with Henan Investment Group Co., Ltd. on 10 March 2014	Yes	Yes
	Non-competition	the Company	Undertaking in relation to non-competition	Regarded as long-term since entering into of the Non-competition Agreement with Henan Investment Group Co., Ltd. on 10 March 2014	Yes	Yes
Undertaking in relation to refinancing	Others	the Company	Undertaking in relation to increasing resource investment in compliance risk control and information technology	Notes	Yes	Yes

SECTION 5 SIGNIFICANT EVENTS

Notes:

- (1) For the three consecutive years from 2020 to 2022, the Company's investment in compliance risk control of each year shall not be less than 3% of the Company's operating income in last year;
- (2) For the three consecutive years from 2020 to 2022, the Company's investment in information technology of each year shall not be less than 6% of the Company's operating income in last year;
- (3) For the plan for the use of proceeds from the proposed non-public issuance of A shares, the Company proposes to use no more than RMB100 million for the continuous construction and improvement of information systems and increase in the investment in compliance management and comprehensive risk management system construction;
- (4) From 2020 to 2022, the Company shall disclose in its annual report the actual investment in compliance risk control and information technology;
- (5) On the premise of the use of proceeds from the proposed non-public issuance of A shares complying with relevant laws and regulations, the Company shall take into full account the capital investment in both compliance risk control and information technology.

III. APPOINTMENT AND DISMISSAL OF ACCOUNTING FIRMS

The alignment in the preparation of financial statements in accordance with the China Accounting Standards for Business Enterprises in domestic and international markets and change of auditors

Given the Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong (《有關接受在香港上市的內地註冊成立公司採用內地的會計及審計準則以及聘用內地會計師事務所的諮詢總結》) published by the Hong Kong Stock Exchange in December 2010, and the Pilot Work Plan for Accounting Firms Engaged in Audit Business for H Share Enterprises (《會計師事務所從事H股企業審計業務試點工作方案》) issued by the Accounting Division of the Ministry of Finance and the CSRC, issuers listed in Hong Kong while incorporated in mainland China are allowed to adopt the China Accounting Standards for Business Enterprises to prepare financial statements, and Chinese accounting firms approved by the Ministry of Finance and the CSRC are allowed to adopt the China Accounting Standards for Business Enterprises to audit such financial statements. As considered and approved by the Company's 2019 Annual General Meeting, the Company has adopted the China Accounting Standards for Business Enterprises to prepare financial statements and disclose such relevant financial information both in Hong Kong and mainland China since the interim financial report and interim results of 2020, so as to reduce and simplify working procedures, such as communication between domestic and overseas auditors, increase efficiency and save costs.

Given that the alignment in the preparation of financial statements in accordance with the China Accounting Standards for Business Enterprises to be disclosed in mainland China and Hong Kong markets by the Company, as considered and approved by the Company's 2019 Annual General Meeting, the Company has ceased to re-appoint PricewaterhouseCoopers for their overseas audit services under the International Financial Reporting Standards, and has re-appointed ShineWing Certified Public Accountants as the sole auditing firm of the Company for the year of 2020 to provide both domestic and overseas audit services under the China Accounting Standards for Business Enterprises.

For details of the above, please refer to the announcement dated 22 April 2020 and the circular dated 20 May 2020 disclosed by the Company on HKEXnews website of the Hong Kong Stock Exchange and relevant announcement of the Company dated 23 April 2020 (Announcement No.: 2020-034) disclosed on the website of the SSE.

SECTION 5 SIGNIFICANT EVENTS

IV. MATERIAL LITIGATION AND ARBITRATION

The litigation and arbitration that have not been disclosed in announcements or had subsequent process

Unit: 10,000 Currency: RMB

Prosecution (petitioner)	Defendant (respondent)	Party bearing joint liability	Type of litigation or arbitration	Background of litigation (arbitration)	Amount involved in litigation (arbitration)	Any estimated liabilities incurred in litigation (arbitration) and the amount	Development of litigation (arbitration)	Trial outcome of litigation (arbitration) and the influence	Enforcement of the judgment on litigation (arbitration)
Central China Securities	Neoglory Holdings Group Co. Ltd.* (新光控股集團有限公司)	None	Contract dispute	Note 1	20,000.00	None	Note 1	Note 1	Note 1
Central China Securities	Shihezi Ruichen Equity Investment Partnership Enterprise (Limited Partnership)* (石河子市瑞晨股權投資合夥企業(有限合夥)), Tan Songbin (譚頌斌), and Zhou Juan (周娟)	None	Contract dispute	Note 2	18,799.98	None	Note 2	Note 2	Note 2
Central China Securities	Kedi Food Group Co., Ltd.* (科迪食品集團股份有限公司)	None	Contract dispute	Note 3	43,165.83	None	Note 3	Note 3	Note 3
Central China International	Ke Wentuo (柯文托), Ke Jinzhi (柯金治), Shi Kaihua (施凱華), and Fujian Grace Environmental Wall Paper Co., Ltd* (福建省優雅環保壁紙有限公司)	None	Contract dispute	Note 4	17,210.92	None	Note 4	Note 4	Note 4
Central China International Investment Limited	Ke Wentuo (柯文托), and Ke Jinzhen (柯金珍)	None	Contract dispute	Note 5	24,688.40	None	Note 5	Note 5	Note 5

Note 1: The Company filed a lawsuit against Neoglory Holdings Group Co. Ltd. (hereinafter referred to as "Neoglory Holdings"), asserting the defendant's breach of securities-backed lending contract. Henan High People's Court accepted and then transferred the case to Jinhua Intermediate People's Court since Neoglory Holdings applied for bankruptcy and reorganization. Jinhua Intermediate People's Court accepted the bankruptcy and reorganization application on 25 April 2019, for which the Company has declared its credits. On 30 December 2019, the Company received the Civil Judgment ((2019) Zhe 07 Minchu No. 198) issued by Jinhua Intermediate People's Court of Zhejiang Province, which supported the Company's claims including payment to be made by Neoglory Holdings for the financing principal (in an amount of RMB200 million), interest, liquidated damages, and attorney's fees. It is confirmed that the Company has a preferential right of compensation for the 31,850,000 shares of Neoglory Prosperity Inc.* (新光圓成股份有限公司) (Stock Code: 002147) pledged by Neoglory Holdings within the scope of the creditor's rights determined by the above judgment. As of the end of the Reporting Period, the judgment had taken effect, and Neoglory Holdings was in the process of bankruptcy and reorganization.

* For identification purpose only

SECTION 5 SIGNIFICANT EVENTS

Note 2: The Company filed a lawsuit against Shihezi Ruichen Equity Investment Partnership Enterprise (Limited Partnership) (hereinafter referred to as “Ruichen Investment”), Tan Songbin and Zhou Juan, asserting the defendants’ breach of contract in the securities-backed lending business. On 23 September 2019, the Company received the Civil Judgment ((2019) Yuminchu No. 8) issued by Henan High People’s Court. On 5 October 2019, Ruichen Investment, Tan Songbin and Zhou Juan, the defendants, filed an appeal. On 22 January 2020, the Company received the Civil Judgment ((2019) Supreme Court Minzhong No. 1917) issued by the Supreme People’s Court, which ordered Ruichen Investment to pay the Company for the financing principal (in an amount of RMB187.9998 million), liquidated damages, attorney’s fees and insurance expenses, and Tan Songbin was jointly and severally liable for the obligations determined by the above judgment. The Company has a preferential right of compensation for proceeds of the discount, auction or sale of the 24,529,900 shares of Guangdong Silver Age Sci&Tech Co., Ltd.* (廣東銀禧科技股份有限公司) (Stock Code: 300221) pledged by Ruichen Investment within the scope of the creditor’s rights determined by the above judgment. The court rejected other claims of the Company. Henan High People’s Court accepted the case for enforcement on 30 March 2020. As of the end of the Reporting Period, the case was in the process of enforcement.

Note 3: The Company filed a lawsuit against Kedi Food Group Co., Ltd. (hereinafter referred to as “Kedi Group”), asserting the defendant’s breach of securities-backed lending contract. On 24 April 2020, the Company received the Civil Judgment ((2019) Yu 01 Minchu No. 2323) issued by Zhengzhou Intermediate People’s Court, which ordered Kedi Group to, among others, pay the Company for the financing principal (in an amount of RMB305.0083 million), interest and liquidated damages. It is confirmed that the Company has a preferential right of compensation for proceeds of the discount, auction or sale of the 1,020.60 million shares of Henan Kedi Dairy Co., Ltd.* (河南科迪乳業股份有限公司) (Stock Code: 002770) pledged by Kedi Group within the scope of the debt determined by the above judgment. The court rejected other claims of the Company. After the service of the judgment, both Kedi Group and the Company appealed against the judgment of the first instance. As of the end of the Reporting Period, no second instance judgment had been made on the case.

Note 4: Central China International filed a lawsuit against Ke Wentuo, Ke Jinzhi, Shi Kaihua and Fujian Grace Environmental Wall Paper Co., Ltd., asserting the defendants’ breach of guarantee contract. Quanzhou Intermediate People’s Court of Fujian Province accepted the case on 21 October 2019, and heard this case on 17 January 2020. As of the end of the Reporting Period, no judgment had been made on the case.

Note 5: Central China International Investment Co., Ltd. filed a lawsuit against Ke Wentuo and Ke Jinzhen, asserting the defendants’ breach of guarantee contract. Quanzhou Intermediate People’s Court of Fujian Province accepted the case on 21 October 2019, and heard this case on 17 January 2020. As of the end of the Reporting Period, no judgment had been made on the case.

* For identification purpose only

SECTION 5 SIGNIFICANT EVENTS

V. PUNISHMENT ON AND RECTIFICATION OF THE COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDER, DE FACTO CONTROLLER AND ACQUIRER

During the Reporting Period, no punishment or public censure against the Company and its Directors, Supervisors and senior management were imposed by the CSRC, the Securities Association of China, stock exchanges, financial futures exchanges, fiscal and taxation, foreign exchange and audit authorities.

VI. CREDIBILITY OF THE COMPANY, ITS CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER DURING THE REPORTING PERIOD

During the Reporting Period, the Company, its controlling shareholder and de facto controller were in good faith, and none of them had unperformed enforceable court judgments or unpaid debts with larger sum at maturity.

VII. MATERIAL RELATED PARTY/CONNECTED TRANSACTIONS

During the Reporting Period, the Company conducted related party/continuing connected transactions in the ordinary course of business in strict compliance with the Resolution on Estimation of Related Party/Continuing Connected Transactions Contemplated in the Ordinary Course of Business in 2020 considered and approved at the sixteenth meeting of the sixth session of the Board. The relevant implementation is as follows:

(I) The related party/continuing connected transactions contemplated in the ordinary course of business with Henan Investment Group and its associates

1. Securities and financial products transactions

Unit: 10,000 Currency: RMB

Nature of transaction	Type of transaction	Annual caps for transactions in 2020	Actual amount during the Reporting Period
Securities and financial products transactions	Total net cash inflow to the Group	1,800.00	113.87
	Total net cash outflow from the Group	12,300.00	0.00

Note: The total net cash inflow to the Group is mainly the gains derived from subscriptions by the Group of financial products issued by Zhongyuan Trust and the total net cash outflow from the Group is mainly the Group's subscription amount of financial products issued by Zhongyuan Trust.

SECTION 5 SIGNIFICANT EVENTS

2. Securities and financial services

Unit: 10,000 Currency: RMB

Nature of transaction	Type of transaction	Annual caps for transactions in 2020	Actual amount during the Reporting Period
Securities and financial services	Revenue from the provision of securities and financial services to Henan Investment Group and its associates	3,381.00	17.99

(II) The continuing connected transactions with Equity Exchange Co.

1. Securities and financial products transactions

Unit: 10,000 Currency: RMB

Nature of transaction	Type of transaction	Annual caps for transactions in 2020	Actual amount during the Reporting Period
Securities and financial products transactions	Total net cash inflow to the Group	7,500.00	0.00
	Total net cash outflow from the Group	240.00	0.00

Note: The total net cash inflow to the Group is mainly the amount incurred by Equity Exchange Co. for subscription of financial products issued by the Group and contribution to the funds set up by the Group, and the total net cash outflow from the Group is mainly the payment to Equity Exchange Co. of the gains derived from its subscriptions of financial products issued by the Group.

2. Securities and financial services

Unit: 10,000 Currency: RMB

Nature of transaction	Type of transaction	Annual caps for transactions in 2020	Actual amount during the Reporting Period
Securities and financial services	Revenue from the provision of securities and financial services to Equity Exchange Co.	195.00	93.47
	Expenses incurred by the provision of securities and financial services to the Group	1,010.00	10.00

SECTION 5 SIGNIFICANT EVENTS

VIII. MATERIAL CONTRACTS AND CONTRACT PERFORMANCE

Guarantee

Unit: Yuan Currency: RMB

Guarantees provided by the Company (excluding the guarantees to subsidiaries)

Total amount of guarantees incurred during the Reporting Period (excluding the guarantees provided to subsidiaries)	0
Total balance of guarantees as at the end of the Reporting Period (A) (excluding the guarantees provided to subsidiaries)	0

Guarantees provided by the Company to subsidiaries

Total amount of guarantees provided to subsidiaries during the Reporting Period	392,779,200.00
Total balance of guarantee provided to subsidiaries as at the end of the Reporting Period (B)	685,080,000.00

Total amount of guarantees provided by the Company (including the guarantees to subsidiaries)

Total amount of guarantees (A+B)	685,080,000.00
Percentage of total guarantee over the net assets of the Company (%)	7.06

Including:

Amount of guarantees provided to shareholders, de facto controller and their related parties (C)

Amount of debt guarantees directly or indirectly provided to the parties guaranteed with the gearing ratio exceeding 70% (D)

Amount of total guarantee exceeding 50% of net assets (E)

Total amount of the above three types of guarantees (C+D+E)

Explanations on outstanding guarantee which may assume joint and several liability for repayment

Explanations on guarantees

As at the end of the Reporting Period, the Company provided counter-guarantee for Central China International's overseas loans, the balance of which amounted to RMB685,080,000.00 in total (equivalent to HK\$750,000,000.00).

IX. EXPLANATION ON OTHER IMPORTANT MATTERS

(I) Changes in accounting policies, accounting estimates and accounting method as compared to the last accounting period and the reasons and impact thereof

On 29 May 2020, the accounting method for shareholding of Luoyang Jalon Micro-Nano New Materials Co., Ltd.* (洛陽建龍微納新材料股份有限公司) (Stock Code: 688357) by Henan Zhongzheng Kaiyuan Venture Capital Fund (Limited Partnership)* (河南中證開元創業投資基金(有限合夥)), Minquan County Innovation Industry Investment Fund (Limited Partnership)* (民權縣創新產業投資基金(有限合夥)) and Anyang Purun High-tech Industry Investment Fund (Limited Partnership)* (安陽普潤高新技術產業投資基金(有限合夥)) managed by ZZKY Venture Capital, a subsidiary of the Company, was changed from "long-term equity investment" to "trading financial assets".

For details of the above, please refer to the announcement dated 1 June 2020 disclosed by the Company on the HKExnews website of the Hong Kong Stock Exchange and relevant announcement (Announcement No.: 2020-045) disclosed by the Company on 2 June 2020 on the website of the SSE.

* For identification purpose only

SECTION 5 SIGNIFICANT EVENTS

(II) Non-public issuance of A shares

On 11 June 2019, the Company convened the 2018 Annual General Meeting, the 2019 First Class Meeting for Holders of A Shares and the 2019 First Class Meeting for Holders of H Shares to consider and approve the relevant resolutions on the plan of the non-public issuance of A shares. In order to supplement the capital and working capital to expand the business scale, optimize the business structure, enhance the Company's market competitiveness and risk resistance, the Company intended to non-publicly issue no more than 773,814,000 (inclusive) new A shares to no more than ten specific investors under special mandate with par value of RMB1.00 per share and the proceeds not exceeding RMB5.5 billion (inclusive) (hereinafter referred to as the "Non-public Issuance").

The proceeds from the Non-public Issuance, after deducting the issuance expenses, will be completely used to supplement the Company's capital and working capital, so as to enhance the Company's market competitiveness and risk tolerance. The proceeds will be mainly used for the following purposes: (1) developing flow-based business; (2) developing investment and trading businesses; (3) increasing the capital of the domestic and overseas wholly-owned subsidiaries; (4) investing in the information system construction and compliance and risk control; and (5) replenishing the working capital.

On 21 October 2019, the Company received the "Receipt of Application for Administrative License from CSRC" issued by the CSRC (Serial No.: 192628). The application materials for administrative license of "Approval of Non-Public Issuance of New Shares by Listed Companies" submitted by the Company were reviewed, and it was considered that the Company's application materials for non-public issuance of A shares were complete, and it was decided to accept the administrative license application.

On 21 November 2019, the Company received the "Notice of Feedback for the Review of Administrative License Projects of the CSRC" issued by the CSRC. On 19 December 2019, the Company and relevant agencies, in line with the principle of diligence, responsibility and good faith, carefully checked and discussed the issues raised in the feedback, made written descriptions and explanations, and made public disclosure of the reply to the feedback as required.

In accordance with the authorization granted under the Resolution on the Grant of Authorization to the Board and Its Authorized Persons by the Shareholders' General Meeting to Deal with the Relevant Matters relating to the Non-public Issuance of A Shares considered and approved at the 2018 Annual General Meeting, the 2019 First Class Meeting for Holders of A Shares and the 2019 First Class Meeting for Holders of H Shares of the Company, the authorized persons of the Board have made adjustment to the contents in relation to "amount and use of the proceeds" of the Non-public Issuance on 29 March 2020, reducing the proceeds invested to replenish working capital by RMB0.25 billion, after taking into account the Company's future development, its own strategy-related planning, implementation conditions and other factors prudently. After such adjustment, the proceeds raised from the Non-public Issuance for working capital arrangement shall not exceed RMB0.15 billion, and the total proceeds shall not exceed RMB5.25 billion (originally not exceeding RMB5.5 billion).

SECTION 5 SIGNIFICANT EVENTS

Pursuant to the Decision on Revising the Administrative Measures for the Issuance of Securities by Listed Companies (《關於修改<上市公司證券發行管理辦法>的決定》), the Decision to Amend the Implementation Rules for Non-public Issuance of Shares by Listed Companies (《關於修改<上市公司非公開發行股票實施細則>的決定》) and the Issuance Regulation Questions and Answers — Regulatory Requirements regarding Guiding and Regulating Financing Activities of Listed Companies (Revision) (《發行監管問答 — 關於引導規範上市公司融資行為的監管要求(修訂版)》) issued by the CSRC on 14 February 2020 in relation to the amendments to the rules on non-public issuance by listed companies, and in order to ensure the smooth progress of the Non-public Issuance and safeguard the legitimate rights and interests of the Company and its shareholders, on 10 June 2020, the Company held the 2019 Annual General Meeting, the 2020 First Class Meeting for Holders of A Shares and the 2020 First Class Meeting for Holders of H Shares, at which respectively considered and approved the proposed adjustments to relevant terms of the plan of the Non-public Issuance, including target subscribers and subscription method, issue price and pricing principles, arrangements for lock-up period and extension of the validity period of the resolution on the Non-public Issuance, and the proposed extension of the validity period of the authorization to the Board and its authorized persons to deal with the relevant matters relating to the Non-public Issuance in accordance with the aforesaid amendments to the rules and the actual situation of the Company.

On 5 June 2020, the Issuance Examination Committee of the CSRC reviewed the application of the Non-public Issuance. According to the reviewing results, the application for the Non-public Issuance has been approved. On 1 July 2020, the Company received the Approval in Relation to the Non-public Issuance of Shares by Central China Securities Co., Ltd. (Zheng Jian Xu Ke [2020] No. 1190) (《關於核准中原證券股份有限公司非公開發行股票的批覆》(證監許可[2020]1190號)) from the CSRC, which approved the Company's non-public issuance of no more than 773,814,000 new A shares.

The Company completed the Non-public Issuance on 30 July 2020. The Company issued a total of 773,814,000 new A shares to 18 investors at issue price of RMB4.71 per share. The net value available to the Company from each security was RMB4.67 per share. The closing price of the A shares on the day when the issuance terms were set was RMB6.28 per share, and the total amount of funds raised was RMB3,644,663,940.00. All the 18 investors and their respective ultimate beneficial owners under the Non-public Issuance are third parties independent of the Company and its connected persons.

For details of the above information, please refer to the announcements of the Company dated 18 April 2019, 11 June 2019, 30 March 2020, 5 June 2020, 10 June 2020, 1 July 2020 and 31 July 2020 respectively and the circulars of the Company dated 21 May 2019 and 20 May 2020 respectively published on the HKExnews website of the Hong Kong Stock Exchange and the relevant announcements of the Company dated 19 April 2019, 12 June 2019, 22 October 2019, 19 December 2019, 31 March 2020, 6 June 2020, 11 June 2020, 2 July 2020 and 1 August 2020 (Announcement No.: 2019-024, 2019-041, 2019-060, 2019-073, 2020-013, 2020-014, 2020-016, 2020-017, 2020-018, 2020-047, 2020-048, 2020-051 and 2020-056) respectively published on the website of the SSE.

SECTION 5 SIGNIFICANT EVENTS

(III) Compliance with the Corporate Governance Code

The Company has been committed to maintaining a high-quality corporate governance to safeguard shareholders' interests and enhance enterprise value and accountability. During the Reporting Period, the Company has adopted and complied with all code provisions of Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules. The Company will continue to review and improve corporate governance practices to ensure it conforms to Corporate Governance Code.

(IV) Compliance with the Model Code

The Company has adopted the Model Code concerning the securities transactions by Directors and Supervisors. The Company has made specific inquiries to all the Directors and Supervisors for the compliance with the Model Code. All the Directors and Supervisors have confirmed that they were in full compliance with the standards set out in the Model Code during the Reporting Period.

(V) Purchase, sales or redemption of the listed securities of the Company

During the Reporting Period, the Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company.

(VI) Review of the report

The Audit Committee and the management of the Company have reviewed the accounting policies adopted by the Company, discussed issues including internal control and financial reporting, and fully reviewed the financial statements, notes to the financial statements for the Reporting Period and this report. The Audit Committee considered that the preparation of such consolidated financial report was in conformity with applicable accounting standards and provisions and appropriate disclosures have been made. The external auditors engaged by the Company have reviewed interim financial information in accordance with China Accounting Standards for Business Enterprises.

(VII) Events after the balance sheet date

From the end of the Reporting Period to the date of this Report, there were no events after the balance sheet date that have a significant impact on the Group. For details of other events after the balance sheet date related to the Group, please refer to Note 14 to the financial statements of this Report.

SECTION 6 CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

I. CHANGES IN SHARE CAPITAL

During the Reporting Period, the changes in shares of the Company are as follows:

Unit: Share

	Before this change		Increase or decrease of this change (+, -)				After this change		
	Number of shares	Percentage (%)	Issuance of new shares	Bonus issue	Capitalization of capital reserve into share capital	Others	Subtotal	Number of shares	Percentage (%)
I. Shares subject to trading moratorium	870,963,022	22.51				-870,963,022	-870,963,022	0	0
1. State-owned shares									
2. Shares held by state-owned legal persons	870,963,022	22.51				-870,963,022	-870,963,022	0	0
3. Shares held by other domestic investors									
Including: shares held by domestic non state-owned legal persons									
Shares held by domestic natural persons									
4. Shares held by overseas investors									
Including: shares held by overseas legal persons									
Shares held by overseas natural persons									
II. Tradable shares not subject to trading moratorium	2,998,107,678	77.49				870,963,022	870,963,022	3,869,070,700	100
1. RMB-denominated ordinary shares	1,802,742,678	46.59				870,963,022	870,963,022	2,673,705,700	69.10
2. Domestic-listed foreign shares									
3. Overseas-listed foreign shares	1,195,365,000	30.90						1,195,365,000	30.90
4. Others									
III. Total number of shares	3,869,070,700	100						3,869,070,700	100

Note: The Company completed the non-public issuance of 773,814,000 A shares after the Reporting Period (on 30 July 2020), upon which the total issued shares of the Company increased from 3,869,070,700 shares to 4,642,884,700 shares.

Changes in shares:

On 3 January 2020, a total of 870,963,022 shares subject to trading moratorium under the initial public offering of A shares held by Henan Investment Group Co., Ltd., the controlling shareholder of the Company, and the National Council for Social Security Fund (Transfer Account No. 1) were released from sales restrictions and commenced trading.

For details of the above, please refer to the relevant announcement (Announcement No.: 2019-074) disclosed by the Company on the website of the SSE on 28 December 2019.

SECTION 6 CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

The impact of changes in shares after the Reporting Period and up to the disclosure date of the interim report on the earnings per share, net assets per share and other financial indicators:

The Company completed the non-public issuance of 773,814,000 A shares after the Reporting Period. If the impact of the non-public issuance of new shares on the increase in share capital and capital reserve is considered, the earnings per share will be reduced from RMB0.008 per share to RMB0.007 per share, and the net assets per share will be increased from RMB2.51 per share to RMB2.87 per share.

Changes in shares subject to trading moratorium:

Unit: Share

Name of shareholders	Number of shares subject to trading moratorium at the beginning of the Period	Number of shares released from trading moratorium during the Reporting Period	Increase in the number of shares subject to trading moratorium during the Reporting Period	Number of shares subject to trading moratorium as at the end of the Reporting Period	Reasons for trading moratorium	Date of release from trading moratorium
Henan Investment Group Co., Ltd.	822,983,847	822,983,847		0	Shares subject to trading moratorium under the initial public offering	3 January 2020
National Council for Social Security Fund (Transfer Account No. 1)	47,979,175	47,979,175		0	Shares subject to trading moratorium under the initial public offering	3 January 2020
Total	870,963,022	870,963,022				

II. SHAREHOLDERS

(I) Total number of shareholders

Total number of holders of ordinary shares as at the end of the Reporting Period 117,926
(of which 117,884 were holders of A shares and 42 were registered holders of H shares)

SECTION 6 CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

(II) Shareholdings of the top ten shareholders, the top ten holders of tradable shares (or shareholders not subject to trading moratorium) as at the end of the Reporting Period

Unit: Share

Shareholdings of the top ten shareholders

Name of shareholders (Full name)	Changes during the Reporting Period	Number of shares held as at the end of the Reporting Period	Percentage (%)	Number of shares held subject to trading moratorium	Shares pledged or frozen Status	Number of shares	Nature of shareholders
HKSCC Nominees Limited	-3,050	1,195,134,850	30.89				Overseas legal person
Henan Investment Group Co., Ltd.		822,983,847	21.27				State-owned legal person
Bohai Industrial Investment Fund Management Co., Ltd. — Bohai Industrial Investment Fund (Tranche 1)* (渤海產業投資基金管理有限公司 — 渤海產業投資基金一期)		534,309,767	13.81				Others
Anyang Iron & Steel Group Co., Ltd.* (安陽鋼鐵集團有限公司)		177,514,015	4.59		Pledged	42,287,900	State-owned legal person
China Pingmei Shenma Energy & Chemical Group Co., Ltd.* (中國平煤神馬能源化工集團有限公司)		75,046,245	1.94				State-owned legal person
Anyang Economic Development Group Co., Ltd.* (安陽經濟開發集團有限公司)		48,824,693	1.26		Pledged	24,412,346	State-owned legal person
Jiangsu SOHO Holdings Group Co., Ltd.* (江蘇省蘇豪控股集團有限公司)	-3,356,100	22,716,989	0.59				State-owned legal person
China Construction Bank Corporation — Guotai CSI All Share Securities Company Trading Index Securities Investment Open-ended Fund (中國建設銀行股份有限公司 — 國泰中證全指證券公司交易型開放式指數證券投資基金)	5,935,200	19,379,000	0.50				Others
Henan Shenhua Group Co., Ltd.* (河南神火集團有限公司)		17,749,930	0.46		Pledged	8,874,950	State-owned legal person
Henan Jinlong Industrial Co., Ltd.* (河南省金龍實業有限公司)		16,000,000	0.41				Domestic non state-owned legal person

* For identification purpose only

SECTION 6 CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

Shareholdings of the top ten shareholders not subject to trading moratorium

Unit: Share

Name of shareholders	Number of tradable shares not subject to trading moratorium	Class and number of shares	
		Class	Number
HKSCC Nominees Limited	1,195,134,850	Overseas-listed foreign shares	1,195,134,850
Henan Investment Group Co., Ltd.	822,983,847	RMB-denominated ordinary shares	822,983,847
Bohai Industrial Investment Fund Management Co., Ltd. — Bohai Industrial Investment Fund (Tranche 1)	534,309,767	RMB-denominated ordinary shares	534,309,767
Anyang Iron & Steel Group Co., Ltd.	177,514,015	RMB-denominated ordinary shares	177,514,015
China Pingmei Shenma Energy & Chemical Group Co., Ltd.	75,046,245	RMB-denominated ordinary shares	75,046,245
Anyang Economic Development Group Co., Ltd.	48,824,693	RMB-denominated ordinary shares	48,824,693
Jiangsu SOHO Holdings Group Co., Ltd.	22,716,989	RMB-denominated ordinary shares	22,716,989
China Construction Bank Corporation — Guotai CSI All Share Securities Company Trading Index Securities Investment Open-ended Fund	19,379,000	RMB-denominated ordinary shares	19,379,000
Henan Shenhua Group Co., Ltd.	17,749,930	RMB-denominated ordinary shares	17,749,930
Henan Jinlong Industrial Co., Ltd.	16,000,000	RMB-denominated ordinary shares	16,000,000

Explanation on related party or concert party relationship among the above shareholders

The Company is not aware of any related party relationship among the above-mentioned shareholders or whether they are parties acting in concert as defined in the Measures for the Administration of the Takeover of Listed Companies (《上市公司收購管理辦法》).

III. CHANGES OF THE CONTROLLING SHAREHOLDER AND THE DE FACTO CONTROLLER

Name of the new de facto controller	Department of Finance of Henan Province
Date of the change	10 January 2020
Designated website for searching relevant information and publication date	http://www.sse.com.cn/ ; 14 January 2020 http://www.hkexnews.hk/ ; 13 January 2020

SECTION 6 CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

(I) Interests and short positions of Directors, Supervisors and senior management in the shares, underlying shares and the debentures of the Company and its associated corporations

As at the end of the Reporting Period, based on the information acquired by the Company and the knowledge of the Directors, the Directors, Supervisors and chief executive of the Company have the following (i) interests and short positions (including the interests or short positions considered or deemed to have according to such provisions of the SFO) which shall be notified to the Company and the Hong Kong Stock Exchange in accordance with Divisions 7 and 8 of Part XV under the SFO, or (ii) interests or short positions which shall be recorded in the interests register to be kept in accordance with section 352 of the SFO, or (iii) interests or short positions which shall be notified to the Company and the Hong Kong Stock Exchange in accordance with the requirements of the Model Code in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO):

Name	Class of shares	Nature of interest	Number of shares held (shares)	Percentage of the Company's total issued shares (%)	Percentage of the Company's total issued H shares (%)	Long position/ short position/ lending pool
Jian Mingjun	H Shares	Beneficial owner	750,000	0.019	0.063	Long position
		Beneficiary of a trust	539,754	0.014	0.045	Long position
Chang Junsheng	H Shares	Beneficial owner	1,000,000	0.026	0.084	Long position

Save as disclosed above, as at the end of the Reporting Period, no Directors, Supervisors or their respective spouse or children under the age of 18 have been given the right to purchase the shares or debentures of the Company to obtain benefit, or such persons exercise any such right; or no arrangements have been made by the Company or any of its subsidiaries to entitle such right to the Directors, Supervisors or their respective spouse or children under the age of 18 in any other body corporate.

SECTION 6 CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

(II) Interests and short positions of substantial shareholders and other persons in the shares and underlying shares of the Company

As at the end of the Reporting Period, pursuant to the knowledge of the Directors of the Company after making reasonable inquiries, the following persons (other than Directors, Supervisors or chief executive of the Company) have the following interests or short positions in shares or underlying shares required to be disclosed to the Company in accordance with Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be maintained by the Company under Section 336 of the SFO:

Name of shareholder	Class of shares	Nature of interest	Number of shares held (shares)	Percentage of the Company's total issued shares (%)	Percentage of the Company's total issued A shares/ H shares (%)	Long position/ short position/ lending pool
Henan Investment Group Co., Ltd.	A Share	Beneficial owner	822,983,847	21.271	30.781	Long position
	H Share	Beneficial owner/Interest of corporation controlled by the substantial shareholder	94,705,000 ^{Note 1}	2.448	7.923	Long position
Bohai Industrial Investment Fund	A Share	Beneficial owner	534,309,767	13.810	19.984	Long position
Bohai Industrial Investment Fund Management Co., Ltd. (on behalf of the Bohai Industrial Investment Fund)	A Share	Investment manager	534,309,767	13.810	19.984	Long position
Anyang Iron & Steel Group Co., Ltd.	A Share	Beneficial owner	177,514,015	4.588	6.639	Long position

Note:

- As known to the Directors, as at 30 June 2020, Henan Investment Group (through Stock Connect's Southbound trading) directly held a long position in 47,972,000 H shares of the Company, and through its indirect wholly-owned subsidiary, Dahe Paper (Hong Kong) Co., Limited, indirectly held a long position in 46,733,000 H shares of the Company.

Save as disclosed above, as at the end of the Reporting Period, the Company was not aware of any other persons (excluding the Directors, Supervisors and chief executive of the Company) having the interests or short positions required to be recorded in the register in the shares or underlying shares of the Company under Section 336 of the SFO.

SECTION 7 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

Name	Position	Change
Cao Zongyuan	Shareholder Representative Supervisor	Resignation
Zhang Qiuyun	Shareholder Representative Supervisor	Election
Zhao Huiwen	Vice President	Resignation
Liu Hao	Chief Investment Officer	Appointment

1. On 10 June 2020, 2019 Annual General Meeting of the Company considered and approved the Resolution on the Change of the Shareholder Representative Supervisor, and agreed to elect Ms. Zhang Qiuyun as a Supervisor of the sixth session of the Supervisory Committee, with a term of office until the expiry of the term of office of the current session of the Supervisory Committee. Mr. Cao Zongyuan, a Supervisor, ceased to act as the shareholder representative Supervisor due to work adjustment.
2. On 20 April 2020, the Board received the written letter of resignation from Ms. Zhao Huiwen. Ms. Zhao Huiwen tendered the resignation as the vice president of the Company due to work change.
3. On 6 May 2020, the Company filed with the Henan Bureau of the CSRC for the appointment of Mr. Liu Hao as a member of senior management of a securities company, with a term of office until the expiry of the term of office of the current session of the Board.

For details of the above, please refer to the relevant announcements of the Company dated 21 April 2020, 7 May 2020 and 11 June 2020 (Announcement No.: 2020-030, 2020-044 and 2020-048) respectively published on the website of the SSE and announcements dated 30 March 2020 and 10 June 2020 respectively published on the HKEXnews website of the Hong Kong Stock Exchange.

SECTION 8 INFORMATION ON CORPORATE BONDS ISSUED BY THE COMPANY

I. BASIC INFORMATION OF CORPORATE BONDS

Unit: 100 million Currency: RMB

Name of bonds	Abbreviation	Code	Date of issuance	Maturity date	Balance of bonds	Interest rate (%)	Method to repay principal and pay interest	Venue of trading
2017 Subordinated Bonds (Tranche 1) of Central China Securities Co., Ltd.	17 Central China 01	145644	2017/7/25	2020/7/26	15	5.15	Simple interest on an annual basis	SSE
2017 Subordinated Bonds (Tranche 2) of Central China Securities Co., Ltd.	17 Central China 02	145663	2017/11/16	2020/11/17	10	5.49	Simple interest on an annual basis	SSE
2018 Subordinated Bonds (Tranche 1) of Central China Securities Co., Ltd.	18 Central China 01	150323	2018/4/26	2021/4/27	15	5.58	Simple interest on an annual basis	SSE
2019 Corporate Bonds Publicly Issued to Qualified Investors (Tranche 1) of Central China Securities Co., Ltd.	19 Central China 01	155259	2019/3/25	2022/3/26	20	3.9	Simple interest on an annual basis	SSE
2019 Non-Public Issuance of Subordinated Bonds (Tranche 1) of Central China Securities Co., Ltd.	19 Central China C1	162323	2019/10/29	2022/10/30	10	4.9	Simple interest on an annual basis	SSE
2020 Non-Public Issuance of Subordinated Bonds (Tranche 1) of Central China Securities Co., Ltd.	20 Central China C1	166631	2020/4/23	2023/4/23	15	4.08	Simple interest on an annual basis	SSE

Interest payment and due repayment of corporate bonds

During the Reporting Period, the Company paid the interests of “18 Central China 01” and “19 Central China 01” in full as scheduled. The Company repaid the “19 Central China F1” in full as scheduled. “17 Central China 01”, “17 Central China 02”, “19 Central China C1” and “20 Central China C1” have not reached the maturity date and interest payment date and no due repayment or interest payment occurred.

SECTION 8 INFORMATION ON CORPORATE BONDS ISSUED BY THE COMPANY

II. USE OF PROCEEDS FROM ISSUANCE OF CORPORATE BONDS

For “17 Central China 01”, “17 Central China 02” and “18 Central China 01” subordinated bonds, the use of proceeds agreed in the respective prospectuses are to satisfy the business operational needs of the Company, adjust debt structures of the Company and replenish the liquidity of the Company. The Company used the proceeds in strict compliance with the use of proceeds agreed in the respective prospectuses. All proceeds were utilized to replenish the liquidity of the Company, with no remaining amount recorded as of the end of the Reporting Period. The use of proceeds set out in the prospectus of “19 Central China 01” is to repay due debts, adjust and optimize debt structures and eliminate financial risks; such proceeds are otherwise used to replenish working capital and satisfy the business operational needs of the Company. After deducting issuance expenses, the Company strictly complied with the use of proceeds agreed in the prospectus. All proceeds were utilized to repay principal and pay interest of due interest-bearing debts, with no remaining amount recorded as of the end of the Reporting Period. The use of proceeds set out in the respective prospectus of “19 Central China C1” and “20 Central China C1” is to repay the matured or repurchased debt financing instruments after deducting issuance expenses. The Company strictly complied with the use of proceeds agreed in the respective prospectus. All proceeds were utilized to repay principal and pay interest of matured debts, with no remaining amount recorded as of the end of the Reporting Period.

III. ACCOUNTING DATA AND FINANCIAL INDEXES AS AT THE END OF THE REPORTING PERIOD AND THE END OF LAST YEAR (OR THE REPORTING PERIOD AND THE CORRESPONDING PERIOD OF LAST YEAR)

Unit: Yuan Currency: RMB

Major indexes	At the end of the Reporting Period	At the end of last year	Changes at the end of the Reporting Period compared with the end of last year (%)	Reason for change
Current ratio	1.47	1.55	-5.16	
Quick ratio	1.47	1.55	-5.16	
Gearing ratio (%)	71.34	69.73	2.31	
Loan repayment ratio (%)	100.00	100.00	0.00	

	The Reporting Period (January — June)	The corresponding period of last year	Changes of the Reporting Period compared with the corresponding period of last year (%)	Reason for change
EBITDA interest coverage ratio	1.24	1.88	-34.04	Primarily due to the decrease of total profit
Interest payment ratio (%)	100.00	100.00	0.00	

SECTION 8 INFORMATION ON CORPORATE BONDS ISSUED BY THE COMPANY

IV. PAYMENT OF INTERESTS AND REPAYMENT OF PRINCIPAL OF OTHER BONDS AND DEBT FINANCING INSTRUMENTS OF THE COMPANY

Other bonds and debt financing instruments of the Company mainly include transfer of the rights to income from debts of margin financing and securities lending, beneficiary certificates and refinancing of CSF, etc. During the Reporting Period, the repayment of principal and payment of interests of bonds and debt financing instruments were settled in full as scheduled according to contractual terms or relevant agreements and there was no default recorded.

V. BANKING FACILITIES OF THE COMPANY DURING THE REPORTING PERIOD

As of the end of the Reporting Period, the Company obtained total banking facilities amounting to RMB27.5 billion, in which RMB6.775 billion was utilized and in normal use. During the Reporting Period, various banking borrowings obtained by the Company have no breach or delay in repayment of principal and payment of interests.


VI. IMPLEMENTATION BY THE COMPANY OF COVENANTS OR COMMITMENTS SET OUT IN THE OFFERING CIRCULAR OF THE CORPORATE BONDS DURING THE REPORTING PERIOD

During the Reporting Period, the Company strictly implemented the covenants or commitments as specified in the above-mentioned offering circular of the corporate bonds. There was no breach of the covenants and commitments as specified in the offering circular.

VII. MATERIAL EVENTS AND IMPACT ON THE OPERATIONS AND SOLVENCY OF THE COMPANY

During the Reporting Period, the Company has no other material events as described in Article 45 of the Administrative Measures for the Issue and Trading of Corporate Bonds (《公司債券發行與交易管理辦法》).

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

	信永中和会计师事务所	北京市东城区朝阳门北大街 8号富华大厦A座9层	联系电话: +86(010)6554 2288 telephone: +86(010)6554 2288
	ShineWing certified public accountants	9/F, Block A, Fu Hua Mansion, No.8, Chaoyangmen Beidajie, Dongcheng District, Beijing, 100027, P.R.China	传真: +86(010)6554 7190 facsimile: +86(010)6554 7190

Review Report

To the Shareholders of Central China Securities Co., Ltd.,

We have reviewed the financial statements of Central China Securities Co., Ltd. (the "Company"), and its subsidiaries (the "Group"), which comprise the consolidated and the Company's balance sheet as at 30 June 2020, the interim consolidated and the Company's income statement, the interim consolidated and the Company's cash flow statement and the interim consolidated and the interim Company's statement of changes in shareholders' equity for the six months period then ended and the related notes to the financial statements. The directors of Central China Securities Co., Ltd. are responsible for the preparation and presentation of financial statements. Our responsibility is to issue the review report on the interim financial statement base on our review.

We conducted our review in accordance with "China Standards on Auditing for Chinese Certified Public Accountants No. 2101-Financial statements Reviewed". The standards require us to plan and conduct reviews to obtain limited assurance as to whether the financial statements are free of material misstatement. Reviews are primarily to questioning company personnel and conducting analytical procedures on financial data, providing a lower level of assurance than audits. We did not carry out audit, so we did not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements of the Group is not prepared, in all material respects, the consolidated and the Company's financial position as at 30 June 2020, the interim consolidated and the Company's results of operations and cash flows for the six months period then ended in accordance with "Accounting Standards for Business Enterprises".

Yours faithfully,

ShineWing

Certified Public Accountants LLP

Beijing, China
27 August 2020

CONSOLIDATED BALANCE SHEET

As at 30 June 2020 (Expressed in RMB Yuan)

Asset	Note VI No.	30 June 2020	31 December 2019
Assets:			
Cash and bank balances	1	12,634,141,865.39	9,331,748,561.52
Including: Cash held for brokerage clients		9,029,620,906.51	6,581,561,810.40
Clearing settlement funds	2	1,765,748,855.33	2,518,049,515.84
Including: Clearing settlement funds held for brokerage clients		1,701,440,825.05	2,347,142,384.82
Margin accounts receivable	3	6,418,453,778.69	6,060,740,196.56
Derivative financial assets	4	11,843,235.06	11,384,115.93
Refundable deposits	5	764,222,849.71	395,169,735.95
Accounts receivable	6	98,394,746.29	153,912,302.37
Financial assets held under resale agreement	7	2,278,421,194.66	3,023,888,527.71
Assets held for sale			
Financial Investment:			
Financial asset at fair value through profit or loss	8	18,794,702,163.17	17,227,018,646.76
Financial instruments measured at amortised cost	9	521,360,766.91	676,389,859.29
Financial instruments at fair value through other comprehensive income	10	839,372,747.75	664,695,346.48
Long-term equity investments	11	1,059,303,909.92	1,104,721,398.67
Investment properties	12	16,882,296.96	17,289,669.93
Fixed assets	13	179,030,485.95	193,032,226.69
Construction in progress	14	42,778,403.11	35,578,119.28
Right-of-use assets	15	176,811,640.16	184,977,696.07
Intangible assets	16	152,466,607.57	157,209,959.46
Deferred income tax assets	17	435,058,009.55	345,625,693.11
Goodwill	18	22,669,566.15	22,371,814.46
Other assets	19	1,445,748,412.42	1,446,099,029.69
Total Asset		47,657,411,534.75	43,569,902,415.77

CONSOLIDATED BALANCE SHEET

As at 30 June 2020 (Expressed in RMB Yuan)

Liabilities & Equity	Note VI No.	30 June 2020	31 December 2019
Liabilities:			
Short-term loans	22	1,280,874,777.88	1,568,747,897.84
Short-term financing instruments payable	23	4,667,962,527.24	4,455,447,124.75
Due to banks and other financial institutions	24	2,608,651,111.12	2,361,159,583.32
Financial liabilities at fair value through profit or loss	25	811,772,228.13	1,114,552,379.16
Derivative financial liabilities	4	48,280.00	83,740.00
Financial assets sold under repurchase agreements	26	11,089,400,605.91	8,721,088,626.07
Accounts payable to brokerage clients	27	10,918,482,823.86	8,895,066,941.34
Employee benefits payable	28	474,281,385.43	478,666,321.83
Taxes payable	29	108,127,053.50	56,986,010.70
Accounts payable	30	97,911,163.21	183,081,131.54
Contract liabilities	31	27,025,121.94	20,444,852.57
Long-term borrowings	32	9,324,740.83	13,202,955.17
Bonds payable	33	4,564,045,857.99	4,623,940,375.96
Lease liabilities	34	172,664,352.79	177,837,189.74
Deferred income tax liabilities	17	11,549,669.78	8,258,284.47
Other liabilities	35	284,935,003.47	393,552,547.54
Total liabilities		37,127,056,703.08	33,072,115,962.00
Equity:			
Share capital	36	3,869,070,700.00	3,869,070,700.00
Capital reserve	37	3,487,237,785.96	3,487,237,785.96
Other comprehensive income	38	40,862,401.08	36,543,591.23
Surplus reserve	39	808,084,287.96	808,084,287.96
General risk reserve	40	1,382,038,921.28	1,382,038,921.28
Retained earnings	41	119,083,532.24	88,232,726.32
Total equity attributable to owners of the parent company		9,706,377,628.52	9,671,208,012.75
Non-controlling interests		823,977,203.15	826,578,441.02
Total equity		10,530,354,831.67	10,497,786,453.77
Total liabilities and equity		47,657,411,534.75	43,569,902,415.77

COMPANY BALANCE SHEET

As at 30 June 2020 (Expressed in RMB Yuan)

Asset	Note XVII No.	30 June 2020	31 December 2019
Assets:			
Cash and bank balances		11,402,308,632.52	7,451,403,960.97
Including: Cash held for brokerage clients		8,666,060,107.34	6,147,210,572.10
Clearing settlement funds		1,605,017,032.84	2,401,197,144.82
Including: Clearing settlement funds held for brokerage clients		1,476,697,896.13	2,070,615,268.02
Margin accounts receivable		6,244,849,550.10	5,863,995,732.86
Refundable deposits		403,407,450.13	61,804,121.87
Accounts receivable		42,183,797.30	106,952,495.81
Financial assets held under resale agreement		2,155,524,806.86	3,016,788,527.71
Held-for-sale assets			
Financial Investment:			
Financial asset at fair value through profit or loss		16,079,779,486.50	14,901,923,154.00
Financial instruments at fair value through other comprehensive income		839,372,747.75	664,695,346.48
Long-term equity investments	1	4,126,432,553.95	4,126,432,553.95
Investment properties		26,418,301.11	26,976,776.32
Fixed assets		164,340,857.77	177,043,901.96
Construction in progress		42,778,403.11	35,578,119.28
Right-of-use assets		143,907,957.55	143,733,697.34
Intangible assets		148,039,852.73	152,488,987.20
Deferred income tax assets		291,515,235.46	210,510,337.00
Other assets		513,364,404.76	476,558,424.45
Total Asset		44,229,241,070.44	39,818,083,282.02

COMPANY BALANCE SHEET

As at 30 June 2020 (Expressed in RMB Yuan)

Liabilities & Equity	Note XVII	30 June 2020	31 December 2019
	No.		
Liabilities:			
Short-term financing instruments payable		4,667,962,527.24	4,455,447,124.75
Due to banks and other financial institutions		2,608,651,111.12	2,361,159,583.32
Financial liabilities at fair value through profit or loss		271,035,283.57	714,792,262.30
Financial assets sold under repurchase agreements		11,089,400,605.91	8,721,088,626.07
Accounts payable to brokerage clients		10,130,726,756.71	8,157,600,131.41
Employee benefits payable		446,440,861.50	430,174,300.20
Taxes payable		102,916,121.90	42,920,834.05
Accounts payable		92,982,211.95	175,101,509.70
Contract liabilities		12,009,579.22	7,911,220.55
Bonds payable		4,564,045,857.99	4,623,940,375.96
Lease liabilities		141,032,494.11	136,901,569.49
Deferred income tax liabilities		2,054,757.94	3,207,641.13
Other liabilities		55,358,427.51	56,052,632.96
Total liabilities		34,184,616,596.67	29,886,297,811.89
Equity:			
Share capital		3,869,070,700.00	3,869,070,700.00
Capital reserve		3,762,844,544.48	3,762,844,544.48
Other comprehensive income		4,606,662.64	5,435,762.48
Surplus reserve		808,084,287.96	808,084,287.96
General risk reserve		1,315,470,752.11	1,315,470,752.11
Retained earnings		284,547,526.58	170,879,423.10
Total equity		10,044,624,473.77	9,931,785,470.13
Total liabilities and equity		44,229,241,070.44	39,818,083,282.02

CONSOLIDATED INCOME STATEMENT

For the period ended 30 June 2020 (Expressed in RMB Yuan)

Item	Note VI No.	For the six months ended 30 June	
		2020	2019
I. Total operating income		1,249,975,323.25	1,287,144,859.79
Net interest income	42	18,374,722.76	60,314,647.70
Net fee and commission income	43	513,950,325.00	481,640,879.47
Including: Brokerages business		344,065,137.59	300,635,685.81
Investment banking		98,977,331.26	90,042,386.45
Assets management		20,062,491.49	40,711,328.77
Investment income (or less: losses)	44	363,055,154.49	435,401,019.13
Including: Investment income from associates and joint ventures		34,784,430.24	24,941,625.76
Gains on changes in fair value (or less: losses)	45	-65,586,204.75	90,082,423.72
Gains on foreign exchange (or less: losses)		-2,759,526.70	-115,348.84
Other operating income	46	414,430,890.62	216,587,502.54
Gains from assets disposal (or less: losses)	47	564.81	-9,825.97
Other income	48	8,509,397.02	3,243,562.04
II. Total operating cost		1,185,589,385.64	934,048,893.79
Taxes and surcharges	49	9,440,447.39	7,791,335.21
Business and administrative expenses	50	620,061,508.05	633,460,243.98
Expected credit losses	51	140,402,125.30	80,366,175.44
Other assets impairment losses	52	22,934,995.27	3,912,122.41
Other operating costs	53	392,750,309.63	208,519,016.75
III. Operating profit (or less: losses)		64,385,937.61	353,095,966.00
Add: non-operating income	54	1,136,020.51	1,174,519.26
Less: non-operating expenditures	55	7,102,510.91	118,845.31
IV. Profit before tax (or less: losses)		58,419,447.21	354,151,639.95
Less: income tax expenses	56	24,735,859.16	73,283,003.09
V. Net profit (or less: net loss)		33,683,588.05	280,868,636.86
(I) Classified by continuity of operations			
1. Net profit from continuing operations (or less: net losses)		33,683,588.05	280,868,636.86
2. Net profit from discontinued operations (or less: net losses)			
(II) Classified by ownership			
1. Net profit attributable to owners of parent company (or less: net losses)		30,850,805.92	239,926,940.64
2. Net Profit attributable to non-controlling interests (or less: net losses)		2,832,782.13	40,941,696.22

CONSOLIDATED INCOME STATEMENT

For the period ended 30 June 2020 (Expressed in RMB Yuan)

Item	Note VI No.	For the six months ended	
		30 June 2020	2019
VI. Other comprehensive income after tax		4,318,809.85	6,700,022.99
Items attributable to shareholders of parent company		4,318,809.85	3,921,440.59
(I) Not to be reclassified subsequently to profit or loss			
(II) To be reclassified subsequently to profit or loss		4,318,809.85	3,921,440.59
1. Items attributable to investees under equity method that will be reclassified to profit or loss		-1,593,552.08	
2. Changes in fair value on investments in debt instruments measured at fair value through other comprehensive income		-6,842,882.33	1,354,515.98
3. Allowance for credit losses on investments in debt instruments measured at fair value through other comprehensive income		6,013,782.49	2,079.32
4. Difference from translation of foreign currency financial statements		6,741,461.77	2,564,845.29
Items attributable to non-controlling interests			2,778,582.40
VII. Total comprehensive income		38,002,397.90	287,568,659.85
Including: Items attributable to shareholders of parent company		35,169,615.77	243,848,381.23
Items attributable to non-controlling interests		2,832,782.13	43,720,278.62
VIII. Earnings per share (EPS):			
(I) Basic EPS	57	0.01	0.06
(II) Diluted EPS	57	0.01	0.06

COMPANY INCOME STATEMENT

For the period ended 30 June 2020 (Expressed in RMB Yuan)

Item	Note XVII No.	For the six months ended 30 June	
		2020	2019
I. Total operating income		803,943,770.73	809,705,207.24
Net interest income	2	-10,294,529.92	-14,074,225.85
Net fee and commission income	3	466,741,968.38	422,896,427.33
Including: Brokerages business		309,079,196.29	272,925,516.83
Investment banking		94,884,683.65	82,746,760.76
Assets management		18,229,098.75	24,346,530.30
Investment income (or less: losses)	4	377,948,903.51	323,895,994.59
Including: Investment income from associates and joint ventures			-313,557.79
Gains on changes in fair value (or less: losses)		-55,982,487.02	70,539,664.75
Gains on foreign exchange (or less: losses)		142,304.99	16,618.84
Other operating income		17,023,862.59	3,215,931.17
Gains from assets disposal (or less: losses)		727.95	-8,748.06
Other income		8,363,020.25	3,223,544.47
II. Total operating cost		678,059,333.90	625,799,584.22
Taxes and surcharges		8,427,361.48	6,922,767.09
Business and administrative expenses	5	542,662,510.80	538,615,140.25
Expected credit losses		126,375,297.82	79,355,969.57
Other operating costs		594,163.80	905,707.31
III. Operating profit (or less: losses)		125,884,436.83	183,905,623.02
Add: non-operating income		170,130.05	594,445.84
Less: non-operating expenditures		3,586,454.15	65,788.06
IV. Profit before tax (or less: losses)		122,468,112.73	184,434,280.80
Less: income tax expenses		8,800,009.25	39,009,102.24
V. Net profit (or less: net loss)		113,668,103.48	145,425,178.56
(I) Classified by continuity of operations			
1. Net profit from continuing operations (or less: net losses)		113,668,103.48	145,425,178.56
2. Net profit from discontinued operations (or less: net losses)			
VI. Other comprehensive income after tax		-829,099.84	1,356,500.97
(I) Not to be reclassified subsequently to profit or loss			
(II) To be reclassified subsequently to profit or loss		-829,099.84	1,356,500.97
1. Changes in fair value on investments in debt instruments measured at fair value through other comprehensive income		-6,842,882.33	1,354,515.98
2. Allowance for credit losses on investments in debt instruments measured at fair value through other comprehensive income		6,013,782.49	1,984.99
VII. Total comprehensive income		112,839,003.64	146,781,679.53

CONSOLIDATED CASH FLOW STATEMENT

For the period ended 30 June 2020 (Expressed in RMB Yuan)

Item	Note VI No.	For the six months ended 30 June	
		2020	2019
I. Cash flows from operating activities:			
Cash receipt from interests, fee and commissions		1,208,072,344.86	1,037,111,096.17
Net increase of due to banks and other financial institutions		240,000,000.00	
Net increase of financial assets held under resale agreement		2,365,737,960.69	472,629,233.73
Net decrease of resale agreements		630,730,969.51	3,246,362,340.31
Cash received from brokerage clients		2,023,415,882.52	2,936,176,508.79
Other cash receipts related to operating activities	58	539,098,646.10	221,005,583.84
Subtotal of cash inflows from operating activities		7,007,055,803.68	7,913,284,762.84
Net increase of financial assets at fair value through profit or loss		1,541,121,657.71	476,704,501.14
Net decrease of due to banks and other financial institutions			1,230,617,022.08
Net increase in advances to customers on margin financing		421,854,635.58	948,277,060.42
Cash payment to interests, fee charges and commissions		316,180,245.75	349,805,229.43
Cash payments to and on behalf of employees		459,907,380.83	444,118,975.15
Cash payments of taxes		138,305,871.98	90,419,606.62
Other cash payments related to operating activities	58	1,063,614,404.95	781,646,302.16
Subtotal of cash outflows from operating activities		3,940,984,196.80	4,321,588,697.00
Net cash flows from operating activities	58	3,066,071,606.88	3,591,696,065.84
II. Cash flows from investing activities:			
Cash receipt from investment income		48,414,005.66	65,284,082.39
Cash receipt from disposal of fixed assets, intangible assets and other long-term asset		180,061.48	515,992.02
Subtotal of cash inflows from investing activities		48,594,067.14	65,800,074.41
Cash payments to acquire investments		53,528,833.25	940,790,159.90
Cash payments to acquire fixed assets, intangible assets and other long-term assets		30,492,634.99	31,069,810.15
Subtotal of cash outflows from investing activities		84,021,468.24	971,859,970.05
Net cash flows from investing activities		-35,427,401.10	-906,059,895.64

CONSOLIDATED CASH FLOW STATEMENT

For the period ended 30 June 2020 (Expressed in RMB Yuan)

Item	Note VI No.	For the six months ended 30 June	
		2020	2019
III. Cash flows from financing activities:			
Cash receipts from loans		413,240,256.00	1,557,700,000.00
Cash receipt from issuing of bonds		2,865,576,000.00	6,113,476,000.00
Subtotal of cash inflows from financing activities		3,278,816,256.00	7,671,176,000.00
Cash repayments of borrowings		3,395,029,926.34	7,744,921,923.33
Cash payments for distribution of dividends or profit or interest expenses		265,178,895.70	332,305,067.92
Including: cash payments of subsidiaries to non-controlling shareholders as distribution of dividends or profit		5,434,020.00	14,607,012.20
Other cash payments related to financing activities	58	59,932,968.39	
Subtotal of cash outflows from financing activities		3,720,141,790.43	8,077,226,991.25
Net cash flows from financing activities		-441,325,534.43	-406,050,991.25
IV. Effect of foreign exchange rate changes on cash & cash equivalents		-2,759,526.70	-115,348.84
V. Net increase/(decrease) in cash and cash equivalents	58	2,586,559,144.65	2,279,469,830.11
Add: Opening balance of cash and cash equivalents		11,805,475,726.56	9,602,115,554.08
VI. Closing balance of cash and cash equivalents		14,392,034,871.21	11,881,585,384.19

COMPANY CASH FLOW STATEMENT

For the period ended 30 June 2020 (Expressed in RMB Yuan)

Item	Note XVII No.	For the six months ended 30 June	
		2020	2019
I. Cash flows from operating activities:			
Cash receipt from interests, fee and commissions		1,081,959,956.40	879,197,123.81
Net increase of due to banks and other financial institutions		240,000,000.00	
Net increase of financial assets held under resale agreement		2,365,737,960.69	472,629,233.73
Net decrease of resale agreements		746,525,969.51	3,239,264,876.81
Cash received from brokerage clients		1,973,126,625.30	2,979,184,658.42
Other cash receipts related to operating activities		32,879,398.39	7,033,921.48
Subtotal of cash inflows from operating activities		6,440,229,910.29	7,577,309,814.25
Net increase of financial assets at fair value through profit or loss		1,345,250,236.42	736,124,522.96
Net decrease of due to banks and other financial institutions			1,230,617,022.08
Net increase in advances to customers on margin financing		441,772,746.91	949,309,820.98
Cash payment to interests, fee charges and commissions		290,650,491.32	295,853,092.37
Cash payments to and on behalf of employees		395,521,907.43	370,396,131.89
Cash payments of taxes		92,698,627.88	49,164,104.14
Other cash payments related to operating activities		575,599,541.02	674,693,293.65
Subtotal of cash outflows from operating activities		3,141,493,550.98	4,306,157,988.07
Net cash flows from operating activities	6	3,298,736,359.31	3,271,151,826.18
II. Cash flows from investing activities:			
Cash receipt from investment income		101,494,571.91	23,088,336.44
Cash receipt from disposal of fixed assets, intangible assets and other long-term asset		155,335.77	507,243.96
Subtotal of cash inflows from investing activities		101,649,907.68	23,595,580.40
Cash payments to acquire investments		141,836,088.50	712,131,703.86
Cash payments to acquire fixed assets, intangible assets and other long-term assets		29,523,042.36	29,732,145.62
Subtotal of cash outflows from investing activities		171,359,130.86	741,863,849.48
Net cash flows from investing activities		-69,709,223.18	-718,268,269.08
III. Cash flows from financing activities:			
Cash receipt from issuing of bonds		2,865,576,000.00	6,113,476,000.00
Subtotal of cash inflows from financing activities		2,865,576,000.00	6,113,476,000.00
Cash repayments of borrowings		2,691,915,000.00	6,351,386,000.00
Cash payments for distribution of dividends or profit or interest expenses		227,928,161.80	298,461,559.39
Other cash payments related to financing activities		24,952,937.74	
Subtotal of cash outflows from financing activities		2,944,796,099.54	6,649,847,559.39
Net cash flows from financing activities		-79,220,099.54	-536,371,559.39
IV. Effect of foreign exchange rate changes on cash & cash equivalents		142,304.99	16,618.84
V. Net increase/(decrease) in cash and cash equivalents	6	3,149,949,341.58	2,016,528,616.55
Add: Opening balance of cash and cash equivalents		9,849,533,204.97	8,227,607,657.53
VI. Closing balance of cash and cash equivalents		12,999,482,546.55	10,244,136,274.08

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2020 (Expressed in RMB Yuan)

Item	For the six months ended 30 June 2020								
	Equity attributable to shareholders of parent company							Non-controlling interest	Total equity
	Share capital/ Paid-in capital	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained earnings	Subtotal		
I. Balance at the end of prior year	3,869,070,700.00	3,487,237,785.96	36,543,591.23	808,084,287.96	1,382,038,921.28	88,232,726.32	9,671,208,012.75	826,578,441.02	10,497,786,453.77
Add: Changes of accounting policies									
Error correction of early stage									
Others									
II. Balance at the beginning of current year	3,869,070,700.00	3,487,237,785.96	36,543,591.23	808,084,287.96	1,382,038,921.28	88,232,726.32	9,671,208,012.75	826,578,441.02	10,497,786,453.77
III. Current period increase (or less: decrease)			4,318,809.85			30,850,805.92	35,169,615.77	-2,601,237.87	32,568,377.90
(I) Total comprehensive income			4,318,809.85			30,850,805.92	35,169,615.77	2,832,782.13	38,002,397.90
(II) Capital contributed or withdrawn by owners									
1. Capital contributed by owners									
2. Capital contributed by holders of other equity instruments									
3. Amount of share-based payment included in equity									
4. Others									
(III) Profit distribution								-5,434,020.00	-5,434,020.00
1. Appropriation to surplus reserve									
2. Appropriation to general risk reserve									
3. Cash dividend recognized as distribution								-5,434,020.00	-5,434,020.00
4. Others									
(IV) Internal carry-over within equity									
1. Transfer of capital reserve to capital									
2. Transfer of surplus reserve to capital									
3. Surplus reserve to cover losses									
4. Others									
(V) Others									
IV. Balance at the end of current period	3,869,070,700.00	3,487,237,785.96	40,862,401.08	808,084,287.96	1,382,038,921.28	119,083,532.24	9,706,377,628.52	823,977,203.15	10,530,354,831.67

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2020 (Expressed in RMB Yuan)

Item	For the six months ended 30 June 2019								
	Equity attributable to shareholders of parent company							Non-controlling interest	Total equity
	Share capital/ Paid-in capital	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained earnings	Subtotal		
I. Balance at the end of prior year	3,869,070,700.00	3,756,106,523.53	28,206,891.34	759,912,449.33	1,298,870,167.26	238,731,987.53	9,950,898,718.99	1,324,140,998.47	11,275,039,717.46
Add: Changes of accounting policies									
Error correction of early stage									
Others									
II. Balance at the beginning of current year	3,869,070,700.00	3,756,106,523.53	28,206,891.34	759,912,449.33	1,298,870,167.26	238,731,987.53	9,950,898,718.99	1,324,140,998.47	11,275,039,717.46
III. Current period increase (or less: decrease)			3,921,440.59			239,926,940.64	243,848,381.23	29,113,266.42	272,961,647.65
(I) Total comprehensive income			3,921,440.59			239,926,940.64	243,848,381.23	43,720,278.62	287,568,659.85
(II) Capital contributed or withdrawn by owners									
1. Capital contributed by owners									
2. Capital contributed by holders of other equity instruments									
3. Amount of share-based payment included in equity									
4. Others									
(III) Profit distribution								-14,607,012.20	-14,607,012.20
1. Appropriation to surplus reserve									
2. Appropriation to general risk reserve									
3. Cash dividend recognized as distribution								-14,607,012.20	-14,607,012.20
4. Others									
(IV) Internal carry-over within equity									
1. Transfer of capital reserve to capital									
2. Transfer of surplus reserve to capital									
3. Surplus reserve to cover losses									
4. Others									
(V) Others									
IV. Balance at the end of current period	3,869,070,700.00	3,756,106,523.53	32,128,331.93	759,912,449.33	1,298,870,167.26	478,658,928.17	10,194,747,100.22	1,353,254,264.89	11,548,001,365.11

COMPANY STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2020 (Expressed in RMB Yuan)

Item	For the six months ended 30 June 2020						
	Share capital/ Paid-in capital	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained earnings	Total equity
I. Balance at the end of prior year	3,869,070,700.00	3,762,844,544.48	5,435,762.48	808,084,287.96	1,315,470,752.11	170,879,423.10	9,931,785,470.13
Add: Changes of accounting policies							
Error correction of early stage							
Others							
II. Balance at the beginning of current year	3,869,070,700.00	3,762,844,544.48	5,435,762.48	808,084,287.96	1,315,470,752.11	170,879,423.10	9,931,785,470.13
III. Current period increase (or less: decrease)			-829,099.84			113,668,103.48	112,839,003.64
(I) Total comprehensive income			-829,099.84			113,668,103.48	112,839,003.64
(II) Capital contributed or withdrawn by owners							
1. Capital contributed by owners							
2. Capital contributed by holders of other equity instruments							
3. Amount of share-based payment included in equity							
4. Others							
(III) Profit distribution							
1. Appropriation to surplus reserve							
2. Appropriation to general risk reserve							
3. Cash dividend recognized as distribution							
4. Others							
(III) Profit distribution							
1. Appropriation to surplus reserve							
2. Appropriation to general risk reserve							
3. Cash dividend recognized as distribution							
4. Others							
(IV) Others							
IV. Balance at the end of current period	3,869,070,700.00	3,762,844,544.48	4,606,662.64	808,084,287.96	1,315,470,752.11	284,547,526.58	10,044,624,473.77

COMPANY STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2020 (Expressed in RMB Yuan)

Item	For the six months ended 30 June 2019						
	Share capital/Paid-in capital	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained earnings	Total equity
I. Balance at the end of prior year	3,869,070,700.00	3,781,398,714.65	3,174,302.76	759,912,449.33	1,248,030,178.03	42,727,658.94	9,704,314,003.71
Add: Changes of accounting policies							
Error correction of early stage							
Others							
II. Balance at the beginning of current year	3,869,070,700.00	3,781,398,714.65	3,174,302.76	759,912,449.33	1,248,030,178.03	42,727,658.94	9,704,314,003.71
III. Current period increase (or less: decrease)			1,356,500.97			145,425,178.56	146,781,679.53
(I) Total comprehensive income			1,356,500.97			145,425,178.56	146,781,679.53
(II) Capital contributed or withdrawn by owners							
1. Capital contributed by owners							
2. Capital contributed by holders of other equity instruments							
3. Amount of share-based payment included in equity							
4. Others							
(III) Profit distribution							
1. Appropriation to surplus reserve							
2. Appropriation to general risk reserve							
3. Cash dividend recognized as distribution							
4. Others							
(IV) Internal carry-over within equity							
1. Transfer of capital reserve to capital							
2. Transfer of surplus reserve to capital							
3. Surplus reserve to cover losses							
4. Others							
(V) Others							
IV. Balance at the end of current period	3,869,070,700.00	3,781,398,714.65	4,530,803.73	759,912,449.33	1,248,030,178.03	188,152,837.50	9,851,095,683.24

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

I. COMPANY PROFILE

CENTRAL CHINA SECURITIES CO., LTD. (English abbreviation of the Company: CCSC) according to CSRC's Reply Concerning Approval of Opening of Central China Securities Co., Ltd. (Zheng Jian Ji Gou Zi [2002] No. 326), and Henan Provincial People's Government's reply of Approving to Central China Securities Co., Ltd. (Yu Gu Pi Zi [2002] No. 31), Henan Finance Securities Company Limited, and the Securities branch of Anyang Trust & Investment Company Limited merged and reorganised into one, which later joined other qualified companies to form Central China Securities Co., Ltd. after increase in capital and share. The Company was registered with Henan Administration for Industry & Commerce on 8 November 2002 with a registered capital of RMB1,033,790,000.00. The structure of registered capital are as follow:

Company	Registered Capital (in RMB)	Rate of Registered Capital (%)
Xuji Group Co., Ltd.	420,000,000.00	40.627
Henan Economic and Technological Development Company	363,618,400.00	35.173
Henan Construction Investment Corporation	100,000,000.00	9.673
Anyang Iron & Steel Group Co., Ltd.	100,000,000.00	9.673
Anyang Economic Development Group Co., Ltd.	16,980,800.00	1.643
Anyang Trust & Investment Company Limited	10,522,500.00	1.018
Henan Shenhua Group Co., Ltd	10,000,000.00	0.967
Jiaozuo Economic and Technology Development Co., Ltd.	7,668,300.00	0.742
Hebi Construction & Investment Group Co., Ltd.	5,000,000.00	0.484

On 31 December 2002, according to CSRC's Reply Concerning Approval of Opening of Central China Securities Co., Ltd. (Zheng Jian Ji Gou Zi [2002] No. 326), and Henan Provincial People's Government's Letter of Adjusting the Structure of Central China Securities Co., Ltd. (Yu Zheng Han [2001] No. 66), CCSC signed the Securities Asset Acquisition Agreement with Henan Securities Co., Ltd. to acquire the securities assets from the headquarter, 19 operating offices, and 11 servicing offices.

In January 2003, the CCSC signed the "Securities Asset Acquisition Agreement" with City Finance Bureau of Zhumadian, City Finance Bureau of Mengzhou and City Finance Bureau of Xuchang to acquire Zhumadian National Debt Service Department and Mengzhou National Debt Service and Xuchang City National Debt Department.

On 4 January 2007, People's Government of Anyang issued the Reply Concerning Approval of Anyang Economic Development Group Co., Ltd. to make up for the CCSC's Capital insufficiency (An Zheng Wen [2007] No. 3), transferring the 1,052,250,000.00 RMB of shares of CCSC held by the Anyang Trust & Investment Company Limited to Anyang Economic & Development Group Co., Ltd.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

I. COMPANY PROFILE (CONTINUED)

In June 2008, according to the resolution of the Company's fifth general meeting of shareholders, with the approval of CSRC's Reply on Approval of Change of Registered Capital of Central China Securities Co., LTD. (Zhenjian Xuke [2008] No. 94), the registered capital of the Company increased by RMB999,725,700.00, among them: all the shareholders shall contribute RMB500,000,000.00 in currency, and the undistributed profits shall be converted into increased capital stock RMB499,725,700.00. On 10 June 2008, according to CSRC's Reply on Approval of Equity Alteration of Central China Securities Co., LTD. (Zhenjian Xuke [2008] No. 781), Henan Investment Group was approved by the CSRC to receive 196,704,200 shares of the Company (accounting for 9.673% of the registered capital) held by Henan Construction Investment Corporation and 715,253,600.00 shares of the Company (accounting for 35.173% of the registered capital) held by Henan Economic and Technology Development Co., Ltd., the Company's registered capital changed from RMB1,033,790,000.00 to RMB2,033,515,700.00. The capital increase was verified by Zhongrui Yuehua Certified Public Accountants on 16 June 2018 with Zhongrui Yuehua Yanzi [2008] No. 2141 capital verification report. The registered capital after the capital increase is as follows:

Company	Registered Capital (in RMB)	Rate of Registered Capital (%)
Henan Investment Group Co., Ltd.	911,957,800.00	44.846
Xuji Group Co., Ltd.	826,159,600.00	40.627
Anyang Iron & Steel Group Co., Ltd.	196,704,200.00	9.673
Anyang Economic Development Group Co., Ltd.	54,103,200.00	2.661
Henan Shenhua Group Co., Ltd.	19,668,900.00	0.967
Jiaozuo Economic and Technology Development Co., Ltd.	15,085,100.00	0.742
Hebi Construction & Investment Group Co., Ltd.	9,836,900.00	0.484

On 1 June 2011, according to the Henan Securities Regulatory Bureau of the China Securities Regulatory Commission, "No Objection Letter on the Approval of Zhongyuan Securities Co., Ltd. to Change the Shareholders Holding Less than 5%" (Yuzheng Jianhan [2011] No. 111), Jiangsu Province Silk Group Co., Ltd. (later renamed Jiangsu Soho Holding Group Co., Ltd.), Guangzhou Libai Investment Co., Ltd., Jiangsu Huiyou Sweater Co., Ltd., Shenzhen Guangsheng Investment Development Co., Ltd., Zhangjiagang Bonded Technology Co., Ltd., China Pingmei Shenma Energy Chemical Group Co., Ltd., Henan Jinlong Industrial Co., Ltd. and Shandong Global Fishing Tackle Co., Ltd. were transferred equity to Xu Ji Group Co., Ltd. for RMB30.00 million, RMB20.00 million, RMB10.00 million, RMB10.00 million, RMB83,159,600.00, RMB16.00 million and RMB15.00 million respectively.

On 26 September 2011, the CSRC approved that Bohai Industrial Investment Fund Management Co., Ltd. (on behalf of Bohai Industrial Investment Fund) was qualified to hold more than 5% of equity of Central China Securities Co., Ltd. (Zhengjian Xuke [2011] No. 1534) as a shareholder and to receive 608,000,000.00 shares of the Company held by Xuji Group Co., Ltd.

On 6 April 2012, According to Henan Branch of the China Securities Regulatory Commission's no objection letter of changing shareholders who hold less than 5% (Yu Zheng Jian Han [2012] No. 41), the RMB24,000,000.00 shares which Xuji Group Co., Ltd. hold transferred to Xuchang Splett Building Material Technology Co., Ltd.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

I. COMPANY PROFILE (CONTINUED)

On 22 April 2014, According to the China Securities Regulatory Commission's Reply Concerning of Central China Securities Co., Ltd. to issue shares overseas (CSRC License [2014] No. 438), CCSC were approved to issue no more than 598,100,000.00 overseas ordinary shares with par value of 1 RMB per share. On 24 June 2014, the Stock Exchange of Hong Kong Ltd. (Hong Kong Stock Exchange). issued approval to allow CCSC to trade publicly the main board. On 25 June 2014, shares issued overseas by the Company were listed on the main board of Hong Kong Stock Exchange (stock abbreviation: 中原证券; stock code: 1375. HK). After the Completion of the H-share issue, the registered capital increased to RMB2,631,615,700.00.

On 15 June 2015, the Company 2015 second extraordinary General Meeting of shareholders, the first meeting of shareholders of Domestic shares and the first Meeting of Shareholders of H-shares deliberated and approved the Proposal on the Additional Issuance of H-shares by Central China Securities Co., Ltd. and agreed that the Company would not issue more than 592,119,000.00 H-shares. On 21 July 2015, the Company received the China Securities Regulatory Commission's Reply on the Approval of The additional Issuance of Overseas Listed Foreign Capital shares by Central China Securities Co., LTD., which approved the additional issuance of no more than 592,119,000.00 H shares.

The non-public issuance of 592,119,000.00 H Shares to at least 6 shareholders was completed by the Company on 3 August 2015 with a par value of 1 RMB at an issue price of HK\$4.28 per H share. On 14 August 2015, The registered capital with the Henan Administration for Industry & Commerce, with the registered capital increased to RMB3,223,734,700.00.

On 18 November 2016, The third extraordinary General Meeting of shareholders, the second meeting of shareholders of Domestic shares and the second Meeting of Shareholders of H-shares of the Company in 2016 made the resolutions, On 25 November 2016, the Company was approved by the China Securities Regulatory Commission for the Initial Public Offering of Shares of Central China Securities Co., LTD. (Zhenjian Xuke [2016] No. 2868), the Company was approved to issue no more than 700.00 million denominated ordinary shares, with a par value of 1.00 RMB each, after which the Company's registered capital has increased to RMB3,923,734,700.00. The Company has actually issued 700.00 million ordinary shares with a par value of 1.00 RMB per share. After the issuance, the registered capital increased to RMB3,973,734,700.00. On 3 January 2017, the Company was listed on the Shanghai Stock Exchange. According to the Implementing Measures for the Transfer of Some State-owned Shares from the Domestic Securities Market to the National Social Security Fund (Cai Qi [2009] No. 94) issued by CSRC and the Reply Concerning Proposal for Management of State-owned Equities and Transfer of State-owned Shares in Relation to the Issuance of A Shares by Central China Securities Co., Ltd. (Yu Guo Zi Chan Quan [2015] No. 26) issued by the SASAC of Henan Province, of the 700,000,000 shares to be issued under this issuance, state-owned shareholders Henan Investment Group, Anyang Iron & Steel Group, Pingmei Shenma, Anyang Economic Development, Jiangsu SOHO Holdings, Shenhua Group, Jiaozuo Economic and Technology Development, Shenzhen Rising and Hebi Construction and Investment would transfer their 47,979,175.00 shares, 10,348,840.00 shares, 4,375,124.00 shares, 2,846,433.00 shares, 1,578,336.00 shares, 1,034,804.00 shares, 793,645.00 shares, 526,112.00 shares and 517,531.00 shares (70,000,000.00 shares in total), respectively, to National Council for Social Security Fund.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

I. COMPANY PROFILE (CONTINUED)

On 22 May 2017, 2016 annual general meeting of shareholders, the Company in 2017 for the first time in A class of stock shareholders and for the first time 2017 H shares category the shareholders' committee examined and approved the Central China Securities Co., LTD. About the Company H shares bought back through the exchanges of bill, the Company proposed by the court to buy back part H shares in the form of share buybacks. On 24 January 2018, the Company received the Response for Approving the change of Registered Capital of CCSC (CSRC License. [2018] No. 144), the registered capital of the approved company was changed from RMB3,923,734,700.00 to not less than RMB3,798,731,800.00. The Company repurchased certain H shares by means of on-market share buyback, which was completed on 18 May 2018. The Company has repurchased 54,664,000.00 H shares on a cumulative basis (accounting for 4.37% of the number of the shares and 1.39% of the capital stock, before the repurchasing). On 23 May 2018, the Company completed the share repurchase write-off. On 11 July 2018, the Company completed the registration of changes with the administrative department for industry and commerce and obtained the business licence reissued by the Henan Administration. The registered capital increased to RMB3,869,070,700.00.00.

On 11 June 2019, 2018 annual general meeting of shareholders, the Company in 2019 for the first time in A class of stock shareholders and for the first time 2019 H shares category the shareholders' committee examined and approved the non-public offering of shares related bills. On 10 June 2020, 2020 annual general meeting of shareholders, the Company in 2020 for the first time in A class of stock shareholders and for the first time 2020 H shares category the shareholders' committee examined and approved the relevant bills for adjusting non-public offering of A class of stock shares. On 1 July 2020, the Company was approved by the China Securities Regulatory Commission for the Non-Public Offering of Shares of Central China Securities Co., LTD. (Zhenjian Xuke [2020] No. 1190), the Company was approved to non-public issue no more than 773,814,000 new shares, this approval is valid for 12 months from the date of approval. The Company completed the non-public offering of A class of stock shares on 30 July 2020, the Company has actually issued 773,814,000 ordinary shares, after the issuance, the registered capital increased to RMB4,642,884,700.

Legal representative: Mingjun Jian Address: 10 Business Outer Ring Road, Zhengdong New District, Zhengzhou City, Henan Province, China.

The Company belongs to the financial industry and its business scope includes: Securities broking business, investment consulting, financial advisors related to securities trading and securities investment activities, securities underwriting and sponsorship; securities self-employment; securities asset management; securities investment fund agency sales; provide intermediate introduction service for futures companies; Intermediate introduction business; financing and securities lending business; consignment financial products business.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

I. COMPANY PROFILE (CONTINUED)

The basic organizational structure of the Company: the general meeting of shareholders is the Company's authority, the board of directors is the Company's decision-making body, the manager is the Company's executive body, the board of supervisors is the company's supervisory body, the board of Directors consists of the Development Strategy Committee, Remuneration and Nomination Committee, Risk Control Committee. And Audit Headquarters, Corporate Office, Strategic Development Department, Party Committee Work Department, Mass Work Department, Securities Discipline Inspection and Supervision Team in Company, Inspection Work Office, Human Resources Management Headquarters, Planning Finance Headquarters, Funds Operation Headquarters, Transaction Settlement Headquarters, Information Technology Headquarters, Risk Management Headquarters, Legal Affairs Headquarters, Compliance Management Headquarters, Brokerage Operations Management Headquarters, Retail Business Headquarters, Liangrong and Derivative Business Department, Network Finance Department, Market Making Business Headquarters, Securities Research Institute, Pledged Financing Department, Strategic Customer Department, Asset Custody Headquarters, Asset Management Headquarters, Financial Market Department, Logistics Service Center, Construction Project Office, Beijing Comprehensive Management Department, Financial Products Department, Securities Investment Headquarters, Fixed Income Investment, Capital Markets I, Capital Markets II, Zhengzhou Investment Bank Headquarters, Investment Bank Operations Management Headquarters, Corporate Department of Finance 1, Corporate Department of 2, Corporate Department of 3, Corporate Department of 4, Corporate Department of 5, Corporate Department of 6, Corporate Department of 7, Corporate Department of Finance 8 (International Business Department), Enterprise Finance Department 9, Enterprise Finance Department 10, Enterprise Finance Department 11, Bond and Structure Finance Department, Quality Control Headquarters, Finance Management Department, M & A Financing Department and other functional departments.

As of the end of the Reporting Period, the Company had 87 securities branches in 13 provinces and had 27 branch offices, autonomous regions and municipalities directly under the central government. The Company directly owned 5 domestic subsidiaries, including Central China Futures Co., Ltd. ("CCF"), Zhongding Kaiyuan Venture Capital Management Co., Ltd. ("ZDKY"), Central China International Financial Holdings Co., Ltd. ("CCIFHC"), Central China Blue Ocean Investment Management Co., Ltd. ("CCBO"), Central China Equity Exchange Co., Ltd. ("CCEEC"). The Company had 9 third level-holding subsidiaries, including Yuxin Investment Management (Shanghai) Co., Ltd. ("Yuxin Investment"), Henan Zhongzheng Kaiyuan Venture Capital Private Equity Fund Management Co., Ltd. ("ZZKY", formerly name: Zhongding Kaiyuan Venture Capital Management Co., Ltd.), Henan Central China Micro-lending Company Limited ("Central China Micro-lending Henan"), Central China International Holdings Co., Ltd. ("Central China International Holdings"), Central China International Investment Co., Ltd. ("Central China International Investment"), Central China International Securities Co., Ltd. ("Central China International Securities"), Central China International Futures Co., Ltd. ("Central China International Futures"), Central China International Financing Co., Ltd. ("Central China International Financing"), Wending Zhongyuan Company Limited. Central China International Financial Group Limited ("Central China International Financial Group") is forth level-holding subsidiaries of CCSC.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

II. THE RANGE OF CONSOLIDATED FINANCIAL STATEMENTS

The Company's Consolidated Financial Statements included directly or indirectly controlled subsidiaries and structured entities. For details, please refer to Note VIII of this report.

III. THE RULE OF ESTABLISHMENT

1. Preparation basis

On the basis of going concern, the Company's financial statements have adopted the Accounting Standards for Business Enterprises (ASBEs) and relevant provisions Issued by the Ministry of Finance and combined with actual transactions and events, China Securities Regulatory Commission rules for "The Preparation and Reporting of Corporate Information Disclosure of Public Securities No. 15 — General Provisions for Financial Statements", "Hong Kong Companies Ordinance and The Rules Governing the Listing on the Stock Exchange of Hong Kong Limited", the details of the Company's accounting policies and estimates can be found in "Note IV. Significant accounting policies and estimates".

2. Assessment of the ability to continue as a going concern

Based on the Company's profit of recent years and supportive financial resources, it is reasonable to prepare the financial statements based on going concern.

Since the Company listing, the Company has used the international Financial Reporting Standards to disclosure the financial statements in Hong Kong. According to the "Consultation Conclusions on Accepting Mainland Incorporated Companies Listed in Hong Kong to Adopt Mainland Accounting and Auditing Standards and Engaging Mainland Accounting Firms" published by the Hong Kong Stock Exchange in December 2010, starting from this year, the Company decided to prepare its financial statements in accordance with the "Accounting Standards for Business Enterprises" and related regulations ("Chinese Accounting Standards") promulgated by the Ministry of Finance of the People's Republic of China. The year ended 2019 (Note: the previous year) is used for the conversion of comparative financial information into Chinese Accounting Standards. The reconciliation and impact statement of the company's shareholders' equity and profits from IFRS to Chinese Accounting Standards can be found in supplementary information to the financial statements "3. The reconciliation and impact statement of the Company's shareholder's equity and profits from HK GAAP to Chinese Accounting Standards".

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Notice on the specific accounting policies and estimates: the Group formulated specific accounting policies and accounting estimates according to actual production and operation characteristics, including the clients' transaction settlement funds, financial instruments, securities underwriting business, entrusted investment management business, margin & short selling business, purchase resale and sell repurchase business, income recognition, etc.

1. Statement of compliance

The financial statements have been prepared in accordance with the requirements of China Accounting Standards for Business Enterprises (ASBEs), and present truly and completely the financial position as at 30 June 2020, results of operations and cash flows for the six months period ended of the Company and the Group.

2. Accounting period

The Company's accounting year starts on 1 January and ends on 31 December in Gregorian calendar.

3. Functional currency

The Company's functional currency is Renminbi (RMB).

4. Basis of accounting and pricing principles

The Company accounting is based on accrual basis. Except financial asset at fair value through profit or loss, bond investment, financial liabilities at fair value through profit or loss, etc. which are measured at fair value, are measured at historical cost.

5. Accounting for business combination

Assets and liabilities arising from business combination under common control are measured at carrying amount of the combined party included in the consolidated financial statements of the ultimate controlling party on the combination date. Difference between carrying amount of the equity of the combined party included in the consolidated financial statements of the ultimate controlling party and that of the combination consideration or total par value of shares issued is adjusted to capital reserve, if the balance of capital reserve is insufficient to offset, any excess is adjusted to retained earnings.

For business combination under non-common control, the identifiable assets acquired and the liabilities assumed are recognized at their fair value on the acquisition date. The combination cost is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree (the cost of the combination through multiple transactions is the sum of the cost of each transaction). When combination cost is in excess of the fair value of identifiable net assets obtained from the acquiree on the acquisition date, the excess is recognized as goodwill; otherwise, the fair value of identifiable assets, liabilities and contingent liabilities, and the measurement of the combination cost are reviewed, then the difference is recognized in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

6. Preparation method of consolidated financial statements

The scope of the Company's consolidated financial statements is consisted of the Company and its subsidiaries. Subsidiaries refer to the entities controlled by the Company, including companies, divisible part of the investees and structured entities under control, etc.

If the accounting policies or accounting periods of the subsidiaries are different from those of the Company, when preparing the consolidated financial statements, necessary adjustments to the financial statements of the subsidiaries based on its own accounting policies and accounting periods are made accordingly.

All significant intergroup accounts, transactions and unrealized profit between the Company and its subsidiaries are eliminated on consolidation. The portion of a subsidiary's net profit of the period, other comprehensive income and total comprehensive income that is not attributable to the parent is treated as minority interests and presented in the consolidated financial statement as "non-controlling interests, net profit attributable to non-controlling interests and total comprehensive income attributable to non-controlling interests".

For the subsidiary acquired under common control, its operating results and cash flow are incorporated into the consolidated financial statements at the beginning of the period. When compiling the comparable consolidated financial statements, the related items of the financial statements of the previous year are adjusted, as the reporting entity formed after the combination have existed since the ultimate controlling party began to control.

For the subsidiary acquired under non-common control, the operating results and cash flows are incorporated into the consolidated financial statements from the date of the Company's control. In the preparation of consolidated financial statements, the financial statements of subsidiaries are adjusted on the basis of the fair value of identifiable assets, liabilities and contingent liabilities established on the date of purchase.

When preparing the consolidated financial statements that the Company partially disposes its subsidiaries without loss of control, the capital premium or the equity premium should be adjusted in accordance with the difference between the disposal consideration and the constant calculated share on net assets from the purchase date or the combination date of the disposed long-term equity investment. If the capital accumulation is insufficient, retained earnings should be adjusted.

When preparing the consolidated financial statements that the Company loses its control over the investors because of the disposal of some equity investment, the residual equity is re-measured in accordance with its fair value on the day of loss of control rights. The difference between the sum of the fair value of the right and residual equity and the constant calculated share on net assets from the purchase date or the combination date of the disposed long-term equity investment is recognized as profit and loss in the period of loss of control, while the goodwill is reduced at the same time. Other comprehensive income related to the equity investment of the original subsidiary is converted to the current investment profit and loss in the period of loss of control.

When the Company disposes of its subsidiaries until the loss of control through multiple transactions, if the multiple transactions of disposal belong to the package of transactions, the transactions should be treated as one transaction of disposal a subsidiary. The difference in the share of the net assets of each disposal price prior to the disposal of the investment, before loss of control, is recognized as other comprehensive income in the consolidated financial statements, and the loss of control is transferred to the investment gains and losses in the current period of loss of control.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

7. Confirmation standard of cash and cash equivalents

Cash as presented in cash flow statement refers to cash on hand and demand deposits. Cash equivalents refer to short-term, highly liquid investments that are readily convertible into known amounts and which are subject to an insignificant risk of changes in value.

8. Foreign currency transaction and foreign currency statement translation

Transactions denominated in foreign currency are translated into RMB at the spot exchange rate on the transaction date at initial recognition. On the balance sheet date, monetary items denominated in foreign currency are translated at the spot exchange rate on the balance sheet date with difference, except for those arising from the principal and interest of exclusive borrowings eligible for capitalization, included in the profits or losses; non-cash items carried at historical costs are translated at the spot exchange rate on the transaction date, with its RMB amount unchanged; non-cash items carried at fair value in foreign currency are translated at the spot exchange rate on the date when the fair value was determined, with difference included in the profits or losses or other comprehensive income.

9. Financial assets and financial liabilities

Financial instruments refer to contracts that form the financial assets of an enterprise and form financial liabilities or equity instruments of other units.

(1) Initial recognition and measurement of financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument. At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus any variance in the case of the fair value of a financial asset or financial liability changes in the future. Related transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability are recognized as profit and loss. Related transaction costs of other financial assets and financial liabilities are included in the initial recognized value.

(2) Classification of financial assets

Based on the Group's business model for managing the assets and the characteristics of the contractual cash flows of the asset, financial assets are classified as the following three categories:

- (i) Amortized cost assets;
- (ii) Financial assets at fair value through other comprehensive income;
- (iii) Financial assets at fair value through profit or loss.

The classification of financial assets depends on the business model of how the Company manage its assets and the characteristics of the cash flow of the assets.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

9. Financial assets and financial liabilities (continued)

(2) Classification of financial assets (continued)

Business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets, cash flows arising from the sale of assets, or both. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed, and how managers are compensated.

The cash flow characteristics of the financial instrument contract represents the cash flow characteristics that the financial instrument contracts agree and reflects the economic characteristics of related financial assets. The characteristic of contractual cash flow that is consistent with basic lending agreement means the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The principal means the fair value at the initial recognition, where the interest means the assessments of time value of money, credit risk, and other basic leading risks and a profit margin that is consistent with a basic lending arrangement. The characteristic of the contractual cash flow of the Company's financial assets that are amortized over the contractual period and the financial assets measured at fair value with the variance reflected in other comprehensive income or loss matches the basic lending agreement.

When the Company modifies its business model on managing financial assets, it will reclassify all the impacted financial assets and make adjustment prospectively starting from the date of reclassification. The Company is not allowed to adjust its gains, losses, or interests retroactively. The reclassification date is the first date of the reporting period after the business model is modified as a result of the reclassification of financial assets.

The classification requirements for debt instruments assets and equity instruments assets are described as below:

① Debt Instruments

It means that from the issuer's perspective, the instrument that meets the definition of financial debt. Based on business model for managing the assets and the characteristics of the contractual cash flows of the asset, the Group classifies its debt instruments into one of the following three measurement categories:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent SPPI and that are not designated as at FVPL, are measured at amortised cost.

Fair value through other comprehensive income: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI and that are not designated as at FVPL, are measured at FVOCI.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

9. Financial assets and financial liabilities (continued)

(2) Classification of financial assets (continued)

① *Debt Instruments* (continued)

Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL.

The Group may also irrevocably designate financial assets at fair value through profit or loss if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.

② *Equity instruments*

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; The financial assets held by the Company are equity instruments provided that the following conditions are met simultaneously:

- (a) contractual obligation to pay or exchange financial assets or liabilities with other parties under potentially adverse conditions;
- (b) In the future, the financial instruments must be settled with the issuer's own equity instruments. If it is a non-derivative instrument, the financial instrument should not include the contractual obligation to deliver a variable amount of its own equity instruments for settlement; if it is a derivative instrument, the issuer can only exchange a fixed amount of its own equity instrument for a fixed amount cash or other financial assets.

The Company's equity instrument investment are all classified as financial assets measured at fair value and their changes are included in profit or loss, except for management financial assets that have been irrevocably designated as measured by fair value and the changes which included in other comprehensive income. The Company's policy on the above-mentioned designation is to designate equity instrument investments that are not for the purpose of obtaining investment income to be measured at fair value and their changes are included in other comprehensive income.

For financial assets with embedded derivatives, when determining whether the contractual cash flow is only for principal and interest payments, analyze it as a whole.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

9. Financial assets and financial liabilities (continued)

(3) Classification of financial liabilities

Financial liabilities are classified as and subsequently measured at amortised cost, except:

- (i) financial liabilities at FVPL: It includes financial liabilities held for trading (including derivative instruments belonging to financial liabilities) and financial liabilities designated at the initial recognition as measured at fair value and whose changes are recorded into profit and loss.
- (ii) financial liabilities are recognized because the financial assets transfer does not meet the derecognition condition. When the financial assets transfer does not meet the derecognition condition, the Company, the Company recognizes financial liabilities based on the consideration received from the transfer, and recognizes all expenses incurred due to the liabilities in subsequent period.
- (iii) financial guarantee contract and loan commitment.

(4) Subsequent measurement of financial instruments

① Amortised cost

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition: (i) minus the principal repayments; (ii) plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and; (iii) for financial assets, adjusted for any loss allowance. (applies only to financial assets)

The actual interest rate refers to the interest rate used to discount the estimated future cash flow of a financial asset or financial liability in the expected duration into the book balance of the financial asset or the amortized cost of the financial liability. In determining the actual interest rate, the Company will estimate the expected cash flow on the basis of taking into account all contractual terms of a financial asset or financial liability (such as prepayments, rollover, call options or other similar options, etc.), but it shall not take into account expected credit losses.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for: (i) POCI financial assets, whose interest income is calculated, since initial recognition, by applying the credit-adjusted effective interest rate to their amortised cost; and (ii) financial assets that are not POCI but have subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss allowance). If, in a subsequent period, the financial assets improve their qualities so that they are no longer credit-impaired and the improvement in credit quality is related objectively to a certain event occurring after the application of the above-mentioned rules, then the interest income is calculated by applying the effective interest rate to their gross carrying amount.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

9. Financial assets and financial liabilities (continued)

(4) Subsequent measurement of financial instruments (continued)

② Fair value through other comprehensive income

Debt instruments: It is classified as the gain or loss of financial assets measured at fair value and included in other comprehensive income due to its changes. Except impairment loss or gain and exchange gain, it will be included in other comprehensive income until the financial asset is terminated for recognition or reclassified. But the interest income of instrument which are calculated by effective interest rate are taken through profit or loss. When the financial asset are derecognized, the cumulative profit or loss transferred from other comprehensive income to the current profit and loss.

Equity instruments: The equity instrument investments that are held for purposes other than to generate investment returns are designated as FVOCI. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognized in profit or loss when the Group's right to receive payments is established, and it is probable that future economic benefits associated with the item will flow to the Group, and the amounts of the dividends can be measured reliably.

③ Fair value through profit or loss

Movements in the carrying amount are taken through profit or loss, except: (i) it is part of the hedging relationship specified in "China Accounting Standards for Business Enterprises No. 24 — Hedging Accounting"; (ii) according to the article 68 of "China Accounting Standards for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments", the changing of fair value should be taken through other comprehensive income, which caused by changes in company's credit risk. When the financial liabilities are derecognized, the cumulative profit or loss transferred from other comprehensive income to the current profit and loss.

(5) Impairment of financial assets

The Company According to the basis of expected credit losses, perform impairment accounting treatment on the following financial assets and recognize loss provisions:

- (i) Financial assets measured at amortized cost and debt investment measured at fair value with changes recognized in other comprehensive income;
- (ii) lease receivables;
- (iii) contract assets;
- (iv) financial guarantee contracts and loan commitment except financial liabilities at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

9. Financial assets and financial liabilities (continued)

(5) Impairment of financial assets (continued)

ECL is the weighted average of credit losses with the respective risks of a default occurring as the weights. Credit loss is 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 (i.e. all cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets).

The Company combines forward-looking information to assess expected credit losses and to recognize the associated loss provisions at each balance sheet date. The measurement of expected credit losses reflects the following elements: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

For financial instruments whose impairment losses are measured using the ECL model, the Group assesses whether their credit risk has increased significantly since their initial recognition, and applies a three-stage impairment model to calculate their impairment allowance and recognize their ECL, as follows:

- Stage 1: The Group measures the loss allowance for a financial instrument at an amount equal to the next 12 months ECL if the credit risk of that financial instrument has not increased significantly since initial recognition.
- Stage 2: The Group measures the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk of that financial instrument has increased significantly since initial recognition, but is not yet deemed to be credit-impaired.
- Stage 3: The Group measures the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the financial instrument is credit-impaired.

By comparing the risk of default on the balance sheet date with the risk of default on the initial recognition date, the Company determines the relative change of the risk of default during the expected duration of the financial instrument, so as to evaluate whether the credit risk of the financial instrument has increased significantly since the initial recognition. In determining whether the credit risk has increased significantly since the initial recognition, the Company considers reasonable and evidence-based information, including forward-looking information, that can be obtained without unnecessary additional cost or effort. Information considered by the Company includes:

- F-A serious deterioration in the external or internal credit rating (if any) of a financial instrument that has occurred or is expected;
- A serious deterioration of the debtor's business results that has occurred or is expected;
- Changes in the existing or anticipated technical, market, economic or legal environment that would materially and adversely affect the debtor's ability to repay the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

9. Financial assets and financial liabilities (continued)

(5) Impairment of financial assets (continued)

According to the nature of financial instruments, the Company evaluates whether the credit risk increases significantly based on a single financial instrument or a combination of financial instruments. When evaluating on the basis of a portfolio of financial instruments, the Company may classify financial instruments based on common credit risk characteristics, such as overdue information and credit risk ratings. If overdue by more than 30 days, the Company determines that the credit risk of the financial instrument has significantly increased.

On the balance sheet date, the Company evaluates whether the financial assets measured at the amortized cost and the debt investments measured at the fair value and whose changes are included in other comprehensive income have incurred credit impairment. When one or more events that adversely affect the expected future cash flow of a financial asset occur, the financial asset becomes a financial asset that has experienced credit impairment. Evidence of credit impairment of a financial asset includes the following observable information:

- Major financial difficulties occur to the issuer or the debtor;
- Breach of contract by the debtor, such as default or late payment of interest or principal;
- The Company, out of economic or contractual considerations relating to the debtor's financial difficulties, gives the debtor concessions that would not be made under any other circumstances;
- The debtor is likely to go bankrupt or undergo other financial restructuring;
- Financial difficulties of the issuer or debtor lead to the disappearance of an active market for the financial asset.

An investment in a debt instrument measured at fair value and its change recorded in other comprehensive income shall recognize its loss provision in other comprehensive income and record impairment loss or gain into current profit and loss, and shall not reduce the book value of the financial asset listed in the balance sheet.

In the previous accounting period is according to the equivalent of financial instruments expectations throughout the duration of the amount of credit losses measuring the loss, but in the current balance sheet date, the financial instruments are no longer belongs to the credit risk increased significantly after initial recognition, the Company in the balance sheet date according to the current equal to the sum of the expected over the next 12 months credit loss measurement of the cost of this financial tool, the resulting loss to return amount as penalty gains recorded into the profits and losses.

For the financial assets purchased or derived from which credit impairment has occurred, the Company shall, at the balance sheet date, recognize only the accumulated changes in the expected credit losses over the entire period since the initial recognition as provisions for losses. At each balance sheet date, the Company records the changes in expected credit losses throughout the period as impairment losses or gains in the current profit and loss.

The Company's judgment criteria for increase in credit risk, the definition of credit impairment assets which have occurred, and assumptions of ECL. For details, please refer to Note X.2.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

9. Financial assets and financial liabilities (continued)

(6) Derecognition of Financial Instruments

A financial asset is derecognized, when one of the following criteria is satisfied: (i) the rights to receive cash flows from the assets have expired; (ii) the Group has transferred substantially all the risks and rewards of ownership of the financial asset; (iii) the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has not retained control.

The Company has neither transferred nor retained almost all the risk and rewards and the Company has not given up control of the financial assets, the relevant financial assets shall be recognized according to the extent of their continued involvement in the transferred financial assets, and the relevant liabilities should be recognized accordingly.

If the overall transfer of financial assets meets the conditions for the termination of recognition, the balance between the book value of the transferred financial assets, the sum of the consideration received as a result of the transfer and the cumulative amount of the change in fair value originally booked into other comprehensive income shall be booked into the current profit and loss.

The transfer of a financial asset part meet the recognition criteria of termination, will be the entire book value of the transferred financial asset, between the parts and not terminate qualification recognition has been stopped, apportion them according to their relative fair value, and will be received by transfer of value and share to terminate identified previously included in the other part of the sum of the changes in fair value of the accumulative amount of comprehensive income, and apportion the carrying amount of the balance into the profits and losses of the current period.

(7) Fair value of financial instruments

If there is an active market for a financial instrument, the quoted market price in the active market is used to determine its fair value. In an active market, the financial assets that the Company has held or the financial liabilities to be assumed take the fair value of the corresponding assets or liabilities at the current bid price; The fair value of the liability. If there are no current bids and asking prices for financial assets or financial liabilities, but there has been no significant change in the economic environment after the latest trading date, the market price of the latest transaction is used to determine the fair value of the financial asset or financial liability. When the economic environment has changed significantly since the latest trading day, the current price or interest rate of similar financial assets or financial liabilities shall be referenced to adjust the market price of the latest transaction to determine the fair value of the financial asset or financial liability. The Company has sufficient evidence to show that the recently quoted market quotation is not fair value, and make appropriate adjustments to the recently traded market quotation to determine the fair value of the financial asset or financial liability.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

9. Financial assets and financial liabilities (continued)

(7) Fair value of financial instruments (continued)

The fair values of quoted financial assets and financial liabilities in active markets are based on current bid prices and ask prices, as appropriate. If there is no active market, the Group establishes fair value by using valuation techniques. The valuation techniques include reference to prices used in recent market transactions by parties who are familiar with the situation and voluntary transactions, refer to the current fair value of other financial assets that are substantially the same, discounted cash flow method and option pricing models.

10. Margin trading & short selling business

Margin trading & short selling business refers to the business activities, in which the Group lends funds to clients for buying securities or lends securities to them for sale and the corresponding collaterals are provided by clients. The Group's margin trading & short selling activity is divided into financing activity and securities lending activity.

As for the funds lent, the receivable claim and the corresponding interest income should be confirmed.

As for securities lending activity, the securities lent are not derecognized in accordance and the corresponding interest income is recognized.

When the Company carries out margin trading & short selling and buys and sells securities on behalf of clients, such activity is credited as securities brokerage activity.

11. Asset management business

Client transaction settlement funds are accounted separately from the Company's own funds, and a separate account is set up for accounting in "monetary funds" and other projects. The Company's client transaction settlement funds received by the Company's agent trading in securities are fully deposited in the Company's designated bank account, and Recognized as a liability and settled with the customer. The Company accepts the client's entrustment to buy and sell securities through the stock exchange agent. When clearing with the customer, if the total transaction value of the purchased securities is greater than the total transaction value of the sold securities, the difference between the transaction price of the securities purchased and sold on the liquidation date, plus withholding stamp tax and the customer The commissions and other fees charged reduce the client's transaction settlement funds; if the total transaction value of the purchased securities is less than the total transaction value of the sold securities, the difference between the transaction price of the securities purchased and sold on the liquidation date, the reduction of withholding stamp taxes and commissions that should be charged to the client, etc. Handling fees increase customer transaction settlement funds. The commission fee income of the Company acting as a proxy for the purchase and sale of securities of the client shall be recognized when the liquidation of the above-mentioned purchase and sale of securities is settled with the client. The Company settles interest uniformly with customers and increases customer transaction settlement funds.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

12. Accounting method for purchasing under resale agreement and selling under repurchase agreement

Purchasing under resale agreement transaction refers to the purchase of related assets (including bonds and notes) from counterparties at a fixed price under a contract or agreement, and the resale of the same financial products at agreed prices on the expiration date of the contract or agreement. The payments actually paid for buying back of relevant assets are recorded and are listed under the item "Financial assets held under agreement" of the balance sheet.

Selling under repurchase agreement transaction refers to the sale of related assets (including bonds and notes) to counterparties at a fixed price under a contract or agreement, and the repurchase of the same financial products at agreed prices on the expiration date of the contract or agreement. The payments actually paid for selling and repurchasing of relevant assets are recorded and are listed under the item "Financial assets sold under repurchase agreement" of the balance sheet. The financial products sold are still listed in the Group's balance sheet according to the original classification and are accounted for in accordance with the relevant accounting policies.

Interest income and expenses arising from purchasing under resale agreement and selling under repurchase agreement transactions are recognized at the effective interest rate during the buying back or selling for repurchase. If the difference between the actual interest rate and the agreed contractual interest rate is small, interest income and expenses are calculated according to the contractual interest rate.

The Company's stock pledged repurchase business consider the credit status, the duration of contract and the liquidity of the secured securities, restricted sales, concentration, volatility, performance guarantee and other factors to set up different warning line and closing positions. The closing position is not less than 130%.

- (1) Stage 1: the stock pledged repurchase business that maintains a guarantee ratio greater than the closing position and is not overdue;
- (2) Stage 2: the stock pledged repurchase business that maintains a guarantee ratio greater than 100% and less than or equal to the closing position, or the principal and interest are overdue, less than 90 days;
- (3) Stage 3: the stock pledged repurchase business that maintains a guarantee ratio greater than 100% and less than or equal to the closing position, or the principal and interest are overdue, more than 90 days.

For the financial assets which are mentioned before in stage1 and stage 2, the Company uses the risk parameter mode method, including key parameters such as default probability, default loss rate and credit risk exposure to evaluate the impairment reserve; for the financial assets in stage 3, the management has considered the forward looking factors and made corresponding impairment provision by estimating the future cash flow relating to the financial asset. The main factors considered by the Company by the Company in calculating the defaults loss rate are: the market value of the collateral, the liquidity and the disposal cycle, the credit status of the financier and the repayment ability. etc.

For details of "Provision for impairment of other financial assets purchased under resale agreement", please refer to Notes IV(9).

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

13. Long-term equity investment

Long-term equity investment of the Group includes subsidiaries, associates and joint ventures.

The Group identified a joint control, if it is jointly held according the relevant agreement and the arrangement-related activities must be consented by the participants who share the control right to make decisions.

When the Group directly or indirectly owns the voting rights of an investee of more than 20% (inclusive) and less than 50%, it is generally considered to have a significant impact on the investee. When the Group hold the voting right of an investee for less than 20%, the identification of significant impact should be make based on comprehensive consideration of multiple factors: whether the Group have the right to nominate a representative in the board or similar authority of the investee; whether the Group participate in the investee's process of shaping its financial and business policy; whether there is important transactions between the Group and the investee; whether the Group has the right to accredit managers to the investee; or whether the Group provides key technical information to the investee.

If invested entity can controlled by company, it is a subsidiary of the Company. For long-term equity investment acquired through a combination under common control, the carrying amount of the acquiree's net asset in the ultimate controller's consolidated financial statement on the combination date is used as its initial investment cost. If the book value of the acquiree's net asset on the combination date is negative, the cost is 0. For long-term equity investment acquired through a combination under non-common control, the fair value of the consideration paid on the purchasing date is used as the initial investment cost.

If the investment is formed the approach other than the business combination: in the case of the cash, the actual purchase price is used as the initial investment cost; in the case of the issued equity securities, the fair value of the issued equity securities is used as the initial investment costs; in the case of the long-term equity investment invested by investors, the value stipulated in the investment contract or agreement is used as the initial investment costs.

The long-term equity investment in the investee is calculated by the cost method. The long-term equity investment in associates and joint ventures is calculated by using the equity method.

Under the cost method, the book value is adjusted according to the cost of additional investment and its related transaction fees. The cash dividend or profit declared by the investee is recognized in investment income in accordance with the share of the Group.

Under the equity method, investment gain or loss represents the Company's share of the net profits or losses made by the investee for the current period. The Group will recognize its share of the investee's net profits or losses based on the fair values of the investee's individual separately identifiable assets on the date of acquisition, after making appropriate adjustments thereto in conformity with the accounting policies and accounting periods of the Group. The unrealized gain or loss from internal transactions entered into between the Group and its associated companies and joint ventures is offset according to the shareholding attributable to the Group and accounted for as investment income and loss based on such basis.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

13. Long-term equity investment (continued)

For disposal of a long-term equity investment, the difference between the carrying value and the consideration actually received is recognized as investment income for the period. For long-term investments accounted for under the equity method, the movements of shareholder's equity, other than the net profit or loss, of the investee company, previously recorded in the shareholder's equity of the Group are transferred into profit and loss on investment for the period on disposal.

Where the Group has no longer joint control or significant influence in the investee company as a result of reduction of the investment, the residual of the investment will be recognized as available-for-sale financial assets. The difference between the fair value and the book value of the residual equity in the day of losing joint control or significant impact is recognized in profit and loss for the current period. The other comprehensive income recognized for the original investment using equity method is treated on the same basis for accounting treatment with the assets or liabilities of the investee directly disposed in the period of terminate using equity method.

Where Group has no longer control but remain joint control or significant influence over the investee company as results from such as partially disposal of the investment, the investment will be changed to be accounted for using equity method. The difference between the book value of the disposed part of the equity and the consideration of disposal is recognized in the investment income, and the residual of the equity is treated as using the equity method from acquisition. Where Group remains neither joint control nor significant influence over the investee as results from such as partially disposal of the investment, the residual shares will be treated as available-for-sale financial assets. The difference between the book value of the disposed part of the equity and the consideration of disposal is recognized in the investment income. The difference between the fair value and the book value of the residual equity is recognized in the profit and loss in current period.

If the multiple transactions of disposal the investee that lead to the Group to lose control over the investee do not belong to a package transaction, each transaction shall be separately accounted. In the case of a "package deal", the transactions are treated as one transaction of disposal and losing control of a subsidiary. However, before losing control, the difference between the consideration and the book value of the disposed part of equity is recognized in other comprehensive income and it will be transferred to current profit or loss collectively after losing control.

14. Investment property

Investment property includes buildings that have been leased out.

Investment property is initially measured at its cost, which includes expenditure that is directly attributable to the acquisition of the assets. The cost of the purchased investment real estate includes the purchase price, relevant taxes and fees and other expenses directly attributable to the asset; The cost of self-construction of an investment real estate consists of the necessary expenses incurred before the construction of the asset reaches its intended serviceable state.

Subsequent to initial recognition, the Group adopts the cost model to account for its investment properties. According to its expected service life and net salvage value rate to use the average life method of depreciation or amortization.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

14. Investment property (continued)

The estimated useful lives, depreciation rate and estimated residual value rate of investment properties are as follows:

Type of assets	Estimated useful lives (years)	Estimated residual values (%)	Yearly depreciation (%)
Building	40.00	5.00	2.38

When the use purpose of investment property is changed for self-use, the investment property will be converted into fixed assets or intangible assets from the date of change. When the use purpose of self-use property is changed to earn rent or capital appreciation, the fixed assets or intangible assets will be converted into investment property from the date of change. When conversion occurs, the book value before conversion is converted into account value.

When an investment property is disposed of, or is permanently withdrawn from use and is not expected to obtain economic benefits from its disposal, the investment property shall be terminated. The amount of the disposal income of the investment property sold, transferred, scrapped or damaged shall be included in the current profits and losses after deducting the book value and relevant taxes and fees.

15. Fixed assets

Fixed assets are tangible assets held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and expected to be used during more than one accounting year with more than RMB2,000.

Fixed assets include premises used for business purposes, buildings, machinery and equipment, power equipment, transportation equipment, electronic equipment, communications equipment, electrical equipment, safety and defense equipment, and office equipment. The cost at the time of acquisition is regarded as the value recorded. Among them, the cost of outsourcing fixed assets includes the purchase price and import duties and other related taxes and fees, as well as the assets that can be directly attributed to the asset before it reaches the intended usable state. Other expenditures; the cost of self-built fixed assets is composed of the necessary expenditures incurred before the construction of the asset reaches the intended usable state; the fixed assets invested by investors are recorded as the value of the investment contract or agreement, but the contract or if the agreement stipulates that the value is not fair, it shall be accounted at fair value.

If the subsequent expenditures related to fixed assets, including repair expenditures and renovation expenditures, meet the conditions for the recognition of fixed assets, they shall be included in the cost of fixed assets, and the book value of the replaced part shall be terminated. If the fixed assets fail to meet the conditions for recognition, they shall be recorded into the current profits and losses when they occur.

The Company shall make depreciation for all the fixed assets except the fixed assets which have been fully depreciated but are still in use and the land which is separately priced and recorded. Depreciation is calculated using the life average method, and according to the use of the cost of the relevant assets or current expenses.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

15. Fixed assets (continued)

The estimated useful lives, residual value proportions and the annual depreciation rates of fixed assets by categories are as follows:

Categories	Estimated useful lives (years)	Estimated residual values (%)	yearly depreciation (%)
Business buildings	40.00	5.00	2.38
Non-business buildings	35.00	5.00	2.71
Makeshift house	5.00	5.00	19.00
Structures	20.00	5.00	4.75
Machinery equipment	10.00	5.00	9.50
Power equipment	15.00	5.00	6.33
Communication equipment	5.00	5.00	19.00
Electronic equipment	5.00	5.00	19.00
Electrical equipment	5.00	5.00	19.00
Security equipment	5.00	5.00	19.00
Office facilities	5.00	5.00	19.00
Other transport facilities	8.00	5.00	11.88

At the end of each year, the Company shall review the expected Useful life, Residual value proportion and depreciation method of the fixed assets. If there is any change, it will be treated as accounting estimate change.

Property and equipment are de-recognised on disposal or when no future economic benefits are expected from their use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of property and equipment net of their carrying amounts and related taxes and expenses is recognised in the current profits and losses.

16. Construction in progress

Construction in progress is measured at actual cost. Self-operated construction projects are measured by direct materials, direct wages, direct construction fees, etc. and outsourced construction projects are measured by the project price payable; etc. and equipment installation projects are based on the value of the installed equipment, installation costs, and project trial operation Expenditure, etc. determine the project cost. The cost of construction in progress also includes borrowing costs that should be capitalized and exchange gains and losses.

Depreciation will be calculated from next month. The original value difference of fixed assets shall be adjusted after completion of final settlement procedures.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

17. Borrowing costs

Borrowing cost include borrowing interest, amortization of discounts or premiums, auxiliary expenses and the difference caused by borrowing with foreign currency, etc. Where the borrowing costs incurred to the Group can be directly attributable to the acquisition and construction or production of assets eligible for capitalization, the asset disbursements have already incurred; the borrowing costs have already incurred; and the acquisition and construction or production activities which are necessary to prepare the asset for its intended use or sale have already started, it is capitalized and included in the costs of relevant assets. When the qualified asset under acquisition and construction or production is ready for the intended use or sale, the capitalization of the borrowing costs is ceased. Other borrowing costs are recognized as expenses on the basis of the actual amount incurred, and are included in the profits or losses.

Interest expenses of special borrowings actually incurred in the current period, capitalized shall be recognized by deducting the interest income of the borrowings that have not yet been used and deposited in the bank, or the income obtained from the temporary investment. Where the general borrowing is used for the acquisition, construction or production of the assets eligible for capitalization, the amount of interest that should be capitalized shall be recognized, by multiplying weighted average of the excess capital expenditures over the special borrowings by the capitalization rate of the general borrowings appropriated. The capitalization rate is calculated according to the weighted average interest rate of general borrowing.

The assets eligible for capitalization refer to the assets such as fixed assets, investment real estate and inventory that need to go through quite a long period of time (usually more than one year) to reach the predetermined state of useable or saleable.

Where the acquisition and construction or production of a qualified asset is interrupted abnormally and the interruption period lasts for more than 3 months, the capitalization of the borrowing costs is suspended; the borrowing costs incurred during such period are recognized as expenses, till the acquisition and construction or production of the asset restarts.

18. Intangible assets

Intangible assets, including land use rights, trading seats and software, etc., which are measured at cost and amortised on a straight-line basis over their estimated useful lives.

The purchased intangible assets are based on the actual price paid and other related expenses as actual costs; the cost of intangible assets invested by investors are determined by the value stipulated in the investment contract or agreement. But the fair value stipulated in the contract or agreement is not stipulated, the actual cost is determined by the fair value.

The land use right acquired is averagely amortized according to the service life of the land use right. The trading seat fee, software and others acquired are amortized according to the shortest of the excepted useful life, the expected useful life, the benefit period which stipulated in the contract and the effective life stipulated by law. The amortized amount is included in the relevant asset cost and current profit and loss.

The estimated useful life and amortization method of intangible assets with limited service life are reviewed at the end of each year, and if it changes, it is treated as a change in accounting estimates. At the end of each year, the estimated service life of intangible assets with uncertain service life is reviewed. If there is evidence to prove that the service life of intangible assets is limited, the service life is estimated and amortized within the estimated service life.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

19. Impairment of long-term non-financial assets

Long-term equity investments, Investment property, fixed assets, construction in progress intangible assets with limited useful lives are tested for impairment if there is any indication that the assets may be impaired at the statement of financial position date. For goodwill and intangible assets with uncertain service life, impairment tests shall be conducted at the end of each year regardless of whether there is any indication of impairment. If it is difficult to test the recoverable amount of a single asset, the test shall be based on the asset group or combination of the asset group to which the asset belongs.

If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, an allowance for impairment and an impairment loss are recognised in accordance with the difference. The provision for the aforesaid assets is recognized, it shall not be reversed in subsequent accounting periods. The recoverable amount of an asset is the higher between the net value of the fair value of the asset minus the disposal expense and the present value of the expected future cash flow of the asset.

The signs of impairment are as follows:

- (1) The market price of assets has fallen sharply in the current period, and the decline is significantly higher than the expected decline due to the passage of time or normal use.
- (2) There are adverse impact of the Company, because of the changing of the economic, technological, legal environment which enterprise operates and the market in.
- (3) The market interest rate or other market investment return rate has increased in the current period, which affects the discount rate of the enterprise to calculate the present value of the expected future cash flow of the asset, and resulting in a substantial reduction in the asset's recoverable amount.
- (4) There is evidence that the asset has become obsolete or its entity has been damaged.
- (5) The evidence in the internal report of the Company indicates that the economic performance of the asset has been lower or will be lower than expected, such as the net cash flow created by the asset or the realized operating profit (or loss) is much lower (or higher) than the expected.
- (6) Other signs that assets may have been impaired.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

20. Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Company's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquire at the date of acquisition.

Goodwill related to subsidiaries is listed separately in consolidated financial statements, while goodwill related to associates and joint ventures is included in the book value of long-term equity investments.

Goodwill listed separately in the financial statements, with the impairment test once a year, whether there is any sign of impairment. During the impairment test, the book value of goodwill is allocated to the asset group or group of asset groups expected to benefit from the synergies of the business combination. If the test results indicate that the recoverable amount of the asset group or combination of asset groups containing the allocated goodwill is lower than its book value, the corresponding impairment loss is recognized. The amount of the impairment loss is offset the book value of goodwill allocated to the asset group or combination of assets group and then according to the proportional to the book value of other assets except goodwill to offset book value of other assets.

21. Long-term deferred expenses

Long-term deferred expenses of the Group are expenditures that have been incurred but shall be amortized over periods of more than one year (exclude one year). The expenditures are amortized evenly over the estimated beneficial period. If the long-term deferred expenses are no longer beneficial to the subsequent accounting periods, the unamortized balance is then transferred to profit or loss for the period.

22. Employee benefits

During the accounting period in which an employee provides services for the Group, the actual short-term employee benefits incurred shall be recognized as liabilities and included in the current profits and losses or the cost of related assets. The compensation given for the termination of the labor relationship with the employees shall be included in the current profit and loss.

Employee benefits include short-term employee benefits, post-employment benefits, termination benefits, other long-term employee benefits and Expenditures related to access to services provided by employees.

Post-employment benefits refers to various forms of remuneration and welfare provided by the Company after the employee retires or dissolves the labor relationship with the Company in order to obtain the services provided by the employee, except short-term remuneration and dismissal welfare. Post-employment benefits are divided into a defined contribution plan and a defined benefit plan. Post-employment benefits are mainly for participation in the social basic pension insurance and unemployment insurance organized by the labor and social security agencies. During the accounting period in which an employee provides services for the Group, the amount that should be paid according to the defined contribution plan shall be recognized as liabilities and included in the current profits and losses or the cost of relating assets. Defined benefit plans are after-service benefit plans other than defined contribution plans.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

22. Employee benefits (continued)

Termination benefits mainly includes the compensation given by the Company to terminate the labor relationship with the employee before the expiration of the employee's labor contract, whether the employee is willing to do so or not, and the compensation given to the employee before the expiration of the employee's labor contract to encourage the employee to voluntarily accept the layoff. In accordance with the provisions of the dismissal plan, the Company reasonably anticipates and recognizes the employee compensation liabilities arising from the dismissal welfare, and records them into the current profits and losses.

Other long-term employee benefits include long-term paid absences, long-term disability benefits, long-term profit-sharing plans, etc.

Central China Securities Co., Ltd's employees participate in the enterprise annuity plan established by the Company in accordance with the relevant policies of the national enterprise annuity system and personal insurance. The Company's total contribution is 8% of the employee's total salary for the previous year, and the employee's individual contribution is 2% of the employee's total salary for the previous year.

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. If the Company has formulated labor relationship cancellation plan, the Company cannot unilaterally withdraw the labor or reduction proposal. The estimated liabilities due to compensation for the termination of the labor relationship with the employee should be confirmed into the current profit and loss.

Regarding the internal retirement plan implemented by the Company, the dismissal benefit will be dealt same as termination benefit, because this part of employees no longer bring the economic benefit to the Company. According to the provisions of the internal retirement plan, the period from the day when the employee stops providing services to the normal retirement date, the Company's planned retirement salary and social insurance premiums, etc. are confirmed as the estimated liabilities, which are included in the current profit and loss.

23. Estimated liabilities

When the business related to external guarantee, trade acceptance bill discount, pending litigation or arbitration, product quality assurance and other contingencies meet the following conditions at the same time, the Company recognizes it as a liability: the obligation is the current obligation undertaken by the Company; The fulfillment of this obligation may lead to the outflow of economic benefits from the enterprise. The amount of the obligation can be measured reliably.

The estimated liabilities are initially measured in accordance with the best estimate of the expenditure required to perform the relevant current obligations, and factors such as risks, uncertainties and time value of money related to contingencies are considered comprehensively. If the time value of money has a significant impact, the best estimate can be determined by discounting the relevant future cash outflow. The book value of the estimated liabilities is reviewed at each balance sheet date and adjusted to reflect the current best estimate if there is any change.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

24. General risk reserve and transaction risk reserve

According to “Financial rules of financial enterprises” and “Notice on the 2007 Annual Report of Securities company” (Zheng Jian Ji Gou Zi [2007] No. 320), the Company and its subsidiaries calculate the general risk reserve according to 10% of after-tax profit (reducing make up losses) for the year. The transaction risk reserve which is not less than 10% of after-tax profit (reducing make up losses) for the year.

In order to reduce the repayment risk of bonds, the 14th meeting of the 4th Board of Directors and the 6th Extraordinary General Meeting of 2013 reviewed and approved to increase the ratio of discretionary surplus reserve fund and general risk reserve ratio during the duration of the bond. Surplus reserve fund is 5% of the current profit after making up losses and the general risk reserve is 11% of the net profit of making up the losses. During the remaining duration of the bond, the discretionary surplus reserve is drawn at 10% of the current net profit after making up for the loss, and the general risk reserve is drawn at 12% of the current net profit after making up for the loss.

25. Revenue

The revenue of the Company is recognized when the customer obtains the control rights of the relevant commodities (referring to the commodities or services) by performing the performance obligations of the contract. To gain control over the relevant goods means that the customer can dominate the use of the goods and get almost all the economic benefits from them.

Performance obligation means the transfer of the Company’s commitment to the customer that clearly distinguishes between goods or services. Both express commitments in the contract and commitments that the customer reasonably expects the Company to perform at the time the contract is entered into based on the Company’s publicly announced policies, specific statements or past practices.

The Company evaluates the contract at the beginning of the contract, identifies each individual performance obligation contained in the contract, and determines whether each individual performance obligation should be performed within a certain period of time or at a certain point. If one of the following conditions is met, the contract obligations shall be fulfilled within a certain period of time; Otherwise, the performance of a contractual obligation at a certain point:

- (i) The customer concurrently receives and consumes the benefits provided by the entity’s performance as the entity performs.
- (ii) The customer can control the goods that are under construction during the Company’s contract execution.
- (iii) The entity’s performance does not create an asset with an alternative use and the entity has a right to payment for performance completed to date.

Where performance of a single service contract takes place over time, revenue should be recognized as performance takes place, excluding the stage of performance cannot be determined. An entity that cannot reasonably measure the outcome of a performance obligation, but expects to recover the costs incurred, should recognize revenue only to the extent of the cost until a reliable measure of progress can be made. An entity will recognize revenue at a point in time (when control transfers) for performance obligation that meet the criteria for recognition of revenue at a point in time.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

25. Revenue (continued)

The Company has transferred the goods or services to customers and has the right to receive consideration (and the right depends on factors other than the passage of time). As a contract asset, the impairment based on ECL. The right of the Company to charge the customer unconditionally (only depends on the passage of time) is listed as a receivable. The Company's obligation to transfer the goods or services, because the Company received or get receivable from the customer's consideration, which should be listed as contract liabilities.

The specific accounting policies relating to the Company's main activities to revenue as follow:

(1) Handling fee and commission income

Revenue from the securities and futures brokerage services is recognized on the date of the transaction.

Revenue from underwriting services is recognized when the control of the underwriting services is provided to the client. The revenue is usually recognized upon completion of the offering.

The income from the asset management business of the entrusted customer, when the entrusted management contract expires and is settled with the entrusting unit, the profit or loss that should be enjoyed by the Company is calculated according to the proportion specified in the contract and recognized as the current gain or loss. If the contract stipulates that the Company charges management fees and performance compensation fees in accordance with the agreed proportions, the management fees and performance compensation gains shall be confirmed in installments.

Revenues from other businesses, including investment banking advisory and sponsoring services are recognized when the contractual obligations are fulfilled.

(2) Interest income

When the relevant income can be measured reliably and relevant economic benefits can be received, the interest income is recognized according to the time of fund utilization and the agreed interest rate. If there is no expired financial asset in the current period, interest will be accrued on the accrual basis at the end of the period and recognized as interest income for the period. If there is little difference between the actual interest rate and the contractual interest rate, the interest income shall be calculated according to the contractual interest rate.

The financial assets held under resale agreements due in the current period, the difference between the resale price and the purchase price shall be recognized as the income in the current period; If there is no maturity in the current period, the interest accrued and withdrawn at the end of the period shall be recognized as the current income according to the amortized cost and the actual interest rate; if there is a small difference between the actual interest rate and the contractual interest rate, the income shall be recognized as the current income according to the contractual interest rate.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

25. Revenue (continued)

(3) Investment income

The Company recognizes the difference between its fair value and the initial recorded amount when disposing of trading financial assets as investment income, and at the same time adjusts the profit and loss of changes in fair value. When disposing of FVOCI, the difference between the price obtained and the cumulative amount of changes in fair value that were directly included in other comprehensive income and the book value of the financial asset, is included in investment income.

For long-term equity investments accounted for using the cost method, the cash dividends or profits declared by the investee are recognized as current investment income. For long-term equity investments accounted for using equity method are calculated based on the net profit realized by the investee or adjusted net profit and are confirmed the investment income.

26. Accounting method for the client asset management business

The client asset management business is divided into directional asset management business, collective asset management business, and special asset management business. Entrusted by the Company, the Company is engaged in directional asset management business, collective asset management business, and special asset management business. Take the managed customer or collection plan as the subject, independently set up accounts, independently accounting, and not listed in the Company's financial statements.

27. Government grants

The government grants relating to assets means the government grants which are obtained by the Company for purchasing or others long-term assets. The government grants relating to revenue means the except the government grants related assets. If the grant's target is not clearly specified in the government documents, the company will make judgments according to the above principle of distinction. If it is difficult to distinguish, the whole is classified as a government subsidy relating to income.

If the government grant is a monetary asset, it is measured according to the amount actually received. For the grant paid according to a fixed standard, or there is evidence at the end of the year that can meet the relevant conditions specified in the financial support policy and is expected to receive financial support funds, which measured according to the amount actually receivable. If the government grant is a non-monetary asset, it should be measured at its fair value. If its fair value cannot be obtained reliably, it shall be measured at its nominal amount (1 yuan).

The government grants related to the asset shall be recognized as deferred income, and the government grants related to the asset shall be recognized as deferred income and be recorded into the current profit and loss in stages within the service life of the relevant asset.

When the related assets of this are sold, transferred, scrapped or destroyed before the end of their useful lives, the related unallocated balance of deferred revenue is transferred to profit or loss in the period of disposal of the asset.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

27. Government grants (continued)

Government grants related to revenue that compensate for related costs or losses in subsequent periods are recognized as deferred revenue and recognized in current profit or loss in the period in which the related costs or losses are recognized. Government grants related to day-to-day activities are included in other gains or charged against related costs, based on the substance of economic operations. Government grants not related to day-to-day activities are included in non-operating income.

When a company receives a policy preferential loan subsidy, it is distinguished between cases in which the finance disburses the subsidy funds to the lending bank and cases in which the finance disburses the subsidy funds directly to the Company, and the accounting is treated according to the following principles:

- (1) If the treasury disburses the discounted funds to the lending bank, which provides the loan to the Company at the policy preferential interest rate, the Company uses the actual amount of the loan received as the recorded value of the loan and calculates the related borrowing costs based on the principal of the loan and the policy preferential interest rate (or uses the fair value of the loan as the recorded value of the loan and calculates the borrowing costs according to the effective interest rate method, the difference between the actual amount received and the fair value of the loan is recognized as deferred income. Deferred income is amortized over the life of the borrowing using the effective interest method, less related borrowing costs).
- (2) The treasury disburses the discounted funds directly to the Company, and the corresponding discount is offset against the related borrowing costs.

The Company's recognized government grants that are required to be returned are accounted for in the current period in which they are required as follows:

- ① Where the carrying value of the underlying asset is reduced on initial recognition, the carrying value of the asset is adjusted.
- ② Where a related deferred gain exists, the carrying amount of the related deferred gain is reduced and the excess is recognized in profit or loss in the current period.
- ③ In other cases, they are recognized directly in profit or loss for the current period.

28. Deferred income tax assets and deferred income tax liabilities

Deferred income tax assets and liabilities are calculated and recognized based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred income tax asset is recognized for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. As at the statement of financial position date, deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

A company recognizes deferred income tax assets arising from deductible temporary differences to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be offset. Deferred income tax assets are written down to their carrying amount when it is probable that sufficient taxable income will not be available to offset the deferred income tax asset in a future period. The amount of the write-down is reversed when it is probable that sufficient taxable income will be obtained.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

29. Leases (applicable as of 1 January 2019)

A lease is a contract in which the lessor give up the right to use the asset to the lessee for consideration for a certain period of time.

(1) As a lessee

At the beginning of the lease term, the Company recognizes a right-of-use asset and lease liability for the lease. The Company uses the straight-line method of depreciation for right-of-use assets. At the balance sheet date, the Company assesses whether the right-of-use assets are impaired and accounts for the identified impairment losses.

The lease liability is initially measured at the present value of the lease payments outstanding at the beginning of the lease term. The Company calculates interest expense on the lease liability at a fixed periodic rate (i.e., discount rate) for each period of the lease term and recognizes it in current profit or loss or the cost of the asset.

The Company has elected to recognize right-of-use assets and lease liabilities for short-term leases (leases with lease terms of up to 12 months) and low-value asset leases. And the Company has charged the related lease payments to current profit or loss or the related cost of the asset on a straight-line basis over the various periods of the lease term.

(2) As a lessor

Leased assets under operating leases are recognized as rental income by a straight-line basis.

30. Income tax

The balance sheet liability method is used for income tax accounting. Income tax expense includes current income taxes and deferred income taxes. Current income tax and deferred income tax expense or gains are recognized in profit or loss except for current income tax and deferred income tax relating to transactions and events that are directly attributable to shareholders' equity and the carrying value of deferred income tax-adjusted goodwill arising from business combinations.

Current income tax is the amount due to the tax authorities for transactions and events occurring in the current period, as determined by the enterprise in accordance with tax regulations; deferred income tax is the difference between the amount of deferred income tax assets and deferred income tax liabilities that should be recognized under the balance sheet liability method at the end of the period relative to the amount originally recognized.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

31. Segment information

The Company determines its operating segments based on its internal organizational structure, management requirements, and internal reporting system, and its reporting segments based on operating segments. An operating segment is a component of a company that meets the following conditions simultaneously: the component is able to generate income and incur expenses in its day-to-day activities. The Company's management is able to periodically evaluate the operating results of the component in order to decide on the allocation of resources to it and evaluate its performance; and the Company has access to accounting information on the financial position, operating results and cash flows of the component, with inter-segment transfer prices determined by reference to market prices.

32. Hold for sale and terminate operations

(1) Held-for sale assets

The Company classifies a non-current asset or disposal group as held for sale when it recovers its book value primarily through the sale, rather than ongoing use.

A disposal group is a group of assets that are disposed of as a whole in a transaction, whether by sale or otherwise, and liabilities directly related to those assets that are transferred in that transaction.

The Company divides non-current assets or disposal groups that meet the following conditions into categories held for sale:

- ① The non-current asset or disposal group is immediately available for sale in its current condition, in accordance with the practice of selling such assets or disposal groups in similar transactions.
- ② A sale is highly likely to occur where the Company has resolved on a plan of sale and has entered into legally binding purchase agreements with other parties. The sale is expected to be completed within a year.

The Company according to the book value and the fair value minus the net after sale cost of residency is to hold illiquid assets for sale (not including financial assets and deferred income tax assets) or to the disposition of the group to carry on the initial measurement and subsequent measurement, book value is higher than the fair value minus the difference between the net selling expenses after confirmation for asset impairment loss, included in the current profits and losses.

(2) Terminate operations

The Company will discontinue operations as defined by a separately distinguishable component that meets one of the following conditions and that has been disposed of or classified as holding for sale by the Company:

- ① The component represents a separate principal operation or a separate principal area of operation.
- ② The component is part of an associated plan to dispose of a separate principal operation or a separate principal area of operation.
- ③ This component is a subsidiary acquired specifically for resale.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

32. Hold for sale and terminate operations (continued)

(2) Terminate operations (continued)

For terminate operations reported in the current period, and reported in the profit and loss from continuing operations and the profit or loss from discontinued operations separately in the current period's income statement. And restates the information previously presented as profit or loss from continuing operations in the comparative period's income statement as profit or loss from discontinued operations in the comparative accounting period.

33. Significant accounting judgements and estimates

During the preparation of the Group's financial statements, management will make judgements, estimates and assumptions about the impact of future uncertainties on revenue, expenses, assets and liabilities, and disclosure of contingent liabilities. The reality may differ from these estimates. Management continuously evaluates the judgment of the key assumptions and uncertainties involved in the estimation. The impact of a change in accounting estimates is recognized during the change period and in future periods.

The following accounting estimates and key assumptions carry a significant risk of causing significant adjustments to the carrying values of assets and liabilities in future periods.

(1) Provision for impairment of financial assets

The Company recognizes a provision for impairment on the basis of ECL on FVPL, FOCI, financing operations (including repurchase agreements, stock pledges, etc.), and currency market disposals (loans) of funds or securities, receivables, etc.

Based on the classification and nature of the above financial assets, combined with its own risk management practices and the relevant requirements of the impairment guidelines, the Company establishes an expected credit loss model to measure impairment losses on the above financial instruments based on a probability-weighted average, taking into account the time value of money and reasonable and informed information about past events, current conditions and projected future economic conditions that can be obtained at the balance sheet date without unnecessary additional costs or effort. The assumptions, parameters, data sources and measurement procedures associated with the expected credit loss model require the Company's professional judgment, and changes in the assumptions of these relevant factors can affect the results of the expected credit loss calculations for financial instruments.

The Company uses an expected credit loss model to evaluate the impairment of financial assets and the application of the expected credit loss model requires making significant judgments and estimates such as the probability of default, the rate of default losses and whether credit risk increases significantly, taking into account all reasonable and reliable information, including forward-looking information. In making these judgments and estimates, the Company extrapolates expected changes in the debtor's credit risk based on historical repayment data combined with economic policies, macroeconomic indicators, industry risk and other factors.

The Company's criteria for determining significant increases in credit risk, the definition of an incurred credit impairment asset, and assumptions regarding the measurement of ECL. For details, please refer to Notes X.(2) of this report.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

33. Significant accounting judgements and estimates (continued)

(2) Impairment of goodwill

The goodwill are tested at least annually for impairment. The recoverable amount of the asset group and asset group combination that includes goodwill is the present value of its expected future cash flow, and its calculation requires the use of accounting estimates.

If management revises the gross profit margin used in the calculation of future cash flows of asset groups and asset group combinations, and the revised gross profit margin is lower than the currently used gross profit margin, the Company needs to make provision for impairment of goodwill.

If management revises the pre-tax discount rate used for discounting cash flows, and the revised pre-tax discount rate is higher than the currently used discount rate, the Company needs to accrue impairment provisions for goodwill.

If the actual gross profit margin or pre-tax discount rate is higher or lower than the management's estimate, the Company cannot reverse the impairment loss for goodwill that has been accrued.

(3) Deferred income tax assets

The estimation of deferred income tax assets needs to estimate the taxable income and applicable tax rates in the future years. The realization of deferred income tax assets depends on whether the Company is likely to obtain sufficient taxable income in the future. Future changes in tax rates and the reversal time of temporary differences may also affect income tax expenses (income) and the balance of deferred income tax. Changes in the above estimates may result in important adjustments to deferred income tax.

(4) Useful life of intangible assets and property and equipment

At least once a year, the Company reviews the estimated useful life of fixed assets and intangible assets. The estimated service life is determined by the management based on the historical experience of similar assets, with reference to the commonly used estimates in the same industry, combined with the expected technical updates. When the previous estimates have changed significantly, the depreciation expenses and amortization expenses in the future period shall be adjusted accordingly.

(5) Consolidation of structured entities

Management needs to make important judgments on whether to control and merge structured entities, confirming whether it will affect accounting methods and the financial situation and operating results of the Group. In assessing control, the Group needs to consider: 1) the power of the investor to the investee; 2) the variable return enjoyed by the investee in the relevant activities; and 3) the ability to use the power of the investee to influence the amount of its return. If one or more of the three control elements mentioned above change, the Group will reassess whether control still exists.

For structured entities (such as funds and asset management plans) managed by the Company, the Company will assess whether its maximum exposure to the structured entities, together with the variable returns generated by its administrator's compensation, is significant enough to indicate that the Company has control over the structured entities. If the Company has control over the structured entity under management, the structured entity will be included in the consolidated scope of the consolidated financial statements. For structured subject shares held by parties other than the Company, as the issuer has a contractual obligation to buy back its offering shares in cash, the Company recognizes them as financial liabilities or payables measured at fair value and recorded in current profit and loss.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

34. Significant changes in accounting policies and accounting estimates

(1) Significant changes in accounting policies

The Group does not have any change in accounting policies for the period ended.

(2) Significant changes in accounting estimates

The Group does not have any change in accounting estimates for the period ended.

V. TAXATION

Taxes	Tax bases	Tax rates
Income tax	Taxable income	16.5%, 25%
Value-added tax (VAT)	The taxable revenue from sales of goods or rendering of services	3%~16%
Urban maintenance and construction taxes	Turnover tax payable	1%, 5%, 7%
Education surcharge	Turnover tax payable	3%
Local education surcharge	Turnover tax payable	2%

(1) Income tax

The PRC Enterprise income tax rate applicable to the Company and its subsidiaries in Mainland China is 25%.

The income tax rate for subsidiaries established and operate in Hong Kong is 16.5%.

(2) Value-added tax (VAT)

According to Notice on Implementing the Pilot Program of Replacing Business Tax with Value-Added Tax in an All-round Manner (Cai Shui [2016] No. 36) the Company's principal business income has been subject to VAT, with a tax rate of 6% since 1 May 2016.

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

In accordance with the "Notice on adjustment of VAT rate" (Cai Shui [2018] NO. 32), if the taxpayer has a VAT taxable sales activity or imported good, the taxpayer shall pay VAT at 16% and 10% after 1 May 2018.

In accordance with the "Announcement on policies to deepen VAT reform" (Gong Gao 2019 No. 39) if the taxpayer has a VAT taxable sales activity or imported good, the taxpayer shall pay VAT at 13% and 9% after 1 April 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and bank balances

(1) Details

Item	30 June 2020			31 December 2019		
	Amount of original currency	Exchange rate	RMB amount	Amount of original currency	Exchange rate	RMB amount
Cash on hand			168,750.98			249,129.05
RMB	160,370.18	1.0000	160,370.18	194,324.35	1.0000	194,324.35
HKD	4,646.11	0.9134	4,243.94	56,652.15	0.8958	50,747.86
CAD	797.96	5.1843	4,136.86	759.41	5.3421	4,056.84
Deposits in bank			12,625,978,282.26			9,321,697,310.89
Deposits Account			3,596,357,375.75			2,740,135,500.49
RMB	3,283,861,651.27	1.0000	3,283,861,651.27	2,295,083,952.56	1.0000	2,295,083,952.56
USD	8,969,804.60	7.0795	63,501,731.67	10,528,961.28	6.9762	73,452,139.68
HKD	271,925,753.13	0.9134	248,387,859.94	414,398,428.88	0.8958	371,209,824.53
AUD	47,249.45	4.8657	229,901.65	50,320.16	4.5787	230,400.92
EUR	39,449.81	7.9610	314,059.94	20,367.55	7.8155	159,182.59
CAD	0.04	5.1843	0.21	0.04	5.3421	0.21
THB	222,381.18	0.2293	50,982.64			
JPY	170,036.93	0.0658	11,188.43			
Client fund deposit			9,029,620,906.51			6,581,561,810.40
RMB	8,950,222,732.26	1.0000	8,950,222,732.26	6,497,262,589.77	1.0000	6,497,262,589.77
USD	2,953,259.83	7.0795	20,907,602.97	4,211,999.02	6.9762	29,383,747.56
HKD	63,451,996.97	0.9134	57,959,592.11	60,921,231.85	0.8958	54,572,021.16
EUR	65,953.84	7.9610	525,058.52	43,944.97	7.8155	343,451.91
JPY	89,979.48	0.0658	5,920.65			
Other cash and bank balances			7,994,832.15			9,802,121.58
RMB	7,994,832.15	1.0000	7,994,832.15	9,802,121.58	1.0000	9,802,121.58
Total			12,634,141,865.39			9,331,748,561.52

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Cash and bank balances (continued)

(1) Details (continued)

In which, details of margin trading & short selling:

Item	30 June 2020			31 December 2019		
	Amount of original currency	Exchange rate	RMB amount	Amount of original currency	Exchange rate	RMB amount
Corporate credit capital			279,255,944.41			47,834,623.14
RMB	279,255,944.41	1.0000	279,255,944.41	4,259,757.15	1.0000	4,259,757.15
HKD				20,858,191.06	0.8958	18,684,350.39
USD				3,520,846.45	6.9762	24,562,129.00
EUR				42,017.35	7.8155	328,386.60
Client credit capital			730,203,841.10			476,131,648.81
RMB	691,113,400.24	1.0000	691,113,400.24	440,740,722.05	1.0000	440,740,722.05
USD	212,825.06	7.0795	1,506,694.98	25,551.58	6.9762	178,252.93
HKD	41,145,281.44	0.9134	37,583,745.88	39,309,511.07	0.8958	35,212,673.83
Total			1,009,459,785.51			523,966,271.95

(2) As of 30 June 2020, the Company's cash which deposited overseas were RMB379,347,947.02, and mainly due to deposits made by Hong Kong subsidiaries.

2. Clearing settlement funds

Item	30 June 2020			31 December 2019		
	Amount of original currency	Exchange rate	RMB amount	Amount of original currency	Exchange rate	RMB amount
Corporate reserve funds			64,308,030.28			170,907,131.02
RMB	62,904,219.72	1.0000	62,904,219.72	170,907,131.02	1.0000	170,907,131.02
HKD	1,169,925.72	0.9134	1,068,656.95			
USD	46,443.44	7.0795	328,796.33			
JPY	94,821.43	0.0658	6,239.25			
MYR	110.41	0.6049	66.79			
GBP	5.88	8.7144	51.24			
Client's ordinary reserve funds			1,507,193,851.16			2,184,595,530.37
RMB	1,499,972,610.37	1.0000	1,499,972,610.37	2,176,489,870.41	1.0000	2,176,489,870.41
USD	883,835.36	7.0795	6,257,112.43	968,157.31	6.9762	6,754,059.03
HKD	1,055,491.72	0.9134	964,128.36	1,508,853.66	0.8958	1,351,600.93
Client's credit reserve funds			194,246,973.89			162,546,854.45
RMB	194,246,973.89	1.0000	194,246,973.89	162,546,854.45	1.0000	162,546,854.45
Total			1,765,748,855.33			2,518,049,515.84

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Margin accounts receivable

(1) By categories

Item	30 June 2020	31 December 2019
Within borders		
Individual client	6,122,107,951.86	5,634,401,621.21
Institutional client	138,335,707.28	244,875,805.15
Less: provision for impairment	15,594,109.04	15,281,693.50
Subtotal	6,244,849,550.10	5,863,995,732.86
Overseas		
Individual client	179,568,616.43	186,388,556.91
Institutional client	54,097,487.14	66,070,903.40
Less: provision for impairment	60,061,874.98	55,714,996.61
Subtotal	173,604,228.59	196,744,463.70
Total	6,418,453,778.69	6,060,740,196.56

(2) Details of the collateral provided to the Company in relating to margin accounts receivable

Collateral type	30 June 2020	31 December 2019
Cash	949,499,699.91	712,533,596.87
Bonds	32,853,761.97	32,515,067.85
Stocks	19,173,227,891.08	17,413,349,206.33
Funds	152,165,307.24	92,631,047.75
Total	20,307,746,660.20	18,251,028,918.80

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Derivative financial assets and liabilities

(1) 30 June 2020

Item	Hedging instruments			Non-hedging instruments		
	Contractual value	Fair value Asset	Liability	Contractual value	Fair value Asset	Liability
Commodity futures	109,044,310.00	176,550.00		120,884,225.00		2,823,460.00
Less: Offsetting with temporary receipts and payments		176,550.00				2,823,460.00
Interest rate swap				9,960,000,000.00		322,120.68
Less: Offsetting with temporary receipts and payments						322,120.68
Commodity options				4,940,400.00	39,150.00	48,280.00
Forward contract				253,887,517.81	11,804,085.06	
Total	109,044,310.00			10,339,712,142.81	11,843,235.06	48,280.00

(2) 31 December 2019

Item	Hedging instruments			Non-hedging instruments		
	Contractual value	Fair value Asset	Liability	Contractual value	Fair value Asset	Liability
Commodity futures				152,923,405.00	1,728,975.00	
Less: Offsetting with temporary receipts and payments					1,663,900.00	
National debt futures				1,234,738,750.00	577,393.51	
Less: Offsetting with temporary receipts and payments					577,393.51	
Commodity options				948,820.00	53,190.00	83,740.00
Forward contract				253,887,517.81	11,265,850.93	
Total				1,642,498,492.81	11,384,115.93	83,740.00

Under the non-debt settlement system on the current day, the profit and loss from settlement from interest rate swap, commodity futures, national debt futures as at 30 June 2020 and 31 December 2019 included in "clearing settlement funds". Derivative instruments such as commodity futures, interest rate swap, national debt futures under derivative financial assets/liability are listed as the net amount of RMB after offsetting with temporary receipts and payments (position profit and loss from settlement).

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Refundable deposits

Item	30 June 2020			31 December 2019		
	Amount of original currency	Exchange rate	RMB amount	Amount of original currency	Exchange rate	RMB amount
Trading margin			437,801,058.21			385,892,047.09
RMB	436,848,773.21	1.0000	436,848,773.21	381,395,763.06	1.0000	381,395,763.06
HKD	500,000.00	0.9134	456,720.00	4,099,055.64	0.8958	3,671,852.00
USD	70,000.00	7.0795	495,565.00	115,651.44	6.9762	806,807.58
EUR				16.41	7.8155	128.25
JPY				273,011.27	0.0641	17,496.20
Credit margin			10,024,901.82			7,010,153.46
RMB	10,024,901.82	1.0000	10,024,901.82	7,010,153.46	1.0000	7,010,153.46
Performance guarantee			316,396,889.68			2,267,535.40
RMB	316,396,889.68	1.0000	316,396,889.68	2,267,535.40	1.0000	2,267,535.40
Total			764,222,849.71			395,169,735.95

6. Accounts receivable

(1) By categories

Item	30 June 2020	31 December 2019
Settlement amount receivable	29,436,013.63	15,315,160.75
Asset management fee receivable	25,219,097.55	57,249,098.30
Fees and commission receivable	32,252,758.24	35,813,072.18
Margin trading & short selling payment receivable	8,691,797.98	9,177,327.68
Bond interest receivable	7,800,000.00	45,528,000.00
Others	8,694,854.83	4,419,075.69
Less: Provision for bad debts (According to the simplified model)	13,699,775.94	13,589,432.23
Book value of accounts receivable	98,394,746.29	153,912,302.37

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Accounts receivable (continued)

(2) By methods of evaluation

Item	30 June 2020			
	Book value of accounts receivable		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)
Single provision for bad debts	40,210,524.36	35.87	10,310,943.18	25.64
Subtotal	40,210,524.36	35.87	10,310,943.18	
Combination provision for bad debts				
within 1 year	35,840,625.23	31.98	179,203.13	0.50
1-2 year	24,855,311.65	22.17	1,242,765.58	5.00
2-3 year	4,111,141.41	3.67	411,114.14	10.00
3-4 year	5,673,259.69	5.06	1,134,651.94	20.00
4-5 year	1,403,659.89	1.25	421,097.97	30.00
Subtotal	71,883,997.87	64.13	3,388,832.76	
Total	112,094,522.23	100.00	13,699,775.94	

Item	31 December 2019			
	Book value of accounts receivable		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)
Single provision for bad debts	25,822,823.17	15.42	10,034,816.67	38.86
Subtotal	25,822,823.17	15.42	10,034,816.67	
Combination provision for bad debts				
within 1 year	105,040,653.25	62.70	525,203.26	0.50
1-2 year	26,090,887.21	15.58	1,304,544.36	5.00
2-3 year	3,846,577.64	2.30	384,657.76	10.00
3-4 year	6,700,278.16	4.00	1,340,055.63	20.00
4-5 year	515.17		154.55	30.00
Subtotal	141,678,911.43	84.58	3,554,615.56	
Total	167,501,734.60	100.00	13,589,432.23	

- (3) Among the balance of accounts receivable at the end of the year, the amount receivable from shareholder units holding more than 5% (including 5%) of the voting shares of the Company was RMB435,146.23.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Financial assets held under resale agreement

(1) By categories of business

Item	30 June 2020	31 December 2019
Agreed repurchase securities	13,783,540.89	12,829,661.10
Stock pledge repurchase	1,794,798,827.28	2,035,425,405.12
Bonds outright repo	291,616,694.65	1,164,604,789.02
Bonds pledge repurchase	694,551,352.47	214,517,707.39
Less: provision for asset impairment	516,329,220.63	403,489,034.92
Total	2,278,421,194.66	3,023,888,527.71

(2) By categories of subjects

Item	30 June 2020	31 December 2019
Stocks	1,808,582,368.17	2,048,255,066.22
Bonds	986,168,047.12	1,379,122,496.41
Less: provision for asset impairment	516,329,220.63	403,489,034.92
Book Value	2,278,421,194.66	3,023,888,527.71

(3) Details of collateral

Collateral type	Fair value on 30 June 2020	Fair value on 31 December 2019
Stocks	2,553,923,885.50	2,914,932,993.06
Bonds	1,203,698,451.70	1,380,791,342.00
Total	3,757,622,337.20	4,295,724,335.06
Include: Collateral that can be sold or re-collateralized	326,529,090.00	1,163,992,480.00
Collateral that has been sold or has been pledged again	326,529,090.00	966,923,000.00

(4) By residual maturity (financed funds acquired through agreed repurchase and pledged repurchase)

Remaining period	30 June 2020	31 December 2019
Within 1 month	13,352,468.71	
1-3 month	222,222,892.35	153,632,876.69
3 month-1 year	223,335,025.47	450,806,989.83
More than 1 year	5,000,945.16	13,222,856.95
Past due	1,330,887,495.59	1,417,762,681.65
Total	1,794,798,827.28	2,035,425,405.12

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Financial assets held under resale agreement (continued)

(5) Bonds outright repo by stage of impairment

Item	Expected credit losses in the next 12 months	30 June 2020		Total
		No credit impairment	Credit impairment	
Book balance	463,911,331.69		1,330,887,495.59	1,794,798,827.28
Impairment allowance	6,018,284.69		510,216,529.59	516,234,814.28
Book value	457,893,047.00		820,670,966.00	1,278,564,013.00
The value of Collateral	1,583,163,928.52		1,006,127,087.88	2,589,291,016.40

Item	Expected credit losses in the next 12 months	31 December 2019		Total
		No credit impairment	Credit impairment	
Book balance	617,662,723.47	150,000,000.00	1,267,762,681.65	2,035,425,405.12
Impairment allowance	987,204.26	541,515.64	401,952,176.28	403,480,896.18
Book value	616,675,519.21	149,458,484.36	865,810,505.37	1,631,944,508.94
The value of Collateral	1,688,168,350.68	164,160,000.00	1,021,073,955.18	2,873,402,305.86

8. Financial asset at fair value through profit or loss

(1) By categories

Item	30 June 2020					Total
	Classified into FVTPL	Fair value Designated as FVTPL	Total	Classified into FVTPL	Initial cost Designated as FVTPL	
Bonds	15,137,556,178.85	15,137,556,178.85	15,064,761,325.78			15,064,761,325.78
Public Offering of Fund	1,106,451,063.38	1,106,451,063.38	1,102,476,024.88			1,102,476,024.88
Stocks	1,235,230,669.43	1,235,230,669.43	1,326,756,983.59			1,326,756,983.59
Bank financing product	348,809,454.40	348,809,454.40	347,000,002.35			347,000,002.35
Securities asset management products	24,373,208.36	24,373,208.36	28,172,440.00			28,172,440.00
Private equity and partnerships	843,459,774.17	843,459,774.17	896,139,873.83			896,139,873.83
Others	98,821,814.58	98,821,814.58	103,121,814.58			103,121,814.58
Total	18,794,702,163.17	18,794,702,163.17	18,868,428,465.01			18,868,428,465.01

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Financial asset at fair value through profit or loss (continued)

(1) By categories (continued)

Item	31 December 2019			
	Classified into FVTPL	Fair value Designated as FVTPL	Classified into FVTPL	Initial cost Designated as FVTPL
		Total		Total
Bonds	13,810,266,165.45	13,810,266,165.45	13,729,609,266.85	13,729,609,266.85
Public Offering of Fund	792,478,949.57	792,478,949.57	789,646,056.89	789,646,056.89
Stocks	1,448,376,173.97	1,448,376,173.97	1,512,863,535.94	1,512,863,535.94
Bank financing product	163,533,291.76	163,533,291.76	161,000,000.00	161,000,000.00
Securities asset management products	17,062,550.00	17,062,550.00	20,900,000.00	20,900,000.00
Private equity and partnerships	898,601,516.01	898,601,516.01	1,021,560,520.40	1,021,560,520.40
Others	96,700,000.00	96,700,000.00	100,000,000.00	100,000,000.00
Total	17,227,018,646.76	17,227,018,646.76	17,335,579,380.08	17,335,579,380.08

"Others" is mainly an fund management plan.

(2) Realization of financial asset at fair value through profit or loss subject to restrictions

Item	Reasons for restriction	Book value-30 June 2020	Book value- beginning of the year
Bonds	Sale or pledge for repurchase financing	9,800,882,868.98	6,276,173,261.05
Bonds	Pledged for bond lending	1,278,069,733.98	952,842,604.73
Bonds	Pledged for short-term	71,980,161.94	
Public Offering of Fund	Financing out securities	5,741,019.29	5,410,131.09
Stocks	Restricted stock	195,172,876.00	
Stocks	Restrictions on bulk trading		16,940,000.00
Banking product	Pledge for short-term borrowing		51,926,438.36

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Financial instruments measured at amortised cost

(1) Details

Item	30 June 2020			
	Initial cost	Interest	Impairment allowance	Book value
Trust schemes	264,842,739.75	3,837,200.97	1,355,527.26	267,324,413.46
Private placement bonds	157,564,783.69		99,038,870.24	58,525,913.45
Assets management plan	244,388,050.00		48,877,610.00	195,510,440.00
Total	666,795,573.44	3,837,200.97	149,272,007.50	521,360,766.91

Asset management plan include "Zhong Jing No. 1" and "Lian Meng No. 17", for details refer VI. 35.

Item	31 December 2019			
	Initial cost	Interest	Impairment allowance	Book value
Trust schemes	413,351,533.53	2,879,308.14	2,182,385.91	414,048,455.76
Private placement bonds	155,098,508.88	1,791,560.00	90,059,105.35	66,830,963.53
Assets management plan	244,388,050.00		48,877,610.00	195,510,440.00
Total	812,838,092.41	4,670,868.14	141,119,101.26	676,389,859.29

(2) Financial assets at amortized costs-ECL

Item	Stage 1	Stage 2	Stage3	Total
	Expected credit losses in the next 12 months	Expected credit losses in lifetime	Expected credit losses in lifetime (Credit impairment)	
1 January 2020	709,880.59		140,409,220.67	141,119,101.26
Book value	—	—	—	—
— transfer to stage 2				
— transfer to stage 3				
— transfer back to stage 2				
— transfer back to stage 1				
Current period			8,788,310.37	8,788,310.37
Transfer back	-635,404.13			-635,404.13
Write off				
30 June 2020	74,476.46		149,197,531.04	149,272,007.50

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Financial instruments at fair value through other comprehensive income

(1) By categories

Item	30 June 2020				Accumulated impairment of allowance
	Initial cost	Interest	Fair value	Book value	
Government debt	200,156,528.59	3,432,657.55	968,471.41	204,557,657.55	
Corporate debt	633,986,881.31	3,873,495.20	-3,045,286.31	634,815,090.20	8,219,031.75
Total	834,143,409.90	7,306,152.75	-2,076,814.90	839,372,747.75	8,219,031.75

Item	31 December 2019				Accumulated impairment of allowance
	Initial cost	Interest	Fair value	Book value	
Government debt	250,038,528.94	4,451,328.78	540,798.21	255,030,655.93	
Corporate debt	390,000,000.00	13,158,460.55	6,506,230.00	409,664,690.55	200,655.09
Total	640,038,528.94	17,609,789.33	7,047,028.21	664,695,346.48	200,655.09

(2) Financial instruments at fair value through other comprehensive income-ECL

Item	Stage 1	Stage 2	Stage3	Total
	Expected credit losses in the next 12 months	Expected credit losses in lifetime	Expected credit losses in lifetime (Credit impairment)	
1 January 2020	200,655.09			200,655.09
Book value	—	—	—	—
— transfer to stage 2				
— transfer to stage 3				
— transfer back to stage 2				
— transfer back to stage 1				
Current period	8,018,376.66			8,018,376.66
Transfer back				
Write off				
30 June 2020	8,219,031.75			8,219,031.75

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Financial instruments at fair value through other comprehensive income (continued)

(3) Realization of financial instruments at fair value through other comprehensive subject to restrictions

Item	Reasons for restriction	Book value of 30 June 2020	Book value of beginning of the year
Corporate debt	Pledged for bond lending		105,446,965.57
Corporate debt	pledge for repurchase financing	634,815,090.20	304,217,724.98
Government debt	Pledge for refinancing operations	158,852,709.05	

11. Long-term equity investments

(1) By categories

Item	30 June 2020	31 December 2019
Long-term equity investment based on equity method	1,083,927,330.24	1,133,435,870.73
Total	1,083,927,330.24	1,133,435,870.73
Less: Impairment loss	24,623,420.32	28,714,472.06
Net long-term equity investment	1,059,303,909.92	1,104,721,398.67

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Long-term equity investments (continued)

(2) Investment in associates

Investee	Opening balance	Additional investment	Reducing investment	Investment gains and losses recognized under the equity method	Other comprehensive income adjustment	Other changes in equity	Declare cash dividends or profits	Provision for impairment	Others	Closing balance	Impairment provision year-end balance
Henan Huatai Grain and Oil Machinery Co., Ltd.	5,579,735.71			-110,585.71						5,469,150.00	
Henan Zhongping Financing Guarantee Co., Ltd.	52,200,889.90			832,125.71						53,033,015.61	
Henan Longfengshan Agriculture and Animal Husbandry Co., Ltd.	17,519,254.85			333,639.51						17,852,894.36	
Zhengzhou Nongtao E-commerce Co., Ltd.	1,274,705.60			-1,317.32						1,274,705.60	12,204,617.53
CSI Jiaotong Fund Management Co., Ltd.	19,835,305.24			-50,391.49						19,833,987.92	
Henan Investment Realistic Communication Co., Ltd.	992,080.16									941,688.67	
Henan Shengrong Juyuan Venture Capital Fund (Limited Partnership)	80,998,741.81			-207,718.62						80,791,023.19	
Xiping Zhongding Brilliant Zhiyuan Investment Center (Limited Partnership)	3,812,049.50			-66,797.92						3,745,251.58	
Puyang Chuangying Industrial Investment Fund Co., Ltd.	1,992,281.38			-39,992.41						1,952,288.97	
Shangcai Zhongding Industrial Development Investment Fund (Limited Partnership)	2,468,612.19			-21,094.40						2,447,517.79	
Xinxiang Zhongding Technology Achievement Transformation Fund (Limited Partnership)	19,943,316.40			89,735.64						20,033,052.04	
Luoyang Guohong CSI Industry Development Investment Fund (Limited Partnership)	12,318,282.64			-211,437.38						12,106,845.26	
Henan Jinding Shengyuan Equity Investment Fund (Limited Partnership)	58,116,367.08			-577,012.24						57,539,354.84	
Luoyang CSI Technology Innovation Venture Capital Fund (Limited Partnership)	11,042,157.20			34,534.20						11,076,691.40	
Luohu Huairui Permanent Magnetic Material Co., Ltd.	1,500,000.00									1,500,000.00	3,389,755.50
Henan Zhonglian Equipment Manufacturing Technology Research Center Co., Ltd.	19,937,646.79			-9,602.39						19,928,044.40	
Zhongyuan Environmental Capital Technology Co., Ltd.	16,730,192.94			-149,722.56						16,580,470.38	
Henan Carat Diamond Co., Ltd.	17,304,512.43		17,304,512.43								
Henan Jiaoguang Rongmedia Cultural Communication Co., Ltd.	3,848,632.97			-24,659.26						3,823,973.71	

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Long-term equity investments (continued)

(2) Investment in associates (continued)

Investee	Opening balance	Additional investment	Reducing investment	Investment gains and losses recognized under the equity method	Other comprehensive income adjustment	Other changes in equity	Declare cash dividends or profits	Provision for impairment	Others	Closing balance	Impairment provision year-end balance
Henan Ruida Pharmaceutical Technology Co., Ltd.											5,059,488.46
Zhengzhou IKEA Anhao Software Technology Co., Ltd.											3,476,571.60
Zhengzhou meets Network Technology Co., Ltd.	3,504,183.50			19,364.27						3,523,547.77	
Zhengzhou Evan Computer Technology Co., Ltd.		4,091,051.74		-19,870.95					-4,091,051.74	11,364,197.83	
Zhengzhou Dahe Zhixin Technology Co., Ltd.	11,384,068.78										
Nanyang Fuxinte Optoelectronics Technology Co., Ltd.	4,292,973.59		4,292,973.59								
Henan Ruifeng Diamond Products Co., Ltd.	6,714,646.13			93,616.76						6,808,262.89	
Zhengzhou Majia Agricultural Technology Co., Ltd.	1,627,082.17			-59,275.48						1,567,806.69	
Henan Liying Environmental Protection Technology Co., Ltd.	22,567,319.13			-37,428.66						22,529,890.47	
Henan Dudu Computer Technology Co., Ltd.	240,000.00									240,000.00	492,987.23
Tangyin County Innovation Industry Investment Fund (Limited Partnership)	1,424,491.30			8,817.57						1,433,308.87	
Minquan County Innovation Industry Investment Fund (Limited Partnership)	21,824,940.16			13,460,592.40						35,285,532.56	
Qingdao Zhongzhou Lanhai Beisheng Investment Management Center (Limited Partnership)	12,184,510.60			-2,519,438.51						9,665,072.09	
Henan Zhongyuan Big Data Trading Center	1,905,707.21			1,443.28						1,907,150.49	
Henan Asset Management Co., Ltd.	562,337,674.45			25,513,933.57	-1,593,552.08		-15,106,290.38			571,151,765.56	
Henan Dahecai Cube Media Holdings Co., Ltd.	30,789,285.43			94,666.07						30,883,951.50	
Hebi Magnesium Trading Center Co., Ltd.	10,046,758.18			-121,731.22						9,925,026.96	
Shangcai Fengtuo Agriculture and Forestry Technology Co., Ltd.	4,989,454.94			-553,877.03						4,435,577.91	
2242257OntarioInc	8,040,501.72			-916,085.19						7,124,416.53	
Luoyang Jianlong Weina New Material Co., Ltd.	41,904,590.51										
Luoyang Desheng Biotechnology Co., Ltd.	11,528,446.08						-2,257,900.00		-39,646,690.51	11,528,446.08	
Total	1,104,721,398.67	25,688,537.76	25,688,537.76	34,784,430.24	-1,593,552.08	-17,364,190.38	-35,555,638.77	1,059,303,909.92	24,623,420.32		

From January to June, 2020 the Company believes that there is no additional impairment provision.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Investment properties

Item	Buildings and structures	Total
Original book value		
1. Opening balance	33,882,398.45	33,882,398.45
2. Increase		
3. Decrease		
4. Closing balance	33,882,398.45	33,882,398.45
Accumulated depreciation and accumulated amortization		
1. Opening balance	16,592,728.52	16,592,728.52
2. Increase	407,372.97	407,372.97
(1) Accrual or amortization	407,372.97	407,372.97
3. Decrease		
4. Closing balance	17,000,101.49	17,000,101.49
Provision for impairment		
1. Opening balance		
2. Increase		
3. Decrease		
4. Closing balance		
Book value		
1. Closing book value	16,882,296.96	16,882,296.96
2. Opening book value	17,289,669.93	17,289,669.93

On 30 June 2020 and 31 December 2019, the Company consider that investment properties should not be calculated impairment loss.

On 30 June 2020 and 31 December 2019, the Company's investment equity has no outstanding property rights certificate.

13. Fixed assets

(1) Book Value

Item	30 June 2020	31 December 2019
Original value of fixed assets	531,794,101.60	529,779,821.41
Less: Accumulative depreciation	352,763,615.65	336,747,594.72
Less: Provision for asset impairments		
Total	179,030,485.95	193,032,226.69

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Fixed assets (continued)

(2) Changes in the increase or decrease of fixed assets

Item	Buildings and structures	Electronic equipment	Transport facilities	Others	Total
Original book value					
1. Opening balance	158,278,328.85	327,231,474.94	24,812,322.59	19,457,695.03	529,779,821.41
2. Increase		3,227,753.01	4,345.39	294,842.48	3,526,940.88
(1) Acquisition		3,227,753.01	4,345.39	294,842.48	3,526,940.88
(2) Transferred in from investment properties					
3. decrease		1,375,392.81		203,443.83	1,578,836.64
(1) Disposal or scrap		1,375,392.81		203,443.83	1,578,836.64
4. Difference by foreign currency		34,835.79	27,788.14	3,552.02	66,175.95
5. Closing balance	158,278,328.85	329,118,670.93	24,844,456.12	19,552,645.70	531,794,101.60
Accumulative depreciation					
1. Opening balance	53,520,896.87	248,099,802.88	19,399,453.69	15,727,441.28	336,747,594.72
2. Increase	2,080,089.99	14,250,700.09	605,014.07	425,237.92	17,361,042.07
(1) Accrual	2,080,089.99	14,250,700.09	605,014.07	425,237.92	17,361,042.07
(2) Transferred in from investment properties					
3. Decrease		1,207,318.71		172,412.66	1,379,731.37
(1) Disposal or scrap		1,207,318.71		172,412.66	1,379,731.37
4. Difference from foreign currency translation		16,609.22	15,438.68	2,662.33	34,710.23
5. Closing balance	55,600,986.86	261,159,793.48	20,019,906.44	15,982,928.87	352,763,615.65
Provision for impairment					
1. Opening balance					
2. Increase					
3. Decrease					
4. Closing balance					
Book value					
1. Closing book value	102,677,341.99	67,958,877.45	4,824,549.68	3,569,716.83	179,030,485.95
2. Opening book value	104,757,431.98	79,131,672.06	5,412,868.90	3,730,253.75	193,032,226.69

(3) The depreciation of the fixed asset is RMB17,361,042.07.

(4) On 30 June 2020, the Company has no fixed assets that have not completed the title certificate.

(5) On 30 June 2020, the Company has no fixed assets temporarily idle.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. Construction in progress

Item	30 June 2020			31 December 2019		
	Book balance	Impairment loss	Book value	Book balance	Impairment loss	Book value
Office building construction	42,778,403.11		42,778,403.11	35,578,119.28		35,578,119.28
Total	42,778,403.11		42,778,403.11	35,578,119.28		35,578,119.28

15. Right-of-use assets

Item	Buildings and structures	Total
Original book value		
1. Opening balance	242,281,992.72	242,281,992.72
2. Increase	30,559,034.45	30,559,034.45
(1) Rent in	30,559,034.45	30,559,034.45
3. Decrease	5,323,866.51	5,323,866.51
(1) Lease expires	5,323,866.51	5,323,866.51
4. Difference by foreign currency	779,354.05	779,354.05
5. Closing balance	268,296,514.71	268,296,514.71
Accumulative depreciation		
1. Opening balance	57,304,296.65	57,304,296.65
2. Increase	38,604,231.02	38,604,231.02
(1) Accrual	38,604,231.02	38,604,231.02
3. Decrease	4,616,751.91	4,616,751.91
(1) Lease expires	4,616,751.91	4,616,751.91
4. Difference by foreign currency	193,098.79	193,098.79
5. Closing balance	91,484,874.55	91,484,874.55
Book value		
1. Opening balance	176,811,640.16	176,811,640.16
2. Closing balance	184,977,696.07	184,977,696.07

The Company consider that there is no impairment of Right-of-use assets.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. Intangible assets

(1) Details

Item	Computer software	Seat fee	Land use right	Others	Total
Original book value					
1. Opening balance	223,802,533.75	32,670,730.00	105,480,246.53	2,444,000.00	364,397,510.28
2. Increase	9,338,704.27				9,338,704.27
3. Decrease					
4. Difference by foreign currency		37,912.79			37,912.79
5. Closing balance	233,141,238.02	32,708,642.79	105,480,246.53	2,444,000.00	373,774,127.34
Accumulative depreciation					
1. Opening balance	158,027,648.53	31,558,283.56	15,162,785.22	2,438,833.51	207,187,550.82
2. Increase	12,771,299.44	24,999.96	1,318,503.06	5,166.49	14,119,968.95
3. Decrease					
4. Difference by foreign currency					
5. Closing balance	170,798,947.97	31,583,283.52	16,481,288.28	2,444,000.00	221,307,519.77
Impairment allowance					
1. Opening balance					
2. Increase					
3. Decrease					
4. Closing balance					
Book value					
1. Opening balance	62,342,290.05	1,125,359.27	88,998,958.25		152,466,607.57
2. Closing balance	65,774,885.22	1,112,446.44	90,317,461.31	5,166.49	157,209,959.46

(2) The amortization amount of intangible assets was RMB14,119,968.95 for the period ended 30 June 2020.

(3) On 30 June 2020 and 31 December 2019, the Company has no significant intangible assets used as collateral or guarantee.

(4) Details of transaction seat fees

Item	Original balance	31 Dec. 2019	Amortized or transferred	Accumulated amortization or roll-out	Difference by foreign currency	30 Jun 2020
Shanghai Stock Exchange A shares	19,462,500.00			19,462,500.00		
Shenzhen Stock Exchange A shares	11,812,450.00			11,812,450.00		
National SME Stock Transfer System Co., Ltd.	500,000.00	216,666.44	24,999.96	308,333.52		191,666.48
Hong Kong Stock Exchange	876,200.00	895,780.00			37,912.79	933,692.79
Total	32,651,150.00	1,112,446.44	24,999.96	31,583,283.52	37,912.79	1,125,359.27

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Deferred income tax assets and deferred income tax liabilities

(1) Confirmed deferred income tax assets and deferred income tax liabilities

Item	30 June 2020	31 December 2019
Deferred income tax assets		
Provision for asset impairment	212,323,484.38	177,525,697.93
Employee benefits payable	105,032,256.46	73,607,160.80
Changes in fair value of financial assets measured at their fair values through profit or loss and derivative financial instruments	95,074,882.57	81,599,266.52
To be carried forward underwriting income and expenditure	4,061,156.23	2,924,615.32
Accrued expenses	2,816,400.44	2,743,228.44
Change in fair value of financial instruments at fair value through other comprehensive income	519,203.73	
Changes in fair value of financial liability measured at their fair values through profit or loss	300,440.58	
Futures risk reserve	105,574.86	105,574.86
Others	14,824,610.30	7,120,149.24
Total	435,058,009.55	345,625,693.11
Deferred income tax liabilities		
Changes in fair value of Financial liabilities measured at their fair values through profit or loss and derivative financial instruments	6,783,924.75	5,499,688.98
Changes in fair value off financial assets through other comprehensive income		1,761,757.05
Changes in fair value of Financial liability measured at their fair values through profit or loss		779,484.35
Others	4,765,745.03	217,354.09
Total	11,549,669.78	8,258,284.47

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Deferred income tax assets and deferred income tax liabilities (Continued)

(2) Temporary difference items

Item	30 June 2020	31 December 2019
Deductible temporary differences		
Provision for asset impairment	895,821,268.28	754,884,181.04
Changes in fair value of financial assets measured at their fair values through profit or loss and derivative financial instruments	449,980,765.38	400,855,489.22
Employee benefits payable	420,129,025.84	294,428,643.20
To be carried forward underwriting income and expenditure	16,244,624.92	11,698,461.28
Accrued expenses	11,265,601.76	10,972,913.76
Change in fair value of financial instruments at fair value through other comprehensive income	2,076,814.90	
Changes in fair value of financial liability measured at their fair values through profit or loss	1,201,762.32	
Futures risk reserve	422,299.44	422,299.44
Others	72,815,791.31	28,480,596.96
Total	1,869,957,954.15	1,501,742,584.90
Taxable temporary difference		
Changes in fair value of Financial liabilities measured at their fair values through profit or loss and derivative financial instruments	27,135,699.00	21,998,755.92
Changes in fair value off financial assets through other comprehensive income		7,047,028.21
Changes in fair value of Financial liability measured at their fair values through profit or loss		3,117,937.40
Others	19,062,980.12	869,416.36
Total	46,198,679.12	33,033,137.89

- (3) It is possible for the Company to acquire taxable income offsetting deductible temporary differences. Thus the Company recognized the deferred tax assets.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. Goodwill

Investee	31 December 2019	Generated from business combination in the current period	Difference from foreign currency translation	31 December 2019	20 June 2020 Impairment loss
Central China Futures Co., Ltd.	7,268,756.37			7,268,756.37	
Central China Financing International Co., Ltd.	15,103,058.09		297,751.69	15,400,809.78	
Total	22,371,814.46		297,751.69	22,669,566.15	

- (1) In 2007, the Company acquired 55.68% of Central China Futures Co., Ltd. (Original name: Yuliang Futures Brokerage Co., Ltd.). The difference between the fair value of the identifiable assets and liabilities of Central China Futures Co., Ltd. obtained by the merger cost exceeding the proportion is recognized as goodwill related to Central China Futures Co., Ltd.
- (2) Goodwill of the Group arose from its acquisition of 100% of Central China International Financial Holdings Co., Ltd. (Original name: Fan Asia Corporate Finance Limited) in 2016 with a merger consideration HKD24,416,272.00. The recognition of fair value is HKD7,556,040.59 and the difference is HKD16,860,231.41, which is converted into goodwill at the exchange rate of RMB15,400,809.78 on 30 June 2020.
- (3) The main cash flow generated by the above invested unit is independent of the other subsidiaries, and the Company separately manages the above subsidiaries. Therefore, each subsidiary is an asset group and the goodwill formed by the business combination with separately impairment test. The recoverable amount of the Company's goodwill is determined by the method of estimating the present value of future cash flows. The discount of cash flow is calculated using an appropriate discount rate and reflects the specific risks of the relevant asset group. As of 30 June 2020, the Company's carrying amount of the goodwill through an impairment test, and it is expected that the recoverable amount has not resulted in the recognition of impairment losses, and no corresponding impairment provision has been made.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. Other assets

(1) Details

Item	30 June 2020	31 December 2019
Other receivables	161,178,380.15	165,575,875.56
Deferred expense	9,880,053.65	9,218,414.91
Long-term deferred expense	25,261,591.66	29,329,480.40
Pending underwriting expenses	847,835.33	415,675.06
Entrusted Loan	11,749,988.41	13,828,588.41
Loan	993,181,555.45	1,074,197,140.31
Commodity inventory	189,574,552.67	120,615,640.34
Temporary payment	26,797,066.45	10,123,099.45
Account receivable security	10,057,563.40	10,056,957.85
Pending deduct VAT on purchase	7,096,527.18	5,509,223.08
Futures Membership	1,400,000.00	1,400,000.00
Interest receivable	4,528,872.60	3,107,002.04
Others	4,194,425.47	2,721,932.28
Total:	1,445,748,412.42	1,446,099,029.69

(2) Other receivables

1) Details

Item	30 June 2020	31 December 2019
Prepayments	53,603,688.48	40,042,809.83
Deposits	42,641,297.90	27,208,048.47
Equity transfer fund	28,000,000.00	40,000,000.00
Debt receivable	20,362,194.40	20,561,469.28
Security deposits	12,553,794.01	34,175,791.81
With holding payment	6,044,312.32	116,438.31
Others	19,969,914.69	24,662,526.39
Less: Provision for asset impairment	21,996,821.65	21,191,208.53
Book value	161,178,380.15	165,575,875.56

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. Other assets (continued)

(2) Other receivables (continued)

2) By evaluation method

Item	30 June 2020			31 December 2019		
	Book balance	Provision for bad debts	Proportion (%)	Book balance	Provision for bad debts	Proportion (%)
Separate provision for bad debts	66,024,543.20	16,951,122.44	25.67	81,267,704.86	16,592,568.75	20.42
Subtotal	66,024,543.20	16,951,122.44		81,267,704.86	16,592,568.75	
Combination provision for bad debts						
Within 1 year	82,289,834.08	411,449.19	0.50	81,113,192.09	405,566.08	0.50
1-2 year	21,446,788.97	1,072,339.45	5.00	13,902,884.24	695,144.21	5.00
2-3 year	6,141,218.36	614,121.83	10.00	2,924,366.68	292,436.67	10.00
3-4 year	1,526,130.32	305,226.06	20.00	1,178,726.47	235,745.29	20.00
4-5 year	1,153,903.80	346,171.14	30.00	1,101,786.73	330,536.02	30.00
More than 5 year	4,592,783.07	2,296,391.54	50.00	5,278,423.02	2,639,211.51	50.00
Subtotal	117,150,658.60	5,045,699.21		105,499,379.23	4,598,639.78	
Total	183,175,201.80	21,996,821.65		186,767,084.09	21,191,208.53	

3) At the end of the period, there are no accounts receivable from related parties.

(3) Long-term deferred expense

Item	31 December 2019	Increase	Deferred	Decrease	30 June 2020
Decoration expense. etc.	29,329,480.40	2,820,171.46	6,878,881.79	9,178.41	25,261,591.66
Total	29,329,480.40	2,820,171.46	6,878,881.79	9,178.41	25,261,591.66

(4) Entrusted Loan

Item	30 June 2020	31 December 2019
Entrusted Loan	34,633,051.35	34,633,051.35
Less: Provision for asset impairments	22,883,062.94	20,804,462.94
Book value	11,749,988.41	13,828,588.41

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. Other assets (continued)

(5) Loan

1) By categories

Item	30 June 2020	31 December 2019
Individual	48,368,971.42	51,830,380.83
Agency	1,032,749,037.74	1,105,263,879.41
Less: Provision for asset impairments	87,936,453.71	82,897,119.93
Book value	993,181,555.45	1,074,197,140.31

Henan Central China Micro-lending Company Limited, a subsidiary of the Company, has started its loan business in 2017 and has mainly borrowed money from third parties at an annual interest rate of 7.125% to 13%.

2) The way of increasing credit

Item	30 June 2020	31 December 2019
Mortgage loan	24,766,170.43	33,511,383.51
Pledge loan	80,519,433.36	73,270,550.00
Guaranteed loan	962,197,643.78	1,033,539,382.84
Credit loan	13,634,761.59	16,772,943.89
Less: Provision for asset impairments	87,936,453.71	82,897,119.93
Book value	993,181,555.45	1,074,197,140.31

3) The change of loan impairments

Item	31 December 2019	Accrual	30 June 2020
Impairment loss of loan	82,897,119.93	5,039,333.78	87,936,453.71
Total	82,897,119.93	5,039,333.78	87,936,453.71

20. Financing out securities

Item	30 June 2020	31 December 2019
Financing out securities	5,741,019.29	5,410,131.09
— Financial asset at fair value through profit or loss	5,741,019.29	5,410,131.09

As of 30 June 2020 and 31 December 2019, the Company's securities lending activity has no major contract overdue.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. Details of provision for asset impairment

(1) By changing details

Item	31 December 2019	Increase	Decrease Turn back	Transfer out	Difference from foreign currency translation	30 June 2020
Provision for impairment of financing	70,996,690.11	3,534,539.32			1,124,754.59	75,655,984.02
Provision for bad debts	34,780,640.76	1,401,195.17	83,246.69	406,715.70	4,724.05	35,696,597.59
Provision for impairment of financial assets held under resale agreement	403,489,034.92	112,840,185.71				516,329,220.63
Provision for impairment of Financial instruments measured at amortised cost	141,119,101.26	7,308,545.49	635,404.13		1,479,764.88	149,272,007.50
Provision for impairment of financial instruments at fair value through other comprehensive income	200,655.09	8,018,376.66				8,219,031.75
Provision for impairment of other assets	7,558,888.38	899,999.99				8,458,888.37
Provision for impairment of loan	82,897,119.93	5,039,333.78				87,936,453.71
Provision for impairment of entrusted loan	20,804,462.94	2,078,600.00				22,883,062.94
Subtotal	761,846,593.39	141,120,776.12	718,650.82	406,715.70	2,609,243.52	904,451,246.51
Provision for impairment of long-term equity investments	28,714,472.06			4,091,051.74		24,623,420.32
Provision for inventory falling price	65,078.02	22,934,995.27		22,870,717.82		129,355.47
Subtotal	28,779,550.08	22,934,995.27		26,961,769.56		24,752,775.79
Total	790,626,143.47	164,055,771.39	718,650.82	27,368,485.26	2,609,243.52	929,204,022.30

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. Details of provision for asset impairment (continued)

(2) Provision for financial instruments and other items impairment

Item	30 June 2020			
	Expected credit losses in the next 12 months	Expected credit loss for the entire duration (No credit impairment)	Credit impairment	Total
Provision for impairment of financing	15,658,373.06	104,697.56	59,892,913.40	75,655,984.02
Provision for bad debts (simplified model)		8,434,531.97	27,262,065.62	35,696,597.59
Provision for impairment of financial assets held under resale agreement	6,112,691.04		510,216,529.59	516,329,220.63
Provision for impairment of financial instruments measured at amortised cost	74,476.46		149,197,531.04	149,272,007.50
Provision for impairment of financial instruments at fair value through other comprehensive income	8,219,031.75			8,219,031.75
Provision for impairment of other assets			8,458,888.37	8,458,888.37
Provision for impairment of loan	5,729,827.64	811,631.69	81,394,994.38	87,936,453.71
Provision for impairment of entrusted loan			22,883,062.94	22,883,062.94
Total	35,794,399.95	9,350,861.22	859,305,985.34	904,451,246.51

Item	31 December 2019			
	Expected credit losses in the next 12 months	Expected credit loss for the entire duration (No credit impairment)	Credit impairment	Total
Provision for impairment of financing	15,285,375.88		55,711,314.23	70,996,690.11
Provision for bad debts (simplified model)		8,153,255.34	26,627,385.42	34,780,640.76
Provision for impairment of financial assets held under resale agreement	995,343.00	541,515.64	401,952,176.28	403,489,034.92
Provision for impairment of financial instruments measured at amortised cost	709,880.59		140,409,220.67	141,119,101.26
Provision for impairment of financial instruments at fair value through other comprehensive income	200,655.09			200,655.09
Provision for impairment of other assets			7,558,888.38	7,558,888.38
Provision for impairment of loan	7,501,815.14		75,395,304.79	82,897,119.93
Provision for impairment of entrusted loan			20,804,462.94	20,804,462.94
Total	24,693,069.70	8,694,770.98	728,458,752.71	761,846,593.39

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22. Short-term loans

Item	30 June 2020	31 December 2019
Credit borrowing (note 1)	579,246,579.61	1,067,700,654.19
Pledge borrowing (note 2)	31,056,960.00	85,811,114.11
Guaranteed borrowing (note 3)	670,571,238.27	415,236,129.54
Total	1,280,874,777.88	1,568,747,897.84

Note 1: As of 30 June 2020 credit loans included loans from subsidiaries CCIFHC and Henan Central China Micro-lending. Central China International apply for loans from Minsheng Bank Co., Ltd. Hong Kong Branch, China Merchants Yong Long Bank Co., Ltd., and Jiyou Bank Co., Ltd., with a loan period not exceeding 1 year and the loan interest rate was between approximately Hibor +1.7% and Hibor +3.25%. Credit borrowings also included amounts borrowed by subsidiaries Central China International in the form of syndicated loans through China Merchants Yong Long Bank Co., Ltd, JiYou Bank Co., Ltd., and Jiangsu Bank Co., Ltd., at annual interest rates ranging from Hibor +3.0% (1 month) to Hibor +3.0% (3 months).

Henan Central China Micro-lending apply loans from Jiaozuo China Travel Bank Co., Ltd. and the life of loan shall not exceed 1 year, and the loan interest rate shall be between 5.22%.

Note 2: As of 30 June 2020, Central China International pledges bonds as a collateral and applies for loans from ICBC International Securities Limited. The life of loan shall not exceed 1 year and the annual interest rate shall be 4.5%.

Note 3: As of 30 June 2020, Guaranteed loan is the amount borrowed by the subsidiary Central China International through China Merchants Yong Long Bank Co., Ltd. and China Merchants Bank Co., Ltd. Hong Kong Branch, China Construction Bank (Asia) Co., Ltd in the form of domestic guarantee and external loans with interest rate between Hibor +2.5% and Hibor +4.0%

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23. Short-term financing instruments payable

Item	Par value	Start Date	Period	Issuing amount	Coupon rate	Book balance of		Decrease	Book balance of
						31 Dec. 2019	Increase		30 Jun. 2020
17 Central China 01 (note 1)	1,500,000,000.00	26 July 2017	3 years	1,500,000,000.00	5.15%	1,533,651,369.85	38,519,178.07		1,572,170,547.92
17 Central China 02 (note 1)	1,000,000,000.00	17 November 2017	3 years	1,000,000,000.00	5.49%	1,006,768,493.23	27,374,794.54		1,034,143,287.77
18 Central China 01 (note 1)	1,500,000,000.00	27 April 2018	3 years	1,500,000,000.00	5.58%		1,515,134,794.40		1,515,134,794.40
19 Central China F1 (note 2)	1,500,000,000.00	16 April 2019	1 year	1,500,000,000.00	3.80%	1,540,446,575.35	16,553,424.65	1,557,000,000.00	
Income certificates (note 3)	545,017,000.00	From 3 January to	14-182 days	545,017,000.00	2.30%-6.18%	374,580,686.32	1,372,735,720.65	1,200,802,509.82	546,513,897.15
		30 June 2020							
Total	6,045,017,000.00			6,045,017,000.00		4,455,447,124.75	2,970,317,912.31	2,757,802,509.82	4,667,962,527.24

Note 1: According to the resolution of the Central China Securities Co., Ltd., on the Company's issuance of domestic and foreign debt financing instruments and related authorizations adopted by the Company's third extraordinary shareholders' meeting in 2015, the Shanghai Stock Exchange "Letter on Objection to the Non-Public Issuance of subordinated bonds of Central China Securities Co., Ltd.," (Shangzheng [2017] No. 586), the Company can non-public issue subordinated bonds with a total amount of less than RMB10 billion to qualified investors. on 25 July 2017, the Company issued the first subordinated bonds of 2017 with a face value of RMB1.5 billion and debt maturity of 3 years, the coupon rate was 5.15%; on 16 November 2017, the Company issued the second subordinated bonds of 2017 with a face value of RMB1 billion, maturity of 3 years, and a coupon rate of 5.49%; On 26 April 2018, the Company issued the first subordinated debt of 2018 with a face value of RMB1.5 billion and debt maturity of 3 years, the coupon rate was 5.58%

Note 2: According to the resolution of the Company's 2015 third interim shareholders' meeting, the Shanghai Stock Exchange "Letter on Objection to the Non-Public Issuance of Corporate Bonds of Central China Securities Co., Ltd.," (Shangzheng [2019] No. 132), the Company can non-public issue corporate bonds with a total amount of less than RMB5 billion to qualified investors. On 15 April 2019, the Company issued RM1.5 billion of bonds with maturity of one year and a coupon rate of 3.80%.

Note 3: As of 30 June 2020, the Company's surviving income certificates include Rongyi series income certificates of RMB300,000,000.00 and Jinyi series income certificates of RMB131,590,000.00, and Zunyi series income certificates of RMB105,273,000.00, and Xinyi series income certificates of RMB8,514,000 with interest rate between 2.30% to 6.18% in 14-182 days.

Note 4: On 30 June 2020, short-term financing instruments payable include subordinated debt, income certificates which period less than 1 year (include 1 year).

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. Due to banks and other financial institutions

(1) Details

Item	30 June 2020	31 December 2019
Due to banks	900,577,500.00	2,361,159,583.32
Capital from refinancing	1,708,073,611.12	
Total	2,608,651,111.12	2,361,159,583.32

(2) Residual maturity of capital from refinancing

Item	30 June 2020 Balance	Rate	31 December 2019 Balance	Rate
Within 1 month				
1-3 months	807,592,361.11	2.75%		
3-12 months	900,481,250.01	3.25%		
Over 1 year				
Total	1,708,073,611.12			

25. Financial liabilities at fair value through profit or loss

Item	Classified into financial liabilities at fair value through profit or loss	30 June 2020 Fair value Financial assets designated as at fair value through profit or loss	Total
Bonds	271,035,283.57		271,035,283.57
Included in the scope of consolidation and classified as financial liabilities at fair value through profit or loss	540,736,944.56		540,736,944.56
Total	811,772,228.13		811,772,228.13

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

25. Financial liabilities at fair value through profit or loss (continued)

Item	31 December 2019 Fair value		Total
	Classified into financial liabilities at fair value through profit or loss	Financial assets designated as at fair value through profit or loss	
Bonds	714,792,262.30		714,792,262.30
Included in the scope of consolidation and classified as financial liabilities at fair value through profit or loss	399,760,116.86		399,760,116.86
Total	1,114,552,379.16		1,114,552,379.16

In the consolidated financial statements, because the Company is obliged to pay other investors on the maturity date of the structured entity according to the net book value and the relevant terms of the structured entity, the Company classifies the financial liabilities generated by the merged structured entity as financial liabilities at fair value through profit or loss.

26. Financial assets sold under repurchase agreements

(1) By categories

Item	30 June 2020	31 December 2019
Sell-out repo	1,694,296,222.38	357,042,328.08
Pledge sell repo	8,792,582,161.31	7,362,059,631.32
Income right repo for margin trading and short selling	602,522,222.22	1,001,986,666.67
Total	11,089,400,605.91	8,721,088,626.07

(2) By subject categories

Item	30 June 2020	31 December 2019
Bond	10,486,878,383.69	7,719,101,959.40
Financing and margin trading rights	602,522,222.22	1,001,986,666.67
Total	11,089,400,605.91	8,721,088,626.07

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26. Financial assets sold under repurchase agreements (continued)

(3) Collateral information of financial assets sold for repurchase

Item	Fair value on 30 June 2020	Fair value on 31 December 2019
Bond	11,738,360,319.30	8,602,600,556.80
Financing and margin trading rights	700,263,404.60	1,152,922,141.97
Total	12,438,623,723.90	9,755,522,698.77

27. Accounts payable to brokerage clients

(1) Details

Item	30 June 2020	31 December 2019
General brokerage business		
Individual	9,237,274,022.24	7,786,190,760.54
Institution	694,883,000.28	359,523,577.32
Subtotal	9,932,157,022.52	8,145,714,337.86
Credit business		
Individual	958,095,336.37	726,216,894.89
Institution	28,230,464.97	23,135,708.59
Subtotal	986,325,801.34	749,352,603.48
Total	10,918,482,823.86	8,895,066,941.34

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

28. Employee benefits payable

(1) Details

Item	31 December 2019	Increase	Decrease	30 June 2020
Short-term bonus	451,722,664.96	424,762,469.09	427,043,365.26	449,441,768.79
Post-employment benefit — defined contribution plans	26,110,079.86	30,495,013.12	32,496,977.51	24,108,115.47
Dismissal benefit	833,577.01	264,962.22	367,038.06	731,501.17
Total	478,666,321.83	455,522,444.43	459,907,380.83	474,281,385.43

(2) Short-term benefits

Item	31 December 2019	Increase	Decrease	30 June 2020
Wages, bonuses, allowances and subsidies,	366,173,608.87	369,702,351.62	383,347,682.34	352,528,278.15
Employee welfare		6,923,644.66	6,921,989.05	1,655.61
Social insurance contribution	3,860.97	10,508,643.04	10,485,206.17	27,297.84
Including: Medical insurance	3,626.87	10,047,845.98	10,030,193.35	21,279.50
Work-related injury insurance	39.00	71,919.14	71,242.65	715.49
Maternity insurance	195.10	211,523.20	206,415.45	5,302.85
Supplementary medical insurance		177,354.72	177,354.72	
Housing fund	1,680.00	21,607,157.14	21,600,119.14	8,718.00
Labor union expenditure and employee education fund	85,543,515.12	16,020,672.63	4,688,368.56	96,875,819.19
Total	451,722,664.96	424,762,469.09	427,043,365.26	449,441,768.79

(3) Post-employment benefit — defined contribution plans

Item	31 December 2019	Increase	Decrease	30 June 2020
Basic pension	3,902.40	6,184,806.97	6,106,833.57	81,875.80
Unemployment insurance	97.50	287,761.90	282,659.98	5,199.42
Enterprise annuity payment	26,106,079.96	24,022,444.25	26,107,483.96	24,021,040.25
Total	26,110,079.86	30,495,013.12	32,496,977.51	24,108,115.47

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29. Taxes payable

Item	30 June 2020	31 December 2019
Business income tax	97,623,360.45	48,599,122.69
Individual income tax	3,299,389.78	4,573,376.31
VAT	5,385,873.57	3,102,504.44
Urban maintenance and construction tax	737,893.98	280,019.95
Educational surcharge	525,561.14	198,177.40
Property tax	393,355.40	107,588.35
Land use charge	59,466.58	6,823.78
Others	102,152.60	118,397.78
Total	108,127,053.50	56,986,010.70

30. Accounts payable

Item	30 June 2020	31 December 2019
Including: Open-end fund liquidation	81,780,931.18	112,837,882.61
Securities liquidation	3,344,094.20	54,069,595.58
Bank custody fee	3,552,792.54	4,701,892.05
Others	9,233,345.29	11,471,761.30
Total	97,911,163.21	183,081,131.54

31. Contract liabilities

Item	30 June 2020	31 December 2019
Expense and commission advance payment	16,453,115.31	16,421,359.42
Trade advance	10,572,006.63	563,000.00
Others		3,460,493.15
Total	27,025,121.94	20,444,852.57

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

32. Long-term borrowings

(1) By categories

Item	30 June 2020	31 December 2019
Credit borrowing	9,324,740.83	13,202,955.17
Total	9,324,740.83	13,202,955.17

Note: As of 30 June 2020, the credit borrowing was that the subsidiary Henan Central China Micro-lending borrowed through Jiaozuo China Travel Bank. The loan period was 3 years, and the annual interest rate of the loan was 20% higher than the pricing base rate on the actual withdrawal date of the borrowing.

33. Bonds payable

Item	Face value	Start Date	Period	Issuing amount	Coupon rate	31 December 2019 book balance	Increase	Decrease	30 June 2020 book balance
18 Central China 01 (note1/4)	1,500,000,000.00	27 April 2018	3 years	1,500,000,000.00	5.58%	1,557,099,451.95	41,735,342.45	1,598,834,794.40	
19 Central China C1 (note1)	1,000,000,000.00	30 October 2019	3 years	1,000,000,000.00	4.90%	1,008,457,534.25	24,432,876.72		1,032,890,410.97
19 Central China 01 (note2)	2,000,000,000.00	26 March 2019	3 years	2,000,000,000.00	3.90%	2,058,383,389.76	39,206,642.19	78,003,900.00	2,019,586,131.95
20 Central China C1 (note3)	1,500,000,000.00	23 April 2020	3 years	1,500,000,000.00	4.08%		1,511,569,315.07		1,511,569,315.07
Total	6,000,000,000.00			6,000,000,000.00		4,623,940,375.96	1,616,944,176.43	1,676,838,694.40	4,564,045,857.99

Note 1: According to the resolution of the Central China Securities Co., Ltd., on the issuance of domestic and foreign debt financing instruments and related authorizations of the Company by the third interim shareholders' meeting in 2015. On 26 April 2018, the Company issued the first subordinated debt, with a face value of RMB1.5 billion, the maturity of 3 years, and coupon rate of 5.58%; on 29 October 2019, the Company issued the first subordinated debt of 2019 with a face value of RMB1 billion and a bond maturity of 3 years, the coupon rate was 4.90%.

Note 2: According to the resolution of the Company's 2015 third interim shareholders' meeting, the Company was approved by the China Securities Regulatory Commission's "the Approval of Central China Securities Co., Ltd.'s Public Issuance of Corporate Bonds to Qualified Investors" (Zhongjian License [2019] 326), the Company issue corporate bonds with a total face value not exceeding RMB3 billion to qualified investors. On 25 March 2019, the company issued RMB2 billion of bonds with a maturity of 3 years and a coupon rate of 3.90%.

Note 3: According to the resolution of the Company's 2019 first 2019 the first extraordinary Shareholders' meeting, the Company was approved by the Shanghai Stock Exchange issued the "Letter of Objection to The Listing and Transfer of Bonds issued by Non-Public Subordinated Companies of Central China Securities Co., Ltd. (SSE Letter [2020] No. 544), the Company can non-public issue subordinated bonds with a total amount of not more than RMB3 billion to qualified investors. On 22 April 2020, the company issued RMB1.5 billion of bonds with a maturity of 3 years and a coupon rate of 4.08%.

Note 4: On 30 June 2020, 18 Central China 01 remain period less than 1 year and are recognized as short-term financing instruments payable.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

34. Lease liabilities

Item	30 June 2020	31 December 2019
Lease liabilities	172,664,352.79	177,837,189.74
Include: less than 1 year	62,197,102.85	86,390,791.78
Total	172,664,352.79	177,837,189.74

The Company's lease liabilities are buildings. The Company rent buildings to be offices for 1-5 years.

35. Others liabilities

(1) Details

Item	30 June 2020	31 December 2019
Others payable	239,844,440.70	342,539,563.07
Investor protection fund	5,029,314.36	4,110,068.54
Futures risk reserve	23,467,322.12	22,454,322.10
Others	16,593,926.29	24,448,593.83
Total	284,935,003.47	393,552,547.54

(2) Other payable

Item	30 June 2020	31 December 2019
Equity transfer	114,180,000.00	111,972,500.00
Warehouse receipt quality deposit (note 1)	59,669,960.00	61,884,600.00
With holding supervision fees, rent, utilities, etc.	23,936,521.55	11,973,830.85
Asset management plan share transfer payable (note 2)	3,075,000.00	89,549,125.00
Others	38,982,959.15	67,159,507.22
Total	239,844,440.70	342,539,563.07

Note 1: The Company since warehouse receipt quality deposit to set up the book value of commodity inventory is RMB74,587,450.00.

Note 2: As of 30 June 2020, the asset management plans of Lianmeng No. 17 and Zhongjing No. 1 asset management Plan by the Company were overdue. Due to contract fraud at the bottom financier, the public security organ has investigated and sealed up related assets. The Company counts the assets corresponding to the asset management plan share held 244 million yuan in financial assets measured at amortized costs and counts others 3 million in other payable.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35. Others liabilities (continued)

(3) Futures risk reserve

The Company's subsidiary, Central China Futures Co., Ltd. according to the "Provisional Regulations on the Financial Management of Commodity Futures Trading", calculates the futures risk reserve based on 5% of the net income of the futures brokerage business fee income minus the futures exchange fee and pays it to the current profit and loss. When the risk reserve is used to make up for losses due to its own reasons or when the risk loss that is difficult to recover risk losses, the balance of the futures risk reserve is offset.

36. Share capital

Item	Opening balance	Issued	Bound issue	Increase/Decrease Shares transferred from housing fund	Other	subtotal	Closing balance
Total share capital	3,869,070,700.00						3,869,070,700.00

37. Capital reserve

Item	31 December 2019	Increase	Decrease	30 June 2020
Premium on capital stock	3,731,847,252.71			3,731,847,252.71
Others	-244,609,466.75			-244,609,466.75
Total	3,487,237,785.96			3,487,237,785.96

38. Other comprehensive income

Item	31 December 2019	Current period cumulative before income tax	Less: Income tax	Current Amount Less: OCI carried forward transferred to profit or loss	Total	Attributable to the parent company after tax	Attributable to minority shareholder after	30 June 2020
OCI to be reclassified subsequently to profit or loss	36,543,591.23	4,042,443.24	-276,366.61		4,318,809.85	4,318,809.85		40,862,401.08
Include: the change of the fair value of OCI	5,285,271.17	-9,123,843.11	-2,280,960.78		-6,842,882.33	-6,842,882.33		-1,557,611.16
Credit impairment allowance of OCI	150,491.31	8,018,376.66	2,004,594.17		6,013,782.49	6,013,782.49		6,164,273.80
Other comprehensive income convertible to profit or loss under the equity method	2,251,346.29	-1,593,552.08			-1,593,552.08	-1,593,552.08		657,794.21
Difference by foreign currency	28,856,482.46	6,741,461.77			6,741,461.77	6,741,461.77		35,597,944.23
Total	36,543,591.23	4,042,443.24	-276,366.61		4,318,809.85	4,318,809.85		40,862,401.08

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

39. Surplus reserve

Item	31 December 2019	Increase	Decrease	30 June 2020
Statutory surplus reserve	643,670,942.57			643,670,942.57
Arbitrary surplus reserve	164,413,345.39			164,413,345.39
Total	808,084,287.96			808,084,287.96

40. General risk reserve

Item	31 December 2019	Increase	Decrease	30 June 2020
General risk reserve	743,121,780.81			743,121,780.81
Transaction risk reserve	638,917,140.47			638,917,140.47
Total	1,382,038,921.28			1,382,038,921.28

General risk reserves include the general risk reserves and transaction risk reserves provide by the Company and its subsidiaries. For details, please refer to Note IV(24).

41. Retained earnings

Item	For the six months ended 2020	For the six months ended 2019
Retained earnings at the closing of prior year	88,232,726.32	238,731,987.53
Adjusted		
Retained earnings at the beginning of the period	88,232,726.32	238,731,987.53
Add: Net profit attributable to owners of the parent company	30,850,805.92	239,926,940.64
Less: Appropriation of statutory surplus reserve		
Appropriation of arbitrary surplus reserve		
Appropriation to general risk reserve		
Appropriation of transaction risk reserve		
Distribution of common Stock dividends		
Balance at the end of current period	119,083,532.24	478,658,928.17

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

42. Net interest income

Item	For the six months ended 2020	For the six months ended 2019
Interest income	439,282,092.15	547,137,809.41
Include: from cash and clearing settlement funds	127,584,619.62	109,275,983.45
interest income from releasing	206,515,794.29	188,900,054.60
interest income from financial assets held under resale agreement	41,478,616.55	129,200,339.10
Include: interest income from agreed repurchase	460,170.80	892,390.87
interest income from Stock pledge repurchase	25,329,237.85	61,414,826.91
interest income from instruments measured at amortized cost	5,529,076.20	36,601,698.81
interest income from instruments at fair value through other comprehensive income	14,633,435.33	24,228,193.22
interest income from loan	40,671,052.65	58,599,093.72
interest income from entrusted loans	192,614.14	299,053.57
Others	2,676,883.37	33,392.94
Interest expense	420,907,369.39	486,823,161.71
Interest: expense of borrowing	29,940,049.94	21,288,989.68
expense of short-term financing instruments	7,159,720.65	3,282,348.65
expense of loans from other financial institutions	32,301,755.54	70,151,927.88
Including: expense of refinancing interest	8,073,611.12	16,423,611.13
expense of financial assets held under resale agreement	121,830,581.11	160,022,082.83
expense of accounts payable to brokerage clients	17,495,512.27	15,416,708.29
expense of bond payable interest	199,728,325.67	212,244,403.00
Including: expense of subordinated bond interest	143,890,408.83	139,326,428.37
Bond loan	5,526,740.64	2,052,493.16
Others	6,924,683.57	2,364,207.64
Net interest income	18,374,722.76	60,314,647.70

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43. Net fee and commission income

(1) Details

Item	For the six months ended 2020	For the six months ended 2019
Securities brokerage services net income	314,133,681.27	279,316,746.77
— Securities brokerage services income	404,116,884.37	359,702,057.98
— Funds received as agent of stock exchange	385,150,501.89	347,824,345.97
Leasing of trading unit seats	430,607.33	291,210.27
Sales agent of financial products	18,074,613.26	6,750,983.11
— Securities brokerage services expense	89,983,203.10	80,385,311.21
— Funds received as agent of stock exchange	89,897,778.44	80,322,317.00
Sales agent of financial products	3,778.46	3,426.70
Futures brokerage business net income	29,931,456.32	21,318,939.04
— Futures brokerage business income	46,339,649.07	42,275,891.99
— Futures brokerage business expense	16,408,192.75	20,956,952.95
Investment bank business net income	98,977,331.26	90,042,386.45
— Investment bank business income	108,254,938.25	90,357,776.03
— Securities underwriting business	80,381,886.80	47,290,189.94
Sponsor business of securities	8,961,044.64	6,310,051.23
Financial advisory business	18,912,006.81	36,757,534.86
— Investment bank business expenses	9,277,606.99	315,389.58
— Securities underwriting business	7,873,584.91	119,034.05
Sponsor business of securities	427,180.90	
Financial advisory business	976,841.18	196,355.53
Asset management business net income	20,062,491.49	40,711,328.77
— Asset management business income	20,288,883.78	40,767,753.67
— Asset management business expense	226,392.29	56,424.90
Fund management business net income	6,296,374.97	3,547,505.65
— Fund management business income	8,426,175.89	7,273,791.43
— Fund management business expense	2,129,800.92	3,726,285.78
Investment consultation business net income	38,925,687.55	38,419,286.09
— Investment consultation business income	38,925,687.55	38,419,286.09
— Investment consultation business expense		
Net other fee and commission net income	5,623,302.14	8,284,686.70
— Other fee and commission income	5,623,302.14	8,284,686.70
— Other fee and commission expense		
Total	513,950,325.00	481,640,879.47
Include: total fee and commission income	631,975,521.05	587,081,243.89
total fee and commission expense	118,025,196.05	105,440,364.42

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43. Net fee and commission income (continued)

(2) Financial advisory business net income

Item	For the six months ended 2020	For the six months ended 2019
Mergers and acquisitions financial advisory business net income		
— Domestic listed company	1,886,792.45	7,497,773.58
Mergers and acquisitions financial advisory business net income		
— others	613,207.54	754,716.99
others	15,435,165.64	28,308,688.76
Total	17,935,165.63	36,561,179.33

(3) Agency sales of financial assets income

Item	For the six months ended 2020		For the six months ended 2019	
	Total sales	Total income	Total sales	Total income
Funds	2,732,422,397.27	18,074,613.26	851,160,743.42	4,755,010.61
Others			170,318,200.00	1,995,972.50
Total	2,732,422,397.27	18,074,613.26	1,021,478,943.42	6,750,983.11

44. Investment income

(1) By categories

Item	For the six months ended 2020	For the six months ended 2019
Long-term equity investment income calculated by equity method	34,784,430.24	24,941,625.76
Depose Long-term equity investment income	133,495,365.87	324,143.79
Financial instrument investment income	194,775,358.38	410,135,249.58
Include: Proceeds generated during holding period	223,767,683.24	334,989,734.81
Include: Financial assets held for trading	376,358,058.58	341,902,074.70
Financial liabilities held for trading	-152,590,375.34	-6,912,339.89
Depose financial instrument income	-28,992,324.86	75,145,514.77
Include: Financial assets held for trading	63,973,115.54	78,823,853.06
Available-for-sale financial assets	12,268,792.46	2,064,796.57
Derivative financial instruments	-105,687,506.21	-10,795,699.28
Financial liabilities measured at their fair values through profit or loss	453,273.35	5,052,564.42
Total	363,055,154.49	435,401,019.13

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

44. Investment income (continued)

(2) Detailed statement of investment income of financial instruments measured at their fair values through profit or loss

Financial instruments measured at their fair values through profit or loss		For the six months ended 2020
Classified into financial assets measured at their fair values through profit or loss	Holding period income	376,358,058.58
	Deposal income	63,973,115.54
Designated as financial assets measured at their fair values through profit or loss	Holding period income	
	Deposal income	
Classified into financial liabilities measured at their fair values through profit or loss	Holding period income	-152,590,375.34
	Deposal income	453,273.35
Designated as financial liabilities measured at their fair values through profit or loss	Holding period income	
	Deposal income	

45. Gains on changes in fair value

Item	For the six months ended 2020	For the six months ended 2019
Financial assets measured at their fair values through profit or loss	-65,341,315.73	89,711,283.89
Include: Designated as financial assets measured at their fair values through profit or loss		
Financial liabilities measured at their fair values through profit or loss	-4,319,699.71	-1,932,600.28
Include: Designated as financial liabilities measured at their fair values through profit or loss		
Derivative financial instruments	4,074,810.69	2,303,740.11
Total	-65,586,204.75	90,082,423.72

46. Other operating income

Item	For the six months ended 2020	For the six months ended 2019
Rental income	1,520,413.62	1,237,824.85
Commodity sales income	396,150,323.43	208,399,323.09
Penalty interest income from stock pledge business	10,893,990.35	865.55
Others	5,866,163.22	6,949,489.05
Total	414,430,890.62	216,587,502.54

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47. Gains from assets disposal

Item	For the six months ended 2020	For the six months ended 2019
Non-current asset disposal income	564.81	-9,825.97
Include: fixed asset	564.81	-9,825.97
Total	564.81	-9,825.97

48. Other income

Item	For the six months ended 2020	For the six months ended 2019
Government grants	8,509,397.02	3,243,562.04
Total	8,509,397.02	3,243,562.04

49. Taxes and surcharges

Item	For the six months ended 2020	For the six months ended 2019
Urban maintenances and construction tax	4,422,243.19	3,791,541.84
Educational surcharges	3,168,532.13	2,502,611.64
Others	1,849,672.07	1,497,181.73
Total	9,440,447.39	7,791,335.21

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50. Business and administrative expenses

Item	For the six months ended 2020	For the six months ended 2019
Employee benefits	455,522,444.43	444,416,064.13
Right-of-use asset depreciation	38,604,231.02	23,775,895.68
Depreciation of fixed assets expense	17,361,042.07	16,945,088.62
Amortization of intangible assets	14,119,968.95	13,279,840.35
Electronic equipment operation fee	12,505,576.70	12,489,300.45
Mailing expenses	10,647,147.06	9,092,689.82
Consulting fees	9,611,442.71	9,387,466.39
Member fees	7,316,349.90	6,462,657.97
Amortization of long-term deferred expenses	6,878,881.79	6,146,540.04
Service fees	6,732,283.73	6,222,553.82
Property fees	4,948,711.80	5,274,684.24
Securities investors protection funds	4,860,936.31	12,739,636.54
Auditing expense	4,056,412.41	6,025,111.90
Utilities fees	3,557,357.84	3,382,319.96
Traveling expenses	3,026,442.23	7,879,749.13
Business entertainment	2,684,386.55	5,690,221.28
Advertising cost	2,588,777.60	4,992,548.57
Rental fee	3,432,532.93	17,788,484.36
Safety fees	1,565,001.39	1,427,335.17
Public miscellaneous fees	1,262,641.02	3,475,630.81
Vehicle operating fees	1,219,744.61	1,402,036.97
Legal fees	1,203,349.29	3,484,625.56
Printing fees	771,000.67	1,205,486.06
Others	5,584,845.04	10,474,276.16
Total	620,061,508.05	633,460,243.98

51. Business and administrative expenses

Item	For the six months ended 2020	For the six months ended 2019
Provision for Bad debts	1,317,948.48	1,214,875.11
Provision for financial instruments measured at amortised cost	6,673,141.36	3,386,609.77
Provision for instruments at fair value through other comprehensive income	8,018,376.66	2,772.42
Provision for impairment for credit loan	5,039,333.78	-368,389.80
Provision for impairment for credit entrusted loans	2,078,600.00	-682,794.39
Provision for impairment for releasing	3,534,539.32	-1,027,058.79
Provision for impairment for financial assets held under resale agreement interest income	112,840,185.71	77,840,161.12
Others	899,999.99	
Total	140,402,125.30	80,366,175.44

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52. Other assets impairment losses

Item	For the six months ended 2020	For the six months ended 2019
Impairment of inventory	22,934,995.27	3,912,122.41
Total	22,934,995.27	3,912,122.41

53. Other operating costs

Item	For the six months ended 2020	For the six months ended 2019
Investment equity depreciation	407,372.97	754,579.04
Cost of good sold	392,307,248.07	207,764,437.71
Others	35,688.59	
Total	392,750,309.63	208,519,016.75

54. Non-operating income

(1) Details

Item	For the six months ended 2020	For the six months ended 2019	Amount included in non-recurring profit or loss
Gains on non-current assets disposal		26,295.66	
Government grants	393,328.61	1,133,900.00	393,328.61
Others	742,691.90	14,323.60	742,691.90
Total	1,136,020.51	1,174,519.26	1,136,020.51

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

54. Non-operating income (continued)

(2) Details of government grants

Item	For the six months ended 2020	Source and basis	Related to assets or income
Employment Support Scheme (ESS)	267,731.87	42nd Meeting of the Business Facilitation Advisory Committee	Related to income
Government (Anti-epidemic Fund) Securities Industry Subsidy Program	90,603.00	The Government of the Hong Kong Special Administrative Region's Second round of Anti-epidemic Fund Subsidy Program	Related to income
Hexi financial industry development special fund executive incentives and subsidies	30,000.00	Notice on the declaration of the eleventh batch of Hexi financial industry development special fund incentive subsidies (Ning Jin Office Development [2018] No. 10)	Related to income
Kai Feng advanced unit and advanced individual rewards	4,993.74	Decision of the advanced unit and advanced individual rewards of 2018 Industrial Zone's promotion of Investment and technology innovation key Project by Kaifeng Municipal Demonstration Zone Management Committee (Bian shi fan wen [2019] No. 6)	Related to asset
Total	393,328.61		

55. Non-operating expenditures

Item	For the six months ended 2020	For the six months ended 2019	Amount included in non-recurring profit or loss
Losses on non-current assets disposal	19,608.60	26,591.95	19,608.60
Losses on donation and sponsorship	4,000,000.00	47,504.00	4,000,000.00
Others	3,082,902.31	44,749.36	3,082,902.31
Total	7,102,510.91	118,845.31	7,102,510.91

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

56. Income tax expenses

(1) Income tax expense

Item	For the six months ended 2020	For the six months ended 2019
Current period income tax expenses	116,364,736.14	73,018,710.77
Deferred income tax expenses	-91,628,876.98	264,292.32
Total	24,735,859.16	73,283,003.09

(2) Reconciliation of accounting profit to income tax expense

Item	For the six months ended 2020
Profit before income tax	58,419,447.21
Tax at the statutory/applicable tax rate	14,604,861.80
Effect of different tax rates applicable to subsidiaries	14,234,222.31
Effect of prior income tax reconciliation	358,190.00
Effect of non-taxable incomes	-14,691,654.52
Effect of non-deductible costs, expenses and losses	5,824,460.74
Effect of utilization of deductible losses not previously recognized	
Others	4,405,778.83
Income tax expenses	24,735,859.16

57. Earnings per share

Item	For the six months ended 2020	For the six months ended 2019
Net profit attributable to owners of the parent company	30,850,805.92	239,926,940.64
Non-recurring net profit and loss attributable to owners of the parent company	2,659,174.25	3,046,693.71
Net profit attributable to shareholders of parent company after deducting non-recurring gains and losses	28,191,631.67	236,880,246.93
Weighted average number of ordinary shares outstanding	3,869,070,700.00	3,869,070,700.00
Basic earnings per share	0.01	0.06
Basic earnings per share after deducting non-recurring gains and losses	0.01	0.06

As of 30 June 2020 and 31 December 2019, the Company has no potential diluted ordinary shares, so diluted earnings per share are the same as basic earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

58. Items of the cash flow statement

(1) Other cash receipts/payments related to operating/financing activities

1) Other cash receipts related to operating activities

Item	For the six months ended 2020	For the six months ended 2019
Government gran	8,902,725.63	4,377,462.04
Other business income	414,430,890.62	216,587,502.54
Loan	114,829,723.81	
Other	935,306.04	40,619.26
Total	539,098,646.10	221,005,583.84

2) Other cash payments related to operating activities

Item	For the six months ended 2020	For the six months ended 2019
Inventory	69,023,189.78	73,157,722.16
Loan		294,820,000.00
Increase in deposits	369,090,047.71	66,617,687.55
Business and management fees paid	87,167,566.82	78,449,867.93
Other business cost	392,342,936.66	207,764,437.71
Others	145,990,663.98	60,836,586.81
Total	1,063,614,404.95	781,646,302.16

3) Other cash payments related

Item	For the six months ended 2020	For the six months ended 2019
Cash paid for repayment of lease liabilities	31,932,968.39	
Cash paid for acquiring minority shareholders' equity	28,000,000.00	
Total	59,932,968.39	

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

58. Items of the cash flow statement (continued)

(2) Supplement information to the cash flow statement

Item	For the six months ended 2020	For the six months ended 2019
1. Reconciliation of net profit to cash flow from operating activities:		
Net profit	33,683,588.05	280,868,636.86
Add: Impairment allowance of assets	163,337,120.57	84,278,297.85
Depreciation of investment Equity and fixed assets	17,768,415.04	17,352,863.48
Right-of-use asset depreciation	38,604,231.02	23,775,895.68
Amortization amount of intangible assets	14,119,968.95	13,279,840.35
Amortization of long-term deferred expenses	6,878,881.79	6,146,540.04
Fixed assets, intangible assets and other long-term assets disposal (or revenue: "-")	19,043.79	21,048.58
Changes in fair value gains and losses (or revenue: "-")	65,586,204.75	-90,082,423.72
Interest expense	241,374,983.78	235,092,140.72
Exchange losses (or revenue: "-")	2,759,526.70	115,348.84
Investment losses (or revenue: "-")	-200,711,100.10	-105,741,801.44
Decrease in deferred income tax assets (or increase: "-")	-94,920,262.29	-10,751,024.13
Increase in deferred income tax liabilities (or decrease: "-")	3,291,385.31	10,409,552.34
Decrease of operating receivables (or increase: "-")	3,028,863,875.71	-225,810,977.09
Increase of operating receivables (or decrease: "-")	-254,584,256.19	3,352,742,127.48
Net cash flow from operating activities	3,066,071,606.88	3,591,696,065.84
2. Significant investing and financing activities not related to cash receipts and payments:		
Conversion of debt into capital		
Convertible corporate bonds due within one year		
Fixed assets rented in under finance leases		
3. Net increase/(decrease) in cash and cash equivalents		
Closing balance of cash	14,392,034,871.21	11,881,585,384.19
Less: Opening balance of cash	11,805,475,726.56	9,602,115,554.08
Add: Closing balance of cash equivalent		
Less: Opening balance of cash equivalent		
Net increase of cash equivalent and cash	2,586,559,144.65	2,279,469,830.11

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

58. Items of the cash flow statement (continued)

(3) Cash and cash equivalents

Item	For the six months ended 2020	For the six months ended 2019
Cash	14,392,034,871.21	11,805,475,726.56
Include: Cash on hand	168,750.98	249,129.05
Deposit in bank on demand for payment	12,619,747,287.36	9,278,007,670.48
Other cash	7,994,832.15	9,802,121.58
Clearing settlement funds	1,764,124,000.72	2,517,416,805.45
Cash equivalent		
Include: bond investment maturing within three months		
Cash and cash equivalent at the end of the period	14,392,034,871.21	11,805,475,726.56

59. Assets with title or use right restrictions

Item	For the six months ended 2020	Reasons
	9,800,882,868.98	Pledge for repo financing
	1,278,069,733.98	Pledge used for borrowing bonds
Financial asset at fair value through profit or loss	195,172,876.00	A block transaction restricted to sales
	71,980,161.94	Securities on loan
	5,741,019.29	Pledge for bank loan
Financial instruments at fair value through other comprehensive incomes	158,852,709.05	Pledge used for borrowing bonds
	634,815,090.20	Pledge for repo financing
Margin accounts receivable	700,263,404.60	Pledge for repo financing
Inventory	74,587,450.00	Pledge for bank loan

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VI. NOTES TO ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

60. Foreign currency

Item	Amount of original currency	Exchange rate	RMB amount
Cash and bank balances	—	—	—
Included: USD	11,923,064.43	7.0795	84,409,334.64
EUR	105,403.65	7.9610	839,118.46
HKD	335,382,396.21	0.9134	306,351,695.99
CAD	798.00	5.1843	4,137.07
AUD	47,249.45	4.8657	229,901.65
JPY	260,016.41	0.0658	17,109.08
THB	222,381.18	0.2293	50,982.64
Clearing settlement funds	—	—	—
Included: USD	930,278.80	7.0795	6,585,908.76
HKD	2,225,417.44	0.9134	2,032,785.31
JPY	94,821.43	0.0658	6,239.25
MYR	110.41	0.6049	66.79
GBP	5.88	8.7144	51.24
Refundable deposits	—	—	—
Included: USD	70,000.00	7.0795	495,565.00
HKD	500,000.00	0.9134	456,720.00
Accounts receivable	—	—	—
Included: HKD	29,365,082.16	0.9134	26,823,240.65
Other receivables	—	—	—
Included: HKD	49,974,809.54	0.9134	45,648,990.03
Accounts payable to brokerage clients	—	—	—
Included: USD	1,577,130.50	7.0795	11,165,295.37
HKD	108,188,261.69	0.9134	98,823,485.76
Short-term loans	—	—	—
Included: HKD	1,400,061,173.02	0.9134	1,278,871,877.88
Other payable	—	—	—
Included: HKD	129,803,268.12	0.9134	118,567,497.23

61. Overseas business entities

The Company's for the six months ended 2020 consolidated statement includes overseas subsidiaries: CCIFHC, Central China International Security, Central China International Futures, Central China International Investment, Central China International Financial Group, Central China International Holding, and Central China International Financing. The asset and liability items in its foreign currency balance sheet are translated at the spot exchange rate on the balance sheet date (HKD1: RMB0.9134); Except for "Retained earnings", all the owner's equity items are converted at the spot exchange rate when the business takes place. The income and expense items in the income statement are converted using the approximate exchange rate of the spot exchange rate on the date of transaction (the average exchange rate for the current year is HKD1: RMB0.9060). The translation balance of foreign currency statements resulting from the above translation shall be shown separately under the item of owners' equity. Foreign currency cash flows are translated using the approximate exchange rate of the spot exchange rate on the date of cash flow occurrence. The impact of exchange rate fluctuations on cash is shown separately in the cash flow statement.

VII. CHANGES IN THE SCOPE OF CONSOLIDATED FINANCIAL STATEMENT

1. Consolidation of structured entities

On 29 April 2020, CCIFHC established Wending Zhongyuan Company Limited in the British Virgin Islands, which was included in the scope of the company's consolidation during reporting period.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES

1. Interests in significant subsidiaries

The name of the Company	Type of company	Registered	Nature of business	The registered capital	Scope of business	The investment amount on 30 June 2020	Shareholding ratio (%) Direct	Indirect	Whether included in consolidated statements
A subsidiary acquired through a merger of an enterprise not under the same control									
Central China Futures Co., Ltd.	Company limited by shares	Zhengzhou	Futures brokerages in Mainland China	RMB330 million	Commodity futures brokerage, financial futures brokerage, futures investment consulting, asset management	RMB188 million	51.36		Yes
Central China International Financing Co. Ltd.	Limited liability company	Hong Kong	Investment bank	HKD10 million	Sponsor underwriting, financial advisers	HKD24 million		100.00	Yes
A subsidiary acquired by means of establishment or investment									
Zhongding Kaiyuan Venture Capital Management Co., Ltd. (note)	Limited liability company	Beijing	Equity investment	RMB680 million	Using its own funds or setting up direct investment funds to make equity investment or debt investment in enterprises or to invest in other investment funds related to equity investment or debt investment; To provide clients with equity investment, debt investment related financial advisory services	RMB701 million	100.00		Yes
Henan Zhongzheng Kaiyuan Venture Capital Private Equity Fund Management Co., Ltd.	Limited liability company	Luoyang	Equity investment	RMB100 million	Manage or be entrusted to manage non-securities equity investments and related advisory services	RMB60 million		60.00	Yes
Yuxin Investment Management (Shanghai) Co. Ltd	Limited liability company	Shanghai	Investment management	RMB100 million	Licensed projects: Hazardous chemicals management Carry out risk management and other related businesses	RMB100 million		51.36	Yes
Central China Equity Exchange Co., Ltd. (note)	Company limited by shares	Zhengzhou	Regional equity market	RMB350 million	To provide enterprises with such services as registration, custody, listing, transfer and financing of equity, creditor's rights and other equity assets; Investment and asset management; Financial consultant, corporate presentation, corporate presentation, training and consulting services	RMB122.5 million	35.00		Yes

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in significant subsidiaries (continued)

The name of the Company	Type of company	Registered	Nature of business	The registered capital	Scope of business	The investment amount on 30 June 2020	Shareholding ratio (%) Direct Indirect	Whether included in consolidated statements
Central China Blue Ocean Investment Management Company Limited	Limited liability company	Xuchang	Alternative investment	RMB2,256 million	Investment in financial products, securities and equity with its own funds	RMB2,256 million	100.00	Yes
Henan Central China Micro-lending Company Limited	Limited liability company	Kaifeng	Microfinance	RMB1 billion	In the administrative area of Henan Province; to handle various small loans; To provide consulting services for the development, management and finance of small and medium-sized enterprises; Investment of its own funds in accordance with the regulations	RMB650 million	65.00	Yes
Central China International Financial Holdings Company Limited	Limited liability company	Hong Kong	Investment holding	HKD1 billion	Conduct overseas business through its subsidiaries	HKD1 billion	100.00	Yes
Central China International Holdings Co., Ltd.	Limited liability company	British Virgin Islands	Holdings Inc.	USD50,000	Holdings Inc.	USD50,000	100.00	Yes
Central China International Financial Group Limited	Company limited by shares	The Cayman Islands	Investment holding	HKD1 billion	Holdings Inc.	HKD1 billion	100.00	Yes
Central China International Securities Co. LTD	Limited liability company	Hong Kong	Securities brokerage	HKD600 million	Securities brokerage, margin financing, proprietary bonds	HKD600 million	100.00	Yes
Central China International Investment Co. LTD	Limited liability company	Hong Kong	The securities investment	HKD10 million	Proprietary investment	HKD10 million	100.00	Yes
Central China International Futures Co. LTD	Limited liability company	Hong Kong	Futures brokerages in Mainland China	HKD20 million	Futures brokers	HKD20 million	100.00	Yes
Wending Zhongyuan Company Limited	Limited liability company	British Virgin Islands	Others	USD1	Special purpose company		100.00	Yes

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in significant subsidiaries (continued)

The name of the structured principal	Total share/ registered capital	Share held by the Company as of 30 June 2020	Direct/indirect investment
Yanhuang 2 collective asset management schemes	14,799,755.10	12.16%	Direct
Huimin 1 collective asset management schemes	61,258,248.85	49.21%	Direct
Lianmeng 10 collective asset management schemes	15,010,000.00	99.93%	Indirect
Lianmeng 17 collective asset management schemes	59,840,000.00	100.00%	Indirect
Zhongjing 1 collective asset management schemes	181,650,000.00	100.00%	Indirect
Henan zhongyuan science and innovation venture capital fund (limited partnership)	500,000,000.00	50.00%	Indirect
Henan zhongzheng kaiyuan venture capital fund (limited partnership)	81,000,000.00	15.00%	Indirect
Henan zhongzheng kaiyuan yucai agricultural venture capital fund (limited partnership)	100,000,000.00	20.00%	Indirect
Anyang purun high-tech industry investment fund (limited partnership)	45,000,000.00	13.00%	Indirect

Note: Central China Equity Exchange Co., Ltd. was established in 2015. The Company has signed a consensus action agreement with three other investors, through which the Company can control 51% of the equity of Central China Equity Exchange Co., Ltd.

2. Significant non-wholly owned subsidiaries

Name of subsidiary	Minority shareholders' shareholding ratio	Profit and loss of minority interests for period six months, 2020	Dividends distributed to minority shareholders for period six months, 2020	Minority interests at 30 June 2020
Central China Futures Co., Ltd.	48.64%	2,297,831.74		207,288,129.79
Central China Equity Exchange Co., Ltd.	65.00%	-6,841,096.09	-5,434,020.00	203,404,765.86

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES (CONTINUED)

3. Key financial information of significant non-wholly owned subsidiaries

Name of subsidiary	30 June 2020			For period six months, 2020		
	Total Asset	Total liabilities	Operating revenue	Net profit	Total comprehensive income	Net cash flows from operating activities
Central China Futures Co., Ltd.	1,447,564,231.10	1,031,560,364.44	454,163,518.32	4,723,869.30	4,723,869.30	-203,001,422.64
Central China Equity Exchange Co., Ltd.	375,134,830.31	18,621,825.59	53,592,796.92	29,738,186.67	29,738,186.67	-20,622,736.66

4. Unconsolidated structured entities

Unconsolidated structured entities of the Company mainly include collective, targeted and special asset management schemes, and limited partnership.

The total assets of unconsolidated collective, targeted and special asset management schemes and limited partnership managed by the Company amounted to RMB4,791,621,254.08, RMB3,005,463,718.86, RMB600,044,346.38, and RMB1,128,584,709.31 as at 30 June 2020, respectively.

As at 30 June 2020 the company's interests in structured subjects not included in the consolidated financial statements are classified as financial asset at fair value through profit or loss, financial assets at amortized costs, account receivable management fees and commissions included in receivables, the relevant book value and maximum risk exposure are as follows:

Item	30 June 2020	31 December 2019
Financial assets at fair value through profit or loss	1,353,729,271.78	1,178,746,268.72
Financial assets at amortized costs and receivables	533,860,949.45	668,788,140.85
Total	1,887,590,221.23	1,847,534,409.57

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IX. RELATED PARITIES AND RELATED PARTY TRANSACTIONS

1. Related parties

(1) Controlling shareholder and the ultimate controller

1) Controlling shareholder and the ultimate controller

As of 30 June 2020, Henan Investment Group Co., LTD. (Referred to as “Henan Investment Group”) directly holds 21.271% of the Company’s voting shares, as controlling shareholder of the Company. The basic information of Henan investment group is as follows:

The controlling shareholder	The enterprise type	registered	Nature of business	Legal representative	Unified social credit code
Henan Investment Group	State-owned enterprises	Zhengzhou	Investment management	Xinyong Liu	914100001699542485

2) The registered capital of the controlling shareholder and its changes

The controlling shareholder	31 December 2019	Increase	Decrease	30 June 2020
Henan Investment Group	12,000,000,000.00			12,000,000,000.00

3) The shares directly held by the controlling shareholder and their changes

The controlling shareholder	Shareholding amount (ten thousand yuan)		Shareholding ratio (%)	
	30 June 2020	31 December 2019	30 June 2020	31 December 2019
Henan Investment Group	82,298.38	82,298.38	21.271	21.271

4) The Controlling shareholders hold voting rights

As of 30 June 2020, Dahe Paper (Hong Kong) Co., Ltd., a wholly-owned subsidiary of Henan Investment Group, directly holds 46,733,300 H shares of the company, Henan Investment Group holds 47,972,200 H shares of the Company through Shanghai-Hong Kong Stock Connect program; Henan Investment Group a total of 94,705,000 H shares of the Company are held directly and indirectly, accounting for 7.92% of the Company’s issued H shares and 2.45% of the Company’s total issued shares. As of 30 June 2020, Henan Investment Group has a total of 23.72% of the company’s voting rights.

(2) The subsidiary

Please refer to VIII.1 “1. Interests in subsidiaries” in this note for details of the situation of the subsidiary.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

1. Related parties (continued)

(3) The associate Company

The conditions of associated enterprises having related transactions with the Company in the current period are as follows:

Name	Relationship
Zhongzheng Jiaotong Fund Management Co., Ltd.	The associate invested by the subsidiary of the Company
Henan Dahe Cai Cube Media Holding Co. Ltd	The associate invested by the subsidiary of the Company
Henan Longfengshan Agriculture and Animal Husbandry Co. Ltd.	The associate invested by the subsidiary of the Company
Henan Toudi Culture Communication Co. Ltd	The associate invested by the subsidiary of the Company

(4) Main related parties in the non-control relationship

Name	Relationship	Unified social credit code/ organization code
Zhongyuan Trust Co., Ltd.	Under the control of the same controlling shareholder and ultimate controller	91410000169953018F
Henan Asset Management Co., Ltd.	Under the control of the same controlling shareholder and ultimate controller	91410000MA448PJU6H
Henan Tiandi Hotel Co. LTD	Under the control of the same controlling shareholder and ultimate controller	91410100594892586U
Henan Huirong Human Resources Management Co., Ltd.	Under the control of the same controlling shareholder and ultimate controller	91410105MA3X6PQ842
Henan Yicheng New Energy Co., Ltd.	The associate invested by the Company	914102002681294387
Zhongyuan Bank Co., Ltd.	The associate invested by the Company	9141000031741675X6
Zhongyuan Environmental Protection Co., Ltd.	The associate invested by the Company	9141000016996944XD
Zhengzhou Bank Co., Ltd.	The associate invested by the Company	914100001699995779

2. Related party transactions

(1) Provide commission income generated from securities agency services

Name of related party	For the six months ended 2020	For the six months ended 2019
Henan Investment Group and its subsidiaries and associated enterprises	38,305.35	6,740.75
The Company and Henan Investment Group directors, supervisors, senior managers and their close relationship with family members	45,040.67	32,471.46

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

2. Related party transactions (continued)

(2) Purchase of Trust Products

Name of related party	Related transaction content	Purchase trust balance	
		30 June 2020	31 December 2019
Zhongyuan Trust Co., Ltd.	Purchase trust of products issued by Zhongyuan Trust Co., Ltd.	109,037,790.26	236,537,790.26

(3) Loans to related parties

Name of related party	30 June 2020/ For the six months ended 2020		30 June 2019/ For the six months ended 2019	
	Loan balance	Interest income	Loan balance	Interest income
Henan Longfengshan Agriculture and Animal Husbandry Co., Ltd.	45,000,000.00	2,373,820.76	45,000,000.00	2,502,499.99

(4) Associated current balance

Name of related party	Subject	Trading content	30 June 2020	31 December 2019
Henan Investment Group	Accounts receivable	Asset management business management fees and performance compensation	435,146.23	287,809.94

Name of related party	Subject	Trading content	30 June 2020
Investment Group Associates	Financial asset at fair value through profit or loss	Bond subscription	19,558,674.25
Investment Group Associates	Financial assets held under resale agreement	Outright repo	49,471,013.70
Investment Group Associates	Bank savings	Bank balance	22,512,096.77

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

2. Related party transactions (continued)

(5) Other related transactions

Name	Related transaction content	For the six months ended 2020	For the six months ended 2019
Henan Investment Group	Financial advisory fee income, asset management business management fees and performance remuneration income	610,694.61	120,033.82
Henan Dahe Caicube Media Holding Co., Ltd.	Publicity expenditure and Advertising expenditure	259,433.96	108,500.00
Henan Huirong Human Resources Management Co., Ltd.	Printing fee	16,311.61	
Zhongzheng Jiaotong Fund Management Co., Ltd.	House division fee.	97,000.00	
Henan Tiandi Hotel Co., Ltd.	Venue service fee		201,599.00
Henan Toushi Culture Communication Co., Ltd.	Publicity expenditure		200,000.00
Zhongyuan Trust Co., Ltd.	Asset management business management fees and performance compensation		1,002,860.62
Henan Asset Management Co., Ltd.	Bond investment income	41,793.69	

Name of related party	Related transaction content	For the six months ended 2020
Investment Group Associates	Financial advisory fee income	1,886,792.45
Investment Group Associates	Bond investment income	702,758.77
Investment Group Associates	Pledged repo interest expense	71,147.96
Investment Group Associates	Outright repo interest income	58,527.24
Investment Group Associates	Interest expense on bank loans	67,534.46
Investment Group Associates	Interest income on bank savings	154,986.71

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

IX. RELATED PARITIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

2. Related party transactions (continued)

(6) Counter guarantee provided to the subsidiary

As of 30 June 2020, the Company has provided Zhengzhou branch of China merchants bank co. Ltd for Central China International Holdings with a total amount of HKD600,000,000.00 (RMB548,064,600.00) with a period of no more than 12 months; The Company has provided Henan branch of China Construction bank co. Ltd for Central China International Holdings with a total amount of HKD150,000,000.00 (RMB137,016,000.00) with a period of no more than 12 months;

(7) Key management personnel

- 1) Key management personnel are those persons who have the power to, directly or indirectly, plan, direct and control the activities of the Group, including members of the board of directors, board of supervisors and other members of the senior management.

Item	For the six months ended 2020	For the six months ended 2019
Key management compensation (pre-tax)	11,875,369.86	7,266,355.92

2) The Loan of Key management personnel

At the end of the reporting period, the company did not issue loans or advances to members of the board of directors, board of supervisors and other senior management personnel.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

X. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS

1. Overview

The Group's risk management objective is to maintain an appropriate balance between risks and rewards, and reduce the negative impact on the operating results of the Group, so as to maximise the shareholders' value. The Group's risk management strategy is to identify and analyse a variety of risks to which the Group is exposed to, set an appropriate risk tolerance level, measure and supervise risks in a timely and reliable manner so as to ensure that risks are controlled within acceptable limits.

Financial risks to which the Group is exposed to mainly include: credit risk, market risk and liquidity risk. The Group has adopted risk management policies and procedures to identify and analyse these risks and defined appropriate risk indicators, risk limits, risk policies and internal control procedures, and constantly monitors and manages risks through its IT systems.

The financial risk management framework is structured into four levels consisting of (i) Board and Supervisory Committee; (ii) Risk Control Committee, Audit Committee and Investment Decision Committee; (iii) Compliance Management Department, Legal Affairs Department, Risk Management Department and Internal Audit Department; and (iv) Business and management departments and branch outlets.

Level 1: Board and Supervisory Committee

The Board is at the highest level of the Company's risk control framework and has the ultimate responsibility for establishing a compliant and effective risk control environment. The Board is responsible for developing the Company's overall risk control objectives, risk control policies and internal control system, improving the governance structure and tiered authority delegation system, and specifying the direction and scope of the Company's risk control work, and authorize relevant management departments to exercise the executive power.

The Supervisory Committee focuses on mitigating the Company's exposure to legal and compliance risks and financial oversight, including monitoring the performance of risk control duties of the Company's directors, senior management and relevant responsible persons, safeguarding the Company's assets, and minimizing financial and legal risks the Company faces in carrying out its business operations, so as to protect legal rights and interests of the Company and its shareholders.

Level 2: Risk Control Committee, Audit Committee and Managers

Risk Control Committee, Audit Committee and Managers are the second level of the Company's risk control framework, and is responsible for preparing the comprehensive annual report on risk control; reviewing risk control strategies and significant risk control solutions; reviewing judgment criteria for major decisions, significant risks, major events and key business processes and the risk evaluation report for major decision-making; reviewing risk control evaluation report submitted by the Risk Management Department; reviewing the organisational structure and roles and responsibilities for risk control, as well as other matters as delegated by the Board of Directors. The managers assume primary responsibility for overall risk management, formulate and adjust the Company's risk management system. Improve the Company's management structure, define the responsibility division of risk management functions, business departments and other departments; regularly assess the Company's risk and all important risk management status, resolve problems in risk management and report to the board of directors; establish a performance appraisal system covering the effectiveness of risk management; establish complete information technology system and data quality control mechanism.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

X. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

1. Overview (continued)

Level 3: Compliance Management Department, Legal Affairs Department, Risk Management Department and Internal Audit Department

At the third level of the Company's risk control framework is the collaborative comprehensive risk management arrangement through which the Compliance Management Department, Legal Affairs Department, Risk Management Department, Internal Audit Department and Legal Affairs Department work together to manage risks.

The Compliance Management Department assists the Chief Compliance Officer to formulate compliance policies and compliance rules and procedures, supports the implementation of compliance policies and procedures, provides recommendations and advice on compliance to the management, branch outlets and subsidiaries, and monitors compliance with laws and regulations in the Company's business and management activities. It also drives business departments, branch outlets and subsidiaries to evaluate, develop, revise, update and improve their internal procedures and business processes to reflect changes in the laws, regulations and standards; conducts compliance pre-clearance on internal management rules and procedures, major decisions, new products, new business offerings and major business activities; reports to regulatory authorities on a regular and extraordinary basis, in addition to mitigating compliance risks to which the Company and its businesses are exposed to.

The main responsibilities of the Legal Affairs Department: under the leadership of the Company's board of directors and the board of supervisors, assist the Company's managers to build a legal management system and legal risk prevention mechanism, participate in the Company's major economic activities, provide legal opinions for major business decisions, and be responsible for Company contract management, litigation and arbitration management and asset preservation, responsible for the selection, management, and evaluation of the Company's legal consultants and other intermediaries that provide legal services, and provide legal support and consulting services for the Company's business management and the business development of various departments and branches, and organize the development legal education and training, organize and implement the prevention of illegal fund-raising, guide and coordinate affiliated enterprises to carry out legal risk prevention.

Risk Management Department carries out risk control activities in accordance with risk control objectives and policies laid down by the Board of Directors; provides recommendations to the Risk Management Committee for improving the Company's risk control environment in terms of risk control policies, objectives, corporate governance structure and internal controls; formulates risk management rules and procedures for the Company, supports the review of risk management rules and procedures, measures, risk management processes and risk control indicators developed by each business and management departments, and continuously supplements, improves and updates risk control policies to help establish sound comprehensive corporate risk control mechanisms across the Company; identifies, assesses, and monitors various risks in business operations and transactions, and leverages the results to improve the end-to-end risk response process that covers every components of risk control, including policies, identification, assessment and measurement, control, monitoring, reporting and analysis; regularly tests, monitors and evaluates the implementation of risk control rules and procedures across the Company, and when necessary, conducts regular and ad hoc inspections on risk control results, follows up on issues identified and launches reporting procedures where appropriate; and establishes communications and cooperation with respect to risk control with various business departments, branch outlets and subsidiaries.

Internal Audit Department has overall responsibility for the internal audit function, including organising comprehensive audits across the Company, monitoring the implementation of and compliance with internal control rules and procedures, minimizing ethical and policy risks and assisting the investigation of emergencies.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

X. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

1. Overview (continued)

Level 4: Business departments branch outlets and subsidiaries

The fourth level of risk control is the front-line risk control systems by business departments branch outlets and subsidiaries, which are responsible for developing their own internal control system and risk control measures, ensuring proper risk control within their jurisdiction, and reporting risk issues in a timely manner to the Risk Management Department or Compliance Management Department.

The Company adopts the above risk management framework and continuously improves its risk control to ensure that the risks are measurable and controlled within acceptable limits.

2. Credit risk

Credit risk refers to the risk of counterparty's failure or inability to meet its payment obligations, or the risk of loss due to declining credit rating. The Company's credit risks mainly come from financial assets which include bank balances, clearing settlement funds, financial assets at fair value through other comprehensive income, financial assets held under resale agreements, financial assets at amortized costs, margin accounts receivable, entrusted loans, other current assets and refundable deposits.

The Company's bank balances are mainly deposited with state-owned commercial banks or joint-stock commercial banks, while clearing settlement funds are deposited in the China Securities Depository and Clearing Corporation Limited, with a relatively low level of credit risk.

In terms of proprietary trading, if the transaction is through a stock exchange or China Securities Depository and Clearing Corporation Limited the default risk of counterparty is low, but for inter-bank market transactions, the Company will assess the counterparties and only select those with an accepted credit rating. The Company invests in debt securities with acceptable credit ratings and monitors the operations and credit ratings of the issuers.

Margin financing assets include advances to margin customers and securities lent to customers. Credit risks associated with these financial assets mainly relate to customers' inability to repay the principal, interest or securities borrowed. The Company supervises finance trading accounts on an individual customer basis, and would require additional margin, cash collateral or securities if necessary. Margin accounts receivables are monitored based on collateral rates to ensure that the value of collateral assets is sufficient to cover the advance. The collateral value of the Company's customers is sufficient to cover the credit risk of margin financing assets on 30 June 2020 and 31 December 2019.

The Company's credit risk also arises from the securities and futures brokerage business. If a customer fails to deposit sufficient trading funds, the Company may use their own funds to complete the settlement. The Company requires customers to deposit all cash required in trading before it settles on behalf of customers, so as to mitigate and manage the credit risk properly.

The Group enters into entrusted lending business as part of the financial assets measured at amortized cost. Credit risk management approaches over those loans and advances to customers include project initiation, due diligence, internal assessment, decision-making and post-lending monitoring. The Group assesses both the borrowers' credit risk and the rewards and sets risk mitigation measures such as guarantee. Loans and advances to customers are approved by the authorised approvers. The Group constantly monitors the entrusted funds. Key negative indications that may have impact on the borrowers' solvency are reported timely, and the Group takes action accordingly to control the risks.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

X. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

2. Credit risk (continued)

The Company invests in wealth management products, trust plan, asset management plan with proper approval process.

Control of credit risk from securities financing business is realized primarily through risk education for customers, credit investigation and verification on customers, credit management, risk assessment on collateralized (pledged) securities, reasonable setting of indication of defaulting customers, financing of customers with insufficient guaranteed securities and normal customers, the Company will perform the provision for impairment in accordance with prudential principles by complying with the accounting standards of China Accounting Standards for Business Enterprises 22.

Expected credit loss measurement

Since the first implementation of the new financial instrument standards on 1 January 2018, For financial assets measured at amortized cost (including margin accounts receivable, financial assets held under resale agreements, financial instruments measured at amortized cost) and financial assets instruments at fair value through other comprehensive income. The Company use general methods to measure its expected credit losses, models and assumptions are used in the measurement of expected credit losses. These models and assumptions relate to future macroeconomic conditions and customer credit behaviour (for example, the likelihood of customer default and associated losses). For the financial assets that use the general method to measure the expected credit loss, the Company USES the three-stage impairment model of the credit quality change after the initial recognition of the financial assets to measure the expected credit loss, specifically including:

- A financial instrument that is not credit-impaired on initial recognition is classified in “Stage 1” and has its credit risk continuously monitored by the Company;
- If a significant increase in credit risk (“SICR”) since initial recognition is identified, the financial instrument is moved to “Stage 2” but is not yet deemed to be credit-impaired;
- If the financial instrument is credit-impaired, the financial instrument is then moved to “Stage 3”.

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

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

The measurement of ECL adopted by management according to China Accounting Standards for Business Enterprises, involves judgements, assumptions and estimations, including: Determination of the criteria for SICR; Selection of the appropriate models and assumptions; Establishment of the number and relative weightings of forward-looking scenarios for each type of product.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

X. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

2. Credit risk (continued)

Measuring ECL — inputs, assumptions and estimation techniques

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

The Company takes full account of forward-looking information when measuring ECL. ECL is the result after discounting the product of PD, LGD and EAD that takes into account the forward-looking impact.

- PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. For margin loan financing, the Company determines the PD by borrower, based on factors including the coverage ratio of margin loans to underlying collateral value and, the volatility of such collateral's valuation. For debt securities investments, the external credit rating and related PD are taken into consideration.
- Loss Given Default (LGD) represents the Company's expectation of the extent of loss on a defaulted exposure. For margin loan financing, the Company determines LGD, based on factors including the realizable value of collateral upon forced liquidation taking into consideration the estimated volatility over the realization period. For debt securities investments, LGD is determined based on assessed publicly available information from credit rating agencies, and the type of securities.
- EAD is based on the amounts the Company expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

The criteria of significant increase in credit risk

The Company evaluates the financial instruments at each financial statement date after considering whether SICR has occurred since initial recognition. An ECL allowance for financial assets is recognized according to the stage of ECL, which reflects the reasonable information and evidence available about the SICR and is also forward-looking. The Company considers a financial instrument to have experienced SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

The Company considers margin financing to have experienced SICR if margin calls were triggered by a decrease of the ratio of margin loan to collateral below liquidation line.

A financial instrument is considered to have experienced SICR if the borrower or the debtor is overdue for more than 30 days after the contract payment date.

The Company has used the low credit risk exemption for financial instruments, such as cash and bank accounts, settlement reserve, refundable deposits, financial assets held under resale agreements for the period ended 30 June 2020 and no longer compared whether the credit risk on the balance sheet date increased significantly compared with that at the time of initial recognition.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

X. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

2. Credit risk (continued)

Definition of credit-impaired assets

The Company considers whether a financial instrument is credit-impaired according to IFRS 9 based on criteria, which is consistent with the internal credit risk management practice. The consideration includes quantitative criteria and qualitative criteria. The Company defines a financial instrument as credit-impaired, which is fully aligned with the definition of in default, when it meets one or more of the following criteria:

- The borrower is more than 90 days past due on its contractual payments;
- For margin financing and stock pledge repurchase agreements, a forced liquidation of a client's position triggered when the collateral valuation falling short of the related loan amounts;
- The latest external ratings of issuers of debt securities or debt securities themselves are in default grade;
- The debtor is in significant financial difficulty;
- An active market for that financial asset has disappeared because of financial difficulties;
- Concessions have been made by the lender relating to the debtor's financial difficulty;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructure.

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

Forward-looking information

The assessment of SICR and the calculation of ECL incorporate forward-looking information. The Company has analyzed historical data and identified the economic variable impacting credit risk and ECL for each financial instrument portfolio. The impact of the economic variable on the PD has been determined by performing historical statistical regression analysis to forecast the expected changes in the variable on default rates.

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

As at 31 December 2019 and 30 June 2020, for all portfolios the Company concluded that three scenarios appropriately captured non-linearities of economic variable. The scenario weightings are determined by a combination of statistical analysis and expert judgement, taking account of the range of possible outcomes each chosen scenario is representative of.

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

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

X. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

2. Credit risk (continued)

Forward-looking information (continued)

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

Sensitivity analysis

The allowance for credit losses is sensitive to the inputs used in internally developed models, macroeconomic variable in the forward-looking forecasts, economic scenario weighting and other factors considered when applying expert judgment. Changes in these inputs, assumptions and judgments impact the assessment of SICR and the measurement of ECL.

Collateral and other credit enhancements

The Company employed a range of policies and credit enhancements to mitigate credit risk exposure to an acceptable level. The most common of these is accepting collateral for funds advanced or guarantees. The Company determined the type and amount of collaterals according to the credit risk evaluation of counterparties. The collaterals under margin financing and reverse repurchase agreements are primarily stocks, debt securities, funds etc. Management will exercise margin calls according to related agreements based on the market value fluctuation of collaterals.

Maximum credit risk exposure:

The clients' margin loan financing assets were considered by Management to be in good condition, and the coverage ratio of margin loan to underlying collateral value was over liquidation line for more than 90% of margin financing and financial assets held under resale agreements (debt instruments) of the Company as at 30 June 2020. High thresholds of margin loans to collateral ratios indicates that probability of default was low. The maximum credit risk exposure of the Group is as follows:

Expressed in RMB'0000

Item	30 June 2020	31 December 2019
Cash and bank balances	1,263,414.19	933,174.86
Clearing settlement funds	176,574.89	251,804.95
Margin accounts receivable	641,845.38	606,074.02
Derivative financial assets	1,184.32	1,138.41
Refundable deposits	76,422.28	39,516.97
Accounts receivable	9,839.47	15,391.23
Financial assets held under resale agreement	227,842.12	302,388.85
Financial asset at fair value through profit or loss	1,519,192.94	1,399,492.25
Financial instruments at amortized costs	52,136.08	67,638.99
Financial instruments at fair value through other comprehensive income	83,937.27	66,469.53
Other assets	138,701.04	141,676.95
Total	4,191,089.98	3,824,767.01

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

X. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

2. Credit risk (continued)

Credit quality

The credit quality of each financial asset item is as follows on 30 June 2020

Expressed in RMB'0000

Item	Stage 1	Stage 2	Stage 3	Total
Loans and entrusted loans	68,516.22	8,355.47	34,703.41	111,575.10
Margin accounts receivable	641,446.94	367.31	7,596.74	649,410.99
Financial assets at fair value through other comprehensive income	84,759.18			84,759.18
Financial instruments at amortized costs	6,401.53		60,661.75	67,063.28
Financial instruments held under resale agreement	146,386.29		133,088.75	279,475.04
Subtotal	947,510.16	8,722.78	236,050.65	1,192,283.59
Loans and entrusted loans	3,579.44	91.63	82,358.51	86,029.58
Margin accounts receivable	943,930.72	8,631.15	153,692.14	1,106,254.01

3. 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.

The Company mainly holds the position belongs to the proprietary investment, therefore the stock and derivative price risk and the interest rate risk have a great impact on the investment business.

(1) 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 Company utilizes sensitivity analysis as the main tool for monitoring interest rate risk and measuring the impact of a reasonable and possible change of interest rate on its total profit and equity, assuming all other variables remain unchanged. Debt securities of the Company mainly comprise corporate bonds, and the Company mitigates the interest rate risk through optimizing the duration and convexity of its bond portfolio. Interest rate risk in connection with cash held for brokerage client in bank balances and clearing settlement funds is offset by the associated accounts payable to brokerage clients because their terms match with each other.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

X. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

3. Market risk (continued)

(1) Interest rate risk (continued)

The table below presents the residual maturities of the Company's financial assets and liabilities before their contractual re-pricing dates or their maturity dates (whichever are earlier):

Expressed in RMB'0000

Item	30 June 2020						Total
	Within 1 month	1-3 months	3 months to 1 year	1-5 years	Above 5 years	Non-interest bearing	
Cash and bank balances	1,263,397.31					16.88	1,263,414.19
Clearing settlement funds	176,574.89						176,574.89
Margin accounts receivable	39,771.33	192,502.84	409,571.21				641,845.38
Derivative financial assets						1,184.32	1,184.32
Refundable deposits						76,422.28	76,422.28
Accounts receivable						9,839.47	9,839.47
Financial assets held under resale agreement	182,116.69	22,585.27	22,642.80	497.36			227,842.12
Financial asset at fair value through profit or loss	23,002.54	112,254.08	30,802.01	1,163,643.78	270,963.05	278,804.76	1,879,470.22
Financial assets at amortized costs	48,431.91	1,419.32	2,284.85				52,136.08
Financial assets at fair value through other comprehensive income	5,180.26		15,275.50	63,481.51			83,937.27
Other assets	13,690.04	25,857.20	27,448.83	7,633.76	1,587.72	43,526.04	119,743.59
Financial assets subtotal	1,752,164.97	354,618.71	508,025.20	1,235,256.41	272,550.77	409,793.75	4,532,409.81
Short-term loans		4,567.20	123,520.28				128,087.48
Short-term financing instruments payable	175,264.30	3,161.63	288,370.32				466,796.25
Loans from other financial institutions	90,057.74	80,759.24	90,048.13				260,865.11
Financial liabilities at fair value through profit or loss	27,103.53			54,073.69			81,177.22
Financial assets sold under repurchase agreements	1,048,687.84		60,252.22				1,108,940.06
Accounts payable to brokerage clients	1,022,748.35					69,099.93	1,091,848.28
Derivative financial liabilities						4.83	4.83
Bond payable				456,404.59			456,404.59
Accounts payable						9,791.12	9,791.12
Long-term borrowings				932.47			932.47
Other liabilities						25,672.14	25,672.14
Financial liability subtotal	2,363,861.76	88,488.07	562,190.95	511,410.75		104,568.02	3,630,519.55
Interest rate sensitivity gap	-611,696.79	266,130.64	-54,165.75	723,845.66	272,550.77	305,225.73	596,664.53

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

X. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

3. Market risk (continued)

(1) Interest rate risk (continued)

Item	31 December 2019						Total
	Within 1 month	1-3 months	3 months to 1 year	1-5 years	Above 5 years	Non-interest bearing	
Cash and bank balances	925,150.04		7,000.00	1,000.00		24.82	933,174.86
Clearing settlement funds	251,804.95						251,804.95
Margin accounts receivable	28,289.12	145,001.72	432,783.18				606,074.02
Derivative financial assets						1,138.41	1,138.41
Refundable deposits						39,516.97	39,516.97
Accounts receivable						15,391.23	15,391.23
Financial assets held under resale agreement	237,398.98	18,136.71	45,532.17	1,320.99			302,388.85
Financial asset at fair value through profit or loss	30,902.88	60,129.91	285,344.95	806,213.58	225,724.04	314,386.50	1,722,701.86
Financial assets at amortized costs	47,999.22	12,444.84	6,170.13	1,024.79			67,638.98
Financial assets at fair value through other comprehensive income			20,400.07	25,134.41	20,935.05		66,469.53
Other assets	29,462.24	10,008.15	59,991.70	7,824.10	1,516.39	20,391.26	129,193.84
Financial assets subtotal	1,551,007.43	245,721.33	857,222.20	842,517.87	248,175.48	390,849.19	4,135,493.50
Short-term loans	8,581.11	29,934.68	118,359.00				156,874.79
Short-term financing instruments payable	18,781.88	13,384.63	413,378.20				445,544.71
Loans from other financial institutions	236,115.96						236,115.96
Financial liabilities at fair value through profit or loss	74,315.30			37,139.94			111,455.24
Financial assets sold under repurchase agreements	771,910.20	40,079.47	60,119.20				872,108.87
Accounts payable to brokerage clients	797,590.10					91,916.59	889,506.69
Derivative financial liabilities						8.37	8.37
Bond payable				462,394.04			462,394.04
Accounts payable						19,099.24	19,099.24
Long-term borrowings				1,320.30			1,320.30
Other liabilities						34,601.60	34,601.60
Financial liability subtotal	1,907,294.55	83,398.78	591,856.40	500,854.28		145,625.80	3,229,029.81
Interest rate sensitivity gap	-356,287.12	162,322.55	265,365.80	341,663.59	248,175.48	245,223.39	661,240.30

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

X. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

3. Market risk (continued)

(2) 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 Company's price risk exposure mainly relates to investments in equity securities, investment funds, convertible bonds, derivatives and collective asset management schemes whose values will fluctuate as a result of changes in market prices. These investments are all investments in the domestic capital markets. The Company is subject to relatively high market risk due to the high volatility of the domestic stock markets.

The Company's price risk management policy requires setting and managing investment objectives. The directors of the Company manages price risk by holding an appropriately diversified investment portfolio, setting limits for investments in different securities and closely monitoring the portfolio of investments to reduce the risk of concentration in any one specific industry or issuer. The Company uses derivatives contracts to economically hedge against certain exposures arising from its investment portfolio.

The analysis below shows the impact on profit before income tax and other comprehensive income before income tax due to change in the prices of stocks, bonds, funds, convertible bonds, derivatives and collective asset management schemes by 10%, assuming all other variables remain unchanged. A positive result indicates an increase in profit before income tax and other comprehensive income before income tax, while a negative result indicates otherwise.

Expressed in RMB'0000

Item	30 June 2020		31 December 2019	
	Profit before income tax	Other comprehensive income before income tax	Profit before income tax	Other comprehensive income before income tax
Increase by 10%	26,068.94	8,320.67	25,576.09	6,470.86
Decrease by 10%	-26,068.94	-8,320.67	-25,576.09	-6,470.86

(3) 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 Company's foreign currency asset conversion ratio to the total assets is 3.84%, and the foreign currency liability conversion ratio to the total liabilities is 4.10%. Due to the low proportion of foreign currency in the Company's assets and liabilities and income structure, the exchange rate risk has little impact on the Company's current operation as of 30 June 2020.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

X. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

4. Liquidity risk

Liquidity risk refers to the risk that the Company cannot obtain sufficient funds in time at a reasonable cost to meet the maturing debts, fulfill other payment obligations and meet the capital needs of normal business. The Company manages and controls their funds in a centralized manner. Through early warnings and focusing on individually large amounts of funds, the Company achieves the objective of centralized control and management of liquidity risk. By striking an appropriate balance between safety, liquidity and profitability, the Company adjusts and allocates asset sizes and structural provisions, so as to establish a multi-level liquidity reserve system and achieve liquidity risk management objectives by leveraging money market and capital market transactions in a timely manner.

The tables below present the cash flows payable by the Company for non-derivative financial liabilities by remaining contractual maturities as at 30 June 2020 and 31 December 2019. The amounts disclosed in the tables are the contractual undiscounted cash flows, including both interest and principal cash flows.

The financial liabilities held by the Company are analyzed based on the undiscounted remaining contractual obligations due period as follows:

Expressed in RMB'0000

Non-derivative financial liabilities	30 June 2020							Total
	On demand	Within 1 month	1-3 months	3 months to 1 year	1-5 years	Above 5 years	Undated	
Short-term loans			4,592.46	127,956.28				132,548.74
Short-term financing instruments payable		175,863.88	3,181.97	297,946.17				476,992.02
Loans from other financial institutions		90,066.00	81,321.67	91,251.25				262,638.92
Financial liabilities at fair value through profit or loss		27,103.53			54,073.69			81,177.22
Financial assets sold under repurchase agreements		1,049,407.65		61,163.84				1,110,571.49
Accounts payable to brokerage clients	69,099.92	1,022,748.36						1,091,848.28
Bond payable					498,662.28			498,662.28
Accounts payable							9,791.12	9,791.12
Long-term borrowings					1,014.47			1,014.47
Other liabilities							25,672.14	25,672.14
Total	69,099.92	2,365,189.42	89,096.10	578,317.54	553,750.44		35,463.26	3,690,916.68

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

X. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

4. Liquidity risk (continued)

Non-derivative financial liabilities	31 December 2019							Total
	On demand	Within 1 month	1–3 months	3 months to 1 year	1–5 years	Above 5 years	Undated	
Short-term loans		8,589.55	30,155.62	125,482.52				164,227.69
Short-term financing instruments payable		6,119.56	6,312.71	452,474.33				464,906.60
Loans from other financial institutions		236,138.37						236,138.37
Financial liabilities at fair value through profit or loss		74,315.30			37,139.94			111,455.24
Financial assets sold under repurchase agreements		771,908.44	40,265.10	62,958.90				875,132.44
Accounts payable to brokerage clients	91,916.59	797,590.10						889,506.69
Bond payable					483,770.00			483,770.00
Accounts payable							19,099.24	19,099.24
Long-term borrowings					1,471.34			1,471.34
Other liabilities							34,601.60	34,601.60
Total	91,916.59	1,894,661.32	76,733.43	640,915.75	522,381.28		53,700.84	3,280,309.21

5. Operational risk

Operational risk is the risk of loss to the Company due to the imperfection or failure of personnel, internal procedures and systems, as well as the impact of external events.

The Company emphasizes the matching of business scale, profit and risk management ability, and does not sacrifice the control of operational risk for the pursuit of profit. The Company emphasizes to carry out the business of various securities companies under the premise of sound control of operational risks. In the case of cost permitting, the Company will continue to strengthen the operational risk management system and implement the internal control system. Through strengthening the internal control mechanism, the operation risk under the given business income is minimized.

During the reporting period, the Company strengthened the construction of rules and regulations and business processes, sorted out the important business links and institutional framework, and improved and revised the aspects of business processes that did not meet the management needs and operational requirements. The Company's audit department cooperated with the Compliance Management Department and the Risk Management Department to strengthen the supervision and inspection of various businesses to effectively avoid operational risks caused by non-standard or non-standard operations or the lack of coordination mechanism between departments. During the reporting period, no significant operational risk events occurred in the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

X. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

6. Compliance risk

Compliance risk refers to the risk of legal sanction, being subjected to supervisory measure, self-discipline penalty, loss of property or reputation on the Company arising from violation of laws, regulations or rules due to the operation and management or practices of the Company or its personnel.

Compliance risks of the Company include the risk of operational non-compliance of brokerage business, such as acceptance of discretionary entrustment of client, engagement of personnel without qualification for dealing with securities in marketing activities, the shareholding in a single stock in proprietary business and asset management business exceeding the specified proportion under regulatory requirements, failure to meet due diligence obligations of sponsors for investment banking business, failure to complete filing procedures for consultation on foreign investment in investment advisory business, etc. The Company conducted effective management and control on the legal compliance risk through legal compliance review, legal compliance monitoring, legal compliance examination, legal compliance supervision and legal compliance training, etc. No significant compliance risk occurred during the reporting period.

7. Capital management

The Company's objectives of capital management are:

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

XI. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

1. The amount of assets and liabilities measured at fair value and the level of fair value measurement

The table below analyses financial instruments measured at fair value at the end of each reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized. The level of fair value measurement results depends on the input value of the lowest level of significance for the fair value measurement as a whole. The three levels of input values are defined as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Company's financial assets and liabilities that are measured at fair value as at the balance sheet date.

Item	Fair value at 30 June 2020			Total
	Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss	4,518,680,759.11	12,825,107,147.85	1,450,914,256.21	18,794,702,163.17
(1) Bond investment	4,498,705,240.98	10,236,663,721.28	402,187,216.59	15,137,556,178.85
(2) Equity investment	13,341,973.98	515,336,398.32	706,552,297.13	1,235,230,669.43
(3) Public funds	6,633,544.15	1,099,817,519.23		1,106,451,063.38
(4) Others		973,289,509.02	342,174,742.49	1,315,464,251.51
Financial instruments at fair value through other comprehensive income	204,557,657.55	634,815,090.20		839,372,747.75
Derivative financial assets	39,150.00		11,804,085.06	11,843,235.06
Total	4,723,277,566.66	13,459,922,238.05	1,462,718,341.27	19,645,918,145.98
Financial liabilities as at fair value through profit or loss	271,035,283.57		540,736,944.56	811,772,228.13
Derivative financial liabilities	9,550.00		38,730.00	48,280.00
Total	271,044,833.57		540,775,674.56	811,820,508.13

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

XI. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

1. The amount of assets and liabilities measured at fair value and the level of fair value measurement

Item	Level 1	Fair value at 31 December 2019			Total
		Level 2	Level 3		
Financial assets at fair value through profit or loss	4,726,430,172.73	11,291,377,647.26	1,209,210,826.77		17,227,018,646.76
(1) Bond investment	4,309,028,233.68	9,080,536,711.40	420,701,220.37		13,810,266,165.45
(2) Equity investment	388,094,475.20	364,671,492.30	695,610,206.47		1,448,376,173.97
(3) Public funds	29,307,463.85	763,171,485.72			792,478,949.57
(4) Others		1,082,997,957.84	92,899,399.93		1,175,897,357.77
Financial instruments at fair value through other comprehensive income	358,934,217.57	305,761,128.91			664,695,346.48
Derivative financial assets	53,190.00	65,075.00	11,265,850.93		11,384,115.93
Total	5,085,417,580.30	11,597,203,851.17	1,220,476,677.70		17,903,098,109.17
Financial liabilities as at fair value through profit or loss	714,792,262.30		399,760,116.86		1,114,552,379.16
Derivative financial liabilities	39,420.00		44,320.00		83,740.00
Total	714,831,682.30		399,804,436.86		1,114,636,119.16

2. Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the closing price within bid-ask spread. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily listed assets Financial assets at fair value through profit or loss, Financial instruments at fair value through other comprehensive income securities traded on the Shanghai Stock Exchange and Shenzhen Stock Exchange

3. Financial instruments in Level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

XI. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

4. Financial instruments in Level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. For non-listed equity investment, bond investment, trust products and financial liabilities, the Company USES valuation techniques to determine its fair value, including discounted cash flow method and market comparison method. The measurement of its fair value adopts important non-observable parameters, such as liquidity discount, volatility and market multiplier. The fair value of unlisted equity investments, bond investments, other investments and financial liabilities is not significantly sensitive to reasonable changes in these non-observable inputs.

The Company has not changed the valuation techniques used in the above-mentioned continuous third level fair value measurement for the six months ended 2020.

5. The changes in Level 3 instruments

Item	31 December 2019	Increase	Decrease	30 June 2020
Financial assets at fair value through profit or loss	1,209,210,826.77	241,703,429.44		1,450,914,256.21
Financial liabilities as at fair value through profit or loss	399,760,116.86	140,976,827.70		540,736,944.56
Derivative financial assets	11,265,850.93	538,234.13		11,804,085.06
Derivative financial liabilities	44,320.00		5,590.00	38,730.00

Item	1 January 2019	Increase	Decrease	31 December 2019
Financial assets at fair value through profit or loss	1,715,558,066.26		506,347,239.49	1,209,210,826.77
Financial liabilities as at fair value through profit or loss	380,027,422.26	19,732,694.60		399,760,116.86
Derivative financial assets	62,985,609.15		51,719,758.22	11,265,850.93
Derivative financial liabilities		44,320.00		44,320.00

For financial instruments in Level 3, prices are determined using valuation methodologies such as discounted cash flow models and other similar techniques. Determinations to classify fair value measures within Level 3 of the valuation hierarchy are generally based on the significance of the unobservable inputs to the overall fair value measurement. The following table presents the related valuation techniques and inputs of the major financial instruments in Level 3.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

XI. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

5. The changes in Level 3 instruments (continued)

Financial instruments	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input(s) to fair value
Financial assets at fair value through profit or loss				
— Bank financial products	Level 3	— Discounted cash flows with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level	— Expected future cash flows; — Expected recovery date;	— The higher the future cash flows, the higher the fair value;
— Asset management schemes			— Discount rates that correspond to the expected risk level	— The earlier the maturity date, the higher the fair value; — The lower the discount rate, the higher the fair value
— The trust plan	Level 3	— Discounted cash flows with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level	— Expected future cash flows; — Expected recovery date;	— The higher the future cash flows, the higher the fair value;
			— Discount rates that correspond to the expected risk level	— The earlier the maturity date, the higher the fair value; — The lower the discount rate, the higher the fair value
— Private convertible bonds	Level 3	— Discounted cash flows with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level; — Option pricing model	— Expected future cash flows; — Expected recovery date; — Discount rates that correspond to the expected risk level; — Stock price volatility	— The higher the future cash flows, the higher the fair value; — The earlier the maturity date, the higher the fair value; — The lower the discount rate, the higher the fair value; — The higher the stock price volatility, the higher the fair value
— Unlisted equity	Level 3	— Using comparable company method by selecting comparable companies in the same industry as the target company's important financial indicators; consider liquidity discount, estimate the expected exit date of equity, calculate the volatility of comparable companies, adopt the option model, calculate the liquidity discount of comparable companies.	— Expected recovery date; — Stock price volatility	— The earlier recovery date is expected, the higher fair value is valued; — The higher stock price volatility is displayed, the higher fair value is valued
— Financial liabilities as at fair value through profit or loss	Level 3	— Discounted cash flows with future cash flows that are estimated based on expected payable amounts, discounted at rates that reflect management's best estimation of the expected risk level	— Expected future cash flows; — Expected recovery date; — Discount rates that correspond to the expected risk level	— The higher the future cash flows, the higher the fair value; — The earlier the payment date, the higher the fair value; — The lower the discount rate, the higher the fair value
— Derivative Financial Instruments	Level 3	— The Option Pricing Model is used for valuation. The main input parameter is the volatility of the target instrument.	— Target instrument volatility	— The higher the volatility of the instrument, the higher the fair value

XII. CONTINGENCIES

As of 30 June 2020, the company has not been involved in a single major legal action, arbitration, etc. that may have a material adverse effect on the company's financial status or operating performance.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

XIII. COMMITMENTS

1. Capital commitments

The Company has entered into a contract but has not confirmed the capital commitment in the financial statements as follows:

Item	30 June 2020	31 December 2019
Contracted but not paid for	56,855,630.88	48,798,003.04
Total	56,855,630.88	48,798,003.04

XIV. EVENTS AFTER THE BALANCE SHEET DATE

1. Implementation of capital increase to Central China International Financial Holdings Company Limited

On 29 April 2020, the 19th meeting of the sixth board of directors of the company approved the "Proposal on Capital Increase in Hong Kong Subsidiary, Central China International Financial Holdings Co., Ltd." and agreed to increase the capital of Central China International Financial Holdings Co., Ltd by HKD0.5 to 1billion. The capital increase needs to be approved by the China Securities Regulatory Commission and other relevant departments. As of the date of this financial statement, the capital increase has not been actually paid.

2. Shareholders bid collectively to reduce the shares

As of 30 June 2020, Bohai Industrial Investment Fund Management Co., Ltd, the major shareholder of the Company, holds 534,309,767 unrestricted shares of the company and accounting for approximately 13.81% of the company's total share capital. The share is issued by the Company before the company's initial public offering and listing and have been released on 3 January 2018. Bohai Industrial Investment Fund intends to reduce the number of shares of the company through a centralized bidding method within 6 months after 15 trading days from 11 June 2020. The number of shares of the company will not exceed 77,381,414 shares. As of the date of this financial statement, the aforementioned reduction in holdings has not yet been completed.

3. Non-public issuance of new shares

The Company's application for non-public issuance of A shares was reviewed and approved by the China Securities Regulatory Commission's Issuance Review Committee on 5 June 2020. The company received the China Securities Regulatory Commission's "Regarding Approval of Central China Securities Co., Ltd." on 1 July 2020. "Approval for the Company's Non-public Issuance of Stocks" (Zheng Jian Ke (2020) No. 1190), approves the company's non-public issuance of no more than 773,814,000 new shares, and the approval is valid for 12 months from the date of approval of the issuance. The company completed the non-public issuance of A shares on 30 July 2020, the actual issuance of 773,814,000 A shares, net proceeds of RMB3.617 billion after deducting issuance expenses. The 773,814,000 A shares subscribed by the issuers have completed the share registration procedures at the Shanghai Branch of China Securities Depository and Clearing Corporation Limited.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

XV. INFORMATION ABOUT SEGMENTS

According to different business types, the Company's reporting divisions are mainly divided into: securities brokerage business, proprietary trading, investment banking, credit business, investment management business, futures business, overseas business, and headquarters and others.

1. Segment information for six months end 2020 (by business)

Item	Securities brokerage business	Proprietary trading	Investment banking	Credit business	Investment management business	Futures business	Overseas business	Headquarters and others	Offset	Total
1. Operating revenue	342,577,848.30	50,044,690.45	82,389,623.49	121,583,532.32	50,730,424.95	454,163,518.32	-44,766,778.69	200,929,860.58	-7,677,396.47	1,249,975,323.25
Net fee and commission income	342,698,101.07		82,792,358.50	17,015,670.40	24,233,475.79	30,909,810.59	7,441,743.58	9,417,877.14	-558,712.07	513,950,325.00
Investment income (or less: losses)		290,031,247.59			-5,480,793.84	16,614,869.03	3,082,794.72	65,315,346.13	-6,508,309.14	363,055,154.49
Gains on changes in fair value (or less: losses)		-52,694,590.62			26,265,471.23	4,498,790.75	-33,766,719.95	-9,889,156.16		-65,586,204.75
Gains on foreign exchange (or less: losses)	30,136.41						-2,901,831.69	112,168.58		-2,759,526.70
Other operating income	1,384,175.47	6,728,657.15		10,896,301.67	30,641.00	396,302,908.69	1,731,167.56	6,509,857.63	-642,856.72	422,940,852.45
Net interest income	-1,534,564.65	-194,020,623.67	-402,735.01	93,671,560.25	5,681,630.77	5,837,139.26	-20,353,932.91	129,463,767.26	32,481.46	18,374,722.76
2. Operating cost	260,988,336.14	77,247,023.63	97,297,376.20	126,715,364.46	12,307,468.43	446,716,737.05	30,134,809.51	139,975,417.58	-5,793,147.36	1,185,589,385.64
3. Operating profit	81,589,512.16	-27,202,333.18	-14,907,752.71	-5,131,832.14	38,422,956.52	7,446,781.27	-74,901,588.20	60,954,443.00	-1,884,249.11	64,385,937.61
4. Total Asset	10,848,112,462.82	12,071,938,362.88	59,179,616.09	1,863,322,052.23	4,125,363,325.30	1,633,291,331.55	1,830,566,488.02	21,059,888,947.75	-5,834,251,051.89	47,657,411,534.75
5. Total liabilities	10,548,839,523.04	12,001,817,850.90	74,085,237.88	1,719,999,981.37	432,794,254.96	1,117,287,464.89	1,521,269,132.56	10,131,247,430.15	-420,284,172.67	37,127,056,703.08
6. Supplementary information										
(1) Depreciation and amortisation	28,918,699.67	6,853,815.89	5,729,961.78	392,833.50	993,120.70	2,452,851.71	7,737,607.52	24,903,680.11	-611,074.08	77,371,496.80
(2) Capital expenditure	10,719,241.78	1,548,140.73	230,623.07	99,788.50	61,203.79	423,118.26	40,273.03	17,370,245.83		30,492,634.99

Headquarters and other operating profits are mainly the operating profit of the CCEC from January to June 2020 of RMB36,325,198.20, and the operating profit of Central China Micro-lending Henan from January to June 2020 of RMB25,285,290.27.

XVI. OTHER SIGNIFICANT EVENTS

1. Social responsibility expenses

Item	For the six months ended 2020	For the six months ended 2019
Charitable donations	4,000,000.00	47,504.00
Total	4,000,000.00	47,504.00

2. Margin business

The Company's margin business scale is as follows, On 30 June 2020 and 31 December 2019:

Item	For the six months ended 2020	For the six months ended 2019
Margin accounts receivable	6,494,109,762.71	6,131,736,886.67
Financing securities business	5,741,019.29	5,410,131.09
Total	6,499,850,782.00	6,137,147,017.76

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

XVI. OTHER SIGNIFICANT EVENTS (CONTINUED)

3. Securities lending

The types and fair values of the bonds the Company borrows on the trading platforms of the inter-bank and exchange bond markets are listed below:

Item	Fair value on 30 June 2020	Fair value on 31 December 2019
Treasury bonds	692,041,144.00	493,954,800.00
Policy-based financial debt	587,671,440.00	869,154,000.00
Local government debt	297,248,300.00	530,733,960.00
Total	1,576,960,884.00	1,893,842,760.00

The fair value of the bonds pledged for the sale of repo business in the bonds obtained by the Company through inter-bank and exchange market borrowing was RMB1430.68 million on 30 June 2020.

4. Security of customer funds

As of 30 June 2020, the company has deposited customer transaction settlement funds in commercial banks with depository qualifications and in compliance with the "Customer Transaction Settlement Fund Management Measures" (China Securities Regulatory Commission Order No. 3). Customer transaction settlement funds Third-party depository and other relevant regulations require the security of customer transaction settlement funds to ensure the safety of customer funds and there is no problem of misappropriating customer funds.

5. Assets and liabilities measured at fair value

Item	31 December 2019	Gains and losses from changes in fair value for the current period	Cumulative changes in fair value included in equity Financial Asset	Impairment accrued in the current period	30 June 2020
1. Financial asset at fair value through profit or loss (without Derivative financial Asset)	17,227,018,646.76	-65,341,315.73			18,794,702,163.17
2. Derivative financial Asset	11,384,115.93	4,024,518.52			11,843,235.06
3. Financial Asset measured at amortised cost	664,695,346.48		-9,123,843.11	8,018,376.66	839,372,747.75
4. Other Financial instruments at fair value through other comprehensive income					
Subtotal	17,903,098,109.17	-61,316,797.21	-9,123,843.11	8,018,376.66	19,645,918,145.98
Investment properties					
Productive biological assets					
Others					
Total	17,903,098,109.17	-61,316,797.21	-9,123,843.11	8,018,376.66	19,645,918,145.98
Financial liabilities at fair value through profit or loss	1,114,552,379.16	-4,319,699.71			811,772,228.13
Derivative financial Liabilities	83,740.00	50,292.17			48,280.00
Financial Liabilities	1,114,636,119.16	-4,269,407.54			811,820,508.13

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

XVI. OTHER SIGNIFICANT EVENTS (CONTINUED)

6. Basic classification table for the measurement of financial assets

Item	30 June 2020				
	The change of fair value through profit or loss				
	Financial assets measured at amortised cost	Financial assets at fair value through other comprehensive income	Appointed as Financial instruments at fair value through other comprehensive income	Classified as Financial asset at fair value through profit or loss	According to the "Financial Instruments Recognition and Measurement" standards, designated as financial assets measured at fair value through profit or loss
Cash and bank balances	12,634,141,865.39				
Clearing settlement funds	1,765,748,855.33				
Margin accounts receivable	6,418,453,778.69				
Derivative financial assets				11,843,235.06	
Refundable deposits	764,222,849.71				
Accounts receivable	98,394,746.29				
Financial assets held under resale agreement	2,278,421,194.66				
Financial asset at fair value through profit or loss				18,794,702,163.17	
Financial instruments measured at amortised cost	521,360,766.91				
Financial instruments at fair value through other comprehensive income		839,372,747.75			
Others	1,004,931,543.86				
Total	25,485,675,600.84	839,372,747.75		18,806,545,398.23	

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

XVI. OTHER SIGNIFICANT EVENTS (CONTINUED)

6. Basic classification table for the measurement of financial assets (continued)

Item	31 December 2019				
	The change of fair value through profit or loss				
	Financial assets measured at amortised cost	Financial assets at fair value through other comprehensive income	Appointed as Financial instruments at fair value through other comprehensive income	Classified as Financial asset at fair value through profit or loss	According to the "Financial Instruments Recognition and Measurement" standards, designated as financial assets measured at fair value through profit or loss
					According to the "Hedging Accounting" standards, designated as financial assets measured at fair value through profit or loss
Cash and bank balances	9,331,748,561.52				
Clearing settlement funds	2,518,049,515.84				
Margin accounts receivable	6,060,740,196.56				
Derivative financial assets				11,384,115.93	
Refundable deposits	395,169,735.95				
Accounts receivable	153,912,302.37				
Financial assets held under resale agreement	3,023,888,527.71				
Financial asset at fair value through profit or loss				17,227,018,646.76	
Financial instruments measured at amortised cost	676,389,859.29				
Financial instruments at fair value through other comprehensive income		664,695,346.48			
Others	1,088,025,728.72				
Total	23,247,924,427.96	664,695,346.48		17,238,402,762.69	

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

XVI. OTHER SIGNIFICANT EVENTS (CONTINUED)

7. Basic classification table for the measurement of financial liabilities

Item	30 June 2020			
	The change of fair value through profit or loss			
	Financial liabilities measured at amortised cost	Classified as Financial liabilities at fair value through profit or loss	According to the "Financial Instruments Recognition and Measurement" standards, designated as Financial liabilities at fair value through profit or loss	According to the "Hedging Accounting" standards, designated as financial assets measured at fair value through profit or loss
			Financial liabilities at fair value through profit or loss	
Short-term loans	1,280,874,777.88			
Derivative financial liabilities		48,280.00		
Short-term financing instruments payable	4,667,962,527.24			
Due to banks and other financial institutions	2,608,651,111.12			
Financial liabilities at fair value through profit or loss		811,772,228.13		
Financial assets sold under repurchase agreements	11,089,400,605.91			
Accounts payable to brokerage clients	10,918,482,823.86			
Accounts payable	97,911,163.21			
Bonds payable	4,564,045,857.99			
Long-term borrowings	9,324,740.83			
Other liabilities	28,496,636.48			
Total	35,265,150,244.52	811,820,508.13		

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

XVI. OTHER SIGNIFICANT EVENTS (CONTINUED)

7. Basic classification table for the measurement of financial liabilities (continued)

Item	31 December 2019			
	The change of fair value through profit or loss			
	Financial liabilities measured at amortised cost	Classified as Financial liabilities at fair value through profit or loss	According to the "Financial Instruments Recognition and Measurement" standards, designated as Financial liabilities at fair value through profit or loss	According to the "Hedging Accounting" standards, designated as financial assets measured at fair value through profit or loss
Short-term loans	1,568,747,897.84			
Derivative financial liabilities		83,740.00		
Short-term financing instruments payable	4,455,447,124.75			
Due to banks and other financial institutions	2,361,159,583.32			
Financial liabilities at fair value through profit or loss		1,114,552,379.16		
Financial assets sold under repurchase agreements	8,721,088,626.07			
Accounts payable to brokerage clients	8,895,066,941.34			
Accounts payable	190,992,352.09			
Bonds payable	4,623,940,375.96			
Long-term borrowings	13,202,955.17			
Other liabilities	26,564,390.64			
Total	30,856,210,247.18	1,114,636,119.16		

8. Foreign currency financial assets and financial liabilities

Item	31 December 2019	Gains and losses from changes in fair value for the current period	Cumulative changes in fair value included in equity	Impairment accrued in the current period	30 June 2020
Financial assets					
1. Financial asset at fair value through profit or loss	1,089,445,460.17	-33,766,719.95			1,035,031,948.80
2. Derivative financial assets					
3. Loan and Account receivable	19,099,108.85				26,823,240.65
4. Financial instruments at fair value through other comprehensive income					
5. Other Financial instruments at fair value through other comprehensive income					
6. Financial instruments measured at amortised cost	51,830,963.55				51,025,913.48
subtotal	1,160,375,532.57	-33,766,719.95			1,112,881,102.93
Financial liabilities					

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

XVII. NOTES TO ITEMS OF FINANCIAL STATEMENTS OF THE COMPANY

1. Long-term equity investment

(1) By categories

Item	30 June 2020			31 December 2019		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Investment in subsidiaries	4,126,432,553.95		4,126,432,553.95	4,126,432,553.95		4,126,432,553.95
Total	4,126,432,553.95		4,126,432,553.95	4,126,432,553.95		4,126,432,553.95

(2) Investment in subsidiaries

Investee	31 December 2019	Increase	Decrease	30 June 2020	Provision for impairment in period	Closing balance of provision for impairment
Central China Futures Co., Ltd.	188,061,592.08			188,061,592.08		
Zhongding Kaiyuan Venture Capital Management Co., Ltd.	700,530,961.87			700,530,961.87		
Central China International Financial Holdings Company Limited	859,340,000.00			859,340,000.00		
Central China Blue Ocean Investment Management Company Limited	2,256,000,000.00			2,256,000,000.00		
Central China Equity Exchange Co., Ltd	122,500,000.00			122,500,000.00		
Total	4,126,432,553.95			4,126,432,553.95		

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

XVII. NOTES TO ITEMS OF FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

2. Net interest income

Item	For the six months ended 2020	For the six months ended 2019
Interest income	377,725,652.14	426,969,095.53
Include: interest income from Cash and Clearing settlement funds	106,694,777.47	98,706,645.05
interest income from margin trading	206,411,123.64	175,504,351.11
interest income from Financial assets held under resale agreement	41,391,582.97	129,035,198.50
Include: interest income from Agreed repurchase	460,170.80	892,390.87
interest income from Stock pledge repurchase	25,315,107.64	61,414,826.91
interest income from Financial instruments at fair value through other comprehensive income	13,883,435.33	22,748,318.73
others	9,344,732.73	974,582.14
Interest expense	388,020,182.06	441,043,321.38
Include: Short-term financing instruments expense	7,159,720.65	3,282,348.65
Loans from other financial institutions expense	32,301,755.54	44,747,841.95
Include: refinancing interest expense	8,073,611.12	16,423,611.13
Financial assets held under resale agreement interest expense	121,830,581.11	160,022,082.83
Include: Interest expense for quote repurchase		
Accounts payable to brokerage clients interest expense	17,495,512.27	15,416,708.29
Bond payable interest expense	199,728,325.67	212,244,403.58
Include: subordinated bond interest expense	143,890,408.83	139,326,428.37
Bond loan	5,526,740.64	2,052,493.16
Others	3,977,546.18	3,277,442.92
Net interest income	-10,294,529.92	-14,074,225.85

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

XVII. NOTES TO ITEMS OF FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

3. Net fee and commission income

(1) Details

Item	For the six months ended 2020	For the six months ended 2019
Securities brokerage services net income	309,079,196.29	272,925,516.83
— Securities brokerage services income	398,935,534.41	352,512,842.59
— Dealing in securities	379,969,151.93	346,518,341.71
Lease of trade seat	430,607.33	291,210.27
Consignment of financial products business	18,074,613.26	5,326,104.61
— securities brokerage services expense	89,856,338.12	79,587,325.76
— Dealing in securities	89,770,913.46	79,524,331.55
Consignment of financial products business	3,778.46	3,426.70
Investment bank business net income	94,884,683.65	82,746,760.76
— Investment bank business income	104,097,891.18	82,898,434.17
— Securities underwriting business	80,381,886.80	46,071,775.96
Securities sponsor business	5,660,377.35	2,518,867.93
Financial advisory business	18,055,627.03	34,307,790.28
— Investment bank business expense	9,213,207.53	151,673.41
— Securities underwriting business	7,873,584.91	96,827.31
Securities sponsor business	400,000.00	
Financial advisory business	939,622.62	54,846.10
Assets financial business net income	18,229,098.75	24,346,530.30
— Assets financial business income	18,233,873.32	24,362,703.46
— Assets financial business expense	4,774.57	16,173.16
Investment advisory business net income	38,925,687.55	38,419,286.09
— Investment advisory business income	38,925,687.55	38,419,286.09
— Investment advisory business expense		
Net other fee and commission net income	5,623,302.14	4,458,333.35
— Other fee and commission income	5,623,302.14	4,458,333.35
— Other fee and commission expense		
Total	466,741,968.38	422,896,427.33
Include: total fee and commission income	565,816,288.60	502,651,599.66
Total fee and commission expense	99,074,320.22	79,755,172.33

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

XVII. NOTES TO ITEMS OF FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

4. Investment income

(1) By categories

Item	For the six months ended 2020	For the six months ended 2019
Long-term equity investment income calculated by cost method	77,307,500.00	11,707,667.80
Long-term equity investment income calculated by equity method		-313,577.79
Depose financial instrument income		2,831,703.86
Financial instrument investment income	300,641,403.51	309,670,180.72
Include: Proceeds generated during holding period	342,573,244.56	280,405,458.17
Include: financial assets measured at their fair values through profit or loss	353,971,979.55	284,727,838.06
financial liabilities measured at their fair values through profit or loss	-11,398,734.99	-4,322,379.89
Depose financial instrument income	-41,931,841.05	29,264,722.55
Include: financial assets measured at their fair values through profit or loss	67,786,817.66	46,443,701.63
financial assets at fair value through other comprehensive income	12,268,792.46	2,064,796.57
derivative financial instruments	-122,440,724.52	-24,296,340.07
financial liabilities measured at their fair values through profit or loss	453,273.35	5,052,564.42
Total	377,948,903.51	323,895,994.59

(2) Financial instruments measured at their fair values through profit or loss

Financial instruments measured at their fair values through profit or loss		For the six months ended 2020
Classified into financial assets measured at their fair values through profit or loss	Holding period income	353,971,979.55
Designated as financial assets measured at their fair values through profit or loss	Deposal income	67,786,817.66
Classified into financial liabilities measured at their fair values through profit or loss	Holding period income	-11,398,734.99
Designated as financial liabilities measured at their fair values through profit or loss	Deposal income	453,273.35

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

XVII. NOTES TO ITEMS OF FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

5. Business and administrative expenses

Item	For the six months ended 2020	For the six months ended 2019
Employee benefits	411,788,468.73	387,666,780.47
Right-of-use asset depreciation	28,399,618.73	20,718,003.90
Depreciation of fixed assets expense	15,874,498.04	15,046,964.53
Amortization of intangible assets	13,478,104.23	12,726,585.40
Mailing expenses	9,419,923.18	7,967,721.36
Electronic equipment operation fee	8,738,364.16	8,984,274.55
Member fees	7,104,979.82	6,218,859.65
Amortization of long-term deferred expenses	6,167,781.43	4,701,928.25
Consulting fees	7,322,439.37	8,314,859.44
Securities investors protection funds	4,823,658.82	11,791,716.01
Auditing expense	3,846,886.79	4,319,811.31
Utilities fees	3,285,375.44	3,092,295.73
Property fees	2,956,783.49	4,265,619.47
Traveling expenses	2,597,443.20	6,956,205.98
Rental fee	2,503,820.06	10,555,647.41
Advertising cost	2,381,334.93	4,749,871.90
Business entertainment	2,122,883.97	4,129,690.04
Safety fees	1,434,941.83	1,355,554.38
Vehicle operating fees	1,084,030.34	1,262,463.52
Public miscellaneous fees	952,842.12	3,131,560.15
Printing fees	712,319.47	1,165,332.52
Legal fees	163,676.00	2,833,949.43
Others	5,502,336.65	6,659,444.85
Total	542,662,510.80	538,615,140.25

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

XVII. NOTES TO ITEMS OF FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

6. Supplementary information on the Company cash flow statement

Item	For the six months ended 2020	For the six months ended 2019
1. Adjust net profit to cash flow from operating activities		
Net income	113,668,103.48	145,425,178.56
Add: Impairment allowance of assets	126,375,297.82	79,355,969.57
Depreciation of investment Equity and fixed assets	16,432,973.25	15,605,867.65
Right-of-use asset depreciation	28,399,618.73	20,718,003.90
Amortization amount of intangible assets	13,478,104.23	12,751,585.42
Amortization of long-term deferred expenses	6,167,781.43	4,701,928.25
Fixed assets, intangible assets and other long-term assets disposal (or revenue: "-")	12,816.35	29,796.64
Changes in fair value gains and losses (or revenue: "-")	55,982,487.02	-70,539,664.75
Interest expense	210,536,393.41	217,579,245.39
Exchange losses (or revenue: "-")	-142,304.99	-16,618.84
Investment losses (or revenue: "-")	-103,459,727.79	-22,434,760.94
Decrease in deferred income tax assets (or increase: "-")	-80,728,531.85	-15,891,614.81
Increase in deferred income tax liabilities (or decrease: "-")	-1,152,883.19	1,801,160.33
Decrease of operating receivables (or increase: "-")	3,002,839,602.96	-475,596,328.13
Increase of operating receivables (or decrease: "-")	-89,673,371.55	3,373,100,243.92
Net cash flow from operating activities	3,298,736,359.31	3,286,589,992.16
2. No cash flow from investment and financing activities		
Conversion of debt into capital		
Convertible corporate bonds due within one year		
Financing leased of fixed assets		
3. Net increase/(decrease) in cash and cash equivalents		
Closing balance of cash	12,999,482,546.55	10,244,136,274.08
Less: Opening balance of cash	9,849,533,204.97	8,227,607,657.53
Add: Closing balance of cash equivalent		
Less: Opening balance of cash equivalent		
Net increase of cash equivalent and cash	3,149,949,341.58	2,016,528,616.55

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

XVIII. FINANCIAL REPORT APPROVAL

This financial report was approved by the board of directors of the Company on 27 August 2020.

SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS

1. Non-recurring income statement

According to the requirements of "Explanatory Notice on Company Information Disclosure for Public Issuance of Securities No. 1 — Non-Recurring Gains and Losses (2008)" issued by the China Securities Regulatory Commission, the Company's non-recurring gains and losses are as follows:

Item	For the six months ended 2020	For the six months ended 2019
Gains and losses on disposal of non-current assets	-19,043.79	-9,825.97
Government subsidies included in current profits and losses	8,902,725.63	4,377,462.04
Non-operating income and expenses in addition to the above items	-6,340,210.41	-78,226.05
Subtotal	2,543,471.43	4,289,410.02
Less: income tax impact amount	605,409.38	1,072,352.50
Minority shareholder equity impact	-721,112.20	170,363.81
Non-recurrent net profit and loss attributable to parent shareholders	2,659,174.25	3,046,693.71

2. Return on equity and earnings per share

According to the requirements of the China Securities Regulatory Commission's rule No. 9 on the Compilation of Information Disclosure of Companies for Public Issuance of Securities calculation and disclosure of return on equity and earnings per share (revised in 2010), the Company's weighted average return on equity and earnings per share from January to June, 2020 are as follows:

Reporting period profit	Weighted average return on equity	Earnings per share	
		Underlying earnings per share	Diluted earnings per share
Net profit attributable to shareholders of the Company	0.32%	0.01	0.01
Net profit attributable to shareholders of the Company after deduction of non-recurring gains and losses	0.29%	0.01	0.01

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2020 (The currency are in RMB except otherwise stated)

SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Accounting data differences under domestic and foreign accounting standards

Differences in the reconciliation of shareholders' equity and profits under the transition from IFRS to Chinese Accounting Standards

Expressed in RMB'0000

Item	Net profit		Net assets	
	For the six months ended 2020	For the six months ended 2019	30 June 2020	30 June 2019
According to International Financial Reporting Standards	3,368.36	28,086.86	1,053,035.48	1,049,778.65
According to Chinese Accounting Standards	3,368.36	28,086.86	1,053,035.48	1,049,778.65
Difference				

SECTION 10 DOCUMENTS AVAILABLE FOR INSPECTION

Text of the interim report bearing the signature of legal representative of the Company.

The financial statements signed by the legal representative, the person in-charge-of financial affairs and head of the accounting department and chopped with the official chop of the Company.

Original copies of all documents and announcements of the Company disclosed on websites designated by the CSRC during the Reporting Period.

Interim report published in other securities markets.

Other relevant materials.

SECTION 11 INFORMATION DISCLOSURE OF SECURITIES COMPANY

I. RELEVANT INFORMATION ABOUT SIGNIFICANT ADMINISTRATIVE LICENSING ISSUES OF THE COMPANY

(I) Administrative licensing of branch offices and securities branches during the Reporting Period

Newly established securities branch	Relocation of branch offices	Relocation of securities branch
1	2	1

1. Administrative licensing of establishment of new securities branches during the Reporting Period

No.	Securities branches	Address	Document No. of establishment approval	Date of establishment approval	Date of license
1	South Taiping Road Securities Branch in Taicang of Central China Securities	No. 19-3, South Taiping Road, Chengxiang Town, Taicang City	Yu Zheng Jian Fa [2019] No. 339	24 December 2019	9 June 2020

2. Administrative licensing of relocation of branch offices during the Reporting Period

No.	Name of branch office before relocation	Name of branch office after relocation	New address	Date of license
1	Hunan Branch Office of Central China Securities	Hunan Branch Office of Central China Securities	Rooms 2554, 2555, 2556 & 2557, Building No. 2, Dongying Commercial Plaza, 730 Yuanda 1st Road, Furong District, Changsha City	5 June 2020
2	Shenzhen Branch Office of Central China Securities	Shenzhen Branch Office of Central China Securities	Units 04 & 05, 31/F, China Life Insurance Building, 123 Fuhua 1st Road, Fu'an Community, Futian Subdistrict, Futian District, Shenzhen City	1 June 2020

3. Administrative licensing of relocation of securities branches during the Reporting Period

No.	Name of securities branch before relocation	Name of securities branch after relocation	New address	Date of license
1	North Wenhua Road in Dengzhou Securities Branch of Central China Securities	Xinhua Road in Dengzhou Securities Branch of Central China Securities	17 East Xinhua Road, Dengzhou City	1 April 2020

SECTION 11 INFORMATION DISCLOSURE OF SECURITIES COMPANY

(II) Administrative licensing of other issues

No.	Date	Content
1	17 June 2020	The Company received the Approval in Relation to the Non-public Issuance of Shares by Central China Securities Co., Ltd. (Zheng Jian Xu Ke [2020] No. 1190) (《關於核准中原证券股份有限公司非公开发行业股票的批覆》(證監許可[2020]1190號)) issued by the CSRC, which approved the non-public issuance of A shares by the Company.

II. RESULT OF THE CLASSIFICATION OF THE COMPANY BY REGULATORY AUTHORITY

The Company was rated “A” in the category “A” by the CSRC in the 2020 classification and evaluation of securities companies.



中州证券

Central China Securities Co., Ltd.