



中信建投証券股份有限公司 CSC FINANCIAL CO., LTD.

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

Stock Code: 6066

2021
Interim Report

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DEFINITIONS

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

Definitions of common terms

“A Share(s)”	domestic shares in the share capital of our Company with a nominal value of RMB1.00 each, listed on the Shanghai Stock Exchange and traded in RMB
“Articles of Association” or “Articles”	the articles of association of CSC Financial Co., Ltd.
“Board” or “Board of Directors”	the board of directors of our Company
“Beijing CSRC”	Beijing Regulatory Bureau of the China Securities Regulatory Commission
“Beijing Financial Holding Group”	Beijing Financial Holdings Group Limited (北京金融金控集團有限公司)
“Central Huijin”	Central Huijin Investment Limited (中央匯金投資有限責任公司)
“China Securities Capital”	China Capital Management Limited (中信建投資本管理有限公司)
“China Securities Funds”	China Securities Funds Management Limited (中信建投基金管理有限公司)
“China Securities Futures”	China Futures Co., Ltd. (中信建投期貨有限公司)
“China Securities International”	China Securities (International) Finance Holding Company Limited (中信建投(國際)金融控股有限公司)
“China Securities Investment”	China Securities Investment Limited (中信建投投資有限公司)
“CITIC Corporation”	CITIC CORPORATION LIMITED (中國中信有限公司)
“CITIC Group”	CITIC Group Corporation Ltd. (中國中信集團有限公司)
“CITIC Limited”	CITIC Limited (中國中信股份有限公司)
“CITIC Securities”	CITIC Securities Co., Ltd. (中信證券股份有限公司)
“Company Law”	Company Law of the People’s Republic of China
“connected transaction”	has the same meaning ascribed to it under the Hong Kong Listing Rules
“CSC” or “Company”, “our Company”, “parent company”	CSC Financial Co., Ltd. (中信建投證券股份有限公司)
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)

DEFINITIONS

“Director(s)”	director(s) of our Company
“FICC”	Fixed-income securities, currencies and commodities
“Glasslake Holdings”	Glasslake Holdings Limited (鏡湖控股有限公司)
“Group”	CSC Financial Co., Ltd. and its subsidiaries
“H Share(s)”	overseas listed foreign shares in the share capital of our Company with a nominal value of RMB1.00 each, listed on the Hong Kong Stock Exchange and traded in HK dollars
“HK\$” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong Special Administrative Region of the PRC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules” or “Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IPO”	initial public offering
“Listing Date of A Share(s)”	June 20, 2018, the date when the Company’s shares were listed on Shanghai Stock Exchange and permitted to commence trading
“Listing Date of H Share(s)”	December 9, 2016, the date when the Company’s shares were listed on Hong Kong Stock Exchange and permitted to commence trading
“Ministry of Finance”	Ministry of Finance of the People’s Republic of China
“NEEQ Company”	National Equities Exchange and Quotations Co., Ltd. (全國中小企業股份轉讓系統有限責任公司)
“Non-Public Issuance”	the Company’s non-public issuance of 110,309,559 A shares with the total amount of proceeds of RMB3.884 billion, which was completed in December 2020
“PwC”	PricewaterhouseCoopers
“PwC Zhong Tian”	PricewaterhouseCoopers Zhong Tian LLP
“QFII”	Qualified Foreign Institutional Investor (合格境外機構投資者)
“related party/connected transaction”	related party transaction(s) and connected transaction(s)
“related party transaction(s)”	has the same meaning ascribed to it under the Listing Rules of the SSE

DEFINITIONS

“Reporting Period”	from January 1, 2021 to June 30, 2021
“RMB” or “Renminbi”	the lawful currency of the PRC
“RQFII”	Renminbi Qualified Foreign Institutional Investor (人民幣合格境外機構投資者)
“Securities Law”	Securities Law of the People’s Republic of China
“Shanghai and Shenzhen Stock Exchanges”	Shanghai Stock Exchange and Shenzhen Stock Exchange
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	ordinary shares in the share capital of our Company with a nominal value of RMB1.00 each, comprising A Shares and H Shares
“SSE”	Shanghai Stock Exchange
“SSE Listing Rules”	the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange (as amended from time to time)
“State-owned Assets Supervision and Administration Commission of Beijing”	the State-owned Assets Supervision and Administration Commission of People’s Government of the Beijing Municipality (北京市人民政府國有資產監督管理委員會)
“Supervisor(s)”	the supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company
“SZSE”	Shenzhen Stock Exchange
“Tengyun Investment”	Xizang Tengyun Investment Management Limited (西藏騰雲投資管理有限公司)
“the Date of Disclosure of the Report”	August 26, 2021
“the end of the Reporting Period”	June 30, 2021
“US\$, USD, US Dollar(s)”	United States dollars, the lawful currency of the United States
“Wind Info”, “Wind”	Wind Information Co., Ltd. (上海萬得信息技術股份有限公司)

1. The Company prepared this interim report in both English and Chinese. In the event of any discrepancies in interpretation between the English version and Chinese version of this interim report, the Chinese version shall prevail.
2. In this interim report, the discrepancies in the decimal place between the sum of the amount of each sub-item and the grand total are due to rounding to the nearest integer.

SECTION 1 COMPANY INFORMATION

I. PROFILE

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

Registered Capital and Net Capital

Unit: RMB Yuan

	As at the end of the Reporting Period (June 30, 2021)	As at the end of the previous year (December 31, 2020)
Registered Capital	7,756,694,797	7,646,385,238
Net Capital	63,291,843,355.75	65,034,974,819.98

Notes: As of the date of this report, the total number of Shares of the Company was 7,756,694,797, of which 6,495,671,035 Shares were A Shares and 1,261,023,762 Shares were H Shares.

II. BASIC INFORMATION

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

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

SECTION 1 COMPANY INFORMATION

III. CONTACT PERSONS AND METHODS

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

IV. PLACES WHERE INTERIM REPORTS OF THE COMPANY ARE AVAILABLE

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

V. OTHER RELEVANT INFORMATION

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

SECTION 2 FINANCIAL SUMMARY

I. KEY ACCOUNTING DATA

Unit: RMB million

Items	January to June 2021	January to June 2020	Increase/ decrease as compared to the same period last year (%)
Total revenue and other income	16,471	13,009	26.61
Operating profit	5,657	5,868	-3.60
Profit before income tax	5,660	5,869	-3.56
Net profit attributable to equity holders of the Company	4,529	4,578	-1.08
Net cash flow from operating activities	-1,921	-24,960	N/A

Unit: RMB million

Items	30 June 2021	31 December 2020	Increase/ decrease as compared to the end of last year (%)
Total assets	404,024	371,228	8.83
Total liabilities	329,751	303,157	8.77
Equity attributable to equity holders of the Company	74,075	67,735	9.36
Total share capital	7,757	7,757	-

SECTION 2 FINANCIAL SUMMARY

II. KEY FINANCIAL INDICATORS

Items	January to June 2021	January to June 2020	Increase/ decrease as compared to the same period last year (%)
Basic earnings per share (RMB Yuan/Share)	0.55	0.58	-5.17
Diluted earnings per share (RMB Yuan/Share)	0.55	0.58	-5.17
Return on weighted average equity (%)	7.23	9.12	Decreased by 1.89 percentage points

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

Items	30 June 2021	31 December 2020	Increase/ decrease as compared to the end of last year (%)
Net assets per share attributable to equity holders of the Company (RMB Yuan/Share)	9.55	8.73	9.39
Gearing ratio (%)	76.36	77.04	Decreased by 0.68 percentage points

Note: In the gearing ratios for the Reporting Period shown in the above table, it has excluded the effect of customer brokerage deposits in assets and liabilities.

In calculating the net assets per Share attributable to equity holders of the Company as indicated in the table above, the perpetual bonds issued by the Company was included in the net assets attributable to equity holders of the Company. After excluding such impact, the net assets per share attributable to ordinary shareholders of the Company as at the end of Reporting Period was RMB7.62 (31 December 2020: RMB7.45).

SECTION 2 FINANCIAL SUMMARY

III. NET CAPITAL AND RISK CONTROL INDICATORS OF THE COMPANY

Items	June 30, 2021	December 31, 2020
Net capital (<i>RMB Million</i>)	63,292	65,035
Net assets (<i>RMB Million</i>)	71,068	65,311
Total risk capital reserves (<i>RMB Million</i>)	22,355	21,027
Risk coverage ratio (%)	283.12	309.29
Capital leverage ratio (%)	18.09	20.16
Liquidity coverage ratio (%)	210.92	215.93
Net stable funding ratio (%)	135.31	156.82
Net capital/net assets (%)	89.06	99.58
Net capital/liabilities (%)	28.16	30.24
Net assets/liabilities (%)	31.62	30.36
Proprietary equity securities and securities derivatives/net capital (%)	11.94	19.64
Proprietary non-equity securities and securities derivatives/net capital (%)	254.97	236.63

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

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

I. ANALYSIS ON CORE COMPETITIVENESS

In the first half of 2021, the Company continued to adhere to the core value of “achievements leading to status”, as well as the concepts of “healthy development” and “risk management as priority” to strive for better service for customers and serve the real economy. The Company aimed at taking the advantages of investment banking business as the starting point to steadily develop various core businesses and innovative business, achieving high-quality self-development, becoming a best-in-class investment bank in China with outstanding comprehensive service ability, leading technology, excellent reputation and healthy development in domestic and overseas, as well as the global vision leveraging the development trends in the PRC and global capital market.

Investment banking business ranked among top in the industry consecutively, in terms of core indicators leading the industry. In the first half of 2021, the Company completed 39 equity financing projects, with a lead underwriting amount of RMB40.007 billion, respectively ranking No. 2 and No. 4 in the industry. Among them, the number and aggregate amount of IPOs underwritten by us as a lead underwriter was 21 and RMB15.334 billion, ranking No. 3 and No. 4 in the industry, respectively. The Company completed a total of 975 bond lead underwriting projects, with a lead underwriting scale of RMB642.505 billion, ranking No. 2 in the industry. Among which, 295 projects were underwritten by the Company as a lead underwriter with an underwriting amount of RMB200.397 billion of bonds. Both number and amount ranked No. 1 in the industry. In addition, the Company also underwrote as a lead underwriter more than 20 green bonds and rural revitalization corporate bonds, actively serving the overall national strategy. (Source: CSRC, NEEQ Company, Wind Info and statistics of the Company)

The core indicators of the wealth management business have risen significantly. In the first half of 2021, the net income from the securities brokerage business of the Company accounted for 3.58% of the market share, and the net income from agency trading (including seats) accounted for 3.40% of the market share, ranking No. 8 in the industry (moving two places ahead as compared with that of the end of last year). Its sales of standardized products amounted to RMB75.241 billion; its net income from financial product sales amounted to RMB468 million and constituted 4.65% of the market, ranking No. 7 in the industry (moving one place ahead as compared with that of the end of last year); new client assets amounted to RMB287.749 billion, securities under custody amounted to RMB4.78 trillion with a market share of 7.30%, ranked No. 2 in the industry; the average monthly active customers of Qingting Dianjin APP ranked No. 7 in the industry while the average daily active customers of that ranked No. 3 in the industry. In the first half of 2021, the Company's interest income from its margin financing and securities ranked No.10 in the industry; its interest income arising from collateralised stock repurchase business ranked No. 8 in the industry. (Source: Shanghai and Shenzhen Stock Exchanges, China Securities Depository and Clearing Corporation Limited, the Securities Association of China and statistics of the Company)

Trading and institutional customer service business steadily developed. In the first half of 2021, with respect to securities trading business, the Company actively sought market opportunities and strictly controls business risks; the increase in the scale of OTC option business was RMB144.565 billion, the increase in the scale of return swaps was RMB34.751 billion. In the first half of 2021, with respect to fixed income business, the investment business continued to maintain the comprehensive rate of return better than the market average, in which the comprehensive rate of return on single assets was significantly higher than the high credit rating and maturity index in the same period. The proportion of income from cross-border US dollar bond investment, foreign exchange trading, non-directional trading and other businesses has gradually increased. The first-class sales amount and number of RMB bonds ranked No. 2 in the industry, among which the sales amount and number of corporate bonds and non-financial enterprise debt financing instruments ranked No. 1 in the industry, and the sales amount and number of local bonds ranked No. 2 in the industry. The proportion of the top 2 competitive sales of credit debt reached 85.53%. It has established a series of independent brands of fixed income products and service systems, including “Gushoubao”, “Guyilian”, “Zhangneiyang” and “Zhai e Tong” (some of which have been registered with the Trademark Office of National Intellectual Property Administration), which can provide online and offline, all-round and multi-level comprehensive services for customers at home and abroad. (Source: Wind Info and statistics of the Company)

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

The Company accelerated optimization of asset management business. In the first half of 2021, the Company has made great efforts to improve its active management ability in asset management business, and has made great progress in fixed income, equity, quantification and large collection transformation. As of the end of the Reporting Period, the Company's entrusted assets management scale amounted to RMB428.881 billion and ranked No. 7 in the industry. (Source: the Securities Association of China) The Company also intended to invest no more than RMB2.5 billion to establish a wholly-owned management subsidiary to promote the better development of asset management business. As of the end of the Reporting Period, 14 out of 22 public fund products of China Securities Funds were included among the top 50% in the market ranking, among which 9 entered top 30% of the market ranking, 6 entered top 20% of the market ranking and 3 entered top 10% of the market ranking. As of the end of the Reporting Period, the exit returns for China Securities Capital projects averaged 107%. (Source: the Asset Management Association of China, Wind Info and statistics of the Company)

Fintech helps digital transformation of the Company. The Company continued to deepen data governance work and data value; strengthened the development of financial technology enabling business by promoting the collaborative team building of information specialist (SI); accelerated the in-depth implementation of cooperation with Internet enterprises and build a cloud native full-stack data-driven user operation system; actively participated in the pilot work of financial science and technology innovation in the capital market organized by Beijing CSRC, and declared 6 innovation pilot projects for the application of new generation information technology, ranking No. 1 in the number of projects.

II. BUSINESS OVERVIEW

(I) Overview

As of 30 June 2021, the total assets of the Group were RMB404,024 million, representing an increase of 8.83% as compared to that on 31 December 2020. Equity attributable to equity holders of the Company was RMB74,075 million, representing an increase of 9.36% as compared to that on 31 December 2020. During the Reporting Period, total revenue and other income of the Group amounted to RMB16,471 million in aggregate, representing a year-on-year increase of 26.61%. Total expenses amounted to RMB10,814 million in aggregate, representing a year-on-year increase of 51.44%. Net profit attributable to equity holders of the Company amounted to RMB4,529 million, representing a year-on-year decrease of 1.08%.

(II) Analysis of Principal Businesses

The principal businesses of the Group comprise four segments: investment banking business, wealth management business, trading and institutional client services business and asset management business. During the Reporting Period, total revenue and other income of the investment banking segment amounted to RMB2,059 million in aggregate, representing a year-on-year decrease of 0.72%. Total revenue and other income of the wealth management segment amounted to RMB4,333 million in aggregate, representing a year-on-year increase of 13.13%. Total revenue and other income of the trading and institutional client services segment amounted to RMB6,511 million in aggregate, representing a year-on-year increase of 9.63%. Total revenue and other income of the asset management segment amounted to RMB629 million in aggregate, representing a year-on-year decrease of 20.28%.

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

1. Investment Banking Business Segment

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

(1) *Equity Financing Business*

In the first half of 2021, the Main Board of SZSE merged with the SME Board, IPO continued to maintain normalized issuance, and the reform of the registration system continued to be promoted. A total of 463 equity financing projects were issued in Shanghai and Shenzhen, with a year-on-year increase of 115.35%, and the funds raised amounted to RMB518.763 billion, representing a year-on-year increase of 76.89%. Among them, 253 IPO projects raised RMB215.825 billion, representing a year-on-year increase of 97.66% and 50.27% respectively; 210 equity refinancing projects raised RMB302.938 billion, representing a year-on-year increase of 141.38% and 102.44%, respectively. (Source: Wind Info, statistics in accordance with the issuance date, exclusive of asset-oriented private placement)

In the first half of 2021, the Company completed 39 equity financing projects with the lead underwriting amount of RMB40.007 billion, ranking No. 2 and No. 4 in the industry, respectively. Among them, there are 21 IPO lead underwriters, with the lead underwriting amount of RMB15.334 billion, ranking No. 3 and No. 4 in the industry, respectively. Among the IPO projects exclusively sponsored and underwritten by the Company, Qilu Bank is the largest city commercial bank in Shandong, Southern Power Grid Energy is the first listed company focusing on energy-saving services and comprehensive energy services, Lego Food is the first share of frozen baked food, and Aimer is a well-known brand in close-fitting clothing industry. Among the IPO projects jointly underwritten by the Company, Bank of Chongqing is the first “A+H” dual-listed city commercial bank in the western region. The Company has completed 18 equity refinancing projects with the lead underwriting amount of RMB24.673 billion, ranking No. 3 and No. 4 in the industry, respectively. Among them, BAIC BluePark project is the largest non-public offering project among Beijing state-owned enterprises in the first half of 2021, and Guiyang Bank project is the third consecutive equity financing service for the Company since the sole sponsor and underwriting of IPO in 2016. In addition, 6 convertible bond projects were completed in the first half of 2021, with the lead underwriting amount of RMB19.212 billion. In respect of project reserve, as of the end of the Reporting Period, the Company had 55 IPO projects pending review, ranking No. 2 in the industry, including 9 and 15 projects on the Main Board and STAR Market of the SSE respectively, as well as 3 and 28 projects on the Main Board and ChiNext of the SZSE respectively. The Company had 25 equity refinancing projects (including convertible bonds) pending review, ranking No. 1 in the industry. (Source: CSRC, Shanghai and Shenzhen Stock Exchanges, Wind Info and statistics of the Company)

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2021, details of the equity financing business sponsored and underwritten by the Company in Shanghai and Shenzhen Stock Exchange are set out below:

Items	First half of 2021		First half of 2020	
	Amount of lead underwriting (RMB'00 million)	Number of offerings	Amount of lead underwriting (RMB'00 million)	Number of offerings
IPO	153.34	21	423.77	14
Refinancing Issuance	246.73	18	269.35	8
Total	400.07	39	693.13	22

Source: *Statistics of the Company*

Note 1: The statistical scope of refinancing includes allotment of shares, public placement, financing-oriented private placement (inclusive of non-public issuance and reorganization ancillary financing), preference shares, but excludes asset-oriented private placement.

Note 2: The total amount of the lead underwriting amount is attributable to the tail difference due to rounding.

In addition, in the first half of 2021, 1 NEEQ-listed company sponsored by the Company was listed on the selection layer. As of the end of the Reporting Period, there were 4 selected projects pending review.

For overseas business, in the first half of 2021, China Securities International participated in and completed 3 Hong Kong stock sponsorship projects in the Hong Kong, with the sponsorship amount of HK\$3.97 billion; completed 3 underwriting projects (excluding sponsor projects) and 2 financial advisory projects.

Development Outlook for the Second Half of 2021

In the second half of 2021, China's equity financing market will continue to develop steadily. The Company will persist in putting legal compliance in the first place, continuously improve its professional level, adapt to the requirements of registration system, and make better use of the role of investment banks in serving the real economy by deepening industrial research and developing regional clients. The Company will continue to strengthen undertaking management, strictly control project quality, and be a good "gatekeeper" of the capital market. The Company will continuously enhance the ability of valuation, pricing and sales, do a good job in the development and implementation of the selected layer of the NEEQ, closely follow the policy trends of the NEEQ, and promote the integration of investment banks in mainland China and Hong Kong, and further enhance their comprehensive ability to serve clients. China Securities International will continue to expand business scope in view of its overall development needs, and continue developing multiple types of equity financing businesses in addition to its current listing sponsorship projects and securities underwriting services.

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

(2) Debt Financing Business

In the first half of 2021, the interest rate of the bond market fluctuated downward and the macro-economy continued to recover, but the structure was divided and the marginal momentum of recovery weakened. The Central Bank's prudent monetary policy is flexible, accurate, reasonable and appropriate, maintains continuity, stability and sustainability, provides the necessary support for economic recovery, effectively prevents and controls financial risks and serves the real economy.

In the first half of 2021, the Company's debt financing business continued to maintain good development momentum. A total of 975 lead underwriting projects were completed, with a lead underwriting scale of RMB642.505 billion, ranking No. 2 in the industry. Among them, there are 295 corporate debt underwriters, with a lead underwriting scale of RMB200.397 billion, ranking No. 1 in the industry. With its professional advantages in corporate debt business, the Company has accumulated sizable state-owned enterprise customers and high-quality industrial customers including PetroChina, Sinopec, State Grid, and China Huaneng. In the first half of 2021, the Company, as the lead underwriter, issued green bonds for 20 enterprises such as China Yangtze Power and Industrial Financial Leasing, including the first batch of carbon neutral special corporate bonds of Three Gorges Corporation, China Energy Investment and other exchanges; as the lead underwriter, the Company issued RMB41.5 billion of undated capital bonds for Bank of Communications, which was the largest undated capital bonds issued by Bank of Communications in a single application; as the lead underwriter, the Company issued RMB500 million of corporate bonds for Jiangxi Expressway Investment Group, which was the first special corporate bonds for rural revitalization of Shanghai Stock Exchange.

Details of debt financing business of the Company in 2021 are as follows:

Items	First half of 2021			First half of 2020		
	Amount of lead underwriting (RMB'00 million)	Total project scale (RMB'00 million)	Number of offerings	Amount of lead underwriting (RMB'00 million)	Total project scale (RMB'00 million)	Number of offerings
Corporate bonds	2,003.97	4,383.26	295	2,198.84	4,452.48	289
Enterprise bonds	196.92	457.00	36	166.91	409.60	24
Convertible bonds	202.12	402.12	6	100.77	135.11	10
Financial bonds	720.23	5,067.00	50	796.22	5,058.70	36
Others	3,301.81	17,894.90	588	2,465.29	21,849.04	805
Total	6,425.05	28,204.28	975	5,728.03	31,904.93	1,164

Source: Wind Info and statistics of the Company

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

For overseas business, in the first half of 2021, China Securities International participated in and completed 45 bond underwriting projects in the Hong Kong, with an underwriting scale of HK\$126.722 billion, including a total of 15 global coordinator projects, with an underwriting scale of HK\$35.498 billion.

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

Outlook for the second half of 2021

In the second half of 2021, in addition to consolidating and maintaining the market competitiveness of traditional advantageous business type, the Company will further strengthen the service of banks, listed companies and industry customers, strive to establish new project reserves including debt financing instruments of non-financial enterprises, financial bonds, and corporate bonds, develop innovative business such as project revenue bonds, special-purpose bonds, perpetual bonds, asset-backed security, Panda Bonds, exchangeable bond, convertible bond, debt-to-equity swap of central government-owned enterprises, in order to provide a full range of products, achieve balanced development and keep improving its overall strength in debt financing business. For overseas business, China Securities International will continue to actively expand the mainland invested companies' overseas bond issuance projects, for which it will act as a global coordinator, bookkeeper and rating advisor, and continue to expand business opportunities such as rating advisor and green bonds.

(3) Financial Advisory Business

In the first half of 2021, the M&A committee of CSRC reviewed 16 A share M&A projects, and the GEM Listing Committee approved 3, a total of 19, representing a year-on-year decrease of 57.78%. In the first half of 2021, the Company completed 4 financial advisory projects for M&A, ranking No. 2 in the industry. The transaction amount was RMB8.145 billion, ranking No. 3 in the industry. In terms of project reserves, as of the end of the Reporting Period, the Company had 2 projects pending review, ranking No. 4 in the industry. (Source: Wind Info and statistics of the Company)

In the first half of 2021, the Company completed the private placement for 4 enterprises listed on the NEEQ and raised RMB100 million. By the end of the Reporting Period, the Company had continuously supervised 37 innovative enterprises listed on the NEEQ and 8 selected enterprises listed on the NEEQ. (Source: NEEQ Company and Choice financial terminal)

Outlook for the second half of 2021

In the second half of 2021, the Company will actively arrange and strive for strategic customer service, improve its ability to facilitate M&A transactions, improve project execution ability, increase its efforts in developing cross-border M&A business, further consolidate its advantages in financial advisory business on bankruptcy reorganization and debt restructuring of listed companies, and keep improving its diversified service capabilities for M&A business. The Company will actively undertake high-quality NEEQ projects to increase the reserve of follow-up projects. For high-quality basic level companies supervised by the Company, we will plan ahead to smoothly enter the innovation level and lay the foundation for the listing on the selected level.

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

2. Wealth Management Segment

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

(1) *Brokerage and Wealth Management Business*

In the first half of 2021, the bilateral trading volume of equity and funds in the market was RMB199.21 trillion, representing a year-on-year increase of 17.60% (Source: Shanghai and Shenzhen Stock Exchanges). The Company endeavoured to establish an integrated client services platform and ecological chain to develop businesses covering financial products, margin financing and securities lending, the NEEQ Market, STAR Market, investment advisory services, share options, precious metals and futures through resource integration. The Company, with customer-oriented culture, continued to strengthen the core competitiveness of brokerage business with clients as the focus through raising the standard of service and increasing service methods, and strived to fulfil diversified wealth management, investment and financing needs of retail clients, high-net-worth clients, institutional clients, corporate clients and other clients at different levels.

In the first half of 2021, the net income from securities brokerage business was RMB2.446 billion, with a market share of 3.58%, ranking No. 8 in the industry. The net income from agency sales (including seats) was RMB1.978 billion, with a market share of 3.40%, ranking the No. 8 in the industry, up 2 places as compared with the end of 2020. The Company's income from sales of standardized products was RMB75.241 billion, and the net income from selling financial products on a commission basis was RMB468 million, with a market share of 4.65%, ranking the No. 7 in the industry, up 1 place as compared with the end of 2020. During the Reporting Period, the new client assets were RMB287.749 billion, and the market value of custody securities was RMB4.78 trillion, with a market share of 7.30%, ranking the No. 2 in the industry. The Company had 458,200 new capital accounts, 9,468,200 A share capital accounts, with a market share of 3.37%, ranking No. 10 in the industry (Sources: Shanghai and Shenzhen Stock Exchanges, China Securities Depository and Clearing Corporation Limited, The Securities Association of China and statistics of the Company). The MAU of Qingting Dianjin APP ranked No. 7 in the industry, and the average number of daily active users ranked No. 3 in the industry. By the end of the Reporting Period, the Group had 313 branches (subsidiaries and securities branches, the same below), of which 57% were located in five provinces and two municipalities (Beijing, Shanghai, Guangdong, Fujian, Zhejiang, Jiangsu and Shandong) and among which 54 branches were located in Beijing, which is the securities company with the largest number of securities branches in Beijing. The large number and orderly distribution of securities branches have laid a solid client base for the Company's brokerage and wealth management businesses.

In terms of futures brokerage business, as of the end of the Reporting Period, China Securities Futures has realised a cumulative transaction volume of RMB7.06 trillion, a year-on-year increase of 71.45%. Among them, the commodity futures agency transaction amounts totalled RMB5.26 trillion, a year-on-year increase of 105.45%, whereas the financial futures agency transaction volume amounted to RMB1.80 trillion, a year-on-year increase of 15.45%. During the Reporting Period, the Company's agency transaction volume of China Securities Futures accounted for 1.23% of the market, a decrease of 0.01 percentage points compared with the same period in 2020; 10,627 new clients were added, a year-on-year decrease of 21.24%.

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

With respect to overseas business, as of the end of the Reporting Period, China Securities International's accumulated client stock transaction amount was HK\$36.689 billion. During the Reporting Period, 9,285 new clients were added, and the cumulative number of clients was 19,677¹, with a year-on-year increase of 87% compared with the last year; the total market value of stock under custody was HK\$25.362 billion, a year-on-year increase of 29%.

Outlook for the second half of 2021

In the second half of 2021, the Company will continue to focus on online strategic channels, establish a standardized online customer acquisition and operation service system, and increase the Internet drainage of long-tail customers. The Company will continuously improve the full life cycle service system of investment consultants and financial products, improve the service level of asset allocation, and make use of its own comprehensive business advantages to enrich the service content of institutions and professional trading customers. The Company will strengthen technology empowerment, optimize Qingting Dianjin APP and other internet platforms, and provide customers with customized and intelligent one-stop online wealth management services. The Company will build a high-quality wealth management team, constantly consolidate the core competitiveness of "good investment advisor, good products and good transactions", and adhere to the transformation of wealth management with company characteristics.

In terms of futures brokerage business, China Securities Futures will adhere to the strategy of deeply cultivating the source, dig deep into collaborative resources, and actively promote the in-depth integration of futures brokerage business and wealth management business. At the same time, China Securities Futures will improve the high-frequency quantitative trading system to help increase the market share of agency transaction volume.

For the overseas business, as an overseas extension of the Company's securities business, China Securities International will continue to rely on the Company's domestic resources to serve the overseas investment needs of domestic clients. On the one hand, China Securities International will continuously improve its various investment platforms and enrich the types of overseas investment products to meet the diversified overseas investment needs of clients, so as to expand the scale of clients, on the other hand, continuously strengthen the service quality and improve the customer experience, help clients make overseas investment smoothly and realize the value preservation and appreciation of overseas assets with professional and international services. While continuing to expand and strengthen the overseas securities investment business, China Securities International will also focus on the development of overseas futures business, overseas fund investment and overseas insurance business, and build an overseas comprehensive wealth management service platform.

¹ According to the requirements of the SFC on the protection of clients' assets and the "Client Services and Account Management Manual" on the treatment of "dormant accounts", the Company will change those accounts with no funds or shares held, and which have not been traded for two years or more or which have been frozen for over 12 months into dormant accounts.

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

(2) Margin Financing and Securities Lending Business

In the first half of 2021, margin financing and securities lending business scale in the whole market remained steady and showed a slight rise. As of the end of the Reporting Period, the balance of margin financing and securities lending of the Shanghai Stock Exchange and Shenzhen Stock Exchange was RMB1,784,203 million, which increased by 10.20% as compared to that of the end of 2020. As of the end of the Reporting Period, the balance of the Company's margin financing and securities lending business was RMB64,028 million, representing an increase of 16.09% as compared with that at the end of 2020, accounting for 3.59% of the market, increasing 0.18 percentage point from the end of 2020. The number of margin financing and securities lending accounts was approximately 163,600, representing an increase of 3.22% as compared to that at the end of 2020. In the first half of 2021, the Company's interest income from its margin financing and securities ranked No. 10 in the industry. (Source: Wind Info, the Securities Association of China and statistics of the Company)

For the overseas business, as of the end of the Reporting Period, the balance of China Securities International's margin financing and securities lending business was HK\$123 million²

Outlook for the second half of 2021

In the second half of 2021, the Company will be committed to improving the outreach of services to high net-worth clients and further improving its capacity of providing specialized services through department coordination and enriching business model; at the same time, continue to promote the development of tiered customer service system, in order to provide automatic, smart and differentiated service plan based on customer category and layered management with collateral.

(3) Repurchase Business

In the first half of 2021, stock pledge repurchase business related risks were further alleviated. As of the end of the Reporting Period, the balance of principal of collateralized stock repurchase business of the Company was RMB15,851 million, a decrease of RMB3,198 million or 16.79% as compared with the end of 2020. Among which, scale of investment (in the table) of collateralized stock repurchase business amounted to RMB6,944 million, with an average collateral coverage ratio of 443.63%; the balance of management (off the table) collateralized stock repurchase business amounted to RMB8,907 million. In the first half of 2021, the Company ranked No. 8 in the industry in terms of interest income from collateralized stock repurchase. (Source: the Securities Association of China and statistics of the Company)

Outlook for the second half of 2021

In the second half of 2021, the Company will prudently implement stock pledge repurchase business on the premise of making sure that risks are testable, controllable and tolerable, and accelerate its assets integration to provide its strategic clients with a basket of business solutions. Relying on its investment research capability, the Company will improve risk identification relating to listed companies, and further improve the asset quality of its stock pledge business through structural adjustment.

² Excluding margin business of Hong Kong IPO stocks

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

3. Trading and Institutional Client Services Segment

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

(1) Equity Sales and Trading Business

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

With respect to the securities trading business, the Company closely tracked domestic and international economic conditions and market change to strengthen macro-strategy research and judgment, actively seek opportunities arising in the market, and strictly controlled risks relating to business. In terms of derivatives trading business, as one of the industry's first primary dealers of OTC options, the Company steadily promoted OTC derivatives business such as OTC options and income swaps, further enriching the types of linked targets and income structure, continuing to expand the subject of cross-border derivatives business and meeting the individualised investment needs of clients. In the first half of 2021, the over-the-counter options business of the Company increased its scale by RMB144.565 billion, and its revenue swap increased its scale by RMB34.751 billion. Meanwhile, the Company continued to expand its market creation business scope and scale to enhance its market competitiveness. The current market creation products include ETF funds, options, futures and other trading products.

In terms of the stock sales business, in the first half of 2021, the Company completed 39 stock sale projects as a lead underwriter, with a cumulative sales amount of RMB40,007 million, including 21 IPOs, 18 sales of non-public issuance of stock. The sales amount was RMB15.334 billion and RMB24.673 billion respectively. The underwriting amount of IPO projects and non-public offering projects ranked No. 4 and No. 4 in the industry respectively. (Source: Wind Info and statistics by issue date)

For the overseas business, the equity sales and trading business of the Company mainly provides trading, advisory and research services, and distributes equity securities underwritten by the Company to institutional clients. China Securities International has formed a cross-industry, cross-market and cross-asset research service matrix, constantly improving the service system for customers of multi-strategic buyer institutions, further enhancing its influence in the secondary stock market in Hong Kong and gradually establishing brand awareness.

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

Outlook for the second half of 2021

In the second half of 2021, the Company will continue to strengthen its macroeconomic and market strategy research, and pay continuous attention to the economic environment and industrial changes. The Company will also adhere to the concept of value investment, carry out in-depth industrial research and discover opportunities relating to individual stocks, and realise stable incomes that are aligned with market conditions. Meanwhile, the Company will pay close attention to trend of listed companies, in order to prevent and control risks. In order to meet the customer's asset allocation and risk management needs, the Company will continue to develop the OTC derivative business, increase resource investment in market-making and continuously explore opportunities for cross-border investments to further satisfy various needs of clients and improve its investment system using its own funds.

(2) Sales of Fixed-income Products and Trading Business

In the first half of 2021, the RMB bond market experienced twists and turns from bear to bull. The Company adopted a trading strategy of “high-level, medium and short duration, and high leverage”, and actively expanded non-directional trading business at the same time. The daily average asset size exceeded 100 billion, keeping the comprehensive return rate higher than the market average. Among them, the single asset comprehensive return rate was significantly higher than the ChinaBond High Credit Rating Index of the same maturity in the same period. The “Bond Connect” (Northbound Trading) market-making is among the top 5 in the industry. (Source: Company Statistics) The Company further strengthened the construction of the FICC full license business system, and comprehensively carried out cross-border and integrated investment in US dollar bonds and foreign exchange transactions. The total investment in US dollar bonds exceeded RMB15 billion, the foreign exchange transaction volume exceeded USD70 billion, and the transaction income of exchange and commodities steadily increased.

The sales performance of RMB bonds continued to maintain its leading position in terms of bond sales business, and the sales capacity of USD bonds was steadily improved. 2,074 RMB bonds were sold, with a first-tier sales amount of RMB766.477 billion, ranking No. 2 in the industry (Source: Company Statistics), Competitive sales of credit bonds continued their advantage, completing 152 orders, of which 85.53% of the top 2 were obtained. (Source: Company Statistics) The underwriting amount of local bonds was RMB125.957 billion, with an underwriting number of 313, ranking No. 2 in the industry; the sales amount and number of corporate bonds ranked No. 1 in the industry. The sales amount and number of non-financial corporate debt financing instruments both ranked No. 1 in the industry, the amount of corporate debtors ranked No. 2 in the industry, and the amount of non-policy financial debtors ranked No. 2 in the industry. (Source: Company Statistics) As of the end of the Reporting Period, the bond sales team assisted the project contracting team to complete a total of 45 overseas bond underwriting projects. Among them, there are 15 global coordinator projects (including placement agents), with a total project issuance amount of USD16.143 billion, and the ranking of Chinese-funded USD bond underwriting amount increased from No. 7 in 2020 to No. 5 among Chinese securities firms. The total amount of exclusive allocatable orders collected at the first level of USD bonds increased by 587% year on year (Data source: Bloomberg L.P.).

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

In terms of investment advisory business, the scale has grown steadily. We have increased our strategy and capacity output on the investment side, and built “four beams and eight pillars” on the sales side. With continuous enrichment and upgrade of our own brands such as “Guyilian”, “Zhai e Tong” and “Zhangneiying” as representative fixed-income products and service systems, and the synergy with the Company’s and the Group’s wealth management lines is further enhanced.

In terms of international business, as of the end of the Reporting Period, China Securities realized a bond transaction volume of HKD25.884 billion, representing an increase of 109% year on year. The integration of domestic and overseas operations is normal, and the scale of China Securities’s international investment amounted to HKD6.757 billion.

Outlook for 2021

In the second half of 2021, committing to becoming a reliable product supplier, strategic supplier and transaction service provider for domestic and foreign customers, the Company will actively implement the development strategy of “internationalization and digitalization” and uphold the business philosophy of “professional foothold, customer first, international vision and pursuit of excellence” on FICC business. From the perspective of providing customers with comprehensive services, we will organize and build a product system covering the entire product line, a comprehensive sales team, and their respective functions and mutually-driven operating mechanism, as well as a supporting marketing and publicity system. On the basis of the fully integrated business structure of transaction and sales, we actively carry out the construction of integrated market-making business to help southbound customers “go out” in a better way. In terms of digital transformation, the construction of three system platforms, including the two internal management systems for buyers and sellers, and “Gu Shou Jia” official account, the external marketing and publicity platform, has begun to take shape and continue to improve, finally form an organic whole.

(3) Investment Research Business

The investment research business of the Company mainly provides institutional clients with research consultation services covering macro-economy, fixed income, strategy, financial engineering, major asset allocation, fund research and industry research. Clients mainly include the National Social Security Fund, all mainstream public funds, insurance asset management companies, banks, securities private equity funds, equity funds and overseas financial institutions, etc. The Company provides clients with research reports and various personalized research services. In 2020, the public fund commission share market of the Company accounted for 5.00%, ranking No. 3 in the industry (Source: Wind Info). In the first half of 2021, the Company strengthened targeted research planning and cross-industry research interaction, and further better grasped market conditions and market hotspots. Meanwhile, the Company further improved the research business product matrix system, enriched diversified digital research products and empowered the business with the help of data governance, so as to provide institutional investors with efficient and high-quality research services. As of the end of the Reporting

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

Period, the Company's research and sale teams comprised 177 members, and the research business is divided into 9 research groups covering 34 research fields. During the Reporting Period, the team completed 2,378 securities research reports, provided 15,000 online and offline roadshow and 1,044 surveys for institutional clients, and successfully organized large-scale conferences and various other professional research service activities including "Carbon Peak, Carbon Neutrality and Investment Summit in 2021", "Exchange Meeting of Companies Listed during Spring". The Company has continuously promoted the internationalization of its research business, established an integrated management system for research business, and has provided research services to dozens of overseas large-scale asset management institutional clients. The Company's research business is also committed to providing policy research support for government departments and regulatory agencies.

Outlook for the second half of 2021

In the second half of 2021, the Company's research business will further strengthen the three core directions of internationalization, financial technology and professional deepening. By consolidating the foundation of research work, the influence of research business, the research ranking of head customers and diversified profitability will be comprehensively improved. Meanwhile, the Company will continue to improve the digital service and management level and management, and provide more comprehensive and in-depth service support for various institutional customers and the company's business lines.

(4) Prime Brokerage Business

The Company provides market-leading full-chain prime brokerage services to institutional investors, including trading service, account service, product design and agency sales, institutional investment and financing service, asset custody service, product operating service, research service, financing solution and value-added services.

As of the end of the Reporting Period, the total scale of custody and operating services of the Company amounted to RMB548,690 million, representing an increase of 35.67% as compared to that of the end of 2020. Among it, the number of products under custody reached 3,312, and products of operating service reached 3,290, representing an increase of 27.93% and 34.07% respectively as compared to that of the end of 2020.

The prime brokerage system of the Company is one of the most comprehensive system with the widest range of supportive systems among the securities brokers in the industry, which connects markets of margin financing and securities lending services, stock index futures, commodity futures stock options, the NEEQ and Southbound trading markets to offer its clients with convenience and favourable experience in carrying out various businesses at the same time. The self-developed algorithmic trading platform within the prime brokerage system maintained a leading position in the industry in terms of the efficiency of execution of algorithmic trading, which is widely recognised and trusted by various clients including those from the banking, insurance, public offering, private equity and QFII sectors and enterprises as well as high-net-worth individual clients. Newly developed algorithmic trading strategies including matching strategy and direct market access strategy satisfied customers' diversified trading needs. As of the end of the Reporting Period, the Company's algorithmic trading customers amounted to

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

894, occupying a leading market share among insurance customers and public offering customers. The Company set up special counters for institutional trading to provide independent trading channels with more functions for financial institutions, gaining widespread recognition from banks, public offerings and insurance clients. The trading volume of the prime brokerage business of the Company grew continuously, with an upward trend in trading performance of algorithmic trading and continuous expansion of client type and scale.

Outlook for the second half of 2021

In the second half of 2021, with the aim to constantly satisfy institutional investors' trading needs, the Company continued to improve its various types of prime brokerage system and counter services for institutions. Algorithmic trading services will continue to expand the types of customers and provide various types of customers with more diverse algorithmic trading strategies and trading tools. The Company will keep abreast of the changes in the market environment and regulatory policy changes to further provide diversified and personalised professional trading services, so as to further meet the trading needs of various clients.

(5) QFII and RQFII Business

In recent years, the Company has actively carried out overseas institutional business at the strategic level, striving to open up the upstream and downstream of the industrial chain of overseas institutional investors. Taking research as the entry point, since 2019, the Company has fully covered more than 30 foreign-funded institutions in the first echelon, integrating financial derivatives, securities lending and refinancing, block trading, investment banking projects and other full product services, which have received high recognition from customers.

Outlook for the second half of 2021

In the second half of 2021, the Company will continue to increase recruitment of international business talents, and be committed to covering the remaining top foreign institutional customers as soon as possible, building a diversified client network to provide professional one-stop financial products and services based on providing customers with leading research services as a starting point, in an effort to promote integrated cross-border development and provide clients with high-level, all-round, diversified and differentiated research services, as well as comprehensive financial products including financial derivatives, securities lending and refinancing, block trading and investment banking projects.

(6) Alternative Investment Business

In the first half of 2021, China Securities Investment adhered to the principle of "stable stability and long-term development" and the concept of "serving the real economy, technological innovation and economic transformation", focused on the investment scope with equity investment as the mainstay, pan-equity investment and innovative investment business as the supplement. Under the premise of strictly controlling the quality of the project, the Company adhered to large-scale investment to, in an orderly manner, develop and reserve projects and investment layout work, completing 16 investments (including 4 IPO follow-up investments on the STAR Market), with an investment amount of RMB418 million.

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

Outlook for the second half of 2021

In the second half of 2021, facing the turbulent recovery of the global economy after the COVID-19 pandemic and the tightening of liquidity in major economies, China Securities will continue to adhere to its strategic positioning and investment philosophy, maintain large-scale investment, further improve the investment layout, improve the overall balance of the asset portfolio in terms of industry track, investment varieties and exit methods, as well as enhance the ability to resist market cycles and fluctuations.

4. Investment Management Segment

Investment Management Segment of the Group mainly includes asset management business of the securities company, fund management business and private equity investment business.

(1) Asset Management Business of the Securities Company

In the first half of 2021, the Company vigorously promoted the development of active management business in asset management, and constantly sought new business opportunities, and made great progress in fixed income, equity, quantitative and large-scale transformation work. During the Reporting Period, the Company successfully completed the equity sales including “second IPO” and “public-offering-like massive collective investment scheme” under China Securities Value Growth Collection Asset Management Plan. The scale of fixed-income outsourcing business has increased significantly, the small collective issuance of equity has been further accelerated and quantitative products have achieved a steady increase in performance and scale. The Company actively developed products for retail customers and institutional customers with “fixed income +”, FOF, index enhancement and other products. In the first half of 2021, the Company continued to regulate its stock business in a stable and orderly manner in accordance with the requirements of the new asset management regulations.

In order to comply with the development trend of the industry and expand and strengthen the asset management business, the Company plans to invest no more than RMB2.5 billion to establish a wholly-owned asset management subsidiary to promote the Company’s asset management business to achieve better development.

According to the statistics of the Securities Association of China, as of the end of the Reporting Period, the Company’s entrusted asset management scale reached to RMB428,881 million, ranking No. 7 in the industry. According to the statistics of the Company, the scale of actively managed products of the Company reached RMB332,902 million, increasing by 8.95 percentage points from the end of 2020, accounting for 77.62% of the total AUM.

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

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

Unit: RMB'00 million

	AUM	
	30 June 2021	31 December 2020
Collective asset management business	887.48	501.76
Targeted asset management business	1,928.65	2,982.15
Specialised asset management business	1,472.68	1,418.91
Total	4,288.81	4,902.82

Source: Securities Association of China

Outlook for the second half of 2021

In the second half of 2021, the Company will continue to improve its investment management capability, and intensify business transformation through broadening the variety of products, developing sales channels for products, improving the investment performance of products and other means. The Company will insist on paying equal attention to retail business and institutional business, and expand the breadth and depth of institutional customer coverage while extensively radiating various retail channels. The Company will also continue to promote the issuance of fixed income, equity, quantitative, and FOF products to help proactively manage the business scale to a new level. In the future, the Company will continue to steadily and orderly press ahead with the rectification of the private equity management business in accordance with the requirements of the New Regulations on Asset Management.

(2) Fund Management Business

In the first half of 2021, China Securities was gradually returning to the main business of mutual funds, that is, the investment, sales, and services of mutual fund products. With the gradual implementation of the strategy, as of the end of the Reporting Period, the asset management scale of the fund reached RMB55.0 billion, a decrease of 0.57% from the end of 2020, of which the management scale of public funds was RMB36.691 billion, an increase of 37.48% from the end of 2020. The management scale of the fund's special account products and fund subsidiary Yuandaxin Capital Management (Beijing) Co., Ltd.'s special account products was RMB18.309 billion, a decrease of 36.05% from the end of 2020. As of the end of the Reporting Period, China Securities Funds managed a total of 26 public funds with a scale of RMB36.6 billion. Among 22 funds products participating in the ranking (the remaining 4 products have been established for less than 6 months, and there is no public ranking in the market), 14 were included among the top 50% in the market ranking, among which 9 entered top 30% of the market ranking, 6 entered top 20% of the market ranking and 3 entered top 10% of the market ranking. The investment performance of public funds has developed steadily. (Source: Wind Info and statistics of the Company)

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

Outlook for the second half of 2021

In the second half of 2021, with the vigorous development of China Securities Capital's public fund business and the maturity of investment and research capabilities, the Company will further promote the establishment of a core talent team, and continuously enrich the product system to strengthen the Company's investment and research business sector. The Company will continue to improve its own research strength, form strong support for investment, gradually expand the investment and research track, strengthen investment in equity, tools, and fixed income products and continuously improve investment and research capabilities. Meanwhile, the Company will improve marketing capabilities, strengthen customer system construction, strengthen internal governance, drive business development and smoothly promote subsidiary businesses. The Company will actively seek new business growth points, continue to expand customer base, build a complete e-commerce service system, launch key and core products to realise a stable growth in management scale and the value preservation and appreciation of the clients' assets, to strengthen its core competitiveness and improve its brand influence.

(3) Private Equity Investment Business

Since the second half of 2020, as the pandemic has been contained effectively, the industrial environment and capital market have improved, and private equity fundraising and investment markets have shown a recovery trend. In the first half of 2021, China Securities continued to strengthen the in-depth cooperation with national-level funds of funds, local governments and institutions on the capital platform for government-controlled enterprises. As of the end of the Reporting Period, China Securities Capital operated a total of 47 funds under management and filing, with a scale of RMB45,674 million, representing a filing scale increase of RMB8,460 million as compared to that at the end of 2020. As of the end of the Reporting Period, China Securities Capital completed investment in 180 enterprises, with an average exit investment yield of 107%.

Outlook for the second half of 2021

In the second half of 2021, China Securities Capital will, by adhering to “value identification, customer satisfaction and prudent investment”, and focusing on cooperation with national-level funds of funds, government platforms and state-owned capital platforms, selectively conduct in-depth research in the fields and directions of artificial intelligence, new energy vehicles, high-end manufacturing, new materials, medical and pharmaceuticals by leveraging own professional investment level, striving to gradually deepen and systemize industry research to achieve steady investment.

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

III. FINANCIAL STATEMENT ANALYSIS

(I) Profitability Analysis

In the first half of 2021, the Group recognised a total revenue and other income of RMB16,471 million, representing a year-on-year increase of 26.61%. The changes of key items are as follows:

- fee and commission income amounted to RMB6,137 million, representing a year-on-year increase of 17.30%, which was mainly due to the year-on-year increase in fee and commission income from brokerage business in the first half of 2021;
- interest income amounted to RMB4,263 million, representing a year-on-year increase of 35.42%, which was mainly due to the increase of income from margin financing and securities lending business and financial assets at fair value through other comprehensive income in the first half of 2021;
- investment gains amounted to RMB3,481 million, representing a year-on-year decrease of 21.78%, which was mainly due to the decrease in net gains from financial assets at fair value through profit or loss in the first half of 2021.
- other income amounted to RMB2,590 million, representing a year-on-year increase of 1,355.06%, which was mainly due to the increase in the bulk commodity sales business of the futures subsidiary in the first half of 2021.

In the first half of 2021, the total expenses of the Group amounted to RMB10,814 million, representing a year-on-year increase of 51.44%. The changes of key items are as follows:

- fee and commission expenses amounted to RMB711 million, representing a year-on-year increase of 15.61%, which was mainly due to a year-on-year increase in fee and commission expenses from brokerage business in the first half of 2021;
- employee expenses amounted to RMB3,402 million, representing a year-on-year increase of 21.07%, which was mainly due to the year-on-year increase in wages and social insurance payments in the first half of 2021;
- Interest expenses amounted to RMB3,434 million, representing a year-on-year increase of 37.91%, which was mainly due to the increase in interest expenses of financial assets sold under repurchase agreements, short term financing instruments payable and placements from banks and other financial instruments in the first half of 2021;
- other operating expenses and costs amounted to RMB3,486 million, representing a year-on-year increase of 266.56%, which was mainly due to the increase in the bulk commodity sales business of the futures subsidiary in the first half of 2021;
- reversal of credit impairment losses amounted to RMB305 million, which was mainly due to the reversal of impairment losses on financial assets held under resale agreements in the first half of 2021.

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2021, the Group realised net profit attributable to equity holders of the Company of RMB4,529 million, representing a year-on-year decrease of 1.08%, and realised basic earnings per share of RMB0.55, representing a year-on-year decrease of 5.17%. The return on weighted average equity was 7.23%, representing a year-on-year decrease of 1.89 percentage points, which was mainly due to the year-on-year decrease of the net profit during this period.

(II) Asset Structure and Asset Quality

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

As of 30 June 2021, the total assets of the Group amounted to RMB404,024 million, representing an increase of RMB32,796 million, or 8.83%, as compared with that at the end of 2020. Excluding the accounts payable to brokerage clients, the total assets of the Group amounted to RMB314,220 million, representing an increase of RMB17,702 million, or 5.97%, as compared with that at the end of 2020, among which, assets in investments (mainly include investments in associates and investments in financial assets) accounted for 59.97%, while margin accounts and financial assets held under resale agreements accounted for 22.94%, cash and bank balances accounted for 9.88%, and other assets accounted for 7.21%.

As of 30 June 2021, the total liabilities of the Group amounted to RMB329,751 million, representing an increase of RMB26,594 million, or 8.77%, as compared with that at the end of 2020. Excluding the accounts payable to the brokerage clients, the total liabilities of the Group amounted to RMB239,947 million, representing an increase of RMB11,501 million, or 5.03%, as compared with that at the end of 2020, among which, financial assets sold under repurchase agreements amounted to RMB87,717 million, accounting for 36.56%; bonds in issue amounted to RMB42,448 million, accounting for 17.69%; short-term borrowings, placements from banks and other financing institutions, short-term financing instruments payable and non-current liabilities due within one year amounted to RMB72,206 million, accounting for 30.09%; financial liabilities at fair value through profit or loss and derivative financial liabilities amounted to RMB6,770 million, accounting for 2.82%; and the amount from other liabilities in aggregate was RMB30,806 million, accounting for 12.84% of the total liabilities.

As of 30 June 2021, the Group's equity attributable to equity holders of the Company amounted to RMB74,075 million, representing an increase of RMB6,340 million, or 9.36%, as compared with that at the end of 2020.

As of 30 June 2021, after deducting accounts payable to brokerage clients, the gearing ratio of the Group was 76.36%, representing a decrease of 0.68 percentage points, as compared with that at the end of 2020.

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

(III) Cash Flow Status

Excluding the accounts payable to brokerage clients, the Group's net increase in cash and cash equivalents was RMB2,836 million in the first half of 2021. The changes of key items are as follows:

The net cash outflow from operating activities in the first half of 2021 was RMB1,920 million, representing a year-on-year net decrease of RMB23,040 million in outflow as compared with the net outflow of RMB24,960 million in the same period of 2020, which was mainly attributable to a decrease of net cash outflow due to the increase of financial assets at fair value through profit or loss in the current period.

Net cash inflow from investing activities in the first half of 2021 was RMB4,819 million, representing a year-on-year net increase of RMB7,078 million in inflow as compared with the net outflow of RMB2,259 million in the same period of 2020, which was mainly attributable to an increase of net cash inflow due to financial assets at fair value change through other comprehensive income in the current period.

Net cash outflow from financing activities in the first half of 2021 was RMB63 million, representing a year-on-year net increase of RMB756 million in outflow as compared with the net inflow of RMB694 million in the same period of 2020, which was mainly attributable to an increase of cash outflow mainly caused by the repayment of short-term financing instruments payable in the current period.

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

IV. ANALYSIS OF PRINCIPAL SUBSIDIARIES AND NON-CONTROLLING COMPANIES

Name	Shareholding of the Company	Date of establishment	Registered capital	Place of business	Registered address	Contact number
China Securities Futures	100%	16 March 1993	RMB1,000 million	27/F and 30/F, Hilton Business Center, No.131, Zhongshan 3rd Road, Yuzhong District, Chongqing (重慶市渝中區中山三路131號希爾頓商務中心27樓、30樓)	27/F and 30/F, Hilton Business Center, No.131, Zhongshan 3rd Road, Yuzhong District, Chongqing (重慶市渝中區中山三路131號希爾頓商務中心27樓、30樓)	023-86769602
China Securities Capital	100%	31 July 2009	RMB1,650 million	12/F, Block B, Kaiheng Center Building, Dongcheng District, Beijing (北京市東城區凱恒中心大廈B座12層)	Room 2, East Side, 6/F, 188 Chaoyangmennei Avenue, Dongcheng District, Beijing (北京市東城區朝陽門內大街188號6層東側2間)	010-85130648
China Securities International	100%	12 July 2012	Paid-in capital of HK\$2,000 million	18/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong	18/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong	+852-34655600
China Securities Funds	75%	9 September 2013	RMB300 million	17 & 19/F, Block B, Kaiheng Center Building, Dongcheng District, Beijing (北京市東城區凱恒中心大廈B座17、19層)	Unit 1, Building No. 3, Balongqiao Yayuan, Qiaozi Town, Huairou District, Beijing (北京市懷柔區橋梓鎮八龍橋雅苑3號樓1室)	010-59100281
China Securities Investment	100%	27 November 2017	RMB6,100 million	11/F, Block B, Kaiheng Center Building, Dongcheng District, Beijing (北京市東城區凱恒中心大廈B座11層)	Unit 109, Block C, Beijing Fund Town Center, No. 1 Jinyuan Avenue, Changgou Town, Fangshan District, Beijing (北京市房山區長溝鎮金元大街1號北京基金小鎮大廈C座109)	010-85130622

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

1. China Securities Futures: as of 30 June 2021, total assets and net assets of China Securities Futures amounted to RMB22,240.56 million and RMB2,246.53 million, respectively. In the first half of 2021, China Securities Futures realised total revenue and other income amounting to RMB3,061.61 million in aggregate, and net profit amounting to RMB247.08 million. (unaudited)

The principle businesses of China Securities Futures include: commodity futures brokerage, financial futures brokerage, futures investment consulting, asset management and fund sales.

2. China Securities Capital: as of 30 June 2021, total assets and net assets of China Securities Capital amounted to RMB3,568.90 million and RMB2,261.45 million, respectively. In the first half of 2021, China Securities Capital realised total revenue and other income amounting to RMB112.63 million in aggregate, and net profit amounting to RMB36.42 million. (unaudited)

The principle businesses of China Securities Capital include: project investment, investment management, asset management and financial advisory (excluding intermediaries).

3. China Securities International: as of 30 June 2021, total assets and net assets of China Securities International amounted to RMB13,509.25 million and RMB1,709.42 million, respectively. In the first half of 2021, China Securities International realised total revenue and other income amounting to RMB232.62 million in aggregate, and net profit amounting to RMB69.67 million. (unaudited)

The principle businesses of China Securities International include: holding and investment, and its subsidiaries might engage in businesses including securities brokerage, asset management, investment banking, mortgage financing, futures trading and proprietary investment.

4. China Securities Funds: as of 30 June 2021, total assets and net assets of China Securities Funds amounted to RMB912.35 million and RMB493.53 million, respectively. In the first half of 2021, China Securities Funds realised total revenue and other business income amounting to RMB-65.51 million in aggregate, and net profit amounting to RMB-99.40 million (unaudited).

The principle businesses of China Securities Funds include: fund raising, fund sales, specific customer asset management, asset management and other businesses approved by the CSRC.

5. China Securities Investment: as of 30 June 2021, total assets and net assets of China Securities Investment amounted to RMB3,906.34 million and RMB3,642.29 million, respectively. In the first half of 2021, China Securities Investment realised total revenue and other income amounting to RMB448.97 million in aggregate, and net profit amounting to RMB333.21 million. (unaudited)

The principle businesses of China Securities Investment include: equity investment management, investment consulting (excluding intermediaries) and project investment.

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

V. INFORMATION OF SECURITIES BRANCHES

No.	Branch	Date of establishment	Registered address	Contact number
1	Hubei Branch	6 February 2012	3/F, Block A, Longyuan Building, 24 Zhongbei Road, Wuchang District, Wuhan City, Hubei Province	027-87890128
2	Shanghai Branch	6 February 2012	No. 06, 07, 18/F, Block T2, No. 398 Huoshan Road, Yangpu District, Shanghai	021-55138037
3	Shenyang Branch	7 February 2012	No. 1, 12/F, 61 Beizhan Road, Shenhe District, Shenyang City, Liaoning Province	024-22556761
4	Jiangsu Branch	13 February 2012	2/F, Huanghe Building, 58 Longyuan West Road, Gulou District, Nanjing City, Jiangsu Province	025-83156571
5	Hunan Branch	1 March 2013	No. 9, Furong Middle Road Section 2, Furong District, Changsha City, Hunan Province	0731-82229568
6	Fujian Branch	16 April 2013	3/F, Wuyi Center, 33 East Street, Gulou District, Fuzhou City, Fujian Province	0591-87612358
7	Zhejiang Branch	18 April 2013	Room 604, 6/F, 225 Qing Chun Road, Shangcheng District, Hangzhou City, Zhejiang Province	0571-87067252
8	Northwest Branch	19 April 2013	56 Nanda Street, Beilin District, Xi'an City Shaanxi Province	029-87265999-202
9	Guangdong Branch	24 April 2013	Units 5102 and 5105, 30 Zhujiang East Road, Tianhe District, Guangzhou City, Guangdong Province	020-38381917
10	Chongqing Branch	14 April 2014	2-2, Block 2, Yijing Fenghao, 195 Longshan Road, Longshan Avenue, Yubei District, Chongqing City	023-63624398
11	Shenzhen Branch	21 April 2014	22/F, Block B, Rongchao Business Center, 6003 Yitian Road, Futian District, Shenzhen City, Guangdong Province	0755-23953860
12	Sichuan Branch	25 April 2014	25, South Third Section, First Ring Road, Wuhou District, Chengdu City, Sichuan Province	028-85576963
13	Shandong Branch	23 May 2014	11/F, Block 4, 8 Long'ao North Road, Lixia District, Jinan City, Shandong Province	0531- 68655601
14	Jiangxi Branch	28 May 2014	Unit 5, 30/F, Block 2#, Heping International Hotel, 69 Yanjiang North Avenue, Donghu District, Nanchang City, Jiangxi Province	0791-86700335
15	Henan Branch	3 June 2014	2/F, Zhonghua Mansion, 3 Shangwu Outer Ring Road, Zhengzhou District (Zhengdong), Henan Pilot Free Trade Zone	0371-69092409
16	Shanghai Free Trade Zone Branch	26 September 2014	Room 2206, North Building, 528 South Pudong Road, China (Shanghai) Free Trade Zone	021-68801573
17	Tianjin Branch	10 November 2014	No.389, Jiefang South Road, Hexi District, Tianjin	022-23660571
18	Beijing Hongyi Branch	19 March 2019	4-4, Third Section, 6/F, Building No. 4, 66 Anli Road, Chaoyang District, Beijing City	010-65726085
19	Hainan Branch	29 December 2020	1 and 2/F, Yindu Building, No.38 Haifu Avenue, Haikou City	0898-65357208

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

No.	Branch	Date of establishment	Registered address	Contact number
20	Ningxia Branch	30 December 2020	No. 65, Hubin West Street, Xingqing District, Yinchuan City	0951-6737057
21	Guizhou Branch	31 December 2020	No. 2, 1-8/F, No. 13, Yan'an Middle Road, Yunyan District, Guiyang City, Guizhou Province	0851-83879300
22	Jilin Branch	5 January 2021	19/F, Zhengrong Building, No. 621 Changchun Street, Nanguan District, Changchun City, Jilin Province	0431-81939356
23	Shanxi Branch	7 January 2021	7/F, Crown Tower, 252 Xinjian Road, Xing Hua Ling District, Taiyuan	0351-4073321
24	Heilongjiang Branch	8 January 2021	No. 99, Zhongyi Street, Daoli District, Harbin City, Heilongjiang Province (Baishun Fenghua Apartment)	0451-87536666
25	Xinjiang Branch	12 January 2021	No. 9, Nanhu North Road, Shuimogou District, Urumqi City, Xinjiang	0991-4165680
26	Gansu Branch	12 January 2021	Room 001, 2/F, Block B, Yongli Building, No. 58 Gaolan Road, Chengguan District, Lanzhou City, Gansu Province	0931-8826000
27	Inner Mongolia Branch	12 January 2021	Room 101, Building 105, Yuan Yi Xin Jia Yuan, Wulanchabu East Road, Saihan District, Hohhot City, Inner Mongolia Autonomous Region	0471-6248166
28	Guangxi Branch	14 January 2021	No.07, 1/F, No.1, No.10, Zhongwen Road, Qingxiu District, Guangxi, China	0771-5772676
29	Beijing Dongcheng Branch	15 January 2021	No. 6 Dongzhimen South Street, Dongcheng District, Beijing	010-64156666
30	Anhui Branch	15 January 2021	113, 114, Building 1 and 2, Fenge Century Apartment, No. 499, Chang Jiangxi Road, Hefei City, Anhui Province	0551-5501717
31	Qinghai Branch	18 January 2021	Room 27-53, Building 1, 2, 4, Hezhengjiayuan, No. 27, North Street, Chengzhong District, Xining City	0971-8276233
32	Beijing Chaoyang Branch	20 January 2021	4/F, No. 66, Anli Road, Chaoyang District, Beijing	010-56326080
33	Beijing Haidian Branch	20 January 2021	1/F, No. 108, and the entire second floor of No. 18 Danling Street, Haidian District, Beijing	010-82666923
34	Beijing Jingnan Branch	26 January 2021	Meiyuan Market South Section, No. 15, Nanda Hongmen Road, Fengtai District, Beijing	010-68759957
35	Beijing Jingxi Branch	29 January 2021	No. 39, Sanlihe Road, Haidian District, Beijing	010-58739666
36	Yunnan Branch	2 February 2021	2F, Hydropower Technology Building, No. 115, Renmin East Road, Panlong District, Kunming City, Yunnan Province	0871-63117584
37	Hebei Branch	9 February 2021	No. 29, Jianshenan Street, Chang'an District, Shijiazhuang City	0311-86682430

Note: For the establishment of the above branches, the date of obtaining the "License to Operate Securities and Futures Business" shall prevail for any occurrence after 1 January 2020.

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

VI. EXPLANATION OF CHANGES IN SCOPE OF STATEMENT CONSOLIDATION

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

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

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

In accordance with Explanation on Implementation of Tax Preferential Treatments concerning Western China Development Strategy (《關於執行國家西部大開發所得稅優惠政策的說明》) issued by local taxation bureau in Yuzhong District, Chongqing City and Announcement on Continuation of Implementation of Tax Preferential Treatments concerning Western China Development Strategy [2020] No. 23 (《關於延續西部大開發企業所得稅政策的公告》[2020] 23號) issued by the Ministry of Finance, the State Administration of Taxation and the National Development and Reform Commission, the applicable income tax rates for China Securities Futures is 15%.

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

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

During the Reporting Period, there were no significant changes in the principal accounting policies and key accounting estimates of the Company.

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

IX. FINANCING OF THE COMPANY

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

(I) Details of Previously Raised Funds

The proceeds previously raised include the proceeds raised through overseas listed foreign shares (H Shares) in December 2016 and the over-allotment of overseas listed foreign shares (H Shares) in January 2017 (hereinafter referred to collectively as “proceeds raised through H Shares”), the proceeds raised through the domestic listed RMB ordinary shares (A Shares) of IPO (hereinafter referred to as “proceeds raised through A Shares IPO”) in June 2018 and the proceeds raised through the non-public issuance of domestic listed RMB ordinary shares (A Shares) to specific targets in December 2020 (hereinafter referred to as “proceeds raised through A Shares non-public issuance”).

1. Proceeds Raised through H Shares

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

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

As of 30 June 2021, the balance of such proceeds raised in the designated bank account of H Share proceeds was equivalent to RMB170.0226 million, including unused proceeds and bank deposit interest.

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

2. Proceeds Raised through A Shares IPO

Pursuant to the Reply on the Initial Public Offering of Shares by CSC Financial Co., Ltd. (Zheng Jian Xu Ke [2018] No. 828) issued by the CSRC on 25 May 2018, the Company was authorised to issue to the public 400,000,000 domestic listed RMB ordinary shares (A Shares) at an offer price of RMB5.42 per share. The proceeds were paid up in RMB, amounting to RMB2,168,000,000.00. Upon deduction of the issuance expense of RMB99,302,819.71, the proceeds raised amounted to RMB2,068,697,180.29. The above mentioned proceeds were paid up on 13 June 2018. The above mentioned proceeds were verified by PricewaterhouseCoopers Zhong Tian LLP, Beijing Branch, which issued the capital verification report numbered PricewaterhouseCoopers Zhong Tian Beijing Yan Zi [2018] No. 0388.

On 31 December 2019, the proceeds raised had been used up, and the special account for the proceeds raised through A Shares IPO was cancelled.

3. Proceeds Raised through Non-public Issuance of A Shares

Pursuant to the Reply on the Non-public Issuance of Shares by CSC Financial Co., Ltd. (Zheng Jian Xu Ke [2020] No. 345) issued by the CSRC on 28 February 2020, the Company was authorised to issue non-public domestic listed RMB ordinary shares (A Shares) no more than 1,277,072,295. As of 22 December 2020, the Company has completed the non-public issuance of 110,309,559 RMB ordinary shares to specific targets at an offer price of RMB35.21 per share. The proceeds were paid up in RMB, amounting to RMB3,883,999,572.39. Upon deduction of the issuance expense equivalent to RMB36,235,817.84 (tax exclusive), the proceeds raised amounted to RMB3,847,763,754.55. The above mentioned proceeds were paid up on 22 December 2020. The above mentioned proceeds were verified by PricewaterhouseCoopers Zhong Tian LLP, Beijing Branch, which issued the capital verification report numbered PricewaterhouseCoopers Zhong Tian Beijing Yan Zi [2020] No. 1109. The Company got a net price of RMB34.88 per share. On 28 December 2020, the newly added A Shares through non-public issuance was registered at the Shanghai Branch of China Securities Depository and Clearing Corporation Limited. The closing price of the A Shares of the Company on 28 December 2020 and 29 December 2020 was RMB39.29 and RMB39.55, respectively.

As of 30 June 2021, the balance of the proceeds in the special account for the proceeds raised through non-public issuance of A Shares was RMB36.1671 million, including the unused proceeds raised and interests of bank deposits.

(II) Actual Use of the Proceeds Previously Raised

1. Proceeds Raised through H Shares

According to the prospectus for overseas listed foreign shares (H Shares) issued by the Company in 2016, the Company planned to use an amount equivalent to RMB6,310.8920 million in total for five specific projects. The balance of additional proceeds from the exercise of any over-allotment option will be allocated to the above mentioned projects on a pro rata basis. The proceeds raised through the exercise of over-allotment options by the Company was equivalent to RMB414.8636 million, amounting to an equivalent of RMB6,725.7556 million when taken together with the proceeds raised as disclosed in the above mentioned H Share prospectus. As of 30 June 2021, the actual amount invested in the projects involving the use of the proceeds previously raised amounted to the equivalent of RMB6,608.4483 million in total.

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

The use of proceeds raised through H Shares of the Company as of 30 June 2021 is as follows:

Unit: RMB ten thousand

Total proceeds raised:	673,269.25	The accumulated amount of proceeds raised that has been used:	660,844.83
Total amount of proceeds raised with purpose changed:	Nil	Total amount of raised proceeds used in each year:	660,844.83
Proportion of raised proceeds with purpose changed:	Nil	2016:	204,106.16
		2017:	320,177.66
		2018:	125,000.00
		2019:	11,561.01

No.	Investment project		Total investment amount of the raised proceeds			The accumulated investment amount of the raised proceeds as of 30 June 2021				The Date On Which The Project Is Ready For Use (Or The Completion Progress Of The Project As Of The Closing Date)
	Proposed investment project	Actual investment project	Proposed investment amount before fundraising <i>(Note 3)</i>	Proposed investment amount after fundraising <i>(Note 3)</i>	Actual investment	Proposed investment amount before fundraising	Proposed investment amount after fundraising	Actual investment	Difference between actual investment and proposed investment amount after fundraising <i>(Note 1)</i>	
1	Meeting investment and financing needs of customers	Meeting investment and financing needs of customers	35%, an amount equivalent to 235,401.45	35%, an amount equivalent to 235,644.24	235,644.24	235,401.45	235,644.24	235,644.24	-	N/A
2	Enhancing investment and market-making capacity	Enhancing investment and market-making capacity	20%, an amount equivalent to 134,515.11	20%, an amount equivalent to 134,653.85	134,479.82	134,515.11	134,653.85	134,479.82	(174.03)	N/A
3	Product seed fund	Product seed fund	20%, an amount equivalent to 134,515.11	20%, an amount equivalent to 134,653.85	134,653.85	134,515.11	134,653.85	134,653.85	-	N/A
4	Enhancing cross-border business capacity and international competitiveness, increasing proportion of overseas assets and revenue	Enhancing cross-border business capacity and international competitiveness, increasing proportion of overseas assets and revenue	15%, an amount equivalent to 100,886.33	15%, an amount equivalent to 100,990.39	88,740.00	100,886.33	100,990.39	88,740.00	(12,250.39)	N/A
5	Working capital and other general business use	Working capital and other general business use	10%, an amount equivalent to 67,257.56	10%, an amount equivalent to 67,326.92	67,326.92	67,257.56	67,326.92	67,326.92	-	N/A
	Total		672,575.56	673,269.25	660,844.83	672,575.56	673,269.25	660,844.83	(12,424.42)	N/A

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

Note 1: The difference between the actual investment amount and the proposed investment amount was the unused proceeds as at 30 June 2021 and the exchange gains and losses caused by the difference between the actual exchange rate and the exchange rate of the total investment after fundraising. The Company has compared, item by item, the proposed investment projects stated in the H Share prospectus with the specific usage as disclosed. As of 30 June 2021, H Share proceeds proposed to be used but not used by the Company amounted to RMB122.5039 million. The Company will use the remaining H Share proceeds according to the actual development needs. Among these, the H Share proceeds intended to be used for enhancing cross-border business capacity and international competitiveness (equivalent to RMB122.5039 million) will be maintained at the overseas fundraising account temporarily and remitted to the overseas subsidiaries for further use according to the actual business needs of the overseas subsidiaries after obtaining the approval of the relevant regulatory authorities. The Company expects to fully use the balance of the raised proceeds by 2021. The Company did not make any commitment on the full-use time of proceeds raised through H Shares in the prospectus of H Shares, and the actual time shall be determined by the future business development of the Company. In addition, as of 30 June 2021, the proceeds proposed to be used in enhancing investment and market-making capacity equivalent to RMB1,346.5385 million has all been settled and used up. The difference between actual investment and proposed investment amounted to RMB1.7403 million, which was the exchange gains and losses caused by the difference between the actual exchange rate and the exchange rate of the total investment after fundraising.

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

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

The Company has made no guarantee on benefits generated from the use of proceeds upon the issuance of overseas listed foreign shares. A portion of proceeds raised through H Shares has already been used on the work proposed in the prospectus upon being paid up; correspondingly, net assets and net capital of the Company were both increased. Since proceeds used in all of the investment projects of proceeds raised include original self-owned proceeds and proceeds raised, it is not possible to separately calculate the benefits realised with the proceeds raised as of 30 June 2021.

2. Proceeds Raised through the Non-public Issuance of A Shares

According to the Plan for the Non-Public Issuance of A Shares in 2020 (revised draft) of the Company, the total amount of proceeds from the Non-public Issuance is no more than RMB13 billion (inclusive), all of which will be used for replenishment of capital and working capital of the Company after deducting the Issuance expenses in order to expand the Company's business scale and improve competitiveness and ability to withstand risks. The net amount of the proceeds actually raised by the Company from the non-public issuance of A Shares is less than the maximum amount of the proceeds planned to raise (RMB13 billion). According to the Resolution on the Submission to the Shareholders' Meetings for Full Authorization to the Board to Deal with Relevant Matters in relation to the Non-public Issuance and its resolution to extend the validity period of the resolution considered and approved at the general meeting, the resolutions shall be authorized by the shareholders' general meeting to in turn authorize the management of the Company to deal with the matters in relation to the Non-public Issuance of A Shares within the scope of authorization. The management of the Company has identified specific investment projects based on the proceeds from the non-public offering of A Shares and the actual demand for the investment projects. As of 30 June 2021, the actual amount invested in the projects involving the use of the proceeds previously raised amounted to RMB3,813.3519 million in total.

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

The use of proceeds raised through the non-public issuance of A Share of the Company as of 30 June 2021 is as follows:

Unit: RMB ten thousands

Total proceeds raised:	384,776.38	The accumulated amount of proceeds raised that has been used:	381,335.19
Total amount of proceeds raised with purpose changed:	Nil	Total amount of raised proceeds used in each year:	381,335.19
Proportion of raised proceeds with purpose changed:	Nil	2020:	380,000.00
		2021:	1,335.19

No.	Investment project		Total investment amount of the raised proceeds			The accumulated investment amount of the raised proceeds as of 30 June 2021			Difference between actual investment and proposed investment after fundraising	The date on which the project is ready for use (or the completion progress of the project as of the closing date)
	Proposed investment project	Actual investment project	Proposed investment amount before fundraising	Proposed investment amount after fundraising	Actual investment	Proposed investment amount before fundraising	Proposed investment amount after fundraising	Actual investment		
1	Development of brokerage business	Development of brokerage business	200,000.00	200,000.00	200,000.00	200,000.00	200,000.00	200,000.00	-	N/A
2	Development of investment trading business	Development of investment trading business	130,000.00	130,000.00	130,000.00	130,000.00	130,000.00	130,000.00	-	N/A
3	Information system infrastructure	Information system infrastructure	4,776.38	4,776.38	-	4,776.38	4,776.38	1,335.19	(3,441.19)	N/A
4	Other arrangements of working capital	Other arrangements of working capital	50,000.00	50,000.00	50,000.00	50,000.00	50,000.00	50,000.00	-	N/A
	Total		<u>384,776.38</u>	<u>384,776.38</u>	<u>380,000.00</u>	<u>384,776.38</u>	<u>384,776.38</u>	<u>381,335.19</u>	<u>(3,441.19)</u>	<u>N/A</u>

Note 1: The difference between the actual investment amount and the committed investment amount after raising is the unused proceeds as of 30 June 2021. The Company has compared the investment projects committed in the Plan for the Non-Public Issuance of A Shares in 2020 (revised draft) and the disclosed contents of the specific uses item by item. As of 30 June 2021, the committed but unused proceeds from non-public issuance of A Shares of the Company is RMB34.4119 million. The Company expects to fully use the balance of the raised proceeds by 2021. The Company did not make any commitment on the full-use time of raised proceeds from non-public issuance of A Shares in the Plan for the Non-Public Issuance of A Shares in 2020 (revised draft), and the actual time shall be determined by the future business development of the Company.

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

The Company has made no guarantee on benefits generated from the use of proceeds upon the issuance of domestic listed RMB ordinary shares of non-public issuance to specific targets. Proceeds raised through the non-public issuance of A Shares have been partially used on the work proposed in the Plan for the Non-Public Issuance of A Shares in 2020 (revised draft) upon receipt. Correspondingly, net assets and net capital of the Company both increased. Since proceeds used in all of the investment projects of proceeds raised include originally self-owned proceeds and raised proceeds, it is not possible to separately calculate the benefits realized with the raised proceeds as of 30 June 2021.

(III) Bond Financing

In the first half of 2021, the Company publicly issued four tranches of subordinated bonds with a total issuance amount of RMB16 billion, publicly issued one tranche of perpetual subordinated bonds with a total issuance amount of RMB5 billion, all of which was used for replenishment of working capital, repayment of debt financing instruments falling due; issued nine tranches of short-term financing bonds with a total issuance amount of RMB36.9 billion; and issued 386 tranches of structured notes with a total issuance amount of approximately RMB19.5 billion, all of which was used to replenish liquidity of the Company.

As of 30 June 2021, the balance of outstanding bonds of the Company amounted to RMB112.0 billion, with the balances of corporate bonds, perpetual subordinated bonds, subordinated bonds, US Dollar bonds, short-term financing bonds and financial bonds amounting to RMB24.0 billion, RMB15.0 billion, RMB46.5 billion, USD 1 billion (equivalent to approximately RMB6.5 billion), RMB16.0 billion and RMB4.0 billion, respectively. In addition, as of 30 June 2021, the balance of structured notes issued by the Company was approximately RMB8.0 billion. The above utilization of proceeds was in line with the disclosure provided in the offering documents. In the second half of 2021, the Company will continue to utilise the proceeds in accordance with the Company's operation and development strategies with reference to capital market conditions.

In the second half of 2021, the Company will continue to issue corporate bonds, subordinated bonds, perpetual subordinated bonds, short-term financing bonds, financial bonds, structured notes and other financing instruments permitted by regulatory authorities according to the Company's capital needs with reference to the market conditions.

X. RISK MANAGEMENT

(I) Overview

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

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

(II) Structure of Risk Management

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

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

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

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

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

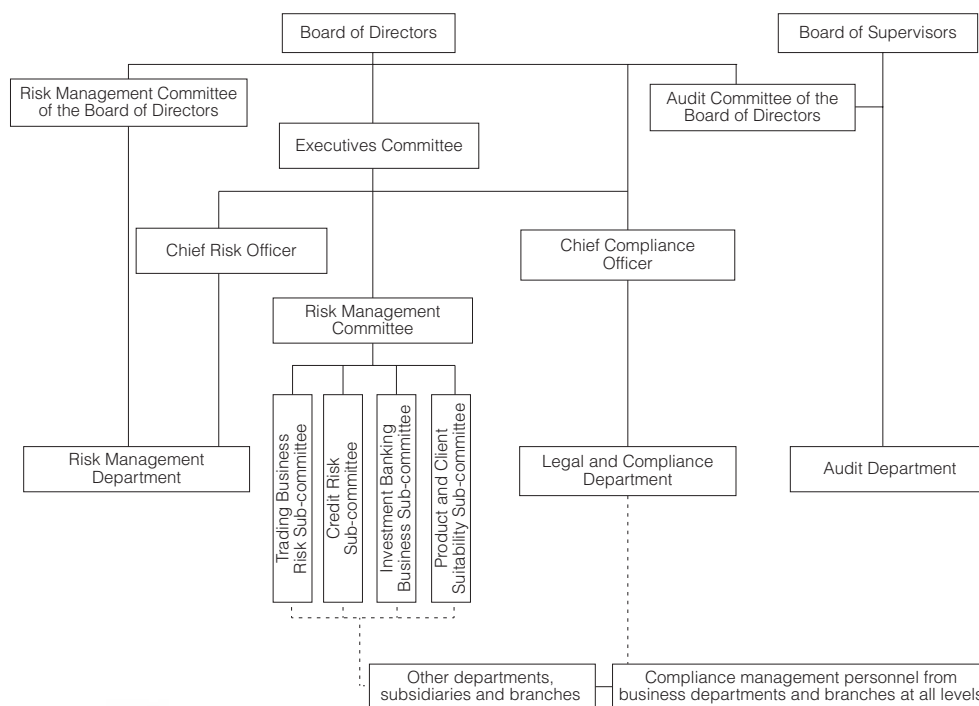
The Chief Risk Officer of the Company is responsible for leading professional risk management activities across the Company, including organizing the formulation of relevant risk management rules and procedures, improving the Company's risk management practices, and guiding the Risk Management Department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

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

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

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

Structure Diagram of Risk Management of the Company



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

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

(III) Risk Management Mechanism

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

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

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

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

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

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

During the Reporting Period, the Company, as a pilot brokerage firm under the concurrent supervision, continued to optimize the comprehensive risk management mechanism, continuously strengthened the risk management of off-balance sheet business, built the emergency response mechanism and promoted the risk management culture, and promoted the vertical control of domestic and overseas subsidiaries and the integrated management of the Group; the Company's risk response capability and refined management level were further enhanced.

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

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

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

1. Strategic Risk Management

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

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

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

2. Credit Risk Management

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

Credit risks of the Company arising from securities financial business primarily includes risks from incapability of repayment from counterparties, decline in value or insufficient liquidity of collateral provided by counterparties, customers' failure to repay debts in full in a timely manner due to involvement in legal disputes of collateral assets, and credit risks arising from fraudulent credit information, violation of contracts and regulatory requirements in transaction actions. Control of credit risk from securities financing business is realised primarily through risk education for customers, credit investigation and verification on customers, credit management, risk assessment on collateralised (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 requirements of the accounting standards, and actively recover debts from defaulting clients.

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

Credit risk arising from bond investments is primarily due to bond financing instrument issuer defaults or decline in the creditworthiness of issuers, defaults of counterparty to bond trade, among others. The Company controls bond investment credit risks by conducting necessary due diligence to issuers and counterparties, developing internal rating on issuers, debts and counterparty, executing access control and limit management based on internal and external rating, in combination with regular and irregular risk checks and post-investment tracking. The Company controls credit risk arising from over-the-counter derivative transactions through setting counterparty ratings and credit lines, and setting limits on the sizes of transactions and credit risk exposures before transactions take place. The Company conducts a daily check and measurement of the credit risk exposures of counterparties. The Company has also adopted mark-to-market practices to monitor the contracts of derivative transactions and for valuation of collateral, and established forced position squaring procedures to control its credit risk exposures within established credit limits.

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

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

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

3. Liquidity Risk Management

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

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

The Asset and Liability Management Committee under the Execution Committee is responsible for organising and managing the asset and liability allocation plan of the Company, reviewing and approving the internal valuation interest rate of capital and emergency plans for liquidity risk. The Company established the Treasury Operations Department to initiate the management of the liquidity of its proprietary funds, accounting for expanding mid- and long-term stable funding channels, reasonably adjusting the asset allocation among various business lines, and steadily optimizing its assets and liabilities structure. The Company has improved its daily practice for liquidity risk management and control mechanism with the assistance of liquidity reserve assets management system, refining internal funds transfer pricing (FTP) system, as well as establishing and optimizing liquidity emergency plans and stress tests. In addition, During the Reporting Period, the Company further optimised its debt maturity structure and maintained adequate liquidity reserve by reasonably planning for the scale of assets and liabilities, improved the emergency plan for liquidity risk, and secured liquidity risk to be measurable and controllable.

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

4. Market Risk Management

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

For market risks, the Company has established an integrated risk management organizational structure, implemented stage-by-stage authorization, provided clear structure of duties and authorities of the Board of Directors, executive management and business department in market risk control and built risk management processes that enable coverage of activities before, during and after making investments, with an overall risk limits application. The Company annually reviews and approves risk limits for the entire Company as well as each proprietary business line, including: exposure limits, stop-loss limits, value-at-risk ("VaR") limits, limits of sensitive indicators and stress testing limits, with the Risk Management Department monitoring and supervising their implementation and compliance. The Company has developed valuation methods and valuation model verification and valuation mechanism for different types of financial instruments, adopted daily mark-to-market practices and implemented stop-loss procedures which commensurate with its trading strategies. On a regular basis, the Company assesses the risk tolerance of its proprietary business lines, the effectiveness of risk control and revenue after risk adjustment, and includes the assessment results in the performance evaluation of these business lines. The Company makes ongoing efforts to improve its proprietary business management system, to steadily realise automated controls over relevant limit indicators. The Company adopts VaR as a tool to measure the market risk of its investment portfolio comprising securities and its derivatives. VaR is a method that estimates the maximum possible loss on the portfolio due to movements in market prices such as interest rates or stock prices over designated period and within a given confidence interval. As such method mainly relies on relevant information of historical data, it has certain inherent limitations. To complement, the Company implements daily and specific stress tests to assess the impact on the risk control indicators of net capital of the Company and profit or loss of proprietary portfolio from extreme adverse changes of risk factors, and proposes emergency plans with relevant recommendations and measures in accordance with the assessment.

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

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

With regard to foreign exchange risk, in 2020, the Company commenced settlement, sale and exchange business on a pilot basis as granted by the State Administration of Foreign Exchange, and China Securities International, a foreign subsidiary, held assets and liabilities of foreign currencies. As the proportion of assets denominated in foreign currencies held by our Company is insignificant, and represents a small portion of the income structure, the Company is of the view that the impact of foreign exchange rate risk on the Company's current operation is significant in general. The Company establishes foreign exchange risk management mechanism, manages its foreign exchange rate risk by limiting the size of assets and liabilities denominated in foreign currencies and risk exposure, assigning stop-loss limits for investments in companies and risk hedging with foreign exchange derivatives. Other price risks refer to risks of fair value decline to the Company's investment portfolio due to fluctuations in market prices other than stock prices, interest rates, and foreign exchange rates, primarily including commodity prices. The Company's investment portfolio primarily comprises equity securities and their derivative instruments as well as fixed income businesses. Other market price-related businesses include gold trading and commodity derivatives trading. In such kind of business, the Company primarily focuses on providing liquidity services and arbitrage trading, representing a negligible risk exposure, and the other price risks do not have a significant impact on the Company's current operations.

5. Operational Risk

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

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

The Risk Management Department of the Company monitors and assesses the operational risks of various businesses including the brokerage business, and also implements regular risk control evaluation. It examines the key risks of various business and management lines, and establishes and implements key control measures in practical business procedures. The department also develops and improves internal control matrix. The business departments are organised to conduct self-evaluation of risk and control to identify new material risks and take appropriate risk control measures. Statistical analysis on various types of operational risk events is performed at least on an annual basis to calculate the frequency of their occurrence and the level of losses, as well as to assess the changing trend of risk and risk allocations. During the Reporting Period, the Company further implemented various risk warnings and risk education programs, held special training on risk management throughout the Company, organised all staff members to participate in examination on corporate culture development and staff compliance and control mindset, optimise emergency plan under the pandemic, and continued promoting specific application of operational risk professional management tools.

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

6. Information Technology Risk Management

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

The Information Technology Department of the Company is responsible for the management of planning, establishment and operation maintenance of the information technology system. The Company carries out centralised management and backup of the data in transaction system, implementation of mutual separation of development, testing and operation maintenance of information technology system, as well as mutual separation of data management and application system, and implements strict control of access authority and track record, controls the choice of relevant software, hardware and external suppliers of information technology system, enhances external system management, performs real-time and automatic monitoring of the connection of important communication network and operation of the significant business system. In addition, the emergency management of business continuity of the Company is led by the Risk Management Department, and the Information Technology Department is responsible for the technical support work.

7. Legal Risk and Compliance Risk Management

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

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

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

8. Reputation Risk Management

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

The Company strictly upholds the compliance operation concept in accordance with laws, enhances information disclosure management, treasuring and proactively maintaining its reputation. The Executive Office of the Company, the leading management department for management of risk of reputation, is responsible for timely comprehending the emergency issues and other issues which may have impact on the reputation of the Company by improving reputation risk management system and mechanism and continuing to commence public opinion monitoring to monitor, coordinate and evaluate response to the reputation risk. In the first half of 2021, the Company did not have any major reputation issues, and maintained a normal and good operating environment.

XI. OTHER STATEMENT

Save as disclosed in this interim report, from 1 January 2021 to 30 June 2021, there are no material changes affecting the Company's performance that need to be disclosed under paragraphs 32 and 40(2) of Appendix 16 to the Listing Rules.

SECTION 4 SIGNIFICANT EVENTS

1. MATERIAL LITIGATION AND ARBITRATION

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

In addition, from January 1, 2021 to the disclosure date of the Report, the Company, as the subject of bond issuance, has issued the following interim announcements on involvement in litigation and arbitration on the bond section on the website of SSE:

Summary and type of events	Index for inquiries
Update on the case that China Securities Funds Management Limited, the holding subsidiary of the Company, on behalf of the special account product "CSC – Minsheng Bank – Jinan Rural Commercial No. 1 Asset Management Plan" under its management, as the applicant, applied for arbitration in relation to the event of bond default matters of Wuxi Wuzhou International Decoration City Co., Ltd. (無錫五洲國際裝飾城有限公司) and Wuzhou International Holdings Ltd. (五洲國際控股有限公司)	Announcement on the Update of Involvement in Litigation and Arbitration of CSC Financial Co., Ltd. issued on the bond section on the website of SSE on February 5, 2021
The case that the Company as the plaintiff, applied for litigation in relation to the event of default in stock-pledged repurchase business by He Qiaonv, the financier.	Announcement on the Update of Involvement in Litigation and Arbitration of CSC Financial Co., Ltd. issued on the bond section on the website of SSE on February 5, 2021
Update on the case that China Securities (International) Brokerage Company Limited (中信建投(國際)証券有限公司), an indirect wholly-owned subsidiary of the Company, as the plaintiff applied for litigation in relation to the event of default in stock-pledged repurchase business by Ho Born Investment Holdings Limited (浩邦投資控股有限公司), the financier, and Shi Hongliu, the guarantor.	Announcement on the Update of Involvement in Litigation and Arbitration of CSC Financial Co., Ltd. issued on the bond section on the website of SSE on February 5, 2021
Update on the case that the Company, as one of the defendants, was involved in a lawsuit filed against Wu Sheng Asset Management (Guangzhou) Co., Ltd. (吳聲資產管理(廣州)有限公司) by Jiaxing Yuansheng Trading Co., Ltd. (嘉興市遠盛商貿有限責任公司) in respect of dispute of trading in securities investment funds.	Announcement on the Update of Involvement in Litigation and Arbitration of CSC Financial Co., Ltd. issued on the bond section on the website of SSE on February 5, 2021

SECTION 4 SIGNIFICANT EVENTS

Summary and type of events	Index for inquiries
Update on the case that the Company, as the applicant, applied for arbitration in relation to the event of default in stock-pledged repurchase business by Wang Yue, the financier.	Announcement on the Update of Involvement in Litigation and Arbitration of CSC Financial Co., Ltd. issued on the bond section on the website of SSE on March 5, 2021
Update on the case that the Company, as the applicant, applied for arbitration in relation to the event of default in margin financing and securities lending business by Lv Xiaoqi, the financier.	Announcement on the Update of Involvement in Litigation and Arbitration of CSC Financial Co., Ltd. issued on the bond section on the website of SSE on March 5, 2021
Update on the case that the Company, as the applicant, applied for arbitration in relation to the event of default in stock-pledged repurchase business by Shao Xiuying, the financier.	Announcement on the Update of Involvement in Litigation and Arbitration of CSC Financial Co., Ltd. issued on the bond section on the website of SSE on March 5, 2021
Update on the case that an asset management plan managed by the Company as the plaintiff applied for arbitration in relation to the event of default by Jilin Communication Investment Group (吉林省交通投資集團有限公司) as a bond issuer.	Announcement on the Update of Involvement in Litigation and Arbitration of CSC Financial Co., Ltd. issued on the bond section on the website of SSE on March 5, 2021

II. PUNISHMENT DURING THE REPORTING PERIOD OF THE COMPANY

On February 7, 2021, CSRC issued the Decision on Taking Regulatory Talks Measures on CSC Financial Co., Ltd. ([2021] No. 5), pointing out that the Company, as the sponsor for the initial public offering and listing of the shares of Twenty First Century Aerospace Technology Co., Ltd., made the following violations: Insufficient verification of the issuer's goodwill impairment, related transactions, and adjusting events subsequent to the balance sheet date, etc., failure to give professional opinions on the issuer's re-lending matters in accordance with regulations, insufficient effectiveness of internal control, accordingly CSRC decided to take administrative supervision measures of regulatory talks to the Company.

In view of the punishment, the Company's rectification measures are as follows: 1. the Company convened relevant investment banking personnel to conduct intensive study of investment banking business laws and regulations, and emphasize the requirements for truthfulness, accuracy and completeness of information disclosure in the practice process; 2. the Company further improved the internal control of investment banking business, strengthened internal audits and urge investment banking personnel to strictly comply with regulatory requirements to improve the quality of practice; 3. the Company performed compliance accountability of the relevant accountable departments and persons, and ordered them to conduct supplementary inspections and rectifications on related issues.

SECTION 4 SIGNIFICANT EVENTS

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

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

IV. RATING CLASSIFICATION OF THE COMPANY BY SECURITIES REGULATORS

In 2021, under the classification based on securities firms by the CSRC, the Company was rated “Class A Grade AA” for twelve consecutive years with such a rating being the highest rank granted by the CSRC.

V. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

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

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

VII. DIVIDEND

The Board of Directors did not present the proposal in relation to the distribution of any 2021 interim dividends for the six months ended June 30, 2021.

SECTION 5 CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

I. SHARE CAPITAL STRUCTURE OF THE COMPANY

As of the end of the Reporting Period, the share capital structure of the Company was as follows:

Name of Shareholders	Type of Shares	Number of Shares	Percentage in the total number of Shares
Beijing Financial Holdings Group	A Shares	2,684,309,017	34.61%
Central Huijin (中央匯金)	A Shares	2,386,052,459	30.76%
HKSCC Nominees Limited (香港中央結算(代理人)有限公司) <i>(Note 1)</i>			
Glasslake Holdings (鏡湖控股)	H Shares	351,647,000	4.53%
Other Shares held under the name of HKSCC Nominee Limited	H Shares	909,103,618	11.72%
CITIC Securities (中信証券)	A Shares	382,849,268	4.94%
Tengyun Investment (騰雲投資)	A Shares	113,556,653	1.46%
HKSCC Nominee Limited	A Shares	42,028,030	0.54%
Fujian Gui'an Xintiandi Tourism Culture Investment Co., Ltd.	A Shares	38,861,100	0.50%
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)	A Shares	14,868,415	0.19%
China Construction Bank Corporation – Huabao CSI All Share Securities Company Trading Index Securities Investment Open-ended Fund (中國建設 銀行股份有限公司 – 華寶中證全指證券公 司交易型開放式指數證券投資基金)	A Shares	12,193,640	0.16%
Other public holders of A Shares	A Shares	820,952,453	10.58%
Other public holders of H Shares	H Shares	273,144	0.01%
Total		7,756,694,797	100.00%

Note 1: As of 30 June 2021, the Company noted from the Shareholders' interests disclosed on the Hong Kong Stock Exchange that Glasslake Holdings held 351,647,000 H Shares of the Company, representing 4.53% of the total share capital of the Company. The total number of H Shares of the Company held by HKSCC Nominees Limited acting as the nominee for all institutional and individual investors that maintain an account with it was 1,260,750,618 H Shares as of 30 June 2021. Save for 351,647,000 H Shares of the Company held by Glasslake Holdings, to the knowledge of the Company, the number of remaining H Shares of the Company held under the name of HKSCC Nominees Limited was 909,103,618 H Shares.

SECTION 5 CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

II. SHAREHOLDERS

As of 30 June 2021, the total number of Shareholders as shown on the register of members of the Company was 201,162, of which 201,098 were A Shareholders and 64 were H Share registered Shareholders. The H Share registered Shareholders include HKSCC Nominees Limited, which held H Shares of the Company as the nominee for all institutional and individual investors that maintained an account with it as of 30 June 2021.

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

To the knowledge of the Directors, as of June 30, 2021, the following Shareholders (except Directors, Supervisors and senior management) had interests or short positions in the Shares and underlying Shares of the Company required to be recorded in the register to be kept by the Company under Section 336 of the SFO:

Name	Capacity	Number of Shares Directly or Indirectly Held	Class of Shares	Nature of Interest	Approximate Percentage of Shareholding in the Total Issued Ordinary Share Capital	Approximate Percentage of Shareholding in the Relevant Class of Shares
1. Beijing Financial Holdings Group (北京金控集團) ^(Note 1)	Beneficial owner	2,684,309,017	A Shares	Long positions	34.61%	41.32%
2. Central Huijin (中央匯金)	Beneficial owner	2,386,052,459	A Shares	Long positions	30.76%	36.73%
3. CITIC Securities (中信証券)	Beneficial owner	383,099,268	A Shares	Long positions	4.94%	5.90%
	Approved lending agent	250,000	A Shares	Short positions	0.00%	0.00%
		250,000	A Shares	Long positions (Shares available for loan)	0.00%	0.00%
4. Glasslake Holdings (鏡湖控股) ^(Note 2)	Beneficial owner	351,647,000	H Shares	Long positions	4.53%	27.89%
5. Affluent East Investments Limited (東滿投資有限公司) ^(Note 2)	Interest of Controlled Corporation	351,647,000	H Shares	Long positions	4.53%	27.89%
6. CITIC Limited (中信股份) ^(Note 2)	Interest of Controlled Corporation	351,647,000	H Shares	Long positions	4.53%	27.89%
7. CITIC Group (中信集團) ^(Note 2)	Interest of Controlled Corporation	351,647,000	H Shares	Long positions	4.53%	27.89%
8. Shanghai Ningquan Asset Management Co., Ltd. (上海寧泉資產管理有限公司)	Investment manager	76,303,500	H Shares	Long positions	0.98%	6.05%
9. Wellington Management Group LLP ^(Note 3)	Investment manager	63,865,120	H Shares	Long positions	0.82%	5.06%
		5,187	H Shares	Short positions	0.00%	0.00%

Notes:

- (1) Beijing State-owned Capital Operation and Management Co., Ltd. directly holds 100% shares of Beijing Financial Holdings Group.

SECTION 5 CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

- (2) Glasslake Holdings is wholly-owned by Affluent East Investments Limited (東滿投資有限公司) (“Affluent East”), which is in turn a wholly-owned subsidiary by CITIC Limited. CITIC Group indirectly holds a majority of equity interest in CITIC Limited. Therefore, each of Affluent East, CITIC Limited and CITIC Group is deemed to be interested in the H Shares held by Glasslake Holdings under the SFO.
- (3) Wellington Management Group LLP holds a total of 63,865,120 shares (long position) and 5,187 shares (short position) of H shares in the Company by virtue of its relationship with a number of corporations, of which 5,187 (short position) H shares are held in an unlisted derivative instrument settled in cash. According to the disclosure of interest notice filed by Wellington Management Group LLP, with a relevant event date of June 4, 2021, the following interests in H shares were held by Wellington Management Group LLP:

Name of controlled corporation	Name of controlling person	% control	Direct interest (Y/N)	Number of Shares	
Wellington Group Holdings LLP	Wellington Management Group LLP	99.70	N	Long positions	63,865,120
				Short positions	5,187
Wellington Investment Advisors Holdings LLP	Wellington Group Holdings LLP	99.99	N	Long positions	63,865,120
				Short positions	5,187
Wellington Management Global Holdings, Ltd.	Wellington Investment Advisors Holdings LLP	94.10	N	Long positions	42,645,719
				Short positions	620
Wellington Management Company LLP	Wellington Investment Advisors Holdings LLP	99.99	Y	Long positions	21,219,401
				Short positions	4,567
Wellington Management Hong Kong Ltd	Wellington Management Global Holdings, Ltd.	100.00	Y	Long positions	1,488,000
Wellington Management International Ltd	Wellington Management Global Holdings, Ltd.	100.00	Y	Long positions	41,157,719
Wellington Management Japan Pte Ltd	Wellington Management Global Holdings, Ltd.	100.00	N	Short positions	620

Save as disclosed above, as of June 30, 2021, to the knowledge of the Directors, no other person (except Directors, Supervisors and senior management) had interests or short positions in the Shares, underlying Shares and debentures of the Company required to be recorded in the register to be kept by the Company under Section 336 of the SFO.

Save as disclosed above, as of June 30, 2021, Directors did not hold any positions as directors or employees in companies which had interests or short positions in the Company that needed to be notified to the Company under division 2 and 3 of Part XV of the SFO.

IV. ISSUANCE OF SHARES OR CHANGES IN REGISTERED CAPITAL OF THE COMPANY

During the Reporting Period, the Company completed the registration procedures for the change of business license related to the registered capital, and the registered capital of the Company increased from RMB7,646,385,238 to RMB7,756,694,797.

SECTION 6 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

I. THE BOARD OF DIRECTORS AND THE BOARD COMMITTEE

Composition of the Board of Directors

As of the end of the Reporting Period, the Board of the Company is comprised of 14 Directors, two of which are executive Directors (Mr. WANG Changqing and Mr. LI Geping), seven are non-executive Directors (Mr. YU Zhongfu, Mr. WANG Xiaolin, Ms. ZHANG Qin, Ms. ZHU Jia, Mr. WANG Hao, Ms. ZHANG Wei, and Ms. WANG Hua) and five are independent non-executive Directors (Mr. DAI Deming, Mr. BAI Jianjun, Mr. LIU Qiao, Mr. PO Wai Kwong and Mr. LAI Guanrong). Mr. WANG Changqing is the Chairman of the Board and Mr. LI Geping is the general manager. Save as the above employment information and the publicly disclosed information, none of the Directors, Supervisors and members of the senior management is related to other Directors, Supervisors and members of the senior management of the Company.

Board Committees under the Board

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

Name of committee	Members of committee
Development Strategy Committee	WANG Changqing (Chairman), YU Zhongfu, LI Geping, ZHU Jia, WANG Hao, LAI Guanrong
Risk Management Committee	WANG Hao (Chairman), LI Geping, ZHANG Qin, BAI Jianjun, LIU Qiao
Audit Committee	DAI Deming (Chairman), WANG Xiaolin, ZHANG Qin, PO Wai Kwong, Mr. LAI Guanrong
Remuneration and Nomination Committee	BAI Jianjun (Chairman), WANG Changqing, YU Zhongfu, WANG Xiaolin, DAI Deming, LIU Qiao, PO Wai Kwong

During the Reporting Period, all Directors faithfully and diligently performed their duties entitled by laws and regulations, and have protected the overall interests of the Company and its Shareholders, especially the legitimate interests of minority Shareholders. The Audit Committee of the Board of the Company has reviewed the accounting policies adopted by the Company, discussed matters including the internal control and financial statements of the Company, and reviewed the consolidated interim financial information of the Company for the six months ended 30 June 2021 and this interim report, and no disagreement was proposed in respect of the accounting policies adopted by the Company and financial reports thereof. The external auditor of the Company has reviewed the interim financial information in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

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

SECTION 6 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

II. THE SUPERVISORY COMMITTEE

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

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

III. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

Name	Positions	Changes
FENG Genfu	Independent director	Resigned
ZHU Shengqin	Independent director	Resigned
PO Wai Kwong	Independent director	Elected
LAI Guanrong	Independent director	Elected
ZHANG Wei	Director	Elected
WANG Hua	Director	Elected
YUAN Jianmin	Senior Management	Resigned

IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT FROM THE END OF THE REPORTING PERIOD TO THE DISCLOSURE DATE

Name	Before the Change	After the Change
Wang Xiaolin	Member of the Remuneration and Nomination Committee	–
Zhang Wei	–	Member of the Development Strategy Committee Member of the Remuneration and Nomination Committee
Wang Hua	–	Member of the Development Strategy Committee Member of the Risk Management Committee
Zhou Xiaoyu	Member of the Executive Committee	Chairman of the Supervisory Committee

SECTION 6 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

V. DEALING IN SECURITIES BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Hong Kong Listing Rules (the “Model Code”) in respect of the securities transactions entered into by its Directors and Supervisors. The Company has made specific inquiries to all Directors and Supervisors on any non-compliance with the Model Code. All the Directors and Supervisors have confirmed that they have completely complied with the provisions and standards of the Model Code during the period from 1 January 2021 up to the date of announcement of 2021 interim results.

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

To the best knowledge of all Directors, as of 30 June 2021, no Directors, Supervisors or senior management of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of the Company’s associated corporations (as defined in Part XV of the SFO), which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or required, pursuant to the Model Code under Appendix 10 to the Hong Kong Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange.

As of 30 June 2021, no Directors and Supervisors or any of their spouses or children under 18 years of age had been granted the rights to purchase Shares or debentures of the Company for the benefit or exercise any aforesaid rights by themselves, nor have any Directors and Supervisors or any of their spouses or children under 18 years of age been granted the aforesaid rights from any other corporate body due to the arrangement made by the Company or any its subsidiaries.

VII. RIGHTS OF DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

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

SECTION 6 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

VIII. EMPLOYEES

(I) Number and Composition of Employees

As of the end of the Reporting Period, the Group had 10,273 employees in total (excluding brokers and dispatched employees), among which the parent Company had 9,256 employees (excluding brokers and dispatched employees). The composition is as follows:

Item	The Group		The Company	
	Number of employees	Percentage (%)	Number of employees	Percentage (%)
Brokerage business	6,013	58.53%	5,763	62.26%
Investment banking	1,365	13.29%	1,299	14.03%
Information technology	694	6.76%	621	6.71%
Financial planning	260	2.53%	206	2.23%
Administration	68	0.66%	17	0.18%
Research	230	2.24%	177	1.91%
Fixed income business	159	1.55%	148	1.60%
Professional structure	244	2.38%	149	1.61%
Asset management business	49	0.48%	49	0.53%
Margin financing and securities lending businesses	119	1.16%	105	1.13%
Security investment	157	1.53%	130	1.40%
Settlement	453	4.41%	419	4.53%
Legal and compliance/audit	99	0.96%	67	0.72%
Risk management	363	3.53%	106	1.15%
Others	10,273	100.00%	9,256	100%
Total				

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

SECTION 6 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

(II) Relevant Information of Securities Brokers

As of 30 June 2021, the Company had a total of 126 business departments that had implemented a securities broker system. There was a total of 702 brokers who obtained professional brokerage qualifications as reviewed and approved by the Securities Association of China.

(III) Employee Remuneration

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

(IV) Training Program

The Company continues to promote and implement staff cultivating and training systems with comprehensive layout, overall planning, implementation by levels and clear purposes, constantly improves its multi-level talent cultivating system which focuses on the "ladder of training for the growth of employees, and strengthens the talent echelon construction. Through the combination of face-to-face and online broadcasting teaching and online learning that are supported by digital learning platform based on E-learning and its mobile terminal, which broadens the scope and depth of training, the Company creates room for learning and growth for cadres and employees and comprehensively improves the management skills, professional skills and professionalism of the employees.

SECTION 6 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

1. The Company enhanced the training of senior employees on strategic awareness and leadership, broadened their innovative idea and international perspective, improved their reform management capability, strategic execution capability, executive management capability, business synergy capability, risk prevention capability and integrated humanity quality, and nurtured quality leaders for enterprise operation and management.
2. The Company strengthened the training of mid-level staff on implementation, competence and professional skills, and strived to improve their professional knowledge, project implementation capability, business development and innovation capability as well as team management capability.
3. The Company strengthened the training of talents of outstanding young cadres in branches by enhancing integrated training on self-management, team management, systematic thinking and problem analysis and solving ability as well as improving their management awareness and level.
4. The Company popularised vocational training and common skills training for employees at the basic level, strengthened the promotion of values for the integration of its financial industry culture and corporate culture, as well as the education of professional compliance, business operation, workflow, regulations and policies, and strived to enhance their communication and presentation capability, customer service capability, team coordination capability and office operation capability.
5. The Company attached high importance to recruitment at university campuses, and commenced a series of enrollment and trainee cultivation program to recruit outstanding graduates and students with working and placement opportunities. As of the end of the reporting period, the Company provided over 1,000 internship positions for the on-campus students, and hired 305 new graduates. The Company provided an approximately 64-hour online orientation in total for new staff members of headquarters and branches. In addition, the Company organized concentrated training for new entrants.

(V) Relationship with Employees

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

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

INTRODUCTION

We have reviewed the interim financial information set out on pages 65 to 148, which comprises the interim condensed consolidated statement of financial position of CSC Financial Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2021 and the interim condensed consolidated income statement, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 August 2021

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2021
(In RMB thousands, unless otherwise stated)

	Note	Six months ended 30 June	
		2021 (Unaudited)	2020 (Unaudited)
Revenue			
Fee and commission income	6	6,137,040	5,232,272
Interest income	7	4,263,207	3,147,622
Net investment gains	8	3,481,342	4,450,369
		13,881,589	12,830,263
Other income	9	2,588,924	178,482
Total revenue and other income		16,470,513	13,008,745
Expenses			
Fee and commission expenses	10	(710,963)	(614,816)
Interest expenses	10	(3,433,533)	(2,490,413)
Staff costs	10	(3,402,040)	(2,809,787)
Tax and surcharges		(73,465)	(65,499)
Other operating expenses and costs	10	(3,485,866)	(951,056)
Credit impairment reversals/(losses)	11	305,094	(209,304)
Impairment losses on other assets		(12,475)	–
Total expenses		(10,813,248)	(7,140,875)
Operating profit		5,657,265	5,867,870
Share of profits and losses of associates		2,592	878
Profit before income tax		5,659,857	5,868,748
Income tax expense	12	(1,167,286)	(1,280,602)
Profit for the period		4,492,571	4,588,146
Attributable to:			
Equity holders of the Company		4,529,126	4,578,457
Non-controlling interests		(36,555)	9,689
		4,492,571	4,588,146
Earnings per share attributable to ordinary equity holders of the Company (expressed in RMB yuan per share)			
– Basic and diluted	14	0.55	0.58

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2021
(In RMB thousands, unless otherwise stated)

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Profit for the period	4,492,571	4,588,146
Other comprehensive income		
Items that may be reclassified to profit or loss in subsequent period		
Net gains on investments in debt instruments measured at fair value through other comprehensive income	189,094	54,683
Net losses on investments in debt instruments measured at fair value through other comprehensive income reclassified to profit or loss on disposal	(5,979)	(123,856)
Income tax relating to these items	(45,863)	17,227
	137,252	(51,946)
Share of other comprehensive income of associates	25	9
Foreign currency translation differences	(17,920)	30,361
Items that will not be reclassified subsequently to profit or loss		
Net losses on investments in equity instruments designated as at fair value through other comprehensive income	(138,020)	(99,970)
Income tax relating to these items	37,536	23,301
	(100,484)	(76,669)
Other comprehensive income for the period, net of tax	18,873	(98,245)
Total comprehensive income for the period	4,511,444	4,489,901
Attributable to:		
Equity holders of the Company	4,547,999	4,480,212
Non-controlling interests	(36,555)	9,689
	4,511,444	4,489,901

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

(In RMB thousands, unless otherwise stated)

	Note	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Non-current assets			
Property, plant and equipment	15	563,894	572,287
Right-of-use assets	16	925,359	996,674
Investment properties		53,695	56,133
Intangible assets	17	358,032	360,478
Investments in associates	19	155,751	229,286
Financial assets at fair value through profit or loss	20	6,840,159	6,015,508
Financial assets at fair value through other comprehensive income	21	–	3,225,144
Financial assets held under resale agreements	22	472,356	1,348,317
Refundable deposits	23	10,028,144	8,740,991
Deferred tax assets	24	1,989,452	1,725,519
Other non-current assets	25	84,133	98,365
Total non-current assets		21,470,975	23,368,702
Current assets			
Margin accounts	26	55,397,942	46,515,175
Accounts receivable	27	12,637,483	8,018,153
Financial assets at fair value through profit or loss	20	134,619,380	132,640,140
Financial assets at fair value through other comprehensive income	21	44,323,350	44,871,712
Derivative financial assets	28	2,485,580	1,632,209
Financial assets held under resale agreements	22	16,207,275	14,768,886
Cash held on behalf of clients	29	85,086,464	70,268,389
Cash and bank balances	30	31,049,135	28,580,085
Other current assets	31	746,488	564,692
Total current assets		382,553,097	347,859,441
Total assets		404,024,072	371,228,143
Current liabilities			
Accounts payable to brokerage clients	32	89,804,038	74,710,488
Lease liabilities	33	277,051	323,956
Derivative financial liabilities	28	3,464,897	2,424,620
Financial liabilities at fair value through profit or loss	34	586,283	347,466
Financial assets sold under repurchase agreements	35	87,716,692	84,512,239
Placements from banks and other financial institutions	36	9,035,000	9,035,700
Taxes payable	37	798,742	1,393,426
Short-term borrowings	38	2,312,126	625,174
Short-term financing instruments payable	39	22,587,484	42,296,044
Other current liabilities	40	66,197,533	34,497,643
Total current liabilities		282,779,846	250,166,756

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2021

(In RMB thousands, unless otherwise stated)

	Note	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Net current assets		99,773,251	97,692,685
Total assets less current liabilities		121,244,226	121,061,387
Non-current liabilities			
Financial liabilities at fair value through profit or loss	34	2,718,966	1,248,263
Bonds in issue	41	42,448,288	50,016,307
Lease liabilities	33	618,515	655,308
Deferred tax liabilities	24	1,181,370	1,065,416
Other non-current liabilities		4,143	4,646
Total non-current liabilities		46,971,282	52,989,940
Net assets		74,272,944	68,071,447
Equity			
Share capital	42	7,756,695	7,756,695
Other equity instruments	43	14,937,500	9,961,509
Reserves	44	27,944,921	27,940,854
Retained earnings		23,435,638	22,076,125
Equity attributable to equity holders of the Company		74,074,754	67,735,183
Non-controlling interests		198,190	336,264
Total equity		74,272,944	68,071,447

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

Approved and authorized for issue by the Board of Directors on 26 August 2021.

Wang Changqing

Chairman

Li Geping

Executive Director and President

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2021
(In RMB thousands, unless otherwise stated)

	Attributable to equity holders of the Company											
	Note	Share capital	Other equity instruments	Capital reserve	Surplus reserves	Reserves			Retained earnings	Subtotal	Non-controlling interests	Total
						General reserves	Investment revaluation reserve	Foreign currency translation reserve				
At 1 January 2021 (Audited)		7,756,695	9,961,509	12,490,667	4,524,647	10,548,880	286,290	90,370	22,076,125	67,735,183	336,264	68,071,447
Profit for the period		-	-	-	-	-	-	-	4,529,126	4,529,126	(36,555)	4,492,571
Other comprehensive income for the period		-	-	-	-	-	36,793	(17,920)	-	18,873	-	18,873
Total comprehensive income for the period		-	-	-	-	-	36,793	(17,920)	4,529,126	4,547,999	(36,555)	4,511,444
Capital injected by equity holders												
- Capital injected by other equity instrument holders	43	-	4,975,991	-	-	-	-	-	-	4,975,991	-	4,975,991
- Others		-	-	(43,042)	-	-	-	-	-	(43,042)	(101,519)	(144,561)
Appropriation to general reserve	44	-	-	-	-	28,236	-	-	(28,236)	-	-	-
Dividends to equity holders		-	-	-	-	-	-	-	(2,908,761)	(2,908,761)	-	(2,908,761)
Distribution to other equity instrument holders		-	-	-	-	-	-	-	(232,616)	(232,616)	-	(232,616)
At 30 June 2021 (Unaudited)		<u>7,756,695</u>	<u>14,937,500</u>	<u>12,447,625</u>	<u>4,524,647</u>	<u>10,577,116</u>	<u>323,083</u>	<u>72,450</u>	<u>23,435,638</u>	<u>74,074,754</u>	<u>198,190</u>	<u>74,272,944</u>

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

(In RMB thousands, unless otherwise stated)

	Attributable to equity holders of the Company											
	Note	Share capital	Other equity instruments	Capital reserve	Surplus reserves	Reserves			Retained earnings	Subtotal	Non-controlling interests	Total
						General reserves	Investment revaluation reserve	Foreign currency translation reserve				
At 1 January 2020 (Audited)		7,646,385	9,980,698	8,753,213	3,573,328	8,691,508	203,472	190,541	17,542,774	56,581,919	312,815	56,894,734
Profit for the period		-	-	-	-	-	-	-	4,578,457	4,578,457	9,689	4,588,146
Other comprehensive income for the period		-	-	-	-	-	(128,606)	30,361	-	(98,245)	-	(98,245)
Total comprehensive income for the period		-	-	-	-	-	(128,606)	30,361	4,578,457	4,480,212	9,689	4,489,901
Capital injected by equity holders												
- Capital injected by other equity instrument holders	43	-	(19,189)	-	-	-	-	-	-	(19,189)	-	(19,189)
Appropriation to general reserve	44	-	-	-	-	29,771	-	-	(29,771)	-	-	-
Dividends to equity holders		-	-	-	-	-	-	-	(1,796,901)	(1,796,901)	-	(1,796,901)
Distribution to other equity instrument holders		-	-	-	-	-	-	-	(160,020)	(160,020)	-	(160,020)
Dividends to non-controlling interests		-	-	-	-	-	-	-	-	-	(378)	(378)
At 30 June 2020 (Unaudited)		<u>7,646,385</u>	<u>9,961,509</u>	<u>8,753,213</u>	<u>3,573,328</u>	<u>8,721,279</u>	<u>74,866</u>	<u>220,902</u>	<u>20,134,539</u>	<u>59,086,021</u>	<u>322,126</u>	<u>59,408,147</u>

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2021
(In RMB thousands, unless otherwise stated)

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Cash flows from operating activities		
Profit before income tax	5,659,857	5,868,748
Adjustments for:		
Interest expenses on bonds in issue, short-term financing instruments payable, borrowings and lease liabilities	1,831,095	1,509,868
Dividend income and interest income from financial assets at fair value through other comprehensive income	(983,999)	(555,844)
Net gains from disposal of financial assets at fair value through other comprehensive income	(54,542)	(415,474)
Net gains attributable to other interest holders of consolidated structured entities	38,706	140,785
Net gains from disposal of associates	(55,405)	–
Share of profits from associates and joint ventures	(2,592)	(878)
Net gains on disposal of property, plant, equipment and other assets	(299)	(211)
Revaluation gains on financial instruments at fair value through profit or loss	(208,459)	(805,907)
Net foreign exchange gains	(7,326)	(5,309)
Depreciation and amortization	356,646	316,450
Credit impairment (reversals)/losses	(305,094)	209,304
Impairment losses on other assets	12,475	–
	6,281,063	6,261,532
Net changes in operating assets		
Margin accounts	(8,858,390)	(6,259,575)
Financial assets at fair value through profit or loss	(2,435,714)	(24,751,132)
Cash held on behalf of clients	(14,754,733)	(15,284,975)
Financial assets held under resale agreements	(244,079)	2,698,353
Other operating assets	(5,948,799)	(3,649,191)
	(32,241,715)	(47,246,520)
Net changes in operating liabilities		
Accounts payable to brokerage clients	15,093,550	16,011,421
Financial liabilities at fair value through profit or loss	1,642,606	(314,481)
Financial assets sold under repurchase agreements	3,185,773	14,790,323
Placements from banks and other financial institutions	–	(840,000)
Other operating liabilities	5,813,066	(12,591,420)
	25,734,995	17,055,843
Net cash outflow from operating activities before tax	(225,657)	(23,929,145)
Income tax paid	(1,695,279)	(1,031,127)
Net cash outflow from operating activities	(1,920,936)	(24,960,272)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021
(In RMB thousands, unless otherwise stated)

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Cash flows from investing activities		
Net cash flow from purchase or disposal of financial assets at fair value through other comprehensive income	3,693,285	(2,777,620)
Dividend income and interest income received from financial assets at fair value through other comprehensive income	1,127,648	596,219
Cash paid for purchase of property, plant and equipment, intangible assets and other assets	(134,119)	(52,499)
Net cash flow from investments in associates	131,557	(25,224)
Other cash flows from investing activities	662	235
Net cash inflow/(outflow) from investing activities	4,819,033	(2,258,889)
Cash flows from financing activities		
Cash inflows from issuing perpetual bonds	5,000,000	5,000,000
Cash inflows from borrowing activities	20,590,842	3,830,632
Cash inflows from issuing bonds	70,856,968	57,964,490
Cash outflows from dividend distribution to ordinary shareholders	–	(1,500,560)
Cash outflows from distribution to other equity instrument holders	(195,000)	(294,000)
Cash outflows from distribution to subsidiaries' non-controlling equity holders	–	(378)
Repayments of debts	(94,082,637)	(57,323,511)
Repayments of perpetual bonds	–	(5,000,000)
Repayments of interest on debts	(1,714,515)	(1,644,647)
Other cash outflows from financing activities	(518,253)	(338,388)
Net cash (outflow)/inflow from financing activities	(62,595)	693,638
Net change in cash and cash equivalents	2,835,502	(26,525,523)
Cash and cash equivalents at the beginning of the period	27,765,499	46,935,568
Effect of exchange rate changes on cash and cash equivalents	(38,899)	37,566
Cash and cash equivalents at the end of the period (Note 45)	30,562,102	20,447,611

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021
(In RMB thousands, unless otherwise stated)

1 GENERAL INFORMATION

CSC Financial Co., Ltd. (the “Company”) (formerly known as China Securities Finance Co., Ltd.) is the successor entity of China Securities Finance Limited Liability Company which was approved for establishment by the China Securities Regulatory Commission (the “CSRC”) on 2 November 2005. The original registered capital of the Company was RMB2,700,000,000. The registered address of the Company is Unit 4, No.66 Anli Road, Chaoyang District, Beijing, the People’s Republic of China (the “PRC”).

The Company received the approval of CRSC on 30 June 2011 to convert into a joint stock company, with registered capital increased to RMB6,100,000,000.

The Company completed its initial public offering of overseas listed foreign shares (“H shares”) on The Stock Exchange of Hong Kong Limited on 9 December 2016. Under this offering, the Company issued a total of 1,076,470,000 new shares with a nominal value of RMB1 per share. On 5 January 2017, the Company issued an additional 69,915,238 H shares through partial exercise of the over-allotment option with a nominal value of RMB1 per share. The registered capital of the Company increased to RMB7,246,385,238 after such issuance. The Company completed the industrial and commercial registration for these changes on 5 June 2017, and obtained its new business license with the Unified Social Credit Code of 91110000781703453H on 9 June 2017.

The Company completed its initial public offering of domestic listed shares (“A shares”) on the Shanghai Stock Exchange on 20 June 2018. The Company issued a total of 400,000,000 shares with a nominal value of RMB1 per share. After this issuance, the share capital of the Company increased to RMB7,646,385,238. The Company completed the registration procedure for its non-public offering of A-shares in the Shanghai branch of China Securities Depository and Clearing Co., Ltd. on 28 December 2020. The Company issued a total of 110,309,559 shares with a nominal value of RMB1 per share. After this issuance, the share capital of the Company increased to RMB7,756,694,797. And the company completed the registration procedures for the change of business license related to the registered capital on 25 June 2021.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2021 have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”, as well as with all applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The interim condensed consolidated financial statements should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2020, which have been audited.

3 SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value. Except for those described below, the accounting policies used in preparing the interim condensed consolidated financial statements are the same as those adopted in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2020.

3.1 Amendments to the accounting standards effective in 2021 and adopted by the Group

In the current interim period, the Group has adopted the following International Financial Reporting Standards (“IFRSs”) and amendments issued by the International Accounting Standards Board (“IASB”), that are mandatorily effective for the current interim period. Descriptions of these standards and amendments were disclosed in the Group’s annual consolidated financial statements for the year ended 31 December 2020.

- (1) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16 Interest Rate Benchmark Reform-Phase 2

The adoption of the above-mentioned standards and amendments does not have a significant impact on the operating results, comprehensive income, or financial position of the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

*FOR THE SIX MONTHS ENDED 30 JUNE 2021
(In RMB thousands, unless otherwise stated)*

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

		Effective for annual periods beginning on or after
(1)	Amendments to IFRS 17	Insurance Contracts 1 January 2023
(2)	Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/ removed. Early application of the amendments continues to be permitted.
(3)	Amendments to IAS 1	Classification of Liabilities 1 January 2023
(4)	Amendments to IAS 1, IFRS 2 and IAS 8	Disclosure of Material Accounting Policy Information, and Distinction of Changes in Accounting Policies from Changes in Accounting Estimates 1 January 2023
(5)	Amendments to IFRS 3	Business Combinations 1 January 2022
(6)	Amendments to IAS 16	Property, Plant and Equipment 1 January 2022
(7)	Amendments to IAS 37	Provisions, Contingent Liabilities and Contingent Assets 1 January 2022
(8)	Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	IASB Annual Improvements 2018–2020 cycle 1 January 2022

Descriptions of these standards and amendments were disclosed in the Group's annual consolidated financial statements for the year ended 31 December 2020. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Significant Accounting Judgements and Estimates

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

In preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainties were the same as those that applied to the Group's consolidated financial statements for the year ended 31 December 2020.

4 TAXATION

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

(1) Income tax

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

In accordance with Explanation on Implementation of Tax Preferential Treatments concerning Western China Development Strategy issued by local taxation bureau in Yuzhong District, Chongqing City and Announcement on Continuation of Implementation of Tax Preferential Treatments concerning Western China Development Strategy [2020] No. 23 issued by the Ministry of Finance (the "MOF"), the State Administration of Taxation (the "SAT") and the National Development and Reform Commission, the applicable income tax rates for China Futures Co., Ltd. is 15%.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021
(In RMB thousands, unless otherwise stated)

4 TAXATION (CONTINUED)

(2) Value added tax

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

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

(In RMB thousands, unless otherwise stated)

5 OPERATING SEGMENT INFORMATION

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

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

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

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

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

Other segment: primarily commodity trading and the treasury function from the head office.

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

(In RMB thousands, unless otherwise stated)

5 OPERATING SEGMENT INFORMATION (CONTINUED)

	For the six months ended 30 June 2021					
	Investment banking	Wealth management	Trading and institutional client services	Asset management	Others	Total
Segment revenue and other income						
Fee and commission income	2,059,006	2,054,460	1,390,646	632,928	-	6,137,040
Interest income	-	2,252,311	1,628,413	3,996	378,487	4,263,207
Net investment gains	-	-	3,492,014	(10,672)	-	3,481,342
Other income	-	25,999	22	2,828	2,560,075	2,588,924
Total revenue and other income	<u>2,059,006</u>	<u>4,332,770</u>	<u>6,511,095</u>	<u>629,080</u>	<u>2,938,562</u>	<u>16,470,513</u>
Segment expenses	(1,175,302)	(2,882,036)	(3,758,535)	(354,036)	(2,643,339)	(10,813,248)
Including: Interest expenses	(38,650)	(1,049,049)	(2,276,650)	(55,787)	(13,397)	(3,433,533)
Credit impairment reversals/(losses)	-	75,403	228,479	-	1,212	305,094
Impairment losses on other assets	-	-	-	-	(12,475)	(12,475)
Operating profit	<u>883,704</u>	<u>1,450,734</u>	<u>2,752,560</u>	<u>275,044</u>	<u>295,223</u>	<u>5,657,265</u>
Share of profits and losses of associates	-	-	-	(510)	3,102	2,592
Profit before income tax	<u>883,704</u>	<u>1,450,734</u>	<u>2,752,560</u>	<u>274,534</u>	<u>298,325</u>	<u>5,659,857</u>
Income tax expense						<u>(1,167,286)</u>
Net profit for the period						<u><u>4,492,571</u></u>
Other segment information:						
Depreciation and amortization	69,162	106,054	137,540	30,782	13,108	356,646
Capital expenditure	25,807	41,986	50,507	10,834	4,985	134,119

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

(In RMB thousands, unless otherwise stated)

5 OPERATING SEGMENT INFORMATION (CONTINUED)

	For the six months ended 30 June 2020					Total
	Investment banking	Wealth management	Trading and institutional client services	Asset management	Others	
Segment revenue and other income						
Fee and commission income	2,073,500	1,878,143	676,553	604,076	-	5,232,272
Interest income	-	1,798,046	991,870	4,440	353,266	3,147,622
Net investment gains	-	-	4,270,578	179,791	-	4,450,369
Other income	100	154,038	8	344	23,992	178,482
Total revenue and other income	<u>2,073,600</u>	<u>3,830,227</u>	<u>5,939,009</u>	<u>788,651</u>	<u>377,258</u>	<u>13,008,745</u>
Segment expenses	(865,884)	(2,850,982)	(2,983,246)	(293,763)	(147,000)	(7,140,875)
Including: Interest expenses	-	(849,237)	(1,596,709)	(29,589)	(14,878)	(2,490,413)
Credit impairment reversals/(losses)	(25)	(117,679)	(91,600)	-	-	(209,304)
Operating profit	<u>1,207,716</u>	<u>979,245</u>	<u>2,955,763</u>	<u>494,888</u>	<u>230,258</u>	<u>5,867,870</u>
Share of profits and losses of associates	-	-	-	(1,172)	2,050	878
Profit before income tax	<u>1,207,716</u>	<u>979,245</u>	<u>2,955,763</u>	<u>493,716</u>	<u>232,308</u>	<u>5,868,748</u>
Income tax expense						<u>(1,280,602)</u>
Net profit for the period						<u><u>4,588,146</u></u>
Other segment information:						
Depreciation and amortization	65,580	80,011	122,586	29,077	19,196	316,450
Capital expenditure	10,165	14,924	20,890	4,828	1,692	52,499

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

*FOR THE SIX MONTHS ENDED 30 JUNE 2021
(In RMB thousands, unless otherwise stated)*

6 FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2021	2020
Brokerage services income	3,359,316	2,487,111
Investment banking income	2,059,006	2,073,500
Asset and fund management income	632,928	604,076
Others	85,790	67,585
	6,137,040	5,232,272

7 INTEREST INCOME

	Six months ended 30 June	
	2021	2020
Margin financing and securities lending	1,881,349	1,127,423
Bank deposits	1,239,824	1,026,582
Financial assets at fair value through other comprehensive income	786,959	550,583
Financial assets held under resale agreements	335,924	443,034
Others	19,151	-
	4,263,207	3,147,622

8 NET INVESTMENT GAINS

	Six months ended 30 June	
	2021	2020
Net gains from financial assets at fair value through profit or loss	3,935,011	4,353,640
Dividend income from financial assets at fair value through other comprehensive income	197,040	5,261
Net gains from disposal of associates	55,405	-
Net gains from disposal of financial assets at fair value through other comprehensive income	54,542	415,474
Net losses from financial liabilities at fair value through profit or loss	(269,373)	(38,726)
Net losses from derivatives	(452,577)	(144,495)
Net losses attributable to other interest holders of consolidated structured entities	(38,706)	(140,785)
	3,481,342	4,450,369

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

(In RMB thousands, unless otherwise stated)

9 OTHER INCOME

	Six months ended 30 June	
	2021	2020
Income from bulk commodity trading	2,524,354	134,948
Rental income	9,612	6,800
Net gains on foreign exchange	7,326	5,309
Government grants	3,773	11,729
Gains on disposal of property, plant and equipment	437	211
Others	43,422	19,485
Total	<u>2,588,924</u>	<u>178,482</u>

10 EXPENSES

	Six months ended 30 June	
	2021	2020
Fee and commission expenses:		
Brokerage expenses	578,027	491,023
Investment banking expenses	99,197	91,464
Others	33,739	32,329
Total	<u>710,963</u>	<u>614,816</u>
Interest expenses:		
Bonds in issue	1,363,640	1,232,235
Financial assets sold under repurchase agreements	968,202	547,906
Placements from banks and other financial institutions	436,560	272,100
Short-term financing instruments payable	443,292	253,913
Accounts payable to brokerage clients	145,007	132,943
Lease liabilities	17,121	19,571
Borrowings	7,042	4,149
Others	52,669	27,596
Total	<u>3,433,533</u>	<u>2,490,413</u>
Staff costs (including directors' and supervisors' remuneration):		
Salaries, bonuses and allowances	2,929,814	2,558,483
Staff benefits	265,136	173,182
Contributions to defined contribution schemes (i)	207,090	78,122
Total	<u>3,402,040</u>	<u>2,809,787</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

*FOR THE SIX MONTHS ENDED 30 JUNE 2021
(In RMB thousands, unless otherwise stated)*

10 EXPENSES (CONTINUED)

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

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

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

Other operating expenses and costs:

	Six months ended 30 June	
	2021	2020
Cost of bulk commodity trading	2,510,421	136,698
Depreciation and amortization expenses	356,646	316,450
Electronic equipment operating expenses	103,393	68,876
Business travel expenses	85,348	36,066
Office operating expenses	69,456	57,324
Membership fees of exchanges	61,468	45,915
Business entertainment expenses	54,188	30,503
Postal and communication expenses	43,613	36,999
Securities investor protection fund	41,127	42,684
Consulting expenses	32,423	28,476
Auditors' remuneration	3,528	3,540
Others	124,255	147,525
Total	3,485,866	951,056

11 CREDIT IMPAIRMENT LOSSES/(REVERSALS)

	Six months ended 30 June	
	2021	2020
Margin financing	16,688	22,618
Financial assets at fair value through other comprehensive income	13,222	89,736
Financial assets held under resale agreements	(334,031)	96,925
Others	(973)	25
Total	(305,094)	209,304

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

(In RMB thousands, unless otherwise stated)

12 INCOME TAX EXPENSE

(1) Income tax

	Six months ended 30 June	
	2021	2020
Current income tax		
– Mainland China	1,323,162	1,431,272
– Hong Kong	1,148	–
Subtotal	1,324,310	1,431,272
Deferred income tax	(157,024)	(150,670)
Total	1,167,286	1,280,602

(2) Reconciliation between income tax and accounting profit

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

	Six months ended 30 June	
	2021	2020
Profit before income tax	5,659,857	5,868,748
Income tax at the PRC statutory income tax rate	1,414,964	1,467,187
Effects of different applicable rates of tax prevailing in various jurisdictions	(35,964)	(14,144)
Non-deductible expenses	5,725	5,317
Non-taxable income	(157,223)	(91,630)
Others	(60,216)	(86,128)
Income tax expenses at the Group's effective income tax rate	1,167,286	1,280,602

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

*FOR THE SIX MONTHS ENDED 30 JUNE 2021
(In RMB thousands, unless otherwise stated)*

13 DIVIDENDS

	Six months ended 30 June	
	2021	2020
Dividends distribution to ordinary shareholders	2,908,761	1,796,901
Distribution to other equity instrument holders <i>(Note 14(i))</i>	232,616	160,020

A cash dividend of RMB3.75 (tax inclusive) per 10 ordinary shares related to the year of 2020 amounting to RMB2,909 million (tax inclusive) in total and based on 7,756,694,797 shares was approved at the annual general meeting held on 29 June 2021. All dividends were distributed on 19 August 2021.

A cash dividend of RMB2.35 (tax inclusive) per 10 ordinary shares related to the year of 2019 amounting to RMB1,797 million (tax inclusive) in total and based on 7,646,385,238 shares was approved at the annual general meeting held on 5 June 2020. All dividends were distributed on 22 July 2020.

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

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

	Six months ended 30 June	
	2021	2020
Earnings:		
Profit attributable to equity holders of the Company	4,529,126	4,578,457
Less: Profit attributable to other equity instrument holders of the Company <i>(i)</i>	(232,616)	(160,020)
Profit attributable to ordinary equity holders of the Company	4,296,510	4,418,437
Shares:		
Weighted average number of ordinary shares in issue <i>(thousand)</i>	7,756,695	7,646,385
Basic and diluted earnings per share <i>(in RMB yuan)</i>	0.55	0.58

There were no dilutive shares during the six months ended 30 June 2021 (six months ended 30 June 2020: None).

(i) As of 30 June 2021, there were three tranches of perpetual subordinated bonds existed under the terms and conditions as detailed in Note 43 Other Equity Instruments.

For the purpose of calculating basic earnings per ordinary share, profit attributable to other equity holders was deducted from the profit attributable to ordinary equity holders of the Company.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

(In RMB thousands, unless otherwise stated)

15 PROPERTY, PLANT AND EQUIPMENT

	Properties and buildings	Electronic devices	Transportation vehicles	Communication equipment	Office equipment	Security equipment	Others	Total
Cost								
1 January 2021	413,761	826,027	36,670	6,743	76,659	8,699	37,059	1,405,618
Increases	1,884	65,236	701	200	1,642	79	128	69,870
Decreases	-	(13,629)	(2,968)	(210)	(1,023)	(101)	-	(17,931)
30 June 2021	415,645	877,634	34,403	6,733	77,278	8,677	37,187	1,457,557
Accumulated depreciation								
1 January 2021	(140,092)	(539,891)	(34,291)	(5,633)	(73,431)	(6,853)	(33,140)	(833,331)
Increases	(6,255)	(68,905)	(314)	(219)	(1,029)	(342)	(883)	(77,947)
Decreases	-	13,605	2,880	14	1,019	97	-	17,615
30 June 2021	(146,347)	(595,191)	(31,725)	(5,838)	(73,441)	(7,098)	(34,023)	(893,663)
Net carrying amount								
30 June 2021	269,298	282,443	2,678	895	3,837	1,579	3,164	563,894
Cost								
1 January 2020	428,063	697,128	36,696	7,475	77,809	8,850	38,286	1,294,307
Increases	322	193,577	370	155	1,803	672	109	197,008
Decreases	(14,624)	(64,678)	(396)	(887)	(2,953)	(823)	(1,336)	(85,697)
31 December 2020	413,761	826,027	36,670	6,743	76,659	8,699	37,059	1,405,618
Accumulated depreciation								
1 January 2020	(134,082)	(504,848)	(33,897)	(5,972)	(72,414)	(7,036)	(32,620)	(790,869)
Increases	(11,266)	(99,583)	(778)	(521)	(3,951)	(613)	(1,838)	(118,550)
Decreases	5,256	64,540	384	860	2,934	796	1,318	76,088
31 December 2020	(140,092)	(539,891)	(34,291)	(5,633)	(73,431)	(6,853)	(33,140)	(833,331)
Net carrying amount								
31 December 2020	273,669	286,136	2,379	1,110	3,228	1,846	3,919	572,287

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

(In RMB thousands, unless otherwise stated)

16 RIGHT-OF-USE ASSETS

	Properties and buildings	Others	Total
Cost			
1 January 2021	1,445,123	259,434	1,704,557
Increases	129,604	235	129,839
Decreases	(11,200)	–	(11,200)
Foreign currency translation differences	(2,564)	–	(2,564)
30 June 2021	<u>1,560,963</u>	<u>259,669</u>	<u>1,820,632</u>
Accumulated depreciation			
1 January 2021	(632,906)	(74,977)	(707,883)
Increases	(179,913)	(18,933)	(198,846)
Decreases	10,823	–	10,823
Foreign currency translation differences	633	–	633
30 June 2021	<u>(801,363)</u>	<u>(93,910)</u>	<u>(895,273)</u>
Carrying amount			
30 June 2021	<u>759,600</u>	<u>165,759</u>	<u>925,359</u>
Cost			
1 January 2020	1,180,831	258,321	1,439,152
Increases	297,717	1,288	299,005
Decreases	(18,904)	(175)	(19,079)
Foreign currency translation differences	(14,521)	–	(14,521)
31 December 2020	<u>1,445,123</u>	<u>259,434</u>	<u>1,704,557</u>
Accumulated depreciation			
1 January 2020	(299,591)	(37,553)	(337,144)
Increases	(348,456)	(37,598)	(386,054)
Decreases	12,027	174	12,201
Foreign currency translation differences	3,114	–	3,114
31 December 2020	<u>(632,906)</u>	<u>(74,977)</u>	<u>(707,883)</u>
Carrying amount			
31 December 2020	<u>812,217</u>	<u>184,457</u>	<u>996,674</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

(In RMB thousands, unless otherwise stated)

17 INTANGIBLE ASSETS

	Software	Trading seat rights and others	Total
Cost			
1 January 2021	721,623	74,221	795,844
Increases	52,899	–	52,899
Decreases	(31)	–	(31)
Foreign currency translation differences	(230)	(5)	(235)
30 June 2021	<u>774,261</u>	<u>74,216</u>	<u>848,477</u>
Accumulated amortization			
1 January 2021	(365,766)	(69,600)	(435,366)
Increases	(55,250)	–	(55,250)
Decreases	31	–	31
Foreign currency translation differences	140	–	140
30 June 2021	<u>(420,845)</u>	<u>(69,600)</u>	<u>(490,445)</u>
Net carrying amount			
30 June 2021	<u>353,416</u>	<u>4,616</u>	<u>358,032</u>
Cost			
1 January 2020	542,596	75,948	618,544
Increases	211,692	–	211,692
Decreases	(31,668)	(1,700)	(33,368)
Foreign currency translation differences	(997)	(27)	(1,024)
31 December 2020	<u>721,623</u>	<u>74,221</u>	<u>795,844</u>
Accumulated amortization			
1 January 2020	(313,026)	(69,600)	(382,626)
Increases	(83,856)	–	(83,856)
Decreases	30,616	–	30,616
Foreign currency translation differences	500	–	500
31 December 2020	<u>(365,766)</u>	<u>(69,600)</u>	<u>(435,366)</u>
Net carrying amount			
31 December 2020	<u>355,857</u>	<u>4,621</u>	<u>360,478</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021
(In RMB thousands, unless otherwise stated)

18 INVESTMENTS IN SUBSIDIARIES

	30 June 2021	31 December 2020
Investments in subsidiaries	7,122,683	6,528,123

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

Name of subsidiaries	Principal operating place	Place of registration	Registered share capital	Proportion of voting rights		Directly/ Indirectly hold	Principal activities
				30 June 2021	31 December 2020		
China Futures Co., Ltd	Chongqing	Chongqing	RMB1,000 million	100%	100%	Directly	Futures brokerage
China Capital Management Co., Ltd. (i)	Beijing	Beijing	RMB1,650 million	100%	100%	Directly	Project investment
China Securities (International) Finance Holding Co., Ltd. (ii)	Hong Kong	Hong Kong	Not applicable	100%	100%	Directly	Shareholding and investment
China Fund Management Co., Ltd. (iii)	Beijing	Beijing	RMB300 million	75%	55%	Directly	Funds business, asset management
China Securities Investment Co., Ltd.	Beijing	Beijing	RMB6,100 million	100%	100%	Directly	Investment management, equity investment management, investment consultancy and project management

- (i) During the six months ended 30 June 2021, the Company paid RMB450 million of the subscribed capital to China Capital Management Co., Ltd..
- (ii) China Securities (International) Finance Holding Co., Ltd. is registered as a limited company according to the laws of Hong Kong, China. Others are registered as limited liability companies according to the laws of the People's Republic of China.
- (iii) In April 2021, the Company acquired 20% equity of China Fund Management Co., Ltd., which was publicly transferred by Jiangsu Guangchuan Broadcasting Media Co., Ltd. This transfer increased the company's proportion of voting rights to China Fund Management Co., Ltd. from 55% to 75%.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

(In RMB thousands, unless otherwise stated)

19 INVESTMENTS IN ASSOCIATES

	30 June 2021	31 December 2020
Investments in associates	<u>155,751</u>	<u>229,286</u>

The following table illustrates details of investments in associates:

Name	1 January 2021	Increase	Decrease	Movements under equity method	Impairment allowance for the current period	30 June 2021
CITIC City Development Equity Investment Fund Management (Shenzhen) Co., Ltd.	50,802	-	-	843	-	51,645
Beijing Tinavi Medical Technology Co., Ltd.	44,208	-	-	(150)	-	44,058
Beijing Siban Technology Development Co., Ltd.	25,809	-	-	340	-	26,149
Zhongguancun Equity Trading Service Group Co., Ltd.	21,757	-	-	1,944	-	23,701
Shenzhen MALONG TECHNOLOGIES Co., Ltd.	9,459	-	-	(516)	-	8,943
Beijing Haifu Capital Management Co., Ltd.	1,255	-	-	-	-	1,255
Jiangsu DDBS Environment Remediation Co., LTD	48,804	-	(48,960)	156	-	-
Guangdong South Lead TV & Film Co., Ltd.	27,192	-	(27,192)	-	-	-
Total	<u>229,286</u>	<u>-</u>	<u>(76,152)</u>	<u>2,617</u>	<u>-</u>	<u>155,751</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

(In RMB thousands, unless otherwise stated)

19 INVESTMENTS IN ASSOCIATES (CONTINUED)

Name	1 January 2020	Increase	Decrease	Movements under equity method	Impairment allowance for the current period	31 December 2020
CITIC City Development Equity Investment Fund Management (Shenzhen) Co., Ltd.	118,018	-	-	10,108	(77,324)	50,802
Beijing Tinavi Medical Technology Co., Ltd.	20,017	25,224	-	(1,033)	-	44,208
Beijing Siban Technology Development Co., Ltd.	-	28,571	-	(2,762)	-	25,809
Zhongguancun Equity Trading Service Group Co., Ltd.	45,824	-	(28,571)	4,504	-	21,757
Shenzhen MALONG TECHNOLOGIES Co., Ltd.	11,426	-	-	(1,967)	-	9,459
Beijing Haifu Capital Management Co., Ltd.	1,252	-	-	3	-	1,255
Jiangsu DDBS Environment Remediation Co., LTD	45,212	-	-	3,592	-	48,804
Guangdong South Lead TV & Film Co., Ltd.	27,763	-	-	(571)	-	27,192
Total	269,512	53,795	(28,571)	11,874	(77,324)	229,286

As at 30 June 2021, given there was no sign of impairment on the Group's investments in associates, no impairment allowance was made. As at 31 December 2020, the fair value of CITIC City Development Equity Investment Fund Management (Shenzhen) Co., Ltd., an associate of the Group, was lower than its original book value indicating signs of impairment. As a result, an impairment allowance of RMB77.32 million was recorded by the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

(In RMB thousands, unless otherwise stated)

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2021	31 December 2020
Non-current		
Financial assets at fair value through profit or loss		
Equity investments	4,846,136	3,939,113
Others	1,994,023	2,076,395
Subtotal	<u>6,840,159</u>	<u>6,015,508</u>
Analyzed into:		
Listed outside Hong Kong	2,127,940	1,574,603
Unlisted	4,712,219	4,440,905
Subtotal	<u>6,840,159</u>	<u>6,015,508</u>
Current		
Financial assets at fair value through profit or loss		
Debt instruments	78,077,395	82,315,132
Equity investments	16,574,593	14,139,675
Fund investments	11,886,205	10,460,975
Others	28,081,187	25,724,358
Subtotal	<u>134,619,380</u>	<u>132,640,140</u>
Analyzed into:		
Listed in Hong Kong	6,879,432	2,356,420
Listed outside Hong Kong	102,716,658	109,195,472
Unlisted	25,023,290	21,088,248
Subtotal	<u>134,619,380</u>	<u>132,640,140</u>
Total	<u>141,459,539</u>	<u>138,655,648</u>

As at 30 June 2021, the fair value of financial assets pledged as collateral for repurchase agreements (Note 35), financing business from China Securities Finance Corporation Limited ("CSF") (Note 36), futures business and securities borrowing business, and etc, by the Group totaled RMB66,941.73 million (31 December 2020: RMB62,442.75 million).

As at 30 June 2021, financial assets held by the Group included securities lent amounted to RMB2,259.65 million (31 December 2020: RMB2,185.24 million).

As at 30 June 2021, the fair value of financial assets at fair value through profit or loss in restricted period held by the Group was RMB3,606.84 million (31 December 2020: RMB3,754.15 million).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

(In RMB thousands, unless otherwise stated)

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2021	31 December 2020
Non-current		
Equity instruments (i)	–	3,225,144
Analyzed into:		
Unlisted	–	3,225,144
Current		
Debt instruments	44,256,919	44,816,764
Equity instruments	66,431	54,948
Subtotal	44,323,350	44,871,712
Analyzed into:		
Listed in Hong Kong	2,012,767	1,821,858
Listed outside Hong Kong	42,159,048	43,049,854
Unlisted	151,535	–
Subtotal	44,323,350	44,871,712
Total	44,323,350	48,096,856

- (i) As at 30 June 2021, the fair value of securities classified as financial assets at fair value through other comprehensive income of the Group which have been pledged as collateral for repurchase agreements (Note 35), placements from CSF (Note 36), short-term borrowings (Note 38) and securities borrowing business were RMB33,816.01 million (31 December 2020: RMB33,765.93 million).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

(In RMB thousands, unless otherwise stated)

22 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	30 June 2021	31 December 2020
Non-current		
Analyzed by collateral:		
Stock	475,804	1,353,536
Allowance for credit impairment losses	<u>(3,448)</u>	<u>(5,219)</u>
Subtotal	<u>472,356</u>	<u>1,348,317</u>
Current		
Analyzed by collateral:		
Stock	6,477,704	8,279,045
Debts	10,477,857	7,458,949
Others	<u>–</u>	<u>111,442</u>
	16,955,561	15,849,436
Allowance for credit impairment losses	<u>(748,286)</u>	<u>(1,080,550)</u>
Subtotal	<u>16,207,275</u>	<u>14,768,886</u>
Total	<u>16,679,631</u>	<u>16,117,203</u>

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

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

	30 June 2021	31 December 2020
Collateral received	39,687,096	45,507,600
Including: Collateral allowed to be re-pledged	–	198,323
Collateral re-pledged	<u>–</u>	<u>102,096</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

*FOR THE SIX MONTHS ENDED 30 JUNE 2021
(In RMB thousands, unless otherwise stated)*

23 REFUNDABLE DEPOSITS

	30 June 2021	31 December 2020
Performance bonds	6,969,541	6,180,363
Trading deposits	2,988,958	2,488,830
Credit deposits	69,645	71,798
	<hr/>	<hr/>
Total	10,028,144	8,740,991
	<hr/> <hr/>	<hr/> <hr/>

24 DEFERRED TAX ASSETS AND LIABILITIES

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

Deferred tax assets	Salaries, bonuses, and allowances payable	Fair value changes of financial instruments	Allowance for credit impairment losses	Others	Total
1 January 2021	921,854	112,668	623,648	67,349	1,725,519
Credited/(debited) to the consolidated income statement	320,625	38,616	(75,459)	(5,660)	278,122
Debited to other comprehensive income	-	(13,492)	-	(697)	(14,189)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
30 June 2021	1,242,479	137,792	548,189	60,992	1,989,452
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Deferred tax assets	Salaries, bonuses, and allowances payable	Fair value changes of financial instruments	Allowance for credit impairment losses	Others	Total
1 January 2020	594,685	13,840	295,637	59,703	963,865
Credited to the consolidated income statement	327,169	85,580	328,011	11,525	752,285
Credited/(debited) to other comprehensive income	-	13,248	-	(3,879)	9,369
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
31 December 2020	921,854	112,668	623,648	67,349	1,725,519
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

(In RMB thousands, unless otherwise stated)

24 DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

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

Deferred tax liabilities	Fair value changes of financial instruments	Others	Total
1 January 2021	1,064,118	1,298	1,065,416
Debited to the consolidated income statement	120,996	102	121,098
Credited to other comprehensive income	(5,128)	(16)	(5,144)
30 June 2021	1,179,986	1,384	1,181,370
	Fair value changes of financial instruments	Others	Total
Deferred tax liabilities			
1 January 2020	658,549	2,325	660,874
Debited/(credited) to the consolidated income statement	365,651	(935)	364,716
Debited/(credited) to other comprehensive income	39,918	(92)	39,826
31 December 2020	1,064,118	1,298	1,065,416

25 OTHER NON-CURRENT ASSETS

As at 30 June 2021 and 31 December 2020, other non-current assets of the Group primarily represented long-term deferred expenses incurred on network engineering projects and leasehold improvements of property, plant and equipment.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

*FOR THE SIX MONTHS ENDED 30 JUNE 2021
(In RMB thousands, unless otherwise stated)*

26 MARGIN ACCOUNTS

	30 June 2021	31 December 2020
Margin accounts		
– Individuals	47,621,422	41,168,753
– Institutions	8,960,594	6,515,092
	56,582,016	47,683,845
Allowance for credit impairment losses	(1,184,074)	(1,168,670)
Total	55,397,942	46,515,175

Margin accounts are funds that the Group provided to clients in margin financing business. As at 30 June 2021 and 31 December 2020, no margin accounts were pledged for repurchase agreements (Note 35).

As at 30 June 2021, the fair value of securities lent in margin financing business was RMB11,429.03 million (31 December 2020: RMB8,978.45 million).

As at 30 June 2021, the Group received collateral with fair value amounted to RMB209,228.64 million (31 December 2020: RMB174,926.49 million), in connection with its margin financing business.

27 ACCOUNTS RECEIVABLE

	30 June 2021	31 December 2020
Trading deposits for return swaps	9,481,730	6,708,687
Clearing funds receivable	729,393	112,199
Assets management fee receivable	106,386	114,178
Others	2,330,321	1,094,181
	12,647,830	8,029,245
Allowance for credit impairment losses (i)	(10,347)	(11,092)
Total	12,637,483	8,018,153

(i) ECL on account receivables arising from revenue recognized in accordance with IFRS 15 – Revenue, the Group is measured using simplified approach under IFRS9. ECL on other receivables is measured using the general approach and as at 30 June 2021, accounts receivables which measured using general approach was classified under Stage 1 (31 December 2020: Stage 1).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

(In RMB thousands, unless otherwise stated)

27 ACCOUNTS RECEIVABLE (CONTINUED)

(ii) Analyzed by aging

	As at 30 June 2021			
	Carrying amount		Allowance for impairment losses	
	Value	Percentage	Value	Percentage
Allowance for impairment losses by portfolio				
Less than 1 year	12,634,345	99.89%	(2,800)	27.07%
1 to 2 years	3,589	0.03%	(466)	4.50%
2 to 3 years	2,509	0.02%	(1,535)	14.83%
More than 3 years	7,387	0.06%	(5,546)	53.60%
Total	12,647,830	100.00%	(10,347)	100.00%
	As at 31 December 2020			
	Carrying amount		Allowance for impairment losses	
	Value	Percentage	Value	Percentage
Allowance for impairment losses by portfolio				
Less than 1 year	8,014,585	99.82%	(2,277)	20.54%
1 to 2 years	3,555	0.04%	(1,610)	14.51%
2 to 3 years	2,491	0.03%	(1,308)	11.79%
More than 3 years	8,614	0.11%	(5,897)	53.16%
Total	8,029,245	100.00%	(11,092)	100.00%

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

*FOR THE SIX MONTHS ENDED 30 JUNE 2021
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28 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 30 June 2021		
	Nominal value	Fair value	
		Assets	Liabilities
Interest rate derivatives	240,214,915	383	196
Equity derivatives	88,421,112	2,292,945	3,179,737
Currency derivatives	79,481,411	13,670	9,726
Credit derivatives	206,090	7,774	800
Others	28,920,783	170,808	274,438
Total	437,244,311	2,485,580	3,464,897
	As at 31 December 2020		
	Nominal value	Fair value	
		Assets	Liabilities
Interest rate derivatives	165,977,744	812	950
Equity derivatives	97,824,331	1,449,975	2,274,318
Currency derivatives	2,222,696	4,666	331
Credit derivatives	292,000	1,913	2,132
Others	13,506,560	174,843	146,889
Total	279,823,331	1,632,209	2,424,620

Under the daily settlement arrangement, any gains or losses of the Group's position in futures contracts were settled daily and the corresponding payments or receipts were included in "cash and bank balances". Accordingly, the amount of mark-to-market gains or losses of unexpired futures contracts included in derivative financial instruments above was Nil (31 December 2020: Nil). As at 30 June 2021, the fair value of the Group's unexpired futures contracts was negative RMB86.88 million (31 December 2020: negative RMB153.85 million).

29 CASH HELD ON BEHALF OF CLIENTS

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

(In RMB thousands, unless otherwise stated)

30 CASH AND BANK BALANCES

	30 June 2021	31 December 2020
Deposits in banks	<u>31,049,135</u>	<u>28,580,085</u>

As at 30 June 2021, the Group had restricted deposits of RMB486.34 million (31 December 2020: RMB810.72 million).

31 OTHER CURRENT ASSETS

	30 June 2021	31 December 2020
Commodity inventories	185,386	15,227
Interest receivable (i)	68,025	59,059
Prepaid expenses	17,649	4,013
Dividend receivable	6,727	202
Deferred expenses	4,579	3,652
Others	<u>509,162</u>	<u>527,301</u>
	791,528	609,454
Allowance for credit impairment losses	<u>(45,040)</u>	<u>(44,762)</u>
Total	<u>746,488</u>	<u>564,692</u>

(i) As at 30 June 2021 and 31 December 2020, interest income of financial assets accrued under effective interest rate method, which was overdue but not received, was reflected in Interest receivable under other current assets. Interest receivable not yet due were included in the carrying amount of the related financial assets.

32 ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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33 LEASE LIABILITIES

	30 June 2021	31 December 2020
Current		
Lease liabilities	<u>277,051</u>	<u>323,956</u>
Non-current		
Lease liabilities	<u>618,515</u>	<u>655,308</u>
Total	<u>895,566</u>	<u>979,264</u>

As at 30 June 2021, the Group's leases committed but not yet commenced were RMB27.18 million (31 December 2020: RMB24.56 million) (Note 49.2).

34 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2021	31 December 2020
Current		
Financial liabilities at fair value through profit or loss (Held for trading)		
– Debt instruments	149,820	5,140
Financial liabilities designated as at fair value through profit or loss		
– Structured notes (i)	<u>436,463</u>	<u>342,326</u>
Subtotal	<u>586,283</u>	<u>347,466</u>
Non-current		
Financial liabilities designated as at fair value through profit or loss		
– Structured notes (i)	<u>2,718,966</u>	<u>1,248,263</u>
Total	<u>3,305,249</u>	<u>1,595,729</u>

(i) As at 30 June 2021 and 31 December 2020, the returns of the structured notes were linked to equity indexes.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

(In RMB thousands, unless otherwise stated)

35 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	30 June 2021	31 December 2020
Current		
Analyzed by collateral:		
Debt securities (Notes 20 and 21)	72,356,153	68,879,194
Gold	5,203,266	6,033,940
Others (Notes 20)	10,157,273	9,599,105
Total	<u>87,716,692</u>	<u>84,512,239</u>

As at 30 June 2021 and 31 December 2020, other collaterals mainly included the standard bonds for pledge-style quotation-driven repurchase.

36 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2021	31 December 2020
Current		
Placements from CSF (Notes 20 and 21)	9,035,000	9,035,700
Total	<u>9,035,000</u>	<u>9,035,700</u>

37 TAXES PAYABLE

	30 June 2021	31 December 2020
Current		
Income tax	567,520	938,489
Value added tax	140,150	198,371
Others	91,072	256,566
Total	<u>798,742</u>	<u>1,393,426</u>

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38 SHORT-TERM BORROWINGS

	30 June 2021	31 December 2020
Current		
Analyzed by nature:		
Credit borrowings	2,110,153	87,411
Mortgage borrowings (Notes 20 and 21)	201,973	537,763
 Total	2,312,126	625,174

As at 30 June 2021, the Group had fixed-rate borrowings which carried interest rate from 0.48% to 1.80%. As at 31 December 2020, the Group had fixed-rate borrowings which carried interest rate from 0.50% to 3.00%.

As at 30 June 2021, the Group held collateral with fair value amounted to RMB229.53 million (31 December 2020: RMB634.50 million), in connection with its short-term borrowings.

39 SHORT-TERM FINANCING INSTRUMENTS PAYABLE

Name	Issue date	Maturity date	Coupon rate	1 January 2021	Increase	Decrease	30 June 2021
Short-term commercial paper							
20CSC CP014	14/10/2020	13/01/2021	2.69%	4,023,289	3,538	(4,026,827)	-
20CSC CP015	03/11/2020	29/01/2021	3.12%	4,522,695	10,770	(4,533,465)	-
20CSC CP016	26/11/2020	25/02/2021	3.35%	4,013,216	20,192	(4,033,408)	-
20CSC CP017	16/12/2020	17/03/2021	2.80%	3,504,296	20,137	(3,524,433)	-
21CSC CP001	11/01/2021	09/04/2021	2.40%	-	4,023,145	(4,023,145)	-
21CSC CP002	27/01/2021	28/04/2021	2.42%	-	4,024,134	(4,024,134)	-
21CSC CP003	24/02/2021	26/05/2021	2.89%	-	4,532,423	(4,532,423)	-
21CSC CP004BC	15/03/2021	11/06/2021	2.62%	-	4,528,425	(4,528,425)	-
21CSC CP005BC	08/04/2021	25/06/2021	2.35%	-	3,919,585	(3,919,585)	-
21CSC CP006BC	27/04/2021	23/07/2021	2.35%	-	3,012,555	-	3,012,555
21CSC CP007BC	25/05/2021	20/08/2021	2.29%	-	4,009,285	-	4,009,285
21CSC CP008BC	10/06/2021	08/09/2021	2.35%	-	4,506,084	-	4,506,084
21CSC CP009BC	24/06/2021	17/09/2021	2.40%	-	4,502,071	-	4,502,071
Short-term corporate bond							
20 Xintou S2	28/07/2020	28/07/2021	2.90%	1,516,294	23,678	-	1,539,972
Structured notes (i)				24,716,254	14,948,589	(34,647,326)	5,017,517
Total				42,296,044	52,084,611	(71,793,171)	22,587,484

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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(In RMB thousands, unless otherwise stated)

39 SHORT-TERM FINANCING INSTRUMENTS PAYABLE (CONTINUED)

Name	Issue date	Maturity date	Coupon rate	1 January 2020	Increase	Decrease	31 December 2020
Short-term commercial paper							
19CSC CP006	09/10/2019	08/01/2020	2.88%	4,026,439	2,203	(4,028,642)	-
19CSC CP007	24/10/2019	22/01/2020	3.02%	4,022,774	6,931	(4,029,705)	-
19CSC CP008	11/12/2019	06/03/2020	3.05%	4,007,000	21,667	(4,028,667)	-
20CSC CP001	06/01/2020	03/04/2020	2.79%	-	4,026,833	(4,026,833)	-
20CSC CP002	20/01/2020	17/04/2020	2.79%	-	4,026,833	(4,026,833)	-
20CSC CP003	19/02/2020	12/05/2020	2.52%	-	4,022,859	(4,022,859)	-
20CSC CP004	04/03/2020	03/06/2020	2.42%	-	4,024,134	(4,024,134)	-
20CSC CP005	07/04/2020	24/06/2020	1.50%	-	4,012,822	(4,012,822)	-
20CSC CP006	21/04/2020	17/07/2020	1.38%	-	4,013,157	(4,013,157)	-
20CSC CP007	08/05/2020	06/08/2020	1.55%	-	4,517,199	(4,517,199)	-
20CSC CP008	02/06/2020	28/08/2020	1.58%	-	4,015,064	(4,015,064)	-
20CSC CP009	22/06/2020	18/09/2020	2.20%	-	4,021,216	(4,021,216)	-
20CSC CP010	17/07/2020	16/10/2020	2.55%	-	4,025,430	(4,025,430)	-
20CSC CP011	04/08/2020	03/11/2020	2.60%	-	4,025,929	(4,025,929)	-
20CSC CP012	03/09/2020	27/11/2020	2.70%	-	4,025,151	(4,025,151)	-
20CSC CP013	22/09/2020	18/12/2020	2.70%	-	4,025,742	(4,025,742)	-
20CSC CP014	14/10/2020	13/01/2021	2.69%	-	4,023,289	-	4,023,289
20CSC CP015	03/11/2020	29/01/2021	3.12%	-	4,522,695	-	4,522,695
20CSC CP016	26/11/2020	25/02/2021	3.35%	-	4,013,216	-	4,013,216
20CSC CP017	16/12/2020	17/03/2021	2.80%	-	3,504,296	-	3,504,296
Short-term corporate bond							
20 Xintou S2	28/07/2020	28/07/2021	2.90%	-	1,520,553	(4,259)	1,516,294
Structured notes (i)				5,439,740	66,080,415	(46,803,901)	24,716,254
Total				<u>17,495,953</u>	<u>136,477,634</u>	<u>(111,677,543)</u>	<u>42,296,044</u>

As at 30 June 2021 and 31 December 2020, there were no defaults related to any short-term financing instruments payable by the Group.

As at 30 June 2021 and 31 December 2020, the interests of short-term financing instruments payable measured by the effective interest rate method were included in the carrying amount of the related financial instruments, which amounted to RMB78.23 million and RMB258.13 million, respectively.

(i) As at 30 June 2021 and 31 December 2020, the structured notes issued by the Group are calculated at a fixed annual interest rate or a fixed plus floating interest rate. The fixed interest rate ranges are 1.95%-3.95% and 2.10%-4.00%, respectively.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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40 OTHER CURRENT LIABILITIES

	30 June 2021	31 December 2020
Bonds in issue with maturity within one year (1)	38,270,713	15,304,192
Trading deposits for return swaps	6,805,833	4,611,335
Salaries, bonuses and allowances payable	5,279,035	3,947,967
Dividends payable (Note 13)	3,171,781	225,404
Amounts due to other holders of consolidated structured entities at fair value	2,781,539	6,003,742
Settlement deposits payable	1,162,612	439,153
Accounts payable to underwriting clients	659,542	75,871
Futures settlement risk funds payable	126,211	111,404
Provision	59,518	66,403
Securities investor protection fund payable	41,149	53,278
Funds payable to securities holders	5,997	5,997
Others	7,833,603	3,652,897
Total	<u>66,197,533</u>	<u>34,497,643</u>

(1) Bonds in issue with maturity within one year as at 30 June 2021 and 31 December 2020 were as follows:

		30 June 2021	31 December 2020
18 Xintou F2	(i)	–	4,144,105
18 Xintou F3	(ii)	3,665,311	3,578,358
18 Xintou F4	(iii)	2,613,206	2,551,271
18 Xintou C1	(iv)	5,140,540	5,030,184
19 Xintou C1	(v)	5,592,532	–
19 Xintou C2	(vi)	5,037,902	–
19 Xintou C3	(vii)	4,016,592	–
20 Xintou C1	(viii)	4,086,760	–
20 Xintou C3	(ix)	5,097,400	–
21 Xintou C3	(x)	3,020,197	–
Structured notes	(xi)	273	274
Total		<u>38,270,713</u>	<u>15,304,192</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

(In RMB thousands, unless otherwise stated)

40 OTHER CURRENT LIABILITIES (CONTINUED)

- (1) Bonds in issue with maturity within one year as at 30 June 2021 and 31 December 2020 were as follows (Continued):
- (i) In April 2018, the Company privately issued a 3-year fixed rate corporate bond with a face value of RMB4 billion. The bond pays interest annually at 5.12% per annum and is not guaranteed. The bond was fully redeemed in April 2021.
 - (ii) In July 2018, the Company privately issued a 3-year fixed rate corporate bond with a face value of RMB3.5 billion. The bond pays interest annually at 4.86% per annum and is not guaranteed.
 - (iii) In July 2018, the Company privately issued a 3-year fixed rate corporate bond with a face value of RMB2.5 billion. The bond pays interest annually at 4.84% per annum and is not guaranteed.
 - (iv) In November 2018, the Company privately issued a 3-year fixed rate subordinated bond with a face value of RMB5 billion. The bond pays interest annually at 4.38% per annum and is not guaranteed.
 - (v) In January 2019, the Company privately issued a 3-year fixed rate subordinated bond with a face value of RMB5.5 billion. The bond pays interest annually at 4.00% per annum and is not guaranteed.
 - (vi) In April 2019, the Company privately issued a 3-year fixed rate subordinated bond with a face value of RMB5 billion. The bond pays interest annually at 4.20% per annum and is not guaranteed.
 - (vii) In May 2019, the Company privately issued a 3-year fixed rate subordinated bond with a face value of RMB4 billion. The bond pays interest annually at 4.12% per annum and is not guaranteed.
 - (viii) In November 2020, the Company publicly issued a 457-day fixed rate subordinated bond with a face value of RMB4 billion. The bond pays the principal and interest at maturity at 3.90% per year and is not guaranteed.
 - (ix) In December 2020, the Company publicly issued a 455-day fixed rate subordinated bond with a face value of RMB5 billion. The bond pays the principal and interest at maturity at 3.84% per year and is not guaranteed.
 - (x) In March 2021, the Company publicly issued a 455-day fixed rate subordinated bond with a face value of RMB3 billion. The bond pays the principal and interest at maturity at 3.40% per year and is not guaranteed.
 - (xi) As at 30 June 2021, the Company had structured notes named "Gushouxin series" amounted to RMB0.27 million, which accrue interests at a fixed annual rate of 3.00% and of which the remaining tenure were less than one year. As at 31 December 2020, the Company had structured notes named "Gushouxin series" amounted to RMB0.27 million, which accrue interests at a fixed annual rate in the range of 3.00%~3.10% and of which the remaining tenure were less than one year. The principal and interest of these structured notes are payable at maturity and are not guaranteed.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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41 BONDS IN ISSUE

	30 June 2021	31 December 2020
Corporate bonds in issue	23,217,504	20,023,181
Subordinated bonds in issue	15,104,437	25,937,038
Financial bonds in issue	4,126,347	4,056,088
Total	<u>42,448,288</u>	<u>50,016,307</u>

(1) As at 30 June 2021 and 31 December 2020, there were no defaults related to any bonds in issue.

(2) The details of bonds in issue

	30 June 2021	31 December 2020
Corporate bonds		
20 Xintou G1 (i)	5,028,871	5,098,259
20 Xintou G2 (ii)	1,005,328	1,020,559
20 Xintou G3 (iii)	3,005,943	3,041,844
20 Xintou G4 (iv)	3,093,620	3,038,641
20 Xintou G5 (v)	4,633,265	4,553,500
CSCIF A N2508 (vi)	3,239,474	3,270,378
CSCIF A N2406 (vii)	3,211,003	–
Subtotal	<u>23,217,504</u>	<u>20,023,181</u>
Subordinated bonds		
19 Xintou C1 (40(1) (v))	–	5,699,084
19 Xintou C2 (40(1) (vi))	–	5,140,324
19 Xintou C3 (40(1) (vii))	–	4,096,928
20 Xintou C1 (40(1) (viii))	–	4,004,909
20 Xintou C2 (viii)	1,022,158	1,000,725
20 Xintou C3 (40(1) (ix))	–	4,996,249
20 Xintou C4 (ix)	1,020,151	998,819
21 Xintou C1 (x)	2,025,851	–
21 Xintou C2 (xi)	1,014,348	–
21 Xintou C4 (xii)	1,008,056	–
21 Xintou C5 (xiii)	3,513,056	–
21 Xintou C6 (xiv)	2,009,455	–
21 Xintou C7 (xv)	997,209	–
21 Xintou C8 (xvi)	2,494,153	–
Subtotal	<u>15,104,437</u>	<u>25,937,038</u>
Financial Bonds		
19 CSC Financial Bond 01 (xvii)	4,126,347	4,056,088
Carrying amount	<u>42,448,288</u>	<u>50,016,307</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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41 BONDS IN ISSUE (CONTINUED)

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

- (i) In March 2020, the Company publicly issued a 3-year fixed rate corporate bond with a face value of RMB5 billion. The bond pays interest annually at 2.94% per annum and is not guaranteed.
- (ii) In March 2020, the Company publicly issued a 5-year fixed rate corporate bond with a face value of RMB1 billion. The bond pays interest annually at 3.13% per annum and is not guaranteed.
- (iii) In April 2020, the Company publicly issued a 3-year fixed rate corporate bond with a face value of RMB3 billion. The bond pays interest annually at 2.56% per annum and is not guaranteed.
- (iv) In July 2020, the Company publicly issued a 3-year fixed rate corporate bond with a face value of RMB3 billion. The bond pays interest annually at 3.55% per annum and is not guaranteed.
- (v) In July 2020, the Company publicly issued a 3-year fixed rate corporate bond with a face value of RMB4.5 billion. The bond pays interest annually at 3.46% per annum and is not guaranteed.
- (vi) In August 2020, CSCIF Asia Limited, an indirect wholly owned subsidiary of the Company, issued a 5-year medium-term note with a face value of USD0.5 billion and an annual interest rate of 1.75%. The note pays interest every six months, and is guaranteed unconditionally and irrevocably by CSC Financial Co., Ltd.
- (vii) In June 2021, CSCIF Asia Limited, an indirect wholly owned subsidiary of the Company, issued a 3-year medium-term note with a face value of USD0.5 billion and an annual interest rate of 1.125%. The note pays interest every six months, and is guaranteed unconditionally and irrevocably by CSC Financial Co., Ltd.
- (viii) In November 2020, the Company publicly issued a 3-year fixed rate subordinated bond with a face value of RMB1 billion. The bond pays interest annually at 4.20% per annum and is not guaranteed.
- (ix) In December 2020, the Company publicly issued a 3-year fixed rate subordinated bond with a face value of RMB1 billion. The bond pays interest annually at 4.18% per annum and is not guaranteed.
- (x) In January 2021, the Company publicly issued a 546-day fixed rate subordinated bond with a face value of RMB2 billion. The bond pays interest annually at 3.50% per annum, and the last payment of interest will be paid with principal at maturity. The bond is not guaranteed.
- (xi) In January 2021, the Company publicly issued a 3-year fixed rate subordinated bond with a face value of RMB1 billion. The bond pays interest annually at 3.87% per annum and is not guaranteed.
- (xii) In March 2021, the Company publicly issued a 3-year fixed rate subordinated bond with a face value of RMB1 billion. The bond pays interest annually at 3.88% per annum and is not guaranteed.
- (xiii) In April 2021, the Company publicly issued a 456-day fixed rate subordinated bond with a face value of RMB3.5 billion. The bond pays the principal and interest at maturity at 3.27% per year and is not guaranteed.
- (xiv) In April 2021, the Company publicly issued a 3-year fixed rate subordinated bond with a face value of RMB2 billion. The bond pays interest annually at 3.70% per annum and is not guaranteed.
- (xv) In June 2021, the Company publicly issued a 457-day fixed rate subordinated bond with a face value of RMB1 billion. The bond pays the principal and interest at maturity at 3.30% per year and is not guaranteed.
- (xvi) In June 2021, the Company publicly issued a 3-year fixed rate subordinated bond with a face value of RMB2.5 billion. The bond pays interest annually at 3.75% per annum and is not guaranteed.
- (xvii) In August 2019, the Company publicly issued a 3-year fixed rate financial bond with a face value of RMB4 billion. The bond pays interest annually at 3.52% per annum and is not guaranteed.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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42 SHARE CAPITAL

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

	30 June 2021	31 December 2020
Issued and fully paid ordinary shares of RMB1 each <i>(in thousands)</i>		
– A shares	6,495,671	6,495,671
– H shares	1,261,024	1,261,024
 Total	 <u>7,756,695</u>	 <u>7,756,695</u>

The Company completed the registration procedure for its non-public offering of A-shares in the Shanghai branch of China Securities Depository and Clearing Co., Ltd. on 28 December 2020. The Company issued a total of 110,309,559 shares with a nominal value of RMB1 per share.

43 OTHER EQUITY INSTRUMENTS

Other equity instruments of the Group are as follows:

- In August 2019, the Company issued the first tranche of perpetual subordinated bonds of 2019 amounted to RMB5 billion.
- In March 2020, the Company issued the first tranche of perpetual subordinated bonds of 2020 amounted to RMB5 billion.
- In May 2021, the Company publicly issued perpetual subordinated bonds of 2021 to professional investors (the “2021 perpetual subordinated bonds”) amounted to RMB5 billion.

The issuance terms related to the equity attributes of other equity instruments that existed at the end of the period mentioned above are as follows:

- The bonds are repriced every 5 interest-accruing years, and at the end of the repricing cycle, the issuer has the option to extend the bonds for another repricing cycle (another five years) or redeem them in full;
- The bonds offer no redemption option to the investors so that investors cannot require the issuer to redeem their bonds during the duration of the bonds;
- The Company has the option to defer interest payment, except in the event of mandatory interest payments, so that at each interest payment date, the issuer may choose to defer the interest payment to the next payment date for the current period as well as all interests and accreted interests already deferred according to the related terms, without any limitation with respect to the number of deferrals. Mandatory interest payment events are limited to dividend distributions to ordinary equity holders and reductions of registered capital;

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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43 OTHER EQUITY INSTRUMENTS (CONTINUED)

- The priority over repayment of the 2019, the 2020 and the 2021 perpetual subordinated bonds is subordinated to the Company's general debts and other subordinated debt, unless in the event of liquidation of the Company, investors of these bonds cannot require the Company to accelerate payment of bonds' principals.

The perpetual subordinated bonds issued by the Company are classified as equity instruments, and recognized under equity in the consolidated statement of financial position. As at 30 June 2021, the interest payable of perpetual subordinated bonds was RMB263.02 million. As at 31 December 2020, the interest payable of perpetual subordinated bonds was RMB225.40 million, of which RMB195.00 million was paid in the first half of 2021.

44 RESERVES

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

(1) Capital reserve

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

(2) Surplus reserves

(i) Statutory surplus reserve

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

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

(ii) Discretionary surplus reserve

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

(3) General reserve

Pursuant to the requirements of regulatory authorities, including the Ministry of Finance and the CSRC, the Company is required to appropriate 10% of its profit for the year for the general risk reserve and 10% for the transaction risk reserve. Regulatory reserves that are established by subsidiaries and branches in certain countries or jurisdictions outside Mainland China in accordance with the regulatory requirements in their respective territories are also included herein.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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44 RESERVES (CONTINUED)

(4) Investment revaluation reserve

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

(5) Foreign currency translation reserve

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

45 CASH AND CASH EQUIVALENTS

	30 June 2021	30 June 2020
Cash and bank balances	31,049,135	20,891,759
Less: Restricted deposits (<i>Note 30</i>)	(486,336)	(440,681)
Interest receivable	(697)	(3,467)
Cash and cash equivalents	30,562,102	20,447,611

46 COMMITMENTS AND CONTINGENT LIABILITIES

(1) Capital commitments

	30 June 2021	31 December 2020
Contracted, but not provided for	42,794	29,669

The above-mentioned capital commitments are primarily in respect of the equity investment, purchase of equipment and decoration of properties by the Group.

(2) Legal proceedings

The Company and its subsidiaries are subject to claims and are parties to legal and regulatory proceedings in their ordinary course of businesses. As at 30 June 2021 and 31 December 2020, management of the Group believes that the Group was not involved in any material legal, or arbitration proceedings that if adversely determined, would have material impact on its financial position or results of operations of the Group.

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(In RMB thousands, unless otherwise stated)

47 RELATED PARTY DISCLOSURES

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

As at 30 June 2020, Beijing State-Owned Capital Operation and Management Center ("Beijing State Management Center") owned 35.11% of the equity interest of the Company.

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

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

	Six months ended 30 June	
	2021	2020
Fee and commission income	N/A	226
Interest expenses	N/A	(4)

In January 2020, the Company received a notice from the original largest shareholder, Beijing State Management Center, who intended to transfer all of its holding of 2,684,309,017 A-shares, representing 35.11% of the total share capital of the Company, to Beijing Financial Holdings Group Co., Ltd. ("Beijing Financial Holdings Group") for nil consideration ("Transfer"). In March 2020, Beijing State Management Center and Beijing Financial Holdings Group signed the Agreement on the Transfer. The Transfer has been approved by State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality in March 2020 and approved by CSRC in October 2020, respectively. The Transfer registration has been completed on 30 November 2020.

After the completion of the Transfer, Beijing State Management Center no longer holds any shares in the Company. As at 30 November 2020, Beijing Financial Holdings Group directly holds 2,684,309,017 A-shares, representing 35.11% of the total share capital of the Company, making it the largest shareholder of the Company. The Transfer has no impacts on the Company's non-controlling shareholders and the status that the Company has no actual controlling person.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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47 RELATED PARTY DISCLOSURES (CONTINUED)

- (2) Beijing Financial Holdings Group and companies under Beijing Financial Holdings Group

As a result of the Company's non-public offering of A-shares in December 2020, the percentage of shareholding of Beijing Financial Holdings Group has declined passively. As at 30 June 2021 and 31 December 2020, Beijing Financial Holdings Group owned 34.61% of the equity interest of the Company.

Beijing Financial Holdings Group was established by State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality, which is an integrated financial investment holding platform and managed as a municipal level I enterprise.

The transactions between Beijing Financial Holdings Group and the Group are in the ordinary course of business under normal commercial terms and conditions. Corresponding transactions and balances with this institution were as follows:

	Six months ended 30 June	
	2021	2020
Interest income	223	N/A
Fee and commission expenses	(948)	N/A
Interest expenses	(75)	N/A
Other operating expenses and costs	(51)	N/A
	223	
	30 June 2021	31 December 2020
Assets		
Cash and bank balances	53,123	–
Liabilities		
Other current liabilities	23	–
Accounts payable to brokerage clients	1	–
	23	

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

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47 RELATED PARTY DISCLOSURES (CONTINUED)

(3) Central Huijin and companies under Central Huijin

As at 30 June 2021 and 31 December 2020, Central Huijin Investment Limited (“Central Huijin”) owned 30.76% of the equity interest of the Company.

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

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

	Six months ended 30 June	
	2021	2020
Fee and commission income	56,352	39,304
Interest income	175,955	181,334
Other income	1,894	–
Fee and commission expenses	(35,203)	(25,037)
Interest expenses	(94,089)	(31,860)
Other operating expenses and costs	(337)	–
	30 June 2021	31 December 2020
Assets		
Financial assets at fair value through other comprehensive income	209,615	1,167,141
Financial assets at fair value through profit or loss	4,372,073	2,645,946
Derivative financial assets	150,101	16,525
Cash held on behalf of clients	18,816,030	8,359,056
Cash and bank balances	2,249,044	2,883,531
Accounts receivable	393,441	31,916
Right-of-use assets	5,450	900
Other current assets	8,362	–
Liabilities		
Accounts payable to brokerage clients	49,384	17,430
Derivative financial liabilities	298,472	82,732
Financial assets sold under repurchase agreements	6,939,925	4,146,840
Short-term borrowings	1,597,942	–
Other current liabilities	875,462	77,513
Lease liabilities	5,177	849

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47 RELATED PARTY DISCLOSURES (CONTINUED)

(4) Government related entities

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

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

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

(5) Other major shareholders and its related parties

	Six months ended 30 June	
	2021	2020
Fee and commission income	8,664	3,306
Interest income	111,448	34,323
Fee and commission expense	(16,504)	(15,132)
Interest expenses	(9,068)	(9,201)
Other operating expenses and costs	(1,114)	–

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47 RELATED PARTY DISCLOSURES (CONTINUED)

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

	30 June 2021	31 December 2020
Assets		
Margin accounts	1	–
Financial assets at fair value through other comprehensive income	50,585	518,466
Financial assets at fair value through profit or loss	710,073	237,674
Derivative financial assets	7,100	790
Cash held on behalf of clients	8,896,366	8,425,770
Cash and bank balances	611,985	719,343
Accounts receivable	79,418	18,051
Other current assets	160	–
Liabilities		
Accounts payable to brokerage clients	565,180	603,806
Derivative financial liabilities	19,013	15,262
Financial assets sold under repurchase agreements	364,128	1,388,121
Other current liabilities	8,356	20,507

(6) The Group's associates

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

(7) Key management personnel

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

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

	Six months ended 30 June	
	2021	2020
Salaries, bonuses and allowances	66,959	73,324
Staff benefits	690	569
Contributions to defined contribution schemes	1,221	717
Total	68,870	74,610

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48 FAIR VALUE AND FAIR VALUE HIERARCHY

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

Fair value hierarchy

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

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

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

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

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

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

For certain unlisted equity securities (private equity securities), thinly traded equity securities, subordinated tranche of asset-backed securities, certain over-the-counter derivative contracts and trust plans, the management uses counterparty quotations or valuation techniques to determine their fair value. Valuation techniques used primarily include discount cash flow model, option pricing model and comparable companies methods, etc. The fair value measurement of these financial instruments may use unobservable inputs that may have significant impact on the valuation results, and therefore, the Group includes them as Level 3 assets and liabilities. The unobservable parameters that may have impacts on the valuation include, among others, weighted average cost of capital, liquidity discount, price to book ratio and volatility of underlying assets. As at 30 June 2021 and 31 December 2020, fair value changes resulting from the changes in the unobservable inputs were not significant. The Group has implemented internal control procedures to monitor and control the Group's exposures to such financial instruments.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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48 FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

(1) Financial instruments recorded at fair value

	30 June 2021			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt instruments	8,893,967	69,126,875	56,553	78,077,395
– Equity investments	16,216,708	2,112,498	3,091,523	21,420,729
– Fund investments	6,743,224	5,142,814	167	11,886,205
– Others	5,082	27,998,717	2,071,411	30,075,210
Subtotal	31,858,981	104,380,904	5,219,654	141,459,539
Financial assets at fair value through other comprehensive income				
– Debt instruments	2,475,596	41,780,749	574	44,256,919
– Equity instruments	66,431	–	–	66,431
Subtotal	2,542,027	41,780,749	574	44,323,350
Derivative financial assets	256,177	1,516,094	713,309	2,485,580
Total assets	34,657,185	147,677,747	5,933,537	188,268,469
Financial liabilities at fair value through profit or loss				
– Financial liabilities held for trading	–	149,820	–	149,820
– Financial liabilities designated as at fair value through profit or loss	–	–	3,155,429	3,155,429
Subtotal	–	149,820	3,155,429	3,305,249
Derivative financial liabilities	406,656	1,360,419	1,697,822	3,464,897
Total liabilities	406,656	1,510,239	4,853,251	6,770,146

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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48 FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

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

	31 December 2020			Total
	Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss				
– Debt instruments	9,251,365	73,041,875	21,892	82,315,132
– Equity investments	13,741,958	1,717,204	2,619,626	18,078,788
– Fund investments	6,463,824	3,996,984	167	10,460,975
– Others	5,000	25,387,384	2,408,369	27,800,753
Subtotal	<u>29,462,147</u>	<u>104,143,447</u>	<u>5,050,054</u>	<u>138,655,648</u>
Financial assets at fair value through other comprehensive income				
– Debt instruments	1,966,454	42,847,816	2,494	44,816,764
– Equity instruments	54,948	3,225,144	–	3,280,092
Subtotal	<u>2,021,402</u>	<u>46,072,960</u>	<u>2,494</u>	<u>48,096,856</u>
Derivative financial assets	<u>323,043</u>	<u>970,900</u>	<u>338,266</u>	<u>1,632,209</u>
Total assets	<u><u>31,806,592</u></u>	<u><u>151,187,307</u></u>	<u><u>5,390,814</u></u>	<u><u>188,384,713</u></u>
Financial liabilities at fair value through profit or loss				
– Financial liabilities held for trading	–	5,140	–	5,140
– Financial liabilities designated as at fair value through profit or loss	–	–	1,590,589	1,590,589
Subtotal	<u>–</u>	<u>5,140</u>	<u>1,590,589</u>	<u>1,595,729</u>
Derivative financial liabilities	<u>300,745</u>	<u>779,006</u>	<u>1,344,869</u>	<u>2,424,620</u>
Total liabilities	<u><u>300,745</u></u>	<u><u>784,146</u></u>	<u><u>2,935,458</u></u>	<u><u>4,020,349</u></u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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48 FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

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

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

	Six months ended 30 June 2021				
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Derivative financial assets	Financial liabilities at fair value through profit or loss	Derivative financial liabilities
1 January 2021	5,050,054	2,494	338,266	1,590,589	1,344,869
Total gains or losses for the period	(118,229)	-	693,438	249,219	1,090,569
Total gains recorded in other comprehensive income	-	(2)	-	-	-
Increases	1,841,519	-	267,096	4,783,947	546,596
Decreases	(1,553,690)	(1,918)	(585,491)	(3,468,326)	(1,284,212)
30 June 2021	<u>5,219,654</u>	<u>574</u>	<u>713,309</u>	<u>3,155,429</u>	<u>1,697,822</u>
Gains/(losses) for the period included in profit or loss for assets/liabilities held at the end of the period	<u>(118,229)</u>	<u>-</u>	<u>693,438</u>	<u>(249,219)</u>	<u>(1,090,569)</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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48 FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

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

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

	Year ended 31 December 2020				
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Derivative financial assets	Financial liabilities at fair value through profit or loss	Derivative financial liabilities
1 January 2020	4,213,138	2,497	175,754	608,183	386,288
Total gains or losses for the period	196,041	-	346,861	139,360	1,218,720
Total gains recorded in other comprehensive income	-	(1,010)	-	-	-
Increases	3,185,327	-	158,373	2,839,308	598,791
Decreases	(2,007,952)	-	(342,722)	(1,996,262)	(858,930)
Transfers to Level 3 from Level 1	32,239	-	-	-	-
Transfers to Level 3 from Level 2	114,934	1,007	-	-	-
Transfers to Level 1 from Level 3	(233,305)	-	-	-	-
Transfers to Level 2 from Level 3	(450,368)	-	-	-	-
31 December 2020	<u>5,050,054</u>	<u>2,494</u>	<u>338,266</u>	<u>1,590,589</u>	<u>1,344,869</u>
Gains/(losses) for the year included in profit or loss for assets/liabilities held at the end of the year	<u>196,041</u>	<u>-</u>	<u>346,861</u>	<u>(139,360)</u>	<u>(1,218,720)</u>

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

The fair value of financial instruments under Level 3 are primarily determined by discounted cash flow model, option pricing model and comparable companies methods, etc. Determinations to classify fair value measures within Level 3 of the valuation hierarchy are primarily based on the significance of the unobservable inputs which mainly include weighted average cost of capital, liquidity discount, price to book ratio, volatility of underlying assets and others to the overall fair value measurement.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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48 FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

(4) Transfers between Level 1 and Level 2

During the six months ended 30 June 2021, the amount of financial assets at fair value through profit and loss from Level 1 to Level 2 were RMB0.06 million and the amount of financial assets at fair value through profit and loss from Level 2 to Level 1 were RMB0.99 million.

During the year ended 31 December 2020, the amount of financial assets at fair value through profit and loss from Level 1 to Level 2 were RMB459.41 million and the amount of financial assets at fair value through profit and loss from Level 2 to Level 1 were RMB7.53 million.

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

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

As at 30 June 2021 and 31 December 2020, the carrying amounts and fair value of bonds in issue (including bonds in issue with maturity within one year) are summarized below:

	30 June 2021	31 December 2020
Bonds in issue (including bonds in issue with maturity within one year)		
– Carrying amount (<i>Notes 40 and 41</i>)	80,719,001	65,320,499
– Fair value	81,097,350	65,557,195

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49 FINANCIAL INSTRUMENTS RISK MANAGEMENT

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

The Group's risk management and control system is not significantly changed compared to 31 December 2020.

Structure of risk management

The Board

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

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

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

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49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Structure of risk management (Continued)

The Operation Management

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

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

The Chief Risk Officer of the Company is responsible for leading risk management activities across the Company, including organizing the formulation of relevant risk management rules and procedures, improving the Group's comprehensive risk management practices, organizing the pilot work of consolidated risk control and monitoring, and guiding the Risk Management Department in the identification, evaluation, monitoring and reporting of various risks.

The Department, Branch and Subsidiary

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

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

In addition, pursuant to the needs of risk management in investment banking business, aligned with the regulatory requirements, the Company has established the Internal Audit Department. Through such review at the company level, the Company conducts final risk control prior to the delivery of investment banking projects, and assumes the decision making responsibility of the ultimate approval of materials and documents to be submitted, reported, issued or disclosed in the name of the Company.

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49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk management activities

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

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

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

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

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

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49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk management activities (Continued)

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

Risk analysis and control

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

49.1 Credit risk

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

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

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49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.1 Credit risk (Continued)

Credit risk relating to bond investments is primarily due to the decline in the creditworthiness of credit issuer of the debt financing instruments or defaults, counterparty defaults. The Group carries out due diligence for issuers and counterparties, establishes internal ratings for issuers, debts and counterparties, manages the access and size of transactions according to the internal and external rating, and controls credit risk using other tools for subsequent monitoring and management. In the first half of 2021, the Group further tightened the quality of its investment portfolio, strengthened due diligence of investment targets and counterparties and credit risk management measures to improve the capability of credit risk management, default losses were at extremely low level.

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

In order to manage the credit risk arising from the brokerage business, securities brokerage transactions in mainland China are all settled on a fully pledged basis, which enables settlement risks associated with brokerage business to be well under control. The Group strictly complies with relevant trading and settlement rules and procedures to prevent non-compliant financing operations for clients. In addition, for repurchase agreement transaction, through due diligence, establishment of reasonable customer limits and haircut on collateral bonds, setting standards for minimum collateral level of qualified securities and leverage ratios, concentration limits for single securities used as collateral and other measures, the Group prevents customer under-collateralisation. For option transactions, the Group takes measures including margin deposit management, limits setting and forced liquidation control to manage customers' credit risk.

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

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49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.1 Credit risk (Continued)

Expected credit loss measurement

The measurement of the ECL allowance for the debt financial instruments measured at amortized cost and at fair value through other comprehensive income, is an area that requires the use of models and assumptions about the future economic conditions and credit behavior of the clients (such as the likelihood of customers defaulting and the resulting losses).

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

- A financial instrument that is not credit-impaired on initial recognition is classified as “Stage 1” and has its credit risk continuously monitored by the Group;
- If a significant increase in credit risk (“SICR”) since initial recognition is identified, the financial instrument is moved to “Stage 2” but is not yet deemed to be credit-impaired;
- If the financial instrument is credit-impaired, the financial instrument is then moved to “Stage 3”.

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

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

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

- Selection of the appropriate models and determination of relevant key measurement parameters;
- Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;
- Determination of forward-looking measurements and weightings; and
- The estimated future cash flows for the financial assets classified under Stage 3.

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49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.1 Credit risk (Continued)

Measuring ECL – models and parameters

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

The Group fully considers forward-looking information when measuring ECL. ECL are the discounted product of the PD, LGD, and EAD after considering 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 securities financing business, the Group determines the PD by borrower based on factors including the coverage ratio of underlying collateral value to margin loan (collateral to loan ratio) and the volatility of such collateral's valuation. For debt securities investments, internal credit rating is taken into consideration.
- LGD represents the Group's expectation of the extent of loss on a defaulted exposure. For securities financing business, the Group determines LGD, based on factors including the realizable value of collateral upon forced liquidation taking into consideration the estimated volatility over the realization period. For debt securities investments, LGD is determined based on assessed publicly available information from credit rating agencies, and type of securities.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

The criteria of Significant increase in credit risk (SICR)

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

For securities financing business, the Group sets differentiated collateral to loan ratios as triggering margin calls and force liquidation thresholds (force liquidation thresholds generally no less than 130%) against different exposures related to these transactions, based on the obligors' credit quality, operation situation, contract maturity date, the volatility and liquidity of related collateral securities, and related performance information.

For securities financing business, the Group considered securities financing business to have experienced a SICR if collateral to loan ratios are lower than the force liquidation thresholds, which means a decline in collateral valuation or the quality of the third-party collateral is significantly reduced. As at 30 June 2021 and 31 December 2020, over 95% of the securities financing balances of the Group were covered by collateral value of over the force liquidation thresholds of related loan or repo amounts.

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49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.1 Credit risk (Continued)

The criteria of Significant increase in credit risk (SICR) (Continued)

For debt securities investments, the Group makes use of its internal rating measurement system's results. The Group considers debt securities investments to have experienced a SICR if the latest internal ratings of the issuers of debt securities or the debt securities themselves underwent two notches of downward migration or more, compared with those ratings as at the acquisition date; and if the latest internal rating of issuers of debt securities or the debt securities themselves were under the predetermined grading. As at 30 June 2021 and 31 December 2020, majority of the debt securities investments of the Group were rated as investment grade or above and there was no SICR.

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

The Group 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 collateralized by debt securities.

Definition of default and credit impairment

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

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

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49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.1 Credit risk (Continued)

Definition of default and credit impairment (Continued)

- It is becoming probable that the debtor, issuer, borrower, or counterparty will enter bankruptcy or undertake a financial restructuring, etc.

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

In summary, the “three-stage” classification criteria for securities financing business is:

- Securities financing business with collateral to loan ratios above the force liquidation thresholds and those past due for no more than 30 days are classified under Stage 1.
- Securities financing business with collateral to loan ratios fall below the pre-determined force liquidation thresholds but above 100%; or those past due for more than 30 days but no more than 90 days are classified under Stage 2.
- Securities financing business with collateral to loan ratios fall below 100%; or those past due for more than 90 days are classified under Stage 3.

Forward-looking information

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical data analysis and identified the key economic variables impacting credit risk and ECL for each financial instrument portfolio. Key economic variables mainly include the cumulative growth rate of Domestic Gross Domestic Product (GDP), Producer Price Index (PPI), Fixed Asset Investments Completion Rate and the growth rate of the financial institutions' loan balances. Regression analysis has been performed to determine the relationships between these economic variables and macro factors. The Group forecasts the economic variables under different economic scenarios and applies them in the measurement of ECL with Merton Model.

For all portfolios the Group concluded that three scenarios appropriately captured non-linearities of key economic variables. 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 Group reevaluates the quantity and characteristic of the three scenarios at each balance sheet date. As at 30 June 2021 and 31 December 2020, the Group set three scenarios of optimism, base and pessimism for analysis of main product types, and the probability-weight of base scenario employed by the Group was more than that of the other scenarios.

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49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.1 Credit risk (Continued)

Forward-looking information (Continued)

The assessment of SICR is performed using the Lifetime PD under each of the base and other scenarios multiplied by the associated scenario weighting, as well as qualitative criteria, quantitative criteria and upper limit. The Group measures ECL as either a probability weighted 12-month ECL or a probability weighted lifetime ECL. These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting.

As at 30 June 2021, by taking current economy situation, pandemic's impact and supporting policies applied by the government into comprehensive consideration, the Group updated relevant economic indicators for forward-looking measurement based on the latest economic forecasts. 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 Group considers these forecasts to represent its best estimate of the possible outcomes as at the financial statement date.

Sensitivity analysis

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

As mentioned above, the Group adopts three scenarios for all portfolios, being the optimistic scenario, base scenario and pessimistic scenario. A sensitivity analysis was applied to these scenarios as at 30 June 2021 and 31 December 2020 and the results were as follows:

- (i) The incremental impact on the ECL allowance of applying the probability weighted scenarios was no more than a 5% deviation from the base ECL scenario;
- (ii) The decremental impact on the ECL allowance of increasing the weighting applied to the optimistic scenario by 10% and a corresponding reduction of 10% weighting applied to the base scenario was no more than 5% of the ECL allowance;
- (iii) The incremental impact of shifting 10% of the weighting from the base case scenario to the pessimistic scenario was no more than 5% of the ECL allowance.

Meanwhile, the Group also uses sensitivity analysis to monitor the impact of changes to the credit risk classification of financial assets on ECL. As at 30 June 2021 and 31 December 2020, assuming there was no SICR since initial recognition, and all the financial assets in Stage 2 were moved to Stage 1, the decremental impact on ECL allowance recognized in statement of financial position would be less than 5%.

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49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.1 Credit risk (Continued)

Collateral and other credit enhancements

The Group 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 guarantee. The Group determined the type and amount of collateral according to the credit risk evaluation of counterparties. The collateral under margin financing and reverse repurchase agreements is primarily stocks, debt securities, funds etc. The management would test the market value of collateral periodically, and send margin calls according to related agreements, also monitor the market value fluctuation of collaterals when reviewing the measurement of the loss allowance.

Impairment provision of securities financing business

As at 30 June 2021, the percentage of impairment provision applied by the Group on securities financing business under the Stage 1, Stage 2 and Stage 3 were 0.22%, 0.34% and 70.28%, respectively (31 December 2020: 0.26% · 0.54% and 71.63%).

Credit risk exposure analysis

As at 30 June 2021 and 31 December 2020, the credit quality of the Group's financing exposures to customers was in good condition and over 95% of the securities financing business of the Group were with collateral to loan ratios no lower than the force liquidation thresholds. High threshold of margin loans to collateral ratios indicated that PD was low. For debt securities investments, the Group employed both open market credit ratings and internal credit ratings simultaneously as admittance criteria. The debt securities will be admitted only when the internal and external ratings criteria are met. Majority of the Group's debt securities investments were rated as investment grade (AA) or above externally.

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

	30 June 2021	31 December 2020
Financial assets at fair value through profit or loss	116,655,828	117,437,377
Cash held on behalf of clients	85,086,464	70,268,389
Margin accounts	55,397,942	46,515,175
Financial assets at fair value through other comprehensive income	44,256,919	44,816,764
Deposits in banks	31,049,135	28,580,085
Financial assets held under resale agreements	16,679,631	16,117,203
Refundable deposits	10,028,144	8,740,991
Derivative financial assets	2,485,580	1,632,209
Others	13,176,920	8,559,953
	374,816,563	342,668,146
Total maximum credit risk exposure	374,816,563	342,668,146

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49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.1 Credit risk (Continued)

ECL	30 June 2021			Total
	Stage of ECL			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
Margin accounts				
Carrying amount	55,509,239	1,103	1,071,674	56,582,016
Loss allowance	(115,591)	(37)	(1,068,446)	(1,184,074)
Book value	<u>55,393,648</u>	<u>1,066</u>	<u>3,228</u>	<u>55,397,942</u>
Financial assets held under resale agreements				
Carrying amount	15,077,976	861,064	1,492,325	17,431,365
Loss allowance	(15,224)	(2,878)	(733,632)	(751,734)
Book value	<u>15,062,752</u>	<u>858,186</u>	<u>758,693</u>	<u>16,679,631</u>
Including: stock-pledged repurchase business				
Carrying amount	4,600,119	861,064	1,492,325	6,953,508
Loss allowance	(15,224)	(2,878)	(733,632)	(751,734)
Collateral	<u>25,917,421</u>	<u>2,395,799</u>	<u>3,021,520</u>	<u>31,334,740</u>
Financial assets at fair value through other comprehensive income (debt instruments)				
Book value	<u>44,256,346</u>	<u>–</u>	<u>573</u>	<u>44,256,919</u>
Loss allowance	<u>(315,227)</u>	<u>–</u>	<u>(15,689)</u>	<u>(330,916)</u>

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49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.1 Credit risk (Continued)

ECL	31 December 2020			Total
	Stage of ECL			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit- impaired)	
Margin accounts				
Carrying amount	46,611,235	60	1,072,550	47,683,845
Loss allowance	(99,346)	(2)	(1,069,322)	(1,168,670)
Book value	<u>46,511,889</u>	<u>58</u>	<u>3,228</u>	<u>46,515,175</u>
Financial assets held under resale agreements				
Carrying amount	15,219,754	106,378	1,876,840	17,202,972
Loss allowance	(41,902)	(576)	(1,043,291)	(1,085,769)
Book value	<u>15,177,852</u>	<u>105,802</u>	<u>833,549</u>	<u>16,117,203</u>
Including: stock-pledged repurchase business				
Carrying amount	7,649,363	106,378	1,876,840	9,632,581
Loss allowance	(41,415)	(576)	(1,043,291)	(1,085,282)
Collateral	<u>37,293,861</u>	<u>300,487</u>	<u>3,213,311</u>	<u>40,807,659</u>
Financial assets at fair value through other comprehensive income (debt instruments)				
Book value	<u>44,814,270</u>	–	<u>2,494</u>	<u>44,816,764</u>
Loss allowance	<u>(297,592)</u>	–	<u>(20,124)</u>	<u>(317,716)</u>

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49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.1 Credit risk (Continued)

The movements of loss allowance are mainly affected by:

- Increases are primarily attributable to new financial instruments recognized, changes in PD, LGD and expected cash flow recovery rate affected by market changes, the resulted movements amongst Stage 1, Stage 2 and Stage 3;
- Reversals include the reversals caused by the redemption or disposal of financial assets;
- Transfers between stages due to financial instruments experiencing significant increases (or decreases) in credit risk or becoming credit-impaired, and the corresponding measurement basis changes between the 12-month (12M) or the Lifetime basis; and
- Foreign exchange and other movements include changes in foreign exchange translations for assets denominated in foreign currencies and other movements.

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

(i) Credit loss allowance for margin accounts

	Stage of ECL			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2021	99,346	2	1,069,322	1,168,670
Increases	74,978	4	2,561	77,543
Reversals	(58,643)	(57)	(2,155)	(60,855)
Write – offs	–	–	–	–
Transfer:				
Stage 1 to stage 2	(90)	90	–	–
Stage 1 to stage 3	(1)	–	1	–
Stage 2 to stage 1	2	(2)	–	–
Foreign exchange and other movements	(1)	–	(1,283)	(1,284)
30 June 2021	<u>115,591</u>	<u>37</u>	<u>1,068,446</u>	<u>1,184,074</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

(In RMB thousands, unless otherwise stated)

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.1 Credit risk (Continued)

(i) Credit loss allowance for margin accounts (Continued)

	Stage of ECL			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit- impaired)	
1 January 2020	67,013	1	1,081,335	1,148,349
Increases	69,664	2	5,218	74,884
Reversals	(37,327)	–	(9,532)	(46,859)
Write – offs	–	–	(430)	(430)
Transfer:				
Stage 2 to stage 1	1	(1)	–	–
Foreign exchange and other movements	(5)	–	(7,269)	(7,274)
31 December 2020	<u>99,346</u>	<u>2</u>	<u>1,069,322</u>	<u>1,168,670</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.1 Credit risk (Continued)

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

	Stage of ECL			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit- impaired)	
1 January 2021	41,902	576	1,043,291	1,085,769
Increases	5,306	2,128	133,674	141,108
Reversals	(29,163)	(1,681)	(444,295)	(475,139)
Write – offs	–	–	–	–
Transfer:				
Stage 1 to stage 2	(2,387)	2,387	–	–
Stage 1 to stage 3	(609)	–	609	–
Stage 2 to stage 3	–	(353)	353	–
Stage 2 to stage 1	179	(179)	–	–
Foreign exchange and other movements	(4)	–	–	(4)
30 June 2021	15,224	2,878	733,632	751,734
	Stage of ECL			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit- impaired)	
1 January 2020	27,466	5,075	64,338	96,879
Increases	35,304	554	989,478	1,025,336
Reversals	(19,966)	(416)	(16,033)	(36,415)
Write – offs	–	–	–	–
Transfer:				
Stage 1 to stage 2	(22)	22	–	–
Stage 1 to stage 3	(849)	–	849	–
Stage 2 to stage 3	–	(4,659)	4,659	–
Foreign exchange and other movements	(31)	–	–	(31)
31 December 2020	41,902	576	1,043,291	1,085,769

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

(In RMB thousands, unless otherwise stated)

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.1 Credit risk (Continued)

(iii) *Credit loss allowance for financial assets at fair value through other comprehensive income (debt instruments)*

	Stage of ECL			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit- impaired)	
1 January 2021	297,592	–	20,124	317,716
Increases	97,137	–	–	97,137
Reversals	(79,480)	–	(4,435)	(83,915)
Write – offs	–	–	–	–
Transfer:				
Stage 2 to stage 3	–	–	–	–
Foreign exchange and other movements	(22)	–	–	(22)
30 June 2021	<u>315,227</u>	<u>–</u>	<u>15,689</u>	<u>330,916</u>
	Stage of ECL			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit- impaired)	
1 January 2020	10,514	1,558	15,366	27,438
Increases	292,734	–	4,057	296,791
Reversals	(5,539)	(396)	(461)	(6,396)
Write – offs	–	–	–	–
Transfer:				
Stage 2 to stage 3	–	(1,162)	1,162	–
Foreign exchange and other movements	(117)	–	–	(117)
31 December 2020	<u>297,592</u>	<u>–</u>	<u>20,124</u>	<u>317,716</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

(In RMB thousands, unless otherwise stated)

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.2 Liquidity risk

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

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

The Asset and Liability Management Committee is responsible for organizing and managing the asset and liability allocation plan of the Group, reviewing and approving the internal valuation interest rate of capital and emergency plans for liquidity risk. The Company established the Treasury Operations Department to initiate the management of the liquidity of its proprietary funds, accounting for expanding mid- and long-term stable funding channels, reasonably adjusting the asset allocation among various business lines, and steadily optimizing its assets and liabilities structure. The Group has improved its daily practice for liquidity risk management and control mechanism with the assistance of classified liquidity reserve system, refining internal funds transfer pricing (FTP) system, as well as establishing and optimizing liquidity emergency plans and stress tests. In addition, during the six months ended 30 June 2021, the Group reasonably planed the scale of assets and liabilities, and optimized the maturity structure of liabilities, to maintain sufficient liquidity reserve and ensure liquidity risk under control.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

(In RMB thousands, unless otherwise stated)

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.2 Liquidity risk (Continued)

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

	30 June 2021					Total
	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	
Accounts payable to brokerage clients	89,804,038	–	–	–	–	89,804,038
Lease liabilities	–	93,296	211,572	637,145	21,464	963,477
Derivative financial liabilities	3,452,355	7,776	4,766	–	–	3,464,897
Financial liabilities at fair value through profit or loss	–	457,851	128,474	2,718,966	–	3,305,291
Financial assets sold under repurchase agreements	–	84,146,203	3,670,020	–	–	87,816,223
Placements from banks and other financial institutions	–	9,063,700	–	–	–	9,063,700
Short-term borrowings	–	2,312,356	–	–	–	2,312,356
Short-term financing instruments payable	–	22,504,271	160,204	–	–	22,664,475
Bonds in issue	–	431,263	718,751	44,090,631	–	45,240,645
Others (i)	17,189,267	11,439,489	33,039,249	3,546	596	61,672,147
Total	110,445,660	130,456,205	37,933,036	47,450,288	22,060	326,307,249
Cash flows from derivative financial liabilities settled on a net basis	3,452,355	5,783	4,460	–	–	3,462,598
Gross-settled derivative financial liabilities	–	1,993	306	–	–	2,299
Contractual amounts receivable	–	–	–	–	–	–
Contractual amounts payable	–	1,993	306	–	–	2,299

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

(In RMB thousands, unless otherwise stated)

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.2 Liquidity risk (Continued)

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

	31 December 2020					Total
	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	
Accounts payable to brokerage clients	74,710,488	–	–	–	–	74,710,488
Lease liabilities	–	137,867	208,494	682,959	24,412	1,053,732
Derivative financial liabilities	2,420,159	3,598	813	50	–	2,424,620
Financial liabilities at fair value through profit or loss	–	5,140	342,326	1,248,263	–	1,595,729
Financial assets sold under repurchase agreements	–	78,784,575	5,852,698	–	–	84,637,273
Placements from banks and other financial institutions	–	9,063,700	–	–	–	9,063,700
Short-term borrowings	–	625,426	–	–	–	625,426
Short-term financing instruments payable	–	34,762,554	7,615,333	–	–	42,377,887
Bonds in issue	–	415,363	989,588	51,955,691	–	53,360,642
Others (i)	9,337,982	5,214,710	16,266,370	4,050	596	30,823,708
Total	86,468,629	129,012,933	31,275,622	53,891,013	25,008	300,673,205
Cash flows from derivative financial liabilities settled on a net basis	2,420,159	3,144	813	50	–	2,424,166
Gross-settled derivative financial liabilities	–	454	–	–	–	454
Contractual amounts receivable	–	–	–	–	–	–
Contractual amounts payable	–	454	–	–	–	454

(i) Others mainly include bonds in issue with maturity within one year, and amounts due to other holders of consolidated structured entities at fair value.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

(In RMB thousands, unless otherwise stated)

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.2 Liquidity risk (Continued)

The table below analyzes the Group's lease agreements, which were committed as at 30 June 2021 and 31 December 2020 but not commenced into the relevant maturity groupings based on their contractual maturities:

	30 June 2021				Total
	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years	
Lease liabilities	5,908	5,942	14,749	577	27,176
	31 December 2020				
	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years	Total
Lease liabilities	4,552	5,342	13,464	1,198	24,556

49.3 Market risk

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

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

During the six months ended 30 June 2021, while the Group obtains reasonable investment returns, market risks are effectively controlled within the scope of various risk limit indicators.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

(In RMB thousands, unless otherwise stated)

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.3 Market risk (Continued)

(1) Value at risk (VaR)

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

The VaR of the Group's investment portfolio is calculated using the portfolio's historical data information. Although VaR analysis is a key instrument for measuring market risk, it has to rely on historical data and relevant information, and accordingly, it has certain inherent limitations so that it may not accurately predict the future changes of risk factors and in particular, cannot effectively reflect the risk under extreme market conditions. As a supplementary measure, the Group implements daily and specific stress tests to assess the impact on extreme adverse movements in risk indicators to the net capital of the Group and the profit and loss on proprietary portfolio and proposes emergency plans with relevant recommendations and measures accordingly.

Consistent with its internal risk management policy and comparable with peers, the Group's VaR was computed at a confidence level of 95% and with a holding period of 1 trading day. The Group's VaR analysis by risk categories is summarized as follows:

	30 June 2021	31 December 2020
Equity price-sensitive financial instruments	153,970	153,437
Interest rate-sensitive financial instruments	<u>121,039</u>	<u>183,447</u>

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

(In RMB thousands, unless otherwise stated)

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.3 Market risk (Continued)

(2) Interest rate risk

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

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

Interest rate sensitivity analysis of are as follows:

Sensitivity to revenue	30 June 2021	31 December 2020
Change in basis points		
+25 basis points	(552,337)	(502,806)
-25 basis points	555,576	506,548
	<u> </u>	<u> </u>
Sensitivity to equity	30 June 2021	31 December 2020
Change in basis points		
+25 basis points	(242,398)	(250,464)
-25 basis points	244,676	252,889
	<u> </u>	<u> </u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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(In RMB thousands, unless otherwise stated)

49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.3 Market risk (Continued)

(3) Foreign currency rate risk

With respect to foreign exchange rate risk, the Group's foreign-currency-denominated assets and liabilities represent only a small portion in its entire assets and liabilities portfolio. As at 30 June 2021, the foreign exchange exposure is approximately RMB3,405 million (31 December 2020: RMB1,533 million), and the increase was due to the China dollar bond issued by China Securities (International) Finance Holding Co., Ltd in the first half of Year 2021 and the resulted increase of liability in foreign currency. The Group manages its foreign exchange rate risk by implementing integrated management of domestic and foreign Fixed-Income securities, Currencies and Commodities (FICC) and derivatives business, limiting the size of its foreign-currency-denominated assets and liabilities and setting stop-loss limits for proprietary investments by its overseas subsidiaries. The majority of its income-generating business activities under the current structure are conducted in RMB, with only a small portion denominated in foreign currencies. Given the small portion of the foreign-currency-denominated businesses in both its assets and liabilities portfolio and income structure, the Group believes that its foreign exchange rate risk has an insignificant impact on its current operations.

(4) Other price risks

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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49 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

49.4 Capital management

The Group's objectives of capital management are:

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

In accordance with Administrative Measures for Risk Control Indicators of Securities Companies (Revised 2016) (the "Administrative Measures") issued by the CSRC in 2016 and Calculation Standards for Risk Control Indicators of Securities Companies (CSRC Announcement [2020] No.10) (the "Calculation Standards") issued by the CSRC in 2020, respectively, 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%;

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

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

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

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

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

In March 2020, the Group received a Notice on the Matters about the Pilot of Consolidated Risk Control and Monitoring from CSRC (Notice of Department of Institutions (2020) No. 663), which allowed the Group to officially participate in the pilot of consolidated risk control and to implement differentiated calculation standards for risk control indicators.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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(In RMB thousands, unless otherwise stated)

50 EVENTS AFTER THE REPORTING PERIOD

(1) Issuance of subordinated bond

In July 2021, the Company publicly issued a subordinated bond with a face value of RMB6 billion. The bond can be divided into two categories: (a) the “21 Xintou C9” has a face value of RMB4.5 billion, with a maturity of 457 days and a nominal rate of 3.05%, and pays the principal and interest once at maturity. (b) the “21 Xintou 10” has a face value of RMB1.5 billion, with a maturity of 3 years and a nominal rate of 3.50%, and pays interest annually. The bond accrues interest at fixed rate per annum and is not guaranteed.

(2) Issuance of short-term corporate bond

In July 2021, the Company publicly issued a 153-day fixed rate short-term corporate bond with a face value of RMB1 billion (“21 Xintou S1”). The bond pays the principal and interest at 2.45% per annum at maturity and is not guaranteed.

(3) Issuance of short-term commercial paper

In July 2021, the Company publicly issued a 90-day fixed rate commercial paper with a face value of RMB4.5 billion (“21 CSC CP010BC”). The bond pays the principal and interest at 2.28% once at maturity and is not guaranteed.

In August 2021, the Company publicly issued a 90-day fixed rate commercial paper with a face value of RMB3.4 billion (“21 CSC CP011BC”). The bond pays the principal and interest at 2.18% once at maturity and is not guaranteed.



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