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China International Capital Corporation Limited

中國國際金融股份有限公司

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

(Stock code: 3908)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2018

The board of directors of China International Capital Corporation Limited (the “**Company**”) hereby announces the unaudited interim results of the Company and its subsidiaries for the six months ended June 30, 2018. This announcement, containing the main text of the 2018 interim report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to preliminary announcement of interim results. The printed version of the Company’s 2018 interim report will be despatched to the shareholders of the Company and available for viewing on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the website of the Company at www.cicc.com in due course.

By order of the Board
China International Capital Corporation Limited
Secretary to the Board
Xu Yicheng

Beijing, August 24, 2018

As at the date of this announcement, the Executive Director of the Company is Mr. Bi Mingjian; the Non-executive Directors are Ms. Zhao Haiying, Mr. David Bonderman, Mr. Liu Haifeng David, Mr. Shi Jun and Mr. Cha Mou Daid Johnson; and the Independent Non-executive Directors are Mr. Edwin Roca Lim, Mr. Liu Li, Mr. Siu Wai Keung and Mr. Ben Shenglin.



Core Values

PEOPLE-ORIENTED WITH NATION IN MIND

People are our most valuable resource. We make great efforts to attract, cultivate and retain the best people. “Acting as the international investment bank of China” has been our historical mission since the inception of CICC. We always regard promoting and servicing the reform of the national economic system and the development of the Chinese capital market as our due responsibilities.

DILIGENT AND PROFESSIONAL

We develop business with the highest professional standards, and have nurtured a team of high quality financial talents with international vision, who are diligent, responsible and agree with our corporate culture.

ACTIVE AND ENTERPRISING

Innovation is the driving force for the sustainable development of CICC. With excellent talents, panoramic vision, close cooperation with customers and extensive experience, we can always feel and capture the latest pulse of market and provide innovative products and high quality services to our customers.

CLIENTS FIRST

Client service is always our first priority. We maintain long-term relationships with our clients and provide them with value-added services.

INTEGRITY AS FOUNDATION

Our reputation is our biggest asset and is built upon the utmost professional integrity and highest ethical standards. We never compromise on integrity.

CHINESE ROOTS AND INTERNATIONAL REACH

As a China-based global investment bank, we are proud of our China roots and our international DNA. We strive to bridge China and the world by providing best-in-class services to both Chinese and overseas clients.

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Definitions

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

| | |
|--|---|
| “Acquisition” | the acquisition by our Company of 100% of equity interest of CISC from Huijin pursuant to the Equity Transfer Agreement |
| “Articles of Association” | the articles of association of the Company (as amended from time to time) |
| “AUM” | the amount of assets under management |
| “Basic and diluted earnings per share” | (profit attributable to shareholders of the Company and holders of other equity instruments – interest for holders of perpetual subordinated bonds for the period)/ weighted average number of ordinary shares in issue |
| “Board” or “Board of Directors” | the board of directors of the Company |
| “China Investment Consulting” | China Investment Consulting Co., Ltd.* (中國投資諮詢有限責任公司), a company incorporated in the PRC in March 1986 and a wholly owned subsidiary of Jianyin Investment and a Shareholder of our Company |
| “CICC Capital” | CICC Capital Management Co., Ltd.* (中金資本運營有限公司), a company incorporated in the PRC in March 2017 and a wholly owned subsidiary of our Company |
| “CICC Fund Management” | CICC Fund Management Co., Ltd.* (中金基金管理有限公司), a company incorporated in the PRC in February 2014 and a wholly owned subsidiary of our Company |
| “CICC Futures” | CICC Futures Co., Ltd.* (中金期貨有限公司), a wholly owned subsidiary of our Company, which was known as Fortune Futures Co., Ltd.* (財富期貨有限公司) before being acquired by our Company in 2015 |
| “CICC Hong Kong” | China International Capital Corporation (Hong Kong) Limited (中國國際金融(香港)有限公司), a company incorporated in Hong Kong in April 1997 and a wholly owned subsidiary of our Company |
| “CISC” | China Investment Securities Company Limited (中國中投證券有限責任公司), a company incorporated in the PRC in September 2005 and a wholly owned subsidiary of our Company |
| “Company”, “our Company” or “CICC” | China International Capital Corporation Limited (中國國際金融股份有限公司), a joint stock limited company incorporated in the PRC and whose H Shares are listed on the Hong Kong Stock Exchange (Stock Code: 3908) |
| “Company Law” | the Company Law of the PRC (中華人民共和國公司法), as amended, supplemented or otherwise modified from time to time |
| “Corporate Governance Code” | Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules |
| “CSRC” | the China Securities Regulatory Commission* (中國證券監督管理委員會) |
| “Directors” | directors of our Company |



Definitions

| | |
|--------------------------------------|---|
| “Domestic Share(s)” | issued ordinary share(s) in the share capital of our Company with a nominal value of RMB1.00 each, which is (are) subscribed for or credited as fully paid in RMB |
| “Equity Transfer Agreement” | the equity transfer agreement entered into between our Company and Huijin dated November 4, 2016, pursuant to which our Company agreed to purchase and Huijin agreed to sell 100% of the equity interest of CISC |
| “EUR” | Euro, the lawful currency of the eurozone |
| “FICC” | fixed income, commodities and currencies |
| “Gearing ratio” | $(\text{total liabilities} - \text{accounts payable to brokerage clients}) / (\text{total assets} - \text{accounts payable to brokerage clients})$ |
| “GIC” | GIC Private Limited, a company incorporated in Singapore in May 1981 and a Shareholder of our Company |
| “Group”, “our Group” or “we” | our Company and our subsidiaries (or with reference to the context, our Company and anyone or more of our subsidiaries) |
| “H Share(s)” | ordinary shares in the share capital of our Company with a nominal value of RMB1.00 each, which is (are) listed on the Hong Kong Stock Exchange and are subscribed for and traded in HK dollars |
| “HK dollars” or “HKD” | Hong Kong dollars, the lawful currency of Hong Kong |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Hong Kong Stock Exchange” or “HKEx” | The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited |
| “Huijin” | Central Huijin Investment Ltd.* (中央匯金投資有限責任公司), a wholly state-owned company ultimately owned by the PRC Government, which directly and indirectly held approximately 55.75% of the equity interests in our Company |
| “I&G” | China National Investment and Guaranty Corporation* (中國投融資擔保股份有限公司), a company incorporated in the PRC in 1993 and a Shareholder of our Company |
| “IFRSs” | the International Financial Reporting Standards, which include standards, amendments and interpretations promulgated by the International Accounting Standards Board and the International Accounting Standards (IAS) and interpretations issued by the International Accounting Standards Committee (IASC) |
| “Jianyin Investment” | China Jianyin Investment Ltd.* (中國建銀投資有限責任公司), a company incorporated in the PRC in June 1986 and a wholly owned subsidiary of Huijin and a Shareholder of our Company |
| “JIC Investment” | JIC Investment Co., Ltd. (建投投資有限責任公司), a company incorporated in the PRC in October 2012 and a wholly owned subsidiary of Jianyin Investment and a Shareholder of our Company |



Definitions

| | |
|---------------------------|--|
| “Latest Practicable Date” | August 22, 2018 |
| “Listing Rules” | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time) |
| “Mingly” | Mingly Corporation, a company incorporated in Cayman Islands, and registered in Hong Kong in 1988 and a Shareholder of our Company |
| “Model Code” | the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 to the Listing Rules |
| “MOF” | the Ministry of Finance of the PRC* (中華人民共和國財政部) |
| “Net capital” | refers to net assets after risk adjustments on certain types of assets as defined in the Provisions on the Calculation Basis for Risk Control Indicators of Securities Companies |
| “PBOC” or “Central Bank” | the People’s Bank of China (中國人民銀行), the central bank of the PRC |
| “PRC” or “China” | the People’s Republic of China, and for the purposes of this report, excluding Hong Kong, Macau Special Administrative Region and Taiwan region |
| “PRC Government” | the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities |
| “QFII” | Qualified Foreign Institutional Investor* (合格境外機構投資者) |
| “Reporting Period” | the six months period ended June 30, 2018 |
| “REPOs” | financial assets sold under repurchase agreements |
| “Reverse REPOs” | financial assets held under resale agreements |
| “RMB” | 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” | the Securities Law of the PRC as amended, supplemented or otherwise modified from time to time |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time |
| “Shareholder(s)” | holder(s) of the Share(s) |
| “Share(s)” | ordinary shares in the capital of our Company with a nominal value of RMB1.00 each |
| “Supervisors” | supervisors of our Company |
| “Supervisory Committee” | the supervisory committee of our Company |
| “Tencent Computer” | Shenzhen Tencent Computer Systems Company Limited, a company established in the PRC with limited liability and a wholly owned subsidiary of Tencent Holdings |



Definitions

| | |
|---|---|
| “Tencent Holdings” | Tencent Holdings Limited, a company incorporated in the Cayman Islands with limited liability and whose shares are listed on the Hong Kong Stock Exchange (Stock Code: 700) |
| “Tencent Mobility Limited” | Tencent Mobility Limited, a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of Tencent Holdings |
| “TPG” | TPG Asia V Delaware, L.P., a limited partnership established in the United States in 2009 and a Shareholder of our Company |
| “United States” or “US” | the United States of America, its territories, its possessions and all areas subject to its jurisdiction |
| “USD” or “US\$” | United States dollars, the lawful currency of the United States |
| “Weighted average return on net assets” | net profit attributable to shareholders of the Company/weighted average of equity attributable to shareholder of the Company |
| “%” | per cent |

Notes:

Certain amounts and percentage figures included in this report have been subject to rounding. Accordingly, the arithmetic sum shown in certain tables may not be the total of the figures preceding them. Any discrepancies in any table or chart between the arithmetic sum shown and the total of the amounts listed are due to rounding.

For ease of reference, the names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities (including certain of our subsidiaries) have been included in the report in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail. English translations of company names and other terms from the Chinese language are marked with “*” and are provided for identification purposes only.



Company Profile

| | |
|--|--|
| Name in Chinese: | 中國國際金融股份有限公司 |
| Name in English: | China International Capital Corporation Limited |
| Legal representative: | Bi Mingjian ^(note 1) |
| Chairman: | Bi Mingjian ^(note 1) |
| Chief Executive Officer: | Bi Mingjian |
| Registered capital: | RMB4,192,667,868 |
| Headquarters in the PRC: | |
| Registered address | 27th and 28th Floor, China World Office 2, 1 Jianguomenwai Avenue, Chaoyang District, Beijing, PRC |
| Office address | 27th and 28th Floor, China World Office 2, 1 Jianguomenwai Avenue, Chaoyang District, Beijing, PRC |
| Company website | http://www.cicc.com |
| E-mail | Investorrelations@cicc.com.cn |
| Principal place of business in Hong Kong: | 29/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong |
| Secretary to the Board: | Xu Yicheng ^(note 2) |
| Address | 27th and 28th Floor, China World Office 2, 1 Jianguomenwai Avenue, Chaoyang District, Beijing, PRC |
| Telephone | +86-10-65051166 |
| Facsimile | +86-10-65051156 |
| Joint Company Secretaries: | Xu Yicheng ^(note 2) , Zhou Jiaying |
| Authorized Representatives: | Bi Mingjian, Zhou Jiaying |
| Auditors: | |
| Domestic accounting firm | KPMG Huazhen LLP |
| International accounting firm | KPMG |

Note 1: Mr. Ding Xuedong resigned from the office of the Chairman of the Board and legal representative of the Company due to work rearrangement, with effect from February 27, 2017. As approved by the Board, Mr. Bi Mingjian, the executive Director and Chief Executive Officer, has started to perform the duties of the Chairman of the Board and legal representative since March 1, 2017.

Note 2: Mr. Wu Bo resigned from the office of the Secretary to the Board and Joint Company Secretary of the Company due to work rearrangement, with effect from April 20, 2018. Mr. Xu Yicheng has been appointed by the Board as the Secretary to the Board and Joint Company Secretary of the Company since April 20, 2018.



Financial Summary

I. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

| Items | Six months ended June 30, 2018 | Six months ended June 30, 2017 | Changes over the corresponding period of last year |
|--|-----------------------------------|-----------------------------------|--|
| Operating results⁽¹⁾ (RMB in million) | | | |
| Total revenue and other income | 8,813.3 | 5,817.8 | 51.5% |
| Total expenses | 6,737.9 | 4,379.9 | 53.8% |
| Profit before income tax | 2,127.2 | 1,477.3 | 44.0% |
| Profit for the period – attributable to shareholders of the Company and holders of other equity instruments | 1,630.9 | 1,110.8 | 46.8% |
| Net cash used in operating activities | (4,021.0) | (5,301.3) | (24.2%) |
| Earnings per share (RMB/share) | | | |
| Basic and diluted earnings per share | 0.39 | 0.34 | 13.9% |
| | | | Increased by 0.1 percentage point |
| Weighted average return on net assets | 4.3% | 4.1% | |

| Items | June 30, 2018 | December 31, 2017 | Changes over the end of last year |
|---|---------------|-------------------|--------------------------------------|
| Financial position (RMB in million) | | | |
| Total assets | 263,901.8 | 237,811.9 | 11.0% |
| Total liabilities | 223,767.4 | 200,919.5 | 11.4% |
| Total equity attributable to shareholders of the Company and holders of other equity instruments | 39,961.5 | 36,706.7 | 8.9% |
| Accounts payable to brokerage clients | 49,318.8 | 47,346.5 | 4.2% |
| Total share capital (in million shares) | 4,192.7 | 3,985.1 | 5.2% |
| Net assets per share attributable to shareholders of the Company (RMB/share) | 9.3 | 9.0 | 3.7% |
| | | | Increased by 0.7 percentage point |
| Gearing ratio (%) | 81.3% | 80.6% | |

- (1) The Group has included CISC in its scope of consolidation since March 31, 2017. The operating results disclosed for the six months ended June 30, 2018 has consolidated the corresponding amount of CISC from January 1, 2018 to June 30, 2018. The operating results disclosed for the six months ended June 30, 2017 has consolidated the corresponding amount of CISC from April 1, 2017 to June 30, 2017.



Financial Summary

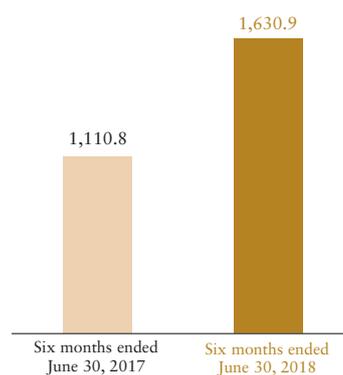
Total revenue and other income

RMB in million

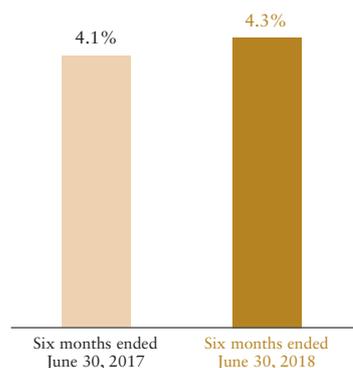


Profit for the period – attributable to shareholders of the Company and holders of other equity instruments

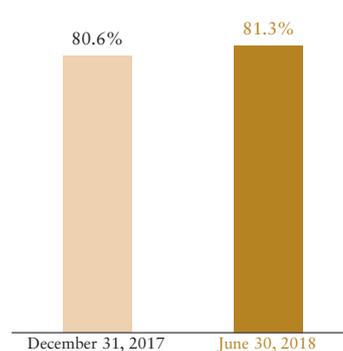
RMB in million



Weighted average return on net assets

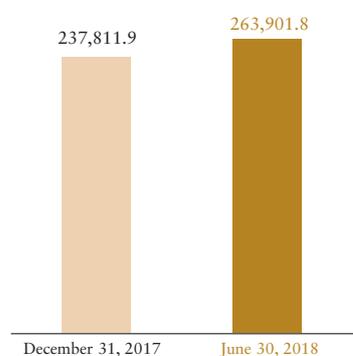


Gearing ratio



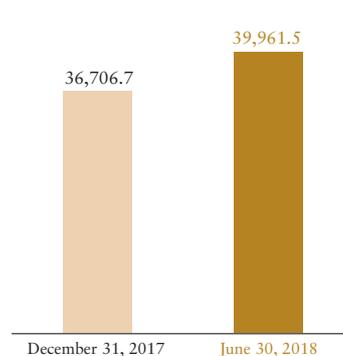
Total assets

RMB in million



Total equity attributable to shareholders of the Company and holders of other equity instruments

RMB in million



Financial Summary

II. NET CAPITAL AND RELEVANT RISK CONTROL INDICATORS

As at June 30, 2018, the Company's net capital was RMB24,060.7 million, representing an increase of 24.4% compared with RMB19,347.4 million as at December 31, 2017. During the Reporting Period, all of the Company's risk control indicators including the net capital met regulatory requirements.

Unit: RMB in million

| Items | June 30, 2018 | December 31, 2017 |
|--|---------------|-------------------|
| Core net capital | 16,040.5 | 12,898.2 |
| Net supplement capital | 8,020.2 | 6,449.1 |
| Net capital | 24,060.7 | 19,347.4 |
| Net assets | 36,723.0 | 33,662.3 |
| Total risk capital provision | 14,948.1 | 14,106.2 |
| Total on-balance and off-balance assets | 134,463.7 | 124,005.3 |
| Risk coverage ratio | 161.0% | 137.2% |
| Capital leverage ratio | 11.9% | 10.4% |
| Liquidity coverage ratio | 283.1% | 354.8% |
| Net stable funding ratio | 163.1% | 129.4% |
| Net capital/net assets | 65.5% | 57.5% |
| Net capital/liabilities | 27.7% | 23.6% |
| Net assets/liabilities | 42.3% | 41.1% |
| Equity securities and related derivatives held/net capital | 29.7% | 51.2% |
| Non-equity securities and related derivatives held/net capital | 254.3% | 269.9% |



Management Discussion and Analysis

I. ANALYSIS OF PRINCIPAL BUSINESSES

Investment Banking

Equity Financing

Market Environment

During the first half of 2018, the financing size of the A share primary market shrank significantly due to factors such as severer secondary market volatility, tightened IPO review standards and slowdown of IPO review. During the first half of 2018, a total of 62 A-share IPOs were completed, with an aggregate financing size of approximately RMB92,200 million, representing a decline of 21.0% compared with the first half of 2017; in terms of follow-on offerings, a total of 101 transactions were closed, with an aggregate financing size of approximately RMB247,778 million, representing a decline of 12.3% compared with the first half of 2017.

In the Hong Kong primary market, IPO, follow-on offering, and sell-down activities ramped up. During the first half of 2018, a total of 100 Hong Kong IPOs were completed, with an aggregate financing size of approximately US\$12,788 million, representing a significant growth of 80.2% compared with the first half of 2017; in terms of follow-on offerings and sell-downs, a total of 129 transactions were closed with an aggregate amount of approximately US\$22,149 million, representing a growth of 77.8% compared with the first half of 2017.

In the U.S. primary market, IPOs by PRC-based companies remained hot. During the first half of 2018, a total of 15 US IPOs of PRC-based companies were completed, with an aggregate financing size of approximately US\$4,146 million, growing substantially compared with the first half of 2017.

Actions and Achievements

Our Company further enhanced full value chain services, brand influence and capacity to serve the domestic and overseas financing demand of PRC-based companies. We also seized the opportunities arising from major policy changes to strengthen product innovation to maintain competitiveness in the A-share as well as the Hong Kong markets.

During the first half of 2018, our Company closed a total of six A-share IPOs, with an aggregate amount of approximately RMB33,681 million acting as lead underwriter, ranking No.1 in the market; our Company also closed five A-share follow-on offerings, with an aggregate amount of approximately RMB22,015 million acting as lead underwriter, ranking the fifth in the market.

During the first half of 2018, our Company led four Hong Kong IPOs acting as bookrunner, with an aggregate amount of US\$423 million; our Company also led four follow-on offerings, with an aggregate amount of US\$603 million.

During the first half of 2018, our Company maintained a strong momentum in terms of US IPOs of PRC-based companies. We participated in two US IPOs of PRC-based companies, with an aggregate underwriting amount of US\$73 million.



Management Discussion and Analysis

| Items | January to June 2018 | | January to June 2017 | |
|---------------------|--|---------------------|--|---------------------|
| | Lead underwriting amount (RMB million) | Number of offerings | Lead underwriting amount (RMB million) | Number of offerings |
| A shares | | | | |
| IPOs | 33,681 | 6 | 5,994 | 6 |
| Follow-on offerings | 22,015 | 5 | 21,636 | 8 |
| Preference shares | 11,875 | 2 | – | – |

| Items | January to June 2018 | | January to June 2017 | |
|----------------------------|--|---------------------|--|---------------------|
| | Lead underwriting amount (USD million) | Number of offerings | Lead underwriting amount (USD million) | Number of offerings |
| Hong Kong equity offerings | | | | |
| IPOs | 423 | 4 | 380 | 7 |
| Follow-on offerings | 603 | 4 | 226 | 4 |

| Items | January to June 2018 | | January to June 2017 | |
|--|--|---------------------|--|---------------------|
| | Lead underwriting amount (USD million) | Number of offerings | Lead underwriting amount (USD million) | Number of offerings |
| U.S. equity offerings by PRC-based companies | | | | |
| IPOs | 73 | 2 | – | – |



Management Discussion and Analysis

Outlook for the second half of 2018

For the second half of 2018, our Company will continue to ensure quality execution of major transactions in the pipeline, and take advantage of opportunities along with economic structural reform and upgrade as well as policy opportunities at home and abroad, to enhance our capacity to serve new economies, and to further improve our market share in domestic and overseas equity capital-raising. Meanwhile, we will carry forward integration with CISC to further strengthen local presence and build pipeline.

Debt and Structured Financing

Market Environment

During the first half of 2018, yield curves grew steeper, default risks of low-rating bonds exploded, investor appetites significantly reduced, and high-rating products became more appealing. During the first half of 2018, the total amount of onshore credit bond issuance reached approximately RMB4.7 trillion, representing a growth of 32.4% compared with the first half of 2017. Meanwhile, as trade friction escalated and the global capital market became increasingly volatile, the overseas debt capital-raising amount of PRC-based companies slightly declined by 1.8% to approximately US\$120,933 million in the first half of 2018, compared with the first half of 2017.

Actions and Achievements

During the first half of 2018, our Company further expanded the debt underwriting team and our fixed income underwriting business continued to grow. A total of 98 transactions were completed, representing a growth of 96.0%, with an aggregate underwriting amount of approximately RMB122,048 million, including 68 domestic transactions with an aggregate amount of RMB104,931 million, and 30 offshore transactions with an aggregate amount of US\$2,587 million.

During the first half of 2018, our Company adopted various measures to increase the depth and breadth of regional coverage to improve our debt underwriting performance in key regions. With business strategies effectively implemented, our offshore debt underwriting business continued to grow. We continued to rank No. 1 among Chinese securities firms in terms of overseas investment-grade USD bond offerings by PRC-based companies and commenced to gradually build CICC's brand in high-yield bond underwriting business.

Our Company continued to solidify our strength in bond product innovation. We successfully closed the EUR500 million offshore bond issuance by Chengdu Xingcheng Investment Group Co., Ltd. (成都興城投資集團有限公司), which represented the first offshore bond by a Chinese non-financial issuer that was concurrently listed on both the Frankfurt Stock Exchange of Germany and China Europe International Exchange (CEINEX).

Outlook for the second half of 2018

During the second half of 2018, our Company will further expand our regional presence and enhance our full-service capacity, to continue to improve our fixed income rankings in key regions and key industries.



Management Discussion and Analysis

Financial Advisory Services

Market Environment

In the first half of 2018, according to the statistics of Dealogic, mergers and acquisitions (“M&A”) by PRC-based companies increased by 21.3% compared with the first half of 2017. There were 2,771 M&A transactions by PRC-based companies with a total amount of US\$328,989 million, accounting for approximately 13.2% of the global M&A market in the first half of 2018. Among these transactions, 2,307 were domestic M&A transactions with a total amount of US\$250,915 million, representing a growth of 33.8% compared with the first half of 2017; 464 were cross-border M&A transactions, with an amount of US\$78,074 million, representing a decline of 6.7% compared with the first half of 2017.

Actions and Achievements

Our Company continued to grow and reinforce its leadership in the M&A business. During the first half of 2018, according to statistics about M&A by PRC-based companies published by Dealogic, our Company announced 21 deals, involving a total amount of US\$32,829 million, representing a growth of 26.0% compared with the first half of 2017. Among these transactions, 16 were domestic M&A transactions with a total amount of US\$31,803 million and five were cross-border M&A transactions with a total amount of US\$1,026 million. During the first half of 2018, our Company ranked No.1 in the domestic M&A market and fourth in the PRC M&A market, with a market share of approximately 10.0%, further strengthening our market leadership. During the first half of 2018, we opened the Frankfurt office and our expanded presence will thus pave the way for better service to our clients in cross-border mergers and acquisitions and for fundraising.

Outlook for the second half of 2018

During the second half of 2018, our Company will continue to focus on M&A activities to promote industrial consolidation, and contribute to China’s economic development. Moreover, we will further expand our international presence and take advantage of the market leadership of CICC in the field of cross-border M&A, to promote structural upgrade of Chinese companies and deepen the interconnection between domestic and overseas capital markets.

Equities

Market Environment

In the first half of 2018, the A-share market volatility increased and investors’ risk appetites reduced on deepened leveraging and escalated trade friction. Major indices continued to contract following early hikes of the year. As of the end of June 2018, the Shanghai Composite Index closed at 2,847.42 points, down 13.9% compared with the end of 2017. The Shenzhen Stock Exchange Composite Index closed at 9,739.47 points, down 15.0% compared with the end of 2017. The CSI 300 Index closed at 3,510.98 points, down 12.9% compared with the end of 2017. During the first half of 2018, the average daily trading volume in the A-share market was RMB482.7 billion, representing an increase of 1.4% compared to the corresponding period last year. Since June, market trading activities further declined. At the same time, the brokerage commission rate of the industry slid further in 2018. The average commission rate of the industry in the first half of the year fell to 3.2 basis points, which was 5.6% lower than the average of 2017.



Management Discussion and Analysis

At the beginning of 2018, the Hong Kong stock market continued its upward trend from the end of 2017. The Hang Seng Index hit 33,000 points at the end of January and trading activities were active. However, since February, the market headed down, following multiple interest hikes by the US government, currency depreciations of emerging markets, and escalated China-US trade friction. As of the end of June 2018, the Hang Seng Index closed at 28,955.11 points, down 3.2% compared with the end of 2017. The H-share index and the red-chip index, whose performance are closely related to China-related stocks, also fell by 5.4% and 1.1% compared with the end of 2017, respectively. As investors turned more risk averse, the Hong Kong stock market trading volume shrank significantly starting from the second quarter, with the average trading volume in the second quarter down 26.8% quarter-to-quarter, and down 33.0% from the January high in 2018.

Actions and Achievements

In the first half of 2018, the Equities business continued to implement the strategy of “Chinese roots, global reach”. By capitalizing on our quality domestic and overseas institutional client base, we further enhanced our global platform for asset allocation. By strengthening collaboration between our professional teams in major cities in China as well as the four international financial hubs, namely New York, London, Singapore, and Hong Kong, we further materialized synergies among different teams, customers and business lines in the exchange and OTC markets at home and abroad.

Despite higher market volatility and more stringent regulations, the Equities business delivered good results during the first half of 2018. Our domestic brokerage income rose against market downturn and outperformed the market trading volume by nearly 30 percentage points, and our A-share market share increased by 15.5% compared with the first half of 2017; whilst our overseas

brokerage income recorded a strong growth. Our total trading volume in the domestic and Hong Kong markets were 2.5 times of that in the same period of last year. Meanwhile, our average brokerage commission rate in the A-share market stood at around 5bps, maintaining a premium to the market average level.

Our cross-border strengths were fully demonstrated. We maintained leading customer coverage and market shares in the stock connect markets. In the domestic market, the Company maintained a strong coverage over fund and insurance accounts, and our market share in Hong Kong stock trading volume by domestic fund and insurance clients continued to increase to 16%, according to the latest statistics of domestic stock exchanges. In the overseas market, according to the HKEx, we ranked top-notch among all global brokers in the northbound trading of Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect, with our market share improving by nearly 60% year-on-year during the first half of 2018. Besides, our total trading volume in terms of northbound trading of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect significantly increased by over 3 times compared with the first half of 2017.

We maintained a leading edge in terms of product design. In the first half of 2018, the Company continued to strengthen product innovation and cross-selling activities between the exchange and OTC markets at home and abroad. By utilizing our proprietary system and platform, our prime brokerage business continued to grow. In the meantime, the size of products for offshore business stayed at a relatively high level. In light of the regulatory and market changes for the OTC derivatives business, we made great efforts in terms of development of new clients and new products. The Company officially obtained the qualification of first-class dealer for OTC options on August 1, 2018, thereby maintaining a leading position in the industry. Meanwhile, we have stepped up our efforts



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in establishing an integrated financial service platform by continuously enhancing the middle-and-back-office capacity and strengthening the teams, systems, policies and procedures for several product lines such as prime brokerage, equity derivatives and synthetic equity financing, thanks to the joint efforts from the sales teams and trading teams.

We further penetrated into the global high-end institutional client network. Deeply rooted in the domestic and overseas secondary markets for years, our Company has built a prestigious institutional client base and maintained leading customer coverage and market shares among mutual funds, QFII/RQFIIs, QDIIs, insurance companies and private asset managers. As of June 30, 2018, our Company continued to maintain a leading 40% QFII/RQFII coverage over 195 accounts. At the same time, we rendered sales support for the primary market business during the execution of block trades, accelerated bookbuilding, large A-share/H-share IPOs and follow-on offerings, as well as distribution in the domestic and overseas markets.

Outlook for the second half of 2018

During the second half of 2018, the Company will continue to take advantage of the opportunities along with the ongoing liberalization of the Chinese capital market, to further strengthen our international competitiveness. The Company will continue to improve coverage over key institutional clients, expand our global client base, consolidate market shares, further diversify trading products, to solidify our revenue base. We will focus on product innovation to diversify our portfolio of overseas derivative instruments, enhance systems support, carry out rigorous risk management and strengthen training of professionals, capture revenue generation

opportunities from cross-border capital flow and asset allocation through our unique service offerings, and customize the best one-stop execution solutions for our clients based on their needs.

FICC

Market Environment

In the first half of 2018, against the backdrop of tightened financial regulations, the growth of aggregate social financing volume slowed down in terms of absolute volume and growth rate. The growth rate of social financing and M2 hit a historical low in June. The risk of credit default increased starting from the second quarter. In addition, the trade frictions between the US and China heated up since the second quarter. The stock market dropped in June, after the US government announced raising tariffs on imports from China. In order to hedge against the shocks from tightened liquidity and increasing default risk, as well as escalated China-US trade frictions, the monetary policies marginally relaxed. The Central Bank cut down the deposit required reserve ratio by 100bps and 50bps on April 17 and June 24, respectively. Money market interest rates and bond market yields dropped from the early year high on relaxing monetary policies, while the yield curves grew steeper as the yields of short-maturity bonds dropped by a larger extent. However, under tightened financial regulations, the credit bond market demonstrated a greater divergence. The yields of AAA-rated bonds went down along with falling government bond rates, while the credit spreads of low-rating bonds continued to widen on increasing default risks and risk aversion of financial institutions, resulting in higher yields. Overall speaking, the term spreads and credit spreads in the credit bond market have widened since the end of last year.



Management Discussion and Analysis

Actions and Achievements

During the first half of 2018, the Company continued to forge ahead our FICC business. We have significantly improved our comprehensive service capability, and witnessed solid progress in client business. We delivered strong results from client trading and structured product business, and maintained a steady growth and leading market share in asset-backed securitization. We further strengthened new product structuring, as well as cross-selling activities to provide more tailor-made and quality products to wealth management customers.

During the first half of 2018, in spite of increasing market volatility and credit risks following tightened regulatory requirements and China-US trade friction, our trading teams demonstrated strong trading and risk management capabilities, and achieved sound returns by prudently capturing market opportunities. We steadily brought forward integration of fixed income sales and trading teams of CISC and witnessed good results.

During the first half of 2018, our Company continued to invest in IT systems, to further enhance systems support to our FICC business.

Outlook for the second half of 2018

Our Company will continue to improve the FICC platform and focus on client business. We will further strengthen risk management in trading and principal investment in seeking solid returns. We will further strengthen our innovation and product design capabilities for all types of products. We will focus on cross-border business and further improve our product design and service platform for cross-border activities.

Wealth Management

Market Environment

In the first half of 2018, domestic stock market trading volumes and commission rates declined on market downturn, and the commission income of the industry continued to fall compared with the first half of 2017. Industry reshuffle accelerated against the backdrop of deleveraging and tightened regulations. Meanwhile, the introduction of new asset management regulations brought securities firms new opportunities to reshape the wealth management industry. Furthermore, the industry actively sought to upgrade the current commission-based business model to reduce reliance on commission income. Only with upgraded business model developed through business innovation, product innovation and marketing innovation, will the industry be able to achieve sustainable growth and constant improvement of competitiveness. In addition, the constant growth of high-net-worth population and investable assets in the PRC, not only presents us with unprecedented development opportunities, but also adds fuel to industry competition and reshuffle. Going forward, the competition amongst major securities firms will focus on how to establish a differentiated business model built upon sound IT platform and financial technology.

Actions and Achievements

In the first half of 2018, our Company was dedicated to providing quality services to clients with particular focus on asset allocation. We focused on leveraging our online platform and offline network to provide integrated wealth management services and solutions tailored to address clients' needs for asset allocation. Capitalizing on our extraordinary research platform, we further strengthened capital market coverage to provide more timely and professional analysis to our clients. We fine-tuned our product portfolio in line with the changing



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market conditions and upgraded products platform in Hong Kong, to create a wealth management product platform with CICC features. Meanwhile, along with the official launch of version 1.2.1 of Global Wealth Management System (“GWMS”), a proprietary wealth management application, we utilized Wechat, APPs and personal computer terminal platform to roll out a convenient, efficient, fun and substantial marketing system. By means of digital marketing, we strengthened collection and analysis of clients’ behavioral data. We also formed an online-offline closed loop for customer acquisition and retention, to roll out important marketing plans, and enhance brand recognition. In respect of platform development, the Company will continue to expand investment in intelligent systems, to build a customer-centered wealth management service system.

At the same time, the Company accelerated the pace of integration with CISC. At the head office level, we strengthened product support, resource sharing, training, and marketing support. Capitalizing on the CICC platform, we increased the supply of products tailored for retail customers, and strengthened sharing of research resources. We developed a full-year training plan, to provide well-planned and multi-dimensional training support to CISC. At the branch company and securities branch level, we rolled out several initiatives to support in-depth cooperation among business professionals, to encourage communication and experience sharing. We also jointly carried out several client events. Through the above initiatives, we made our best to ensure smooth business transitioning and materialize potential synergies from integration with CISC.

As of June 30, 2018, the number of CICC’s wealth management customers reached 41,727, with a growth of 8.0% compared with the end of 2017. The total customer assets reached RMB759,671 million, with a growth of 3.1% compared with the end of 2017; the average assets per account exceeded RMB18 million. As of June 30, 2018, CISC had 5,333 institutional clients, 347,318 affluent customers and 2,487,484 retail customers, whose assets were RMB1,043,213 million, RMB236,695 million and RMB45,391 million, respectively.

Outlook for the second half of 2018

During the second half of 2018, our Company will carry forward deep integration with CISC, particularly through intensive training of policies and procedures and business protocols at the securities branch level. We will continue to encourage communications between business professionals to promote joint business development. We will strengthen our staff’s ability and quality through co-organized trainings. We will build a unified and effective marketing platform which will see strengthened collaboration among different stages of marketing functions from formulation to management and implementation of sales plans in order to effectively deal with a more complicated landscape of market competition. At the same time, we will promote communications and collaboration at the head office level in the areas of institutional building, training support, personnel exchange, business coordination and sharing of research resources and products of the Wealth Service Center.

During the second half of 2018, our Company will continue to explore innovation of business models and incentives, and encourage marketing orientations in line with management targets. We will provide more flexible and effective mechanisms to support expansion and growth of professional teams. We will keep enhancing brand promotion and marketing campaigns, and capitalize on our strategic partnership with Tencent to expand our customer base, significantly enhance our online service quality, and at the same time improve offline customer experience by combining online and offline means of service. In the meantime, we will strive to provide comprehensive solutions and full-spectrum products for CICC and CISC’s sales networks. We will systematically enhance our wealth management capacity, further diversify product and service offerings, strengthen communications among salesforce, effectively utilize the CICC platform to strengthen product design and sourcing, to provide more innovative product and tailor-made service offerings to our customers. Furthermore, we will implement vigorous risk control to ensure full compliance with tightened regulatory requirements, and



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endeavor to seize opportunities from the reshaping of the wealth management industry, to secure sound and sustainable development of various business lines.

Investment Management

Our development for the investment management business has made remarkable progress in platform. We have taken multiple strategic initiatives to promote cross-departmental collaboration to strengthen key capabilities and gather assets. We continue to promote scalable development of the investment management business through diversifying product lines, enhancing service quality, and strengthening investment research. As of June 30, 2018, our Group had approximately RMB686 billion assets under management through multiple structures.

Asset Management

Market Environment

In the first half of 2018, the asset management industry returned to its core business of active asset management under tightened industry regulations, the traditional asset management models of security firms was under pressure. The transformation resulted in decreased AUM across the whole industry. As of June 30, 2018, the total size of AUM of the asset management arms of domestic securities companies and their subsidiaries declined to around RMB14.9 trillion (excluding the size of ABS products and assets managed by private equity subsidiaries), representing nearly 10% decrease compared with the end of 2017, of which, the “conduit” business further shrank but still dominated approximately 70% of the market. The implementation of new asset management regulations would have a material impact on the overall asset management industry, pushing industry players to shift their business focus on active management, enhance risk awareness, and upgrade business models, taking the rapidly expanding industry which enjoyed rapid expansion in the past to a new era of regulated and well-managed development.

Actions and Achievements

Our Company focuses on active management. Always putting clients’ interest first, we design and offer high-quality and innovative asset management products and solutions to domestic and overseas clients for the purpose of steady value appreciation over the long term. During the first half of 2018, our Company expanded the investment research teams, and further enhanced active management capability with the size of assets under active management ranking among the top players in the market. Our Company has built rich product lines with investments across all asset classes, actively diversified our client base through delivering high-quality services and led our clients to evolve towards multi-asset allocation, to expand our business in the new era. In the meantime, we increased investment in IT systems, enhanced risk management and operations, laying a solid foundation for the asset management business going forward. Besides, we worked more closely with CISC in the asset management area, and established a nationwide exchange and joint marketing program, to further increase the width and depth of client coverage.

As of June 30, 2018, the size of assets managed by the asset management division of our Company amounted to RMB175,331 million, representing a decrease of 7.0% compared with the end of 2017, due to changing market environment. By product line, assets under collective scheme and segregated asset management scheme (including NSSF, corporate annuities and collective pension plans) stood at RMB9,538 million and RMB165,793 million, respectively. We had altogether 301 products under management, most of which were under active management.



Management Discussion and Analysis

Outlook for the second half of 2018

For the second half of 2018, the Company will continue to operate prudently and in full compliance with regulatory requirements, actively cope with challenges, to constantly improve our active management and asset allocation capabilities, build up our core investment research competitiveness, diversify product lines, enhance risk management, strengthen IT systems. We look forward to establishing CICC Asset Management as a multi-asset, multi-strategy, cross-market global leading full-service asset management institution.

Mutual Fund

Market Environment

The new asset management regulations have brought the overall asset management industry into an era of unified regulation. Given tightened regulatory environment, mutual funds are in a more advantageous competitive position as they offer standard NAV-based products. Growing size of monetary market funds have continuously driven up the size of the mutual fund industry. As of the end of the first half of 2018, total assets under management by the mutual fund industry increased to RMB12.8 trillion from RMB11.6 trillion as of the end of 2017.

Actions and Achievements

During the first half of 2018, in light of the Company's strategic focus on asset management and wealth management business, CICC Fund Management continued to expand distribution channels and strengthen marketing teams, and at the same time diversify our product portfolio and strengthen new product design, in response to changing regulatory and market environment. The size of AUM of CICC Fund Management increased significantly. As of June 30, 2018, the AUM of CICC Fund Management stood at RMB19,209 million, with a growth of 54.4% compared with the end of 2017. Among them, the size of mutual funds increased to RMB14,522 million, with a growth of 85.5% compared with the end of 2017, and the size of AUM for segregated investment accounts was RMB4,687 million.

Outlook for the second half of 2018

In the second half of 2018, CICC Fund Management will strengthen capacity building of the marketing team, expand retail channels, improve services tailored for retail investors. Given the changing regulatory and market environment, we will capitalize on CICC platform, and particularly strengthen cross-selling with the wealth management division to provide more diverse products to meet clients' needs for diversified investment and allocation. At the same time, we will endeavor to further improve our investment performance, and enhance our fund management and service capacity in all respects.



Management Discussion and Analysis

Private Equity Investment

Market Environment

In the first half of 2018, a series of regulatory changes have brought about new changes to the private equity investment market. In terms of fund-raising, the introduction of new asset management regulations has exerted a substantial impact on the private equity industry, making it more challenging for financial institutions to invest. In terms of investment, the CSRC opened up “green passage” for unicorn companies, which would lead capital flow toward strategic emerging enterprises. In terms of exit, the “green passage” of the CSRC has broadened avenues for private equity funds to exit through A-share listing. Furthermore, the new sell-down regulations would adversely affect the exit of pre-IPO investments and private placements.

Actions and Achievements

As of June 30, 2018, total assets managed by onshore and offshore funds of CICC Capital exceeded RMB250 billion, representing a growth of about 30% compared with the end of 2017. A comprehensive and open private equity platform with strong synergies from a great variety of product lines has taken shape. In terms of branding, CICC Capital operates all private equity funds under its uniform brand name, which has received a number of

awards, including Forbes, Zero2IPO Group and CVINFO over the past year. In terms of management system, since incorporation in March 2017, CICC Capital has initially formed a clear management structure with well-defined middle and back office functions. In terms of inter-departmental collaboration, CICC Capital continued to strengthen collaboration with the research, investment banking, asset management and wealth management divisions, thereby realizing synergies and lowering execution risks at all business stages, from fund-raising, investment, post-investment management to exit. In terms of external cooperation, CICC Capital has partnered with various government agencies, large financial institutions, industry leaders and investment professionals to establish an open and comprehensive platform.

Outlook for the second half of 2018

For the second half of 2018, CICC Capital will continue to steadily expand its AUM, and focus on the development of milestone private equity products, including products relating to the national emerging market venture capital FOF, products to promote reform of the stock economy, products to strengthen cooperation with local governments and industry leaders in major provinces and cities, to contribute to the industrial upgrade in China.



Management Discussion and Analysis

Others

The investment management business of the Group was mainly conducted through departments or subsidiaries such as the asset management department, CICC Fund Management and CICC Capital. Along with increasing market demand and our business expansion, other departments, such as the wealth management department, FICC department and investment banking department of our Group also rolled out investment management business and achieved new breakthroughs in terms of business scale and client development. As of June 30, 2018, the breakdown of total assets managed by different business divisions and subsidiaries of our Group is set forth as follows:

Scale of the Group's investment management business

| Items | June 30, 2018 | December 31, 2017 |
|--------------------|---------------|-------------------|
| Asset management | 356,880 | 344,752 |
| Mutual fund | 19,209 | 12,441 |
| Private equity | 309,941 | 248,646 |
| Total of the Group | 686,030 | 605,839 |

Research

Our research team covers global markets and provides services to clients both at home and abroad through CICC's offices and platforms across the world. The scope of our research products and investment analysis ranges from macro economy and market strategy to asset allocation, equities, commodities, and derivatives. As of June 30, 2018, our research team employed a high-caliber team of more than 100 experienced professionals, and covered more than 40 sectors as well as over 1,000 stocks listed in China, Hong Kong, New York and Singapore.

Our Company has won recognition from major domestic and overseas investors for its independent, unbiased and insightful research products. During the first half of 2018, we published 6,800 reports in English and/or Chinese. On the back of our numerous sector and company reports, we assembled a series of in-depth thematic reports, such as *Beautiful China: Green is Gold*, *Wonderful L.I.F.E.*, *Biological innovation*, *China industrial internet: Innovation platforms for smart manufacturing*, *Impacts from US-China trade friction*, and *Hong Kong reflation cycle may have more legs to run*. These research products showcase our profound understanding of China. Our competitive edges in both quality and quantity have earned us the reputation as the "China Expert".



Management Discussion and Analysis

II. ANALYSIS OF FINANCIAL STATEMENTS

Upon completion of the Acquisition, CISC has become a wholly-owned subsidiary of the Company, and CISC's financial information has been consolidated into the financial statements of the Group. As the legal title of the equity interest of CISC had been passed to the Company on March 21, 2017 and Huijin was entitled to the profit of or was liable for the loss incurred by CISC during the transition period (from July 1, 2016 to March 31, 2017) pursuant to the Equity Transfer Agreement, the Group has included CISC in the scope of consolidation since March 31, 2017. As a result, all items of CISC's profit or loss and other comprehensive income and of CISC's cash flows in the first half of 2017 in this report are recorded for the period from April 1, 2017 to June 30, 2017; all items in the first half of 2018 are recorded for the period from January 1, 2018 to June 30, 2018. In this report, CISC's profit or loss and other comprehensive income and cash flows in the first half of 2017 and of 2018 deducted from the Group's total amounts for analysis purpose refer to the amounts recorded by CISC in the period from April 1, 2017 to June 30, 2017 and in the period from January 1, 2018 to June 30, 2018, respectively.

(i) Profitability Analysis of the Company

The Group's revenue and profit in the first half of 2018 increased significantly from that in the same period last year. In particular, the FICC business achieved a substantial growth of revenue, and the revenue of investment banking business and of equities business also increased notably. Meanwhile, the Acquisition brought a certain positive impact on the Group's revenue and profit.

The Group realized total revenue and other income of RMB8,813.3 million in the first half of 2018, representing an increase of 51.5% compared with that in the first half of 2017. CISC's total revenue and other income in the periods from January 1, 2018 to June 30, 2018 and from April 1, 2017 to June 30, 2017 amounted to RMB2,679.2 million and RMB1,285.7 million, respectively. Excluding the amounts of CISC, the total revenue and other income of the Group increased by 35.3% from that in the first half of 2017. Investment Banking ^(note) realized a revenue of RMB967.0 million, representing an increase of 33.2% compared with that in the first half of 2017; Equities ^(note) realized a revenue of RMB1,476.3 million, representing an increase of 11.5%; FICC ^(note) realized a revenue of RMB1,526.1 million, representing an increase of 109.6%; Wealth Management ^(note) realized a revenue of RMB794.5 million, representing an increase of 4.1%; Investment Management ^(note) realized a revenue of RMB931.8 million, representing an increase of 4.0%; Others ^(note) realized a revenue of RMB438.5 million, representing an increase of 359.9%.

The Group's total expenses amounted to RMB6,737.9 million in the first half of 2018, representing an increase of 53.8% compared with that in the first half of 2017. CISC's total expenses in the periods from January 1, 2018 to June 30, 2018 and from April 1, 2017 to June 30, 2017 amounted to RMB2,024.1 million and RMB1,017.9 million, respectively. Excluding the amounts of CISC, the Group's total expenses increased by 40.2% from that in the first half of 2017, mainly due to the increase in interest expenses, staff costs, and other operating expenses and costs.

Note: The Group has six principal business segments: Investment Banking, Equities, FICC, Wealth Management, Investment Management and CISC. Others mainly comprises other business departments and back offices. Details about the business segments were set out in "Management Discussion and Analysis – (iv) Operating Revenue and Profit Analysis - 2. Segment Results".



Management Discussion and Analysis

The Group realized net profit attributable to shareholders of the Company and holders of other equity instruments of RMB1,630.9 million in the first half of 2018, representing an increase of 46.8% compared with that in the same period last year. The Group realized basic and diluted earnings per share of RMB0.39, representing an increase of 13.9% compared with that in the same period last year. The weighted average return on net assets was 4.3%, representing an increase of 0.1 percentage point compared with that in the same period last year.

(ii) Asset Structure and Quality

As at June 30, 2018, the Group's total equity attributable to shareholders of the Company and holders of other equity instruments amounted to RMB39,961.5 million, representing an increase of RMB3,254.9 million or 8.9% compared with that at the end of 2017, mainly due to the allotment and issuance of new H Shares to Tencent Mobility Limited by the Company.

The asset structure remained relatively stable and the asset quality and liquidity maintained at a good level. As at June 30, 2018, the Group's total assets amounted to RMB263,901.8 million, representing an increase of RMB26,089.9 million or 11.0% compared with that at the end of 2017. CISC's total assets as at June 30, 2018 and as at December 31, 2017 amounted to RMB76,216.9 million and RMB73,207.5 million, accounting for 28.9% and 30.8% of the Group's total assets, respectively. After deducting accounts payable to brokerage clients, the Group's total assets amounted to RMB214,583.1 million, representing an increase of RMB24,117.6 million or 12.7% compared with that at the end of 2017. The Group's financial assets at fair value through profit or loss and derivative financial assets totalled RMB107,398.0 million, accounting for 40.7% of the total assets; financial assets at fair value through other comprehensive income and available-for-sale

financial assets totalled RMB24,738.5 million, accounting for 9.4% of the total assets; cash and bank balances amounted to RMB23,423.3 million, accounting for 8.9% of the total assets; receivable from margin clients and reverse REPOs totalled RMB36,036.2 million, accounting for 13.7% of the total assets; investments in associates and joint ventures amounted to RMB1,193.5 million, accounting for 0.5% of the total assets. During the Reporting Period, the Group has no significant impairment in its assets.

As at June 30, 2018, the Group's total liabilities amounted to RMB223,767.4 million, representing an increase of RMB22,847.9 million or 11.4% compared with that at the end of 2017. CISC's total liabilities as at June 30, 2018 and as at December 31, 2017 amounted to RMB60,960.7 million and RMB58,108.9 million, accounting for 27.2% and 28.9% of the Group's total liabilities, respectively. After deducting accounts payable to brokerage clients, the Group's total liabilities amounted to RMB174,448.6 million, representing an increase of RMB20,875.6 million or 13.6% compared with that at the end of 2017. The Group's REPOs amounted to RMB33,729.5 million, accounting for 15.1% of the total liabilities; debt securities issued totalled RMB70,407.7 million, accounting for 31.5% of the total liabilities; financial liabilities at fair value through profit or loss and derivative financial liabilities totalled RMB17,953.0 million, accounting for 8.0% of the total liabilities; placements from financial institutions amounted to RMB8,709.4 million, accounting for 3.9% of the total liabilities.

The gearing ratio was relatively stable. As at June 30, 2018, excluding the impact of accounts payable to brokerage clients, the gearing ratio of the Group was 81.3%, representing an increase of 0.7 percentage point compared with 80.6% as at December 31, 2017.



Management Discussion and Analysis

(iii) Cash Flows

For the first half of 2018, excluding the impact of cash held on behalf of brokerage clients, net increase in cash and cash equivalents of the Group amounted to RMB5,540.6 million; net increase in cash and cash equivalents of CISC amounted to RMB1,465.6 million. For the same period of 2017, net increase in cash and cash equivalents of the Group amounted to RMB10,982.6 million; among which, the net increase in cash and cash equivalents generated from the acquisition and consolidation of CISC amounted to RMB10,746.0 million. Excluding the amounts of CISC, the Group's net increase in cash and cash equivalents increased by RMB3,838.3 million from that in the first half of 2017, mainly due to an increase in net cash generated from financing activities.

For the first half of 2018, net cash used in operating activities by the Group amounted to RMB4,021.0 million; net cash used by CISC amounted to RMB2,142.4 million. For the same period of 2017, net cash used in operating activities by the Group amounted to RMB5,301.3 million; net cash used by CISC amounted to RMB470.8 million. Excluding the net cash used by CISC, the Group's net cash used in operating activities decreased by RMB2,951.8 million from that in the first half of 2017, mainly due to a decrease in cash used in operating activities for financial instruments at fair value through profit or loss, for financial assets at fair value through other comprehensive income and for available-for-sale financial assets.

For the first half of 2018, net cash used in investing activities by the Group amounted to RMB1,124.8 million; net cash used by CISC amounted to RMB27.6 million. For the same period of 2017, net cash generated from investing activities by the Group amounted to RMB8,193.8 million; net cash generated by CISC amounted to RMB6.8 million. Excluding the CISC's cash flows, the changes of the Group's cash flows in investing activities compared with those in the first half of 2017 were primarily a result of a decrease in proceeds from sales of investments and of an increase in payment for acquisition of investments.

For the first half of 2018, net cash generated from financing activities by the Group amounted to RMB10,686.4 million; net cash generated by CISC amounted to RMB3,635.6 million. For the same period of 2017, net cash generated from financing activities by the Group amounted to RMB8,090.1 million; net cash generated by CISC amounted to RMB3,593.3 million. Excluding the net cash generated by CISC, the Group's net cash generated from financing activities increased by RMB2,554.0 million from that in the first half of 2017, mainly due to an increase in cash inflows from issuance of debt securities.



Management Discussion and Analysis

(iv) Operating Revenue and Profit Analysis

1. Analysis of Items in Statement of Profit or Loss and Other Comprehensive Income

Summary Results of Operations

The Group realized profit after tax of RMB1,654.1 million in the first half of 2018, representing an increase of 46.5% compared with that in the first half of 2017. The main results of operations of the Group are listed as follows:

Unit: RMB in million

| Items | Six months ended June 30, 2018 | Six months ended June 30, 2017 | Change | % of change |
|--|--------------------------------------|--------------------------------------|----------------|--------------|
| Revenue | | | | |
| Fee and commission income | 3,945.6 | 3,002.0 | 943.6 | 31.4% |
| Interest income | 1,898.4 | 1,249.9 | 648.5 | 51.9% |
| Investment income | 2,887.8 | 1,567.7 | 1,320.2 | 84.2% |
| Total revenue | 8,731.9 | 5,819.6 | 2,912.3 | 50.0% |
| Other operating income/(losses), net | 81.5 | (1.8) | 83.2 | N/A |
| Total revenue and other income | 8,813.3 | 5,817.8 | 2,995.6 | 51.5% |
| Total expenses | 6,737.9 | 4,379.9 | 2,358.0 | 53.8% |
| Share of profits of associates and joint ventures | 51.8 | 39.4 | 12.3 | 31.3% |
| Profit before income tax | 2,127.2 | 1,477.3 | 649.8 | 44.0% |
| Income tax expense | 473.1 | 348.3 | 124.8 | 35.8% |
| Profit for the period | 1,654.1 | 1,129.0 | 525.0 | 46.5% |
| Attributable to: | | | | |
| Shareholders of the Company and holders of other equity instruments | 1,630.9 | 1,110.8 | 520.1 | 46.8% |



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Revenue Breakdown

For the first half of 2018, the Group's total revenue increased by 50.0% to RMB8,731.9 million from that in the same period last year. Of the Group's total revenue, fee and commission income accounted for 45.2%, representing a decrease of 6.4 percentage points compared with that in the same period last year; interest income accounted for 21.7%, representing an increase of 0.3 percentage point; investment income accounted for 33.1%, representing an increase of 6.1 percentage points. Breakdown of the Group's revenue for the six months ended June 30, 2018 and ended June 30, 2017 is listed as follows:

| Items | Six months ended June 30, 2018 | Six months ended June 30, 2017 | Change |
|---------------------------|--------------------------------------|--------------------------------------|---------------------------------------|
| Fee and commission income | 45.2% | 51.6% | Decreased by 6.4 percentage points |
| Interest income | 21.7% | 21.5% | Increased by 0.3 percentage point |
| Investment income | 33.1% | 26.9% | Increased by 6.1 percentage points |
| Total | 100.0% | 100.0% | |

The Group's interest income and investment income in the first half of 2018 increased significantly from that in the same period last year, resulting in a smaller proportion of fee and commission income in total revenue.



Management Discussion and Analysis

Fee and Commission Income and Expenses

For the first half of 2018, the Group realized a net fee and commission income of RMB3,500.0 million, representing an increase of 28.7% compared with that in the same period last year. Breakdown of the Group's net fee and commission income for the six months ended June 30, 2018 and ended June 30, 2017 is listed as follows:

Unit: RMB in million

| Items | Six months | Six months | Change | % of change |
|--|----------------|----------------|--------------|--------------|
| | ended | ended | | |
| | June 30, 2018 | June 30, 2017 | | |
| Fee and commission income | | | | |
| Brokerage commission income | 1,923.2 | 1,312.7 | 610.5 | 46.5% |
| Underwriting and sponsoring fees | 848.7 | 650.1 | 198.6 | 30.6% |
| Equity financing | 618.8 | 484.7 | 134.1 | 27.7% |
| Debt and structured financing | 230.0 | 165.4 | 64.5 | 39.0% |
| Financial advisory fees | 154.8 | 251.2 | (96.4) | (38.4%) |
| Investment advisory fees | 229.7 | 99.0 | 130.7 | 131.9% |
| Asset management fees | 767.3 | 672.8 | 94.5 | 14.0% |
| Asset management and mutual funds | 291.0 | 249.0 | 42.1 | 16.9% |
| Private equity investment funds | 476.2 | 423.8 | 52.4 | 12.4% |
| Others | 21.8 | 16.1 | 5.7 | 35.6% |
| Total fee and commission income | 3,945.6 | 3,002.0 | 943.6 | 31.4% |
| Fee and commission expenses | 445.6 | 283.1 | 162.5 | 57.4% |
| Net fee and commission income | 3,500.0 | 2,718.9 | 781.1 | 28.7% |



Management Discussion and Analysis

The respective proportions of the Group's fee and commission income for the six months ended June 30, 2018 and ended June 30, 2017 are listed as follows:

| Items | Six months ended June 30, 2018 | Six months ended June 30, 2017 | Change |
|----------------------------------|-----------------------------------|-----------------------------------|------------------------------------|
| Brokerage commission income | 48.7% | 43.7% | Increased by 5.0 percentage points |
| Underwriting and sponsoring fees | 21.5% | 21.7% | Decreased by 0.1 percentage point |
| Financial advisory fees | 3.9% | 8.4% | Decreased by 4.4 percentage points |
| Investment advisory fees | 5.8% | 3.3% | Increased by 2.5 percentage points |
| Asset management fees | 19.4% | 22.4% | Decreased by 3.0 percentage points |
| Others | 0.6% | 0.5% | Increased by 0.0 percentage point |
| Total | 100.0% | 100.0% | |

Breakdown of the size of the Group's AUM, as at June 30, 2018 and as at December 31, 2017, from which fee and commission income and share of profits of associates and joint ventures were generated is listed as follows:

Unit: RMB in million

| Items | June 30, 2018 | December 31, 2017 | % of change |
|---|------------------|----------------------|--------------|
| Fee-and-commission-income-generating AUM | | | |
| Collective asset management products | 23,238 | 26,099 | (11.0%) |
| Segregated asset management products | 196,367 | 210,909 | (6.9%) |
| Special asset management products | 121,248 | 94,772 | 27.9% |
| Mutual fund | 19,209 | 12,441 | 54.4% |
| Private Equity Investment | 177,005 | 165,207 | 7.1% |
| Subtotal | 537,067 | 509,427 | 5.4% |
| AUM of joint venture fund management company | | | |
| Private Equity Investment | 132,936 | 83,440 | 59.3% |
| Non-private equity investment | 16,027 | 12,972 | 23.6% |
| Subtotal | 148,963 | 96,412 | 54.5% |
| Total | 686,030 | 605,839 | 13.2% |



Management Discussion and Analysis

Brokerage commission income increased by RMB610.5 million or 46.5% from that in the first half of 2017; CISC's brokerage commission income amounted to RMB940.2 million, accounting for 48.9% of that of the Group. Excluding the CISC's income, the Group's brokerage commission income increased by RMB192.2 million or 24.3% from that in the first half of 2017, mainly due to the rise of the Group's domestic brokerage income against the market downturn and the strong growth of the overseas brokerage income; meanwhile our Group's average brokerage commission rate in the A-share market stood at around 5 bps, maintaining a premium to the market average level.

Underwriting and sponsoring fees increased by RMB198.6 million or 30.6% from that in the first half of 2017; CISC's underwriting and sponsoring fees amounted to RMB32.9 million, accounting for 3.9% of that of the Group. Excluding the CISC's fees, the Group's underwriting and sponsoring fees increased by RMB218.8 million or 36.7% from that in the first half of 2017, mainly due to the growth of the Group's both equity and debt financing businesses in the first half of 2018 compared with those in the same period last year.

Financial advisory fees decreased by RMB96.4 million or 38.4% from that in the first half of 2017; CISC's financial advisory fees amounted to RMB8.2 million, accounting for 5.3% of that of the Group. Excluding the CISC's fees, our Group's financial advisory

fees decreased by RMB92.5 million or 38.7% from that in the first half of 2017, mainly due to a decrease in the Group's revenue recognized in the first half of 2018 for M&A projects compared with that in the same period last year.

Investment advisory fees increased by RMB130.7 million or 131.9% from that in the first half of 2017; CISC's investment advisory fees amounted to RMB6.2 million, accounting for 2.7% of that of the Group. Excluding the CISC's fees, our Group's investment advisory fees increased by RMB126.3 million or 129.9% from that in the first half of 2017, mainly due to an increased clients' demand for professional investment advisory services in the first half of 2018 compared with that in the same period last year.

Asset management fees increased by RMB94.5 million or 14.0% from that in the first half of 2017. Asset management fees consisted of the management fees from the businesses of asset management, mutual funds and private equity investments. CISC's asset management fees amounted to RMB56.6 million, accounting for 7.4% of that of the Group. Excluding the CISC's fees, the Group's asset management fees increased by RMB59.6 million or 9.1% from that in the first half of 2017, mainly due to a sustaining growth of the Group's private equity investment business, contributing to the corresponding increase in asset management fees.



Management Discussion and Analysis

Fee and commission expenses increased by RMB162.5 million or 57.4% from that in the first half of 2017. CISC's fee and commission expenses amounted to RMB261.5 million, accounting for 58.7% of that of the Group. Excluding the CISC's expenses, the Group's fee and commission expenses increased by RMB44.6 million or 31.9% from that in the first half of 2017, in line with the growth of the Group's fee and commission income.

Interest Income and Expenses

For the first half of 2018, the Group incurred a net interest expenses of RMB572.9 million. Breakdown of the Group's interest income and expenses for the six months ended June 30, 2018 and ended June 30, 2017 is listed as follows:

Unit: RMB in million

| Items | Six months ended June 30, 2018 | Six months ended June 30, 2017 | Change | % of change |
|--|--------------------------------------|--------------------------------------|----------------|---------------|
| Interest income | | | | |
| Interest income from financial institutions | 698.3 | 540.9 | 157.4 | 29.1% |
| Interest income from margin financing and securities lending | 801.8 | 523.7 | 278.1 | 53.1% |
| Interest income from reverse REPOs | 385.6 | 174.7 | 210.9 | 120.7% |
| Others | 12.7 | 10.6 | 2.1 | 20.1% |
| Total interest income | 1,898.4 | 1,249.9 | 648.5 | 51.9% |
| Interest expenses | | | | |
| Interest expenses of accounts payable to brokerage clients | 90.0 | 89.7 | 0.4 | 0.4% |
| Interest expenses on REPOs | 541.5 | 371.5 | 170.0 | 45.8% |
| Interest expenses on placements from financial institutions | 258.0 | 116.7 | 141.3 | 121.1% |
| Interest expenses on debt securities issued | 1,399.1 | 592.8 | 806.2 | 136.0% |
| Others | 182.6 | 55.4 | 127.2 | 229.5% |
| Total interest expenses | 2,471.3 | 1,226.1 | 1,245.2 | 101.6% |
| Net interest (expenses)/income | (572.9) | 23.7 | (596.7) | N/A |



Management Discussion and Analysis

Interest income from financial institutions increased by RMB157.4 million or 29.1% from that in the first half of 2017; CISC's interest income from financial institutions amounted to RMB378.3 million, accounting for 54.2% of that of the Group. Excluding the CISC's income, the Group's interest income from financial institutions increased by RMB19.3 million or 6.4% from that in the first half of 2017.

Interest income from margin financing and securities lending increased by RMB278.1 million or 53.1% from that in the first half of 2017; CISC's interest income from margin financing and securities lending amounted to RMB684.4 million, accounting for 85.4% of that of the Group. Excluding the CISC's income, the Group's interest income from margin financing and securities lending decreased by RMB74.4 million or 38.8% from that in the first half of 2017, mainly due to a decline in average daily scale of margin financing business resulted from decreasing financing demands of clients.

Interest income from reverse REPOs increased by RMB210.9 million or 120.7% from that in the first half of 2017; CISC's interest income from reverse REPOs amounted to RMB175.7 million, accounting for 45.6% of that of the Group. Excluding the CISC's income, the Group's interest income from reverse REPOs increased by RMB111.4 million or 113.0% from that in the first half of 2017, mainly due to an increase in interest income from stock-based lending business.

Interest expenses increased by RMB1,245.2 million or 101.6% from that in the first half of 2017; CISC's interest expenses amounted to RMB731.5 million, accounting for 29.6% of that of the Group. Excluding the CISC's expenses, the Group's interest expenses increased by RMB825.1 million or 90.2% from that in the first half of 2017, mainly due to the increase in debt financing. During the first half of 2018, in order to meet its business development needs and the regulatory requirements, the Group issued various debt securities including beneficiary certificates, subordinated bonds, corporate bonds and USD-denominated guaranteed medium-term notes, resulting in the corresponding increase in interest expenses.



Management Discussion and Analysis

Investment Income

For the first half of 2018, the Group recognized an investment income of RMB2,887.8 million, representing an increase of RMB1,320.2 million or 84.2% compared with that in the same period last year. CISC recognized an investment income of RMB325.4 million, accounting for a relatively small proportion of 11.3% in the Group's investment income. Excluding the CISC's income, the Group's investment income increased by RMB1,013.7 million or 65.5% from that in the same period of 2017. Breakdown of the Group's investment income for the six months ended June 30, 2018 and ended June 30, 2017 is listed as follows:

Unit: RMB in million

| Items | Six months | Six months | Change | % of Change |
|--|----------------|----------------|----------------|--------------|
| | ended | ended | | |
| | June 30, 2018 | June 30, 2017 | | |
| Investment income | | | | |
| Net (losses)/gains from disposal of financial assets at fair value through other comprehensive income and available-for-sale financial assets | (3.0) | 74.2 | (77.1) | N/A |
| Dividend income and interest income from financial assets at fair value through other comprehensive income and available-for-sale financial assets | 421.1 | 280.5 | 140.6 | 50.1% |
| Net (losses)/gains from financial instruments at fair value through profit or loss | (1,264.7) | 1,888.2 | (3,152.9) | N/A |
| – Equity investments ⁽¹⁾ | (2,877.0) | 1,058.8 | (3,935.8) | N/A |
| – Debt investments | 1,321.2 | 486.5 | 834.6 | 171.6% |
| – Funds and other investments | 291.2 | 342.9 | (51.7) | (15.1%) |
| Net gains/(losses) from derivative financial instruments | 3,734.3 | (675.3) | 4,409.6 | N/A |
| Total | 2,887.8 | 1,567.7 | 1,320.2 | 84.2% |

⁽¹⁾ The net losses from equity investments at fair value through profit or loss for the six months ended June 30, 2018 was primarily the losses from the hedging equity positions held by the Group for OTC derivative transactions according to client demands. Upon consideration of the net gains from derivative financial instruments, the Group's exposure to the market risk and volatility of profit or loss of the underlying assets under OTC derivative trading agreements is limited.

Net losses from disposal of financial assets at fair value through other comprehensive income and of available-for-sale financial assets totalled RMB3.0 million, while for the first half of 2017 the net gains from disposal totalled RMB74.2 million.

Dividend income and interest income from financial assets at fair value through other comprehensive income and from available-for-sale financial assets totalled RMB421.1 million, representing an increase of RMB140.6 million or 50.1% compared with that in the first half of 2017, mainly due to an increase in interest income from the debt investments held by our Group.



Management Discussion and Analysis

Net losses from financial instruments at fair value through profit or loss amounted to RMB1,264.7 million, while for the first half of 2017 the net gains amounted to RMB1,888.2 million. The net losses were incurred by the following categories of investments:

- Net losses from equity investments amounted to RMB2,877.0 million, while for the first half of 2017 the net gains amounted to RMB1,058.8 million. The change in the net return from equity investments was primarily a result of the changes of the stock market trend during the first half of 2018. Meanwhile, the Group increased its hedging equity positions held for OTC derivative transactions according to client demands, resulting in a large increase in the investment income from derivative financial instruments in the same period. The Group enters into OTC derivative transaction agreements with its clients to meet their needs. It receives a fixed income under the agreements, and at the same time purchases and holds a hedge position to mitigate the related market risks.

- Net gains from debt investments amounted to RMB1,321.2 million, representing an increase of RMB834.6 million or 171.6% compared with that in the first half of 2017, mainly due to the downturn in bond yields during the first half of 2018, as well as the increase in bond positions held by the Group, resulting in an increase of the corresponding gains compared with that in the first half of 2017.
- Net gains from funds and other investments amounted to RMB 291.2 million, representing a decrease of RMB51.7 million or 15.1% compared with that in the first half of 2017.

Net gains from derivative financial instruments amounted to RMB3,734.3 million, representing a significant increase compared with the net losses of RMB675.3 million in the first half of 2017. The net gains mainly consisted of the gains from OTC derivatives transactions with the clients.



Management Discussion and Analysis

Operating Expenses

For the first half of 2018, the Group's operating expenses (excluding fee and commission expenses and interest expenses, the same below) amounted to RMB3,821.0 million, representing an increase of RMB950.3 million or 33.1% compared with that in the same period last year. Main compositions of the Group's operating expenses for the six months ended June 30, 2018 and ended June 30, 2017 are listed as follows:

Unit: RMB in million

| Items | Six months | Six months | Change | % of change |
|--|----------------|----------------|--------------|--------------|
| | ended | ended | | |
| | June 30, 2018 | June 30, 2017 | | |
| Operating expenses | | | | |
| Staff costs | 2,624.8 | 2,072.6 | 552.2 | 26.6% |
| Depreciation and amortization expenses | 138.3 | 85.3 | 53.0 | 62.2% |
| Tax and surcharges | 35.6 | 20.7 | 14.8 | 71.4% |
| Other operating expenses and costs | 1,057.5 | 694.3 | 363.1 | 52.3% |
| Reversal of impairment losses | (35.1) | (2.3) | (32.8) | 1,433.0% |
| Total | 3,821.0 | 2,870.7 | 950.3 | 33.1% |

Staff costs increased by RMB552.2 million or 26.6% from that in the first half of 2017. CISC's staff costs amounted to RMB596.4 million, accounting for 22.7% of that of the Group. Excluding the CISC's costs, the Group's staff costs increased by RMB300.9 million or 17.4% from that in the first half of 2017, mainly due to an improvement in the operating results and an increase in the number of staff.

Depreciation and amortization expenses increased by RMB53.0 million or 62.2% from that in the first half of 2017. CISC's depreciation and amortization expenses amounted to RMB61.7 million, accounting for 44.6% of that of the Group. Excluding the CISC's expenses, the Group's depreciation and amortization expenses increased by RMB21.3 million or 38.7% from that in the first half of 2017, mainly due to additions to the Group's office equipment and software, resulting in an increase in the corresponding depreciation and amortization expenses.

Tax and surcharges increased by RMB14.8 million or 71.4% from that in the first half of 2017. CISC's tax and surcharges amounted to RMB12.8 million, accounting for 36.0% of that of the Group. Excluding the CISC's tax and surcharges, the Group's tax and surcharges increased by RMB8.0 million or 54.1% from that in the first half of 2017, mainly due to the increase in the Group's total revenue and other income.



Management Discussion and Analysis

Other operating expenses and costs increased by RMB363.1 million or 52.3% from that in the first half of 2017. CISC's other operating expenses and costs amounted to RMB387.1 million, accounting for 36.6% of that of the Group. Excluding the CISC's expenses and costs, the Group's other operating expenses and costs increased by RMB157.4 million or 30.7% from that in the first half of 2017, mainly due to increases in business development expenses and in operating lease charges in respect of property and equipment.

2. Segment Results

We have six principal business segments: Investment Banking, Equities, FICC, Wealth Management, Investment Management and CISC. Others mainly comprises other business departments and back offices.

Unit: RMB in million

| Items | Six months | Six months | Change | % of change |
|--|------------------------|------------------------|---|----------------|
| | ended June 30, 2018 | ended June 30, 2017 | | |
| Investment Banking | | | | |
| Segment revenue and other income | 967.0 | 726.0 | 241.0 | 33.2% |
| Fee and commission income | 754.7 | 686.5 | 68.2 | 9.9% |
| Interest income | 7.4 | 0.1 | 7.3 | 8,184.9% |
| Investment income | 197.3 | 39.4 | 157.9 | 400.6% |
| Other operating income/(losses),net | 7.6 | (0.0) | 7.6 | N/A |
| Interest expenses | (70.8) | (8.6) | (62.2) | 719.6% |
| Revenue and other income after interest | 896.1 | 717.4 | 178.8 | 24.9% |
| Other segment expenses ⁽¹⁾ | (855.1) | (624.7) | (230.4) | 36.9% |
| Profit before income tax | 41.0 | 92.7 | (51.6) | (55.7%) |
| Segment margin⁽²⁾ | 4.2% | 12.8% | Decreased by 8.5 percentage points | |

Interest income, investment income and interest expenses of Investment Banking increased significantly from those in the first half of 2017, mainly due to the increase in debt securities position held by the Group as a result of its underwriting commitment. The increase in position brought about a growth of income and, on the other hand, an increased capital demand, which in turn resulted in the increased interest expenses.



Management Discussion and Analysis

| Items | Six months ended June 30, 2018 | Six months ended June 30, 2017 | Change | % of change |
|--|-----------------------------------|-----------------------------------|---|---------------|
| Equities | | | | |
| Segment revenue and other income | 1,476.3 | 1,323.7 | 152.6 | 11.5% |
| Fee and commission income | 858.9 | 668.7 | 190.2 | 28.4% |
| Interest income | 111.7 | 190.6 | (78.9) | (41.4%) |
| Investment income | 538.3 | 489.0 | 49.3 | 10.1% |
| Other operating losses, net | (32.5) | (24.6) | (7.9) | 32.2% |
| Interest expenses | (329.1) | (144.9) | (184.2) | 127.1% |
| Revenue and other income after interest | 1,147.2 | 1,178.8 | (31.5) | (2.7%) |
| Other segment expenses ⁽¹⁾ | (384.3) | (334.7) | (49.6) | 14.8% |
| Profit before income tax | 762.9 | 844.1 | (81.2) | (9.6%) |
| Segment margin⁽²⁾ | 51.7% | 63.8% | Decreased by 12.1 percentage points | |

Interest expenses of Equities increased significantly from that in the first half of 2017. The increase was primarily a result of a higher cost of capital compared with that in the first half of 2017 due to an increased capital demand.

| Items | Six months ended June 30, 2018 | Six months ended June 30, 2017 | Change | % of change |
|--|-----------------------------------|-----------------------------------|---|-----------------|
| FICC | | | | |
| Segment revenue and other income | 1,526.1 | 727.9 | 798.2 | 109.6% |
| Fee and commission income | 176.3 | 91.8 | 84.5 | 92.1% |
| Interest income | 89.5 | 70.5 | 19.0 | 26.9% |
| Investment income | 1,255.5 | 546.0 | 709.5 | 129.9% |
| Other operating income, net | 4.7 | 19.6 | (14.9) | (75.8%) |
| Interest expenses | (909.3) | (555.3) | (354.0) | 63.7% |
| Revenue and other income after interest | 616.8 | 172.6 | 444.2 | 257.3% |
| Other segment expenses ⁽¹⁾ | (210.7) | (148.1) | (62.6) | 42.3% |
| Profit before income tax | 406.1 | 24.6 | 381.5 | 1,553.9% |
| Segment margin⁽²⁾ | 26.6% | 3.4% | Increased by 23.2 percentage points | |

Investment income of FICC increased significantly from that in the first half of 2017. The increase was primarily attributable to increases in interest income from debt investments and in gains from funds and other investments, resulting in an increase of the corresponding investment income.



Management Discussion and Analysis

| Items | Six months ended June 30, 2018 | Six months ended June 30, 2017 | Change | % of change |
|--|--------------------------------------|--------------------------------------|------------------------------------|-------------|
| Wealth Management | | | | |
| Segment revenue and other income | 794.5 | 762.9 | 31.6 | 4.1% |
| Fee and commission income | 274.7 | 282.8 | (8.1) | (2.9%) |
| Interest income | 308.7 | 243.3 | 65.5 | 26.9% |
| Investment income | 207.7 | 223.0 | (15.3) | (6.9%) |
| Other operating income, net | 3.4 | 13.8 | (10.4) | (75.3%) |
| Interest expenses | (265.0) | (244.3) | (20.7) | 8.5% |
| Revenue and other income after interest | 529.5 | 518.6 | 11.0 | 2.1% |
| Other segment expenses ⁽¹⁾ | (319.0) | (269.7) | (49.4) | 18.3% |
| Share of profits/(losses) of associates and joint ventures | 3.4 | (0.0) | 3.4 | N/A |
| Profit before income tax | 213.9 | 248.9 | (35.0) | (14.1%) |
| Segment margin⁽²⁾ | 26.9% | 32.6% | Decreased by 5.7 percentage points | |
| Investment Management | | | | |
| Segment revenue and other income | 931.8 | 896.2 | 35.6 | 4.0% |
| Fee and commission income | 776.3 | 659.2 | 117.1 | 17.8% |
| Interest income | 10.3 | 9.5 | 0.7 | 7.6% |
| Investment income | 131.0 | 218.4 | (87.5) | (40.0%) |
| Other operating income, net | 14.3 | 9.0 | 5.2 | 57.9% |
| Interest expenses | (30.9) | (26.7) | (4.2) | 15.6% |
| Revenue and other income after interest | 900.8 | 869.5 | 31.4 | 3.6% |
| Other segment expenses ⁽¹⁾ | (435.4) | (460.9) | 25.4 | (5.5%) |
| Share of profits of associates and joint ventures | 20.2 | 29.3 | (9.1) | (31.0%) |
| Profit before income tax | 485.6 | 437.9 | 47.7 | 10.9% |
| Segment margin⁽²⁾ | 52.1% | 48.9% | Increased by 3.3 percentage points | |



Management Discussion and Analysis

| Items | Six months ended June 30, 2018 | Six months ended June 30, 2017 | Change | % of change |
|---|--------------------------------------|--------------------------------------|--|-------------|
| CISC⁽³⁾ | | | | |
| Segment revenue and other income | 2,679.2 | 1,285.7 | N/A | N/A |
| Fee and commission income | 1,104.6 | 612.7 | N/A | N/A |
| Interest income | 1,238.4 | 648.4 | N/A | N/A |
| Investment income | 325.4 | 18.9 | N/A | N/A |
| Other operating income, net | 10.7 | 5.6 | N/A | N/A |
| Segment expenses | (2,024.1) | (1,028.2) | N/A | N/A |
| Share of profits/(losses) of associates and joint ventures | 5.6 | (0.6) | N/A | N/A |
| Profit before income tax | 660.6 | 256.9 | N/A | N/A |
| Segment margin ⁽²⁾ | 24.7% | 20.0% | Increased by 4.7 percentage points | |
| Others⁽⁴⁾ | | | | |
| Segment revenue and other income | 438.5 | 95.3 | 343.1 | 359.9% |
| Fee and commission income | 0.2 | 0.2 | 0.0 | 23.1% |
| Interest income | 132.3 | 87.5 | 44.9 | 51.3% |
| Investment income | 232.7 | 32.9 | 199.8 | 606.9% |
| Other operating income/(losses), net | 73.2 | (25.2) | 98.5 | N/A |
| Segment expenses | (904.0) | (533.7) | (370.3) | 69.4% |
| Share of profits of associates and joint ventures | 22.6 | 10.8 | 11.8 | 109.8% |
| Loss before income tax | (443.0) | (427.6) | (15.4) | 3.6% |

Investment income of Others increased significantly from that in the first half of 2017, mainly due to an increase in gains from the debt investment held by the Treasury Department.

- (1) Other segment expenses include fee and commission expenses, staff costs, depreciation and amortization expenses, tax and surcharges, other operating expenses and costs, and provision for/(reversal of) impairment losses.
- (2) Segment margin = profit before income tax/segment revenue and other income
- (3) The Group has included CISC in its scope of consolidation since March 31, 2017. The segment operating results of CISC disclosed for the six months ended June 30, 2018 has included its corresponding amounts from January 1, 2018 to June 30, 2018; the segment operating results disclosed for the six months ended June 30, 2017 has included its corresponding amounts from April 1, 2017 to June 30, 2017.
- (4) The segment margin of Others is not presented because this segment incurred loss before income tax in the relevant periods.



Management Discussion and Analysis

(vi) Contingent Liabilities

As at 30 June 2018, CISC, the Company's subsidiary, held one piece of land under construction for which CISC had obtained the corresponding land use right certificates and construction permits in accordance with the PRC laws. Up to the date of approving the financial statements, construction of the land has not commenced. By relevant laws and regulations, in the event of delay in commencement of construction work on land, CISC may be subject to a fee on idle land of no more than RMB112.2 million (equivalent to 20% of the land transfer fee) and/or to forfeiture of the land use rights. However, if the delay is caused by government actions or force majeure, CISC may negotiate with relevant government authorities for postponing the commencement date and extending the time period for the development and construction of the land. CISC received an idle land verification report from the relevant government authorities on 1 February 2018. According to this report, the aforesaid land was recognized as idle land, and the idling was caused by government and corporate reasons. Upon now, CISC is still in the process of communicating with the relevant government authorities for postponing the construction commencement date and for extending the construction period. The amount of fee is subject to the decision of the relevant government authorities, and CISC is of the view that such amount cannot be reliably measured. As such, no relevant accrued liabilities was recognized as at 30 June 2018. Except for the above, the Group has no other outstanding matters which have a material impact on its financial position as at 30 June 2018.

(vii) Pledge of Assets of the Group

The Group has no pledge of assets as at June 30, 2018.

(viii) Income Tax Policy

In accordance with the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) and the Provisions of Implementation for the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例), our Company and our PRC subsidiaries are subject to an enterprise income tax rate of 25%. Our Hong Kong subsidiaries are subject to a tax rate of 16.5% on their assessable profit. 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). During the financial period ended June 30, 2018, we had fulfilled all our tax obligations and did not have any unresolved tax disputes with the relevant tax authorities in China or other jurisdictions.



Management Discussion and Analysis

III. SIGNIFICANT INVESTMENT AND FINANCING ACTIVITIES OF THE GROUP

(i) Equity Investment

The Group has no significant equity investments in the first half of 2018.

(ii) Equity Financing

On September 20, 2017, the Company entered into a strategic cooperation framework agreement with Tencent Computer. Pursuant to this agreement, the Company and Tencent Computer will procure and ensure the establishment of the strategic cooperation relationship between the Company and Tencent Holdings and its subsidiaries on the group level.

On the same day, the Company and Tencent Mobility Limited (a wholly-owned subsidiary of Tencent Holdings), entered into the Subscription Agreement. Pursuant to this agreement, the Company agreed to allot and issue 207,537,059 new H Shares to Tencent Mobility Limited at the subscription price of HK\$13.80 per Subscription Share, representing approximately 12.01% and 4.95% of the total issued H Shares and of the total issued Shares of the Company, respectively, as enlarged by the allotment and issue of the Subscription Shares. The Subscription Shares are new H Shares with a nominal value of RMB1.00 each in the share capital of the Company. The aggregate nominal value of the Subscription Shares is RMB207,537,059. The gross proceeds of the Subscription will amount to approximately HK\$2,864.01 million. After deducting the relevant expenses, the estimated net proceeds from the issuance of the Subscription Shares will amount to approximately HK\$2,860.82 million. The net price for each Subscription Share is estimated to be approximately HK\$13.78. The Company intends to use the net proceeds for replenishing the capital of the Company and hence to support the Company's domestic and overseas business development by further strengthening its capital base.

On March 23, 2018, the Company completed the issue of 207,537,059 new H Shares to Tencent Mobility Limited. Accordingly, the number of the Company's H Shares and Shares in issue increased to 1,727,714,428 H Shares and 4,192,667,868 Shares, respectively. For details, please refer to the announcements published by the Company on September 20, 2017 and March 23, 2018.

Out of the net proceeds from the issuance of the Subscription Shares of approximately HK\$2,860.82 million, 66.77% was used in replenishing the working capital in the ordinary and usual course of businesses and development including securities investments and transactions, securities underwriting, capital businesses and cross-border businesses. As at 30 June 2018, approximately HK\$950.60 million of the net proceeds from the issuance of the Subscription Shares was unutilized and it is intended that the unutilized net proceeds will be used in accordance with the uses mentioned above. The Group intends to use the unutilized net proceeds during the second half of 2018.



Management Discussion and Analysis

(iii) Debt Financing

As at June 30, 2018, the Group's outstanding bonds are set out in the table below:

| Type | Tranche | Size of Issuance | Date of Issuance/ | | Interest Rate* | Remarks |
|-----------------|------------|------------------|-------------------|-------------------|----------------|--|
| | | | Date of Value | Maturity Date | | |
| | 16 CICC 01 | RMB3,000 million | July 18, 2016 | July 18, 2021 | 2.99% | Our Company has an option to redeem such bond on July 18, 2019. If the early-redemption option is not exercised at the end of the third year, the Company has an option to increase the coupon rate and an obligation to redeem such bond if required by the investors. |
| | 16 CICC 02 | RMB1,000 million | July 18, 2016 | July 18, 2023 | 3.29% | Our Company has an option to redeem such bond on July 18, 2021. If the early-redemption option is not exercised at the end of the fifth year, the Company has an option to increase the coupon rate and an obligation to redeem such bond if required by the investors. |
| Corporate bonds | 16 CICC 03 | RMB1,100 million | October 27, 2016 | October 27, 2021 | 2.95% | Our Company has an option to redeem such bond on October 27, 2019. If the early-redemption option is not exercised at the end of the third year, the Company has an option to increase the coupon rate and an obligation to redeem such bond if required by the investors. |
| | 16 CICC 04 | RMB900 million | October 27, 2016 | October 27, 2023 | 3.13% | Our Company has an option to redeem such bond on October 27, 2021. If the early-redemption option is not exercised at the end of the fifth year, the Company has an option to increase the coupon rate and an obligation to redeem such bond if required by the investors. |
| | 16 CICC 05 | RMB2,000 million | December 26, 2016 | December 26, 2019 | 4.50% | |



Management Discussion and Analysis

| Type | Tranche | Size of Issuance | Date of Issuance/ | | Interest Rate* | Remarks |
|--------------------|-----------------|------------------|-------------------|-------------------|--|---|
| | | | Date of Value | Maturity Date | | |
| | 17 CICC 01 | RMB4,000 million | January 20, 2017 | January 20, 2020 | 4.35% | |
| | 17 CICC 02 | RMB1,000 million | May 8, 2017 | May 8, 2020 | 4.97% | |
| | 17 CICC 03 | RMB1,000 million | May 8, 2017 | May 8, 2022 | 5.19% | |
| | 17 CICC 04 | RMB2,000 million | July 27, 2017 | July 27, 2020 | 4.78% | |
| | 17 CICC 05 | RMB2,000 million | October 20, 2017 | October 20, 2020 | 5.13% | |
| | 17 CICC 06 | RMB2,500 million | November 21, 2017 | November 21, 2020 | 5.45% | |
| | 18 CICC 01 | RMB1,000 million | January 26, 2018 | January 26, 2020 | 5.58% | |
| | 18 CICC 02 | RMB1,000 million | January 26, 2018 | January 26, 2021 | 5.70% | |
| | 18 CICC 03 | RMB500 million | April 24, 2018 | April 24, 2020 | 4.80% | |
| | 18 CICC 04 | RMB1,000 million | April 24, 2018 | April 24, 2021 | 4.94% | |
| | 18 CICC 05 | RMB1,000 million | June 28, 2018 | June 28, 2020 | 5.20% | |
| | 18 CICC 06 | RMB1,000 million | June 28, 2018 | June 28, 2021 | 5.30% | |
| | 15 CISC G1 | RMB3,500 million | July 24, 2015 | July 24, 2018 | 3.62% | |
| | 17 CISC F1 | RMB3,000 million | July 18, 2017 | July 18, 2020 | 4.95% | |
| | 17 CISC F2 | RMB1,000 million | July 18, 2017 | July 18, 2022 | 5.10% | |
| | 18 CISC 01 | RMB1,000 million | March 23, 2018 | March 23, 2021 | 5.95% | |
| | 16 CICC C1 | RMB2,000 million | July 21, 2016 | July 21, 2021 | Bearing an interest rate of 3.25% per annum in the first two years; 6.25% from the third to fifth year | Our Company has an option to redeem such bond on July 21, 2018 |
| | 16 CICC C2 | RMB3,400 million | December 15, 2016 | December 15, 2021 | 4.60% | |
| | 17 CICC C1 | RMB600 million | May 22, 2017 | May 22, 2022 | 5.39% | |
| | 17 CICC C2 | RMB1,500 million | July 24, 2017 | July 24, 2022 | 4.98% | |
| | 17 CICC C3 | RMB1,500 million | November 16, 2017 | November 16, 2022 | 5.50% | |
| | 18 CICC C1 | RMB1,000 million | April 20, 2018 | April 20, 2023 | 5.30% | |
| Subordinated bonds | 16 CICC Futures | RMB100 million | December 16, 2016 | December 16, 2024 | Bearing an interest rate of 5.00% per annum in the first five years; 8.00% from the sixth to eighth year | CICC Futures has an option to redeem such bond on December 16, 2021 |
| | 16 CISC 01 | RMB2,200 million | December 7, 2016 | December 7, 2019 | 4.00% | |
| | 17 CISC 01 | RMB1,000 million | February 23, 2017 | February 23, 2020 | 4.85% | |
| | 17 CISC 02 | RMB1,800 million | February 23, 2017 | February 23, 2022 | 5.00% | |



Management Discussion and Analysis

| Type | Tranche | Size of Issuance | Date of Issuance/ | | Interest Rate* | Remarks |
|------------------------------|--|------------------|-------------------|------------------|--|--|
| | | | Date of Value | Maturity Date | | |
| Perpetual subordinated bonds | 15 CICC Y1 | RMB1,000 million | May 29, 2015 | - | Bearing an interest rate of 5.70% per annum in the first five years, and subject to reset every five years | As at the end of each five-year period, our Company has a right to extend the term of such perpetual subordinated bonds for another five-year period |
| | 3-year USD-denominated fixed rate guaranteed notes under the guaranteed medium-term note programme of CICC Hong Kong Finance 2016 MTN Limited | US\$500 million | May 18, 2016 | May 18, 2019 | Bearing a coupon rate of 2.75% at a price of T3+192.5 bps with a yield of 2.811% | |
| Notes payable | 9-month USD-denominated fixed rate guaranteed notes under the guaranteed medium-term note programme of CICC Hong Kong Finance 2016 MTN Limited | US\$100 million | February 7, 2018 | November 7, 2018 | 3.05% | |
| | 3-year USD-denominated floating rate guaranteed notes under the guaranteed medium-term note programme of CICC Hong Kong Finance 2016 MTN Limited | US\$600 million | April 25, 2018 | April 25, 2021 | 3-month libor rate+1.2% | |

During the six months ended June 30, 2018, the Group completed 323 issuances of beneficiary certificates, with an aggregate principal amount of RMB15,887.2 million. As at June 30, 2018, the balance of principal amount of the Group's beneficiary certificates payable was RMB9,741.5 million. As at June 30, 2018, the balance of bank borrowings of the Group's Hong Kong subsidiaries amounted to HKD770 million, RMB844 million and US\$38 million.



Management Discussion and Analysis

IV. RISK MANAGEMENT

Overview

Our Company has always believed that risk management creates value. The risk management of our Company aims to effectively allocate risk-based capital, limit risks to a controllable level, maximize the corporate value and constantly solidify the foundation for the steady and sustainable development of our Company. Our Company has sound corporate governance, effective risk management measures and a strict internal control system.

Pursuant to the relevant laws and regulations and regulatory requirements, our Company has established a sound governance structure system. The general meeting, the Board of Directors and the Supervisory Committee of our Company perform duties in accordance with the “Company Law”, the “Securities Law”, the “Guidance for the Internal Control of Securities Companies” (《證券公司內部控制指引》), the “Norms for the Comprehensive Risk Management of Securities Companies” (《證券公司全面風險管理規範》) and the Articles of Association and supervise and manage the business operations of our Company. Through enhancing and improving the internal control structure, compliance and risk management culture, the Board of Directors has made internal control and risk management an essential aspect of the business operation management of our Company.

Risk Management Framework

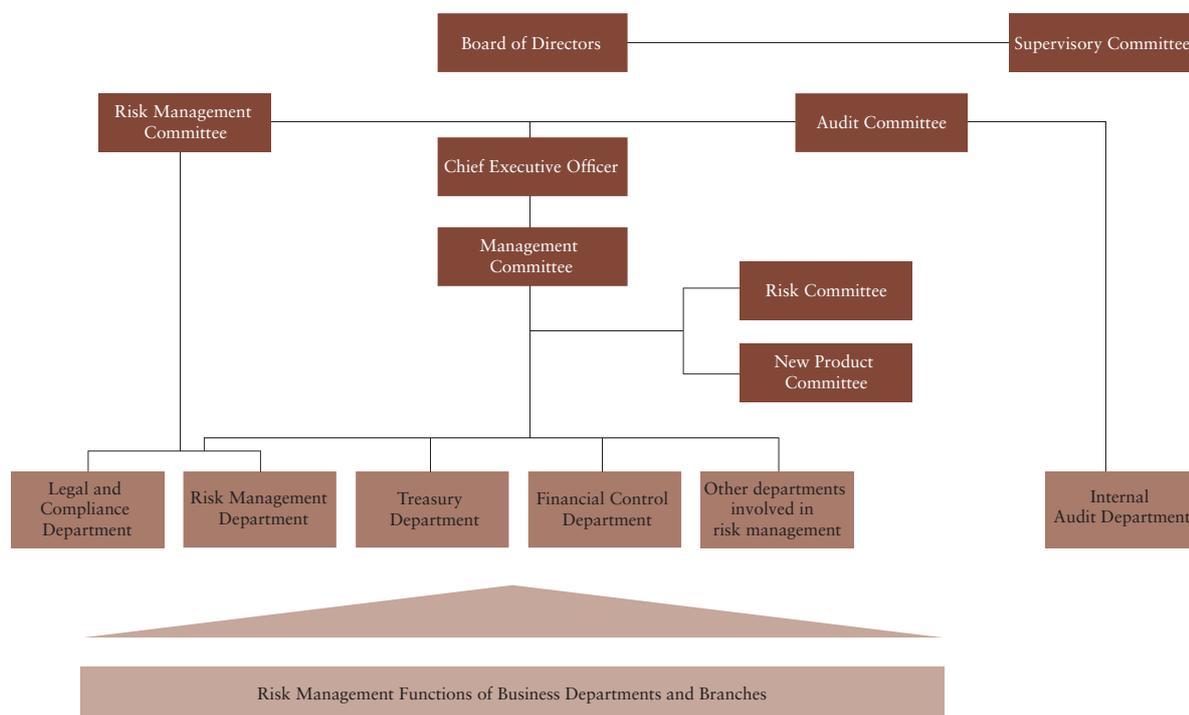
In accordance with the need for business development and risk management, our Company has established a multi-level risk management organizational structure which comprises the Board of Directors, the Supervisory Committee, senior management, independent departments performing risk management functions, business departments and branches. (i) The Board of Directors is the top level of our Company’s risk management and internal control governance structure and is responsible for facilitating the enforcement of the firm-wide risk management culture and reviewing

and approving the overall risk management goals, risk appetite, risk tolerance, important risk limits and the risk management policy of our Company. The Board of Directors performs its risk management duties primarily through the Risk Management Committee and the Audit Committee; (ii) the Supervisory Committee assumes the supervision duty on the effectiveness of the overall risk management of our Company, and supervises and inspects the fulfillment of the risk management duties performed by the Board of Directors and the Management Committee, and reviews the rectification of risk management deficiencies and findings; (iii) under the Board of Directors, our Company has established the Management Committee chaired by the Chief Executive Officer. The Management Committee determines the risk appetite of our Company in accordance with the overall risk management goals set by the Board of Directors and assumes the major responsibility of ensuring the effectiveness of the overall risk management of our Company; (iv) the Risk Committee established under the Management Committee reports risk issues to the Management Committee and significant risk matters to the Risk Management Committee under the Board of Directors. The Chief Operating Officer is the chairman of the Risk Committee, and the Chief Risk Officer and Chief Compliance Officer are the co-executive chairmen of the Risk Committee. Other members include the Chief Financial Officer, heads of each of the business departments and heads of independent departments performing risk management functions; (v) independent departments performing risk management functions, including internal control departments such as Risk Management Department, Legal and Compliance Department, Treasury Department, Financial Control Department, Operations Department, Information Technology Department and Public Relations Department, coordinate to manage various risks based on their respective perspectives; and (vi) heads of business departments and branches take the primary responsibility for the effectiveness of risk management. During our daily business operations, all staff involved in business operations in our business departments and branches are required to perform risk management functions.



Management Discussion and Analysis

The organizational structure of our Company's risk management is shown in the following chart:



Risk to Our Company's Business Activities and Management Measures

Risks related to business activities of our Company mainly include market risk, credit risk, liquidity risk, operational risk, compliance risk, legal risk and reputational risk, etc. Our Company proactively responded to risks through effective risk management measures, which generally prevented the occurrence of significant risk events and ensured the stable development of the business operation of our Company. During the Reporting Period, the business of our Company operated steadily and all risks were managed within a controllable and at a tolerable level.

Market Risk

Market risk refers to risks of changes in the fair value of financial assets held by our Company resulting from the fluctuations in equity prices, interest rates, credit spreads, exchange rates and commodity prices, etc.



Management Discussion and Analysis

Our Company has adopted the following measures to manage market risk:

- Business departments of our Company, as parties performing market risk management duties and the first line of defense, dynamically manage market risk of exposures by way of diversifying risk exposures, controlling the size of positions and utilizing hedging instruments;
- The Risk Management Department independently assesses, monitors and manages the overall market risk of our Company with following measures. The market risk management includes risk measurement, limit formulation and risk monitoring:
 - Our Company measures market risk mainly by means of Value at Risk (VaR) analysis, stress tests and sensitivity analysis, etc. VaR is a major tool for our Company to measure and monitor market risk. VaR measures the potential maximum loss to an asset portfolio by changes in market risk factors at a certain confidence level within a certain holding period. Our Company computes the single day VaR at a confidence level of 95% by adopting a historical simulation method based on three years of historical data and examines the effectiveness of the model through the method of back testing on a regular basis. Meanwhile, our Company adopts stress test to complement the VaR analysis and measures whether the investment loss of our Company is within the scope of the risk tolerance when market risk factors such as equity price, interest rate, credit spread, exchange rate and commodity price undergo extreme changes. In addition, in respect of sensitivity factors of different assets, our Company measures the impact of changes in specific factors on the value of assets by calculating the corresponding sensitivity indicators.
 - Our Company has formulated a risk limit indicator framework. Risk limit is a mean for controlling risks and also represents the risk appetite and risk tolerance of our Company. Our Company sets appropriate market risk limits based on the business nature, such as notional limit, VaR limit, concentration limit, sensitivity limit and stop-loss limit, etc.
 - Our Company monitors risk limit usage in real time or on a daily basis. The Risk Management Department prepares daily risk reports to monitor the usage of limits and submit them to the senior management and business departments. When the limit usage triggers the warning line, the Risk Management Department will issue a warning notice to business departments. Once the risk indicators exceed the limits, business departments shall report reasons of the breach and measures to be taken to the Chief Risk Officer or his authorized person and shall be responsible for reducing the risk exposure to a level within the limits in a given timeframe. If this cannot be achieved, they are required to apply to the Chief Risk Officer or his authorized person for a temporary increase in limit. If necessary, the Chief Risk Officer will submit a request to senior management.



Management Discussion and Analysis

Value at Risk (VaR)

The Company sets the total VaR limit of our investment portfolio and VaR limits for various financial instruments. The Risk Management Department computes VaRs of these financial instruments on a daily basis to ensure the daily VaRs are maintained within limits. The following tables set forth the computed VaRs of the Group (excluding CISC) by risk categories as of the dates and for the periods as indicated: (i) the daily VaRs as of the end of the respective period; (ii) the averages of daily VaRs during the respective period; and (iii) the highest and lowest daily VaRs during the respective period.

The Group (Excluding CISC)

| (RMB in million) | June 30, 2018 | December 31, | Six months ended June 30, 2018 | | | Twelve months ended December 31, 2017 | | |
|--|---------------|--------------|--------------------------------|---------|--------|---------------------------------------|---------|--------|
| | | 2017 | Average | Highest | Lowest | Average | Highest | Lowest |
| Price-sensitive financial instruments ⁽¹⁾ | 26.1 | 50.1 | 46.2 | 72.8 | 22.3 | 24.8 | 50.9 | 6.0 |
| Interest-rate-sensitive financial instruments ⁽²⁾ | 22.4 | 35.2 | 23.6 | 39.3 | 17.1 | 28.1 | 40.3 | 19.4 |
| Exchange-rate-sensitive financial instruments ⁽³⁾ | 13.9 | 20.6 | 18.0 | 26.1 | 13.9 | 10.8 | 21.5 | 5.1 |
| Total portfolio | 40.0 | 71.6 | 59.9 | 82.0 | 37.3 | 42.4 | 73.8 | 23.4 |

Notes:

- (1) including equities and the price sensitive portion of derivative products
- (2) including fixed income products and the interest rate sensitive portion of derivative products
- (3) including financial products subject to exchange rate changes (including derivative products)

CISC became a wholly-owned subsidiary of the Company on March 21, 2017. The following tables set forth the Group's computed VaRs by risk categories as of the dates and for the periods as indicated: (i) the daily VaRs as of the end of the respective period; (ii) the averages of daily VaRs during the respective period; and (iii) the highest and lowest daily VaRs during the respective period.



Management Discussion and Analysis

The Group

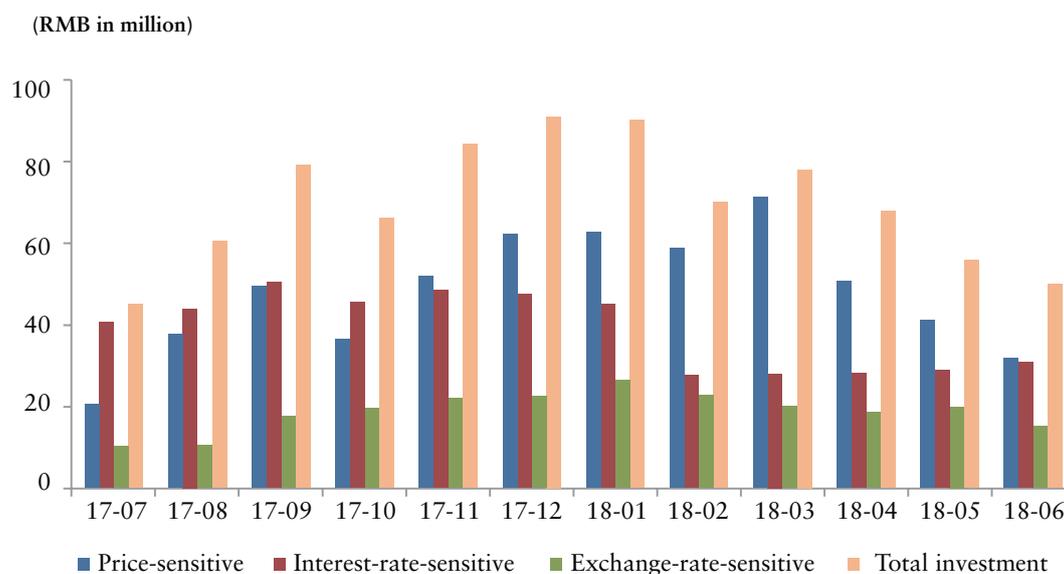
| (RMB in million) | June 30, 2018 | December 31, | Six months ended June 30, 2018 | | | Twelve months ended December 31, 2017 | | |
|--|---------------|--------------|--------------------------------|---------|--------|---------------------------------------|---------|--------|
| | | 2017 | Average | Highest | Lowest | Average | Highest | Lowest |
| Price-sensitive financial instruments ⁽¹⁾ | 29.1 | 57.0 | 53.7 | 84.1 | 26.3 | 27.0 | 59.4 | 6.0 |
| Interest-rate-sensitive financial instruments ⁽²⁾ | 28.2 | 43.5 | 29.3 | 47.3 | 22.7 | 36.7 | 50.4 | 19.4 |
| Exchange-rate-sensitive financial instruments ⁽³⁾ | 13.9 | 20.6 | 18.0 | 26.1 | 13.9 | 10.8 | 21.5 | 5.1 |
| Total portfolio | 45.7 | 83.3 | 69.2 | 94.7 | 43.5 | 50.1 | 83.6 | 23.4 |

Notes: The VaRs of the Group were calculated by combined investment portfolio of CICC and CISC.

- (1) including equities and the price sensitive portion of derivative products
- (2) including fixed income products and the interest rate sensitive portion of derivative products
- (3) including financial products subject to exchange rate changes (including derivative products)

The chart below sets forth the VaRs by risk categories of the Group as of the end of each month over the past year:

Monthly VaR Chart



Management Discussion and Analysis

During the Reporting Period, our Company conducted foreign exchange risk management for offshore assets, measuring risk exposures and monitoring risk limit utilizations on a daily basis. The foreign exchange risk exposures were managed by adjusting currency positions and using foreign exchange derivatives as hedging instruments.

During the Reporting Period, our Company closely monitored domestic and overseas market conditions and business risks. Coping with interest rate swings in both domestic and overseas markets, our Company hedged the interest rate risk for the fixed-income portfolio by using treasury bond futures, interest rate swaps, etc.

Credit Risk

Credit risk refers to the risk resulting from defaults or deterioration in creditworthiness of counterparties, borrowers and security issuers. The exposure to credit risk of our Company arises mainly from:

- Credit risk from debt borrowers or bond issuers' default or bankruptcy, including the loss due to intermediary institutions (such as brokers or custodian banks). The risk exposure represents the total value of outstanding debts;
- Credit risk from a counterparty's default on the OTC derivative transactions (such as swaps or forward transactions). The risk exposure is determined by the changes in the market value of the derivatives;
- The settlement risk from a business partner's failure in delivery of funds or securities when our Company has fulfilled its delivery obligation.

Our Company adopted the following measures to manage credit risk in our trading and investment activities:

- Setting up investment criteria and limits on products and issuers;
- Reviewing credit terms in agreements with counterparties;
- Monitoring our credit exposure to counterparties.

Our Company has adopted the following measures to manage credit risk in our capital businesses, including margin financing and securities lending, stock-based lending transactions and other businesses:

- Approving counterparties, and assigning credit ratings and lending limits to counterparties;
- Managing collaterals (haircut rates, liquidity and concentration) and closely monitoring margin ratios and/or collateral ratios;
- Establishing and implementing margin call and mandatory liquidation policy.

During the Reporting Period when bond defaults were rising, FICC collaborated with the Risk Management Department and closely identified, assessed, monitored and managed credit risk related to bond investments. As a result, the Group avoided material losses during the Reporting Period.



Management Discussion and Analysis

| The Group | As of June 30, 2018 (RMB in million) | | |
|--|--------------------------------------|------|-------------|
| | Position | DV01 | Spread DV01 |
| Outside Mainland China (by international rating agencies) ⁽¹⁾ | | | |
| – AAA | 200.2 | 0.04 | 0.00 |
| – AA- to AA+ | 85.9 | 0.01 | 0.01 |
| – A- to A+ | 4,303.6 | 0.94 | 1.16 |
| – below A- | 7,924.1 | 1.38 | 1.42 |
| Sub-total | 12,513.9 | 2.36 | 2.59 |
| Mainland China (by domestic rating agencies) ⁽¹⁾ | | | |
| – AAA | 46,226.5 | 4.40 | 3.23 |
| – AA- to AA+ | 4,660.4 | 0.42 | 0.42 |
| – A- to A+ | 595.9 | 0.10 | 0.10 |
| – below A- | 20.3 | 0.00 | 0.00 |
| Sub-total | 51,503.1 | 4.93 | 3.75 |
| – Non-rated ⁽²⁾ | 7,316.5 | 1.66 | 0.00 |
| – Non-rated ⁽³⁾ | 6,394.7 | 0.85 | 0.85 |
| Total | 77,728.1 | 9.81 | 7.19 |

Notes:

The Risk Management Department uses DV01 and Spread DV01 to measure the interest rate sensitivity and credit spread sensitivity of bonds. DV01 measures the change in the value of interest rate sensitive products for each parallel movement of one basis point in a market interest rate curve. Spread DV01 measures the change in the value of credit spread sensitive products for each parallel movement of one basis point in the credit spread.

- (1) The Group refers the credit ratings of its debt securities to the credit ratings of the debt securities or the debt securities' issuers from Bloomberg comprehensive ratings or the local major rating agencies.
- (2) These non-rated financial assets mainly include government bonds, central bank bills, policy financial bonds, non-rated local government bonds and Special Drawing Rights (“SDR”) – denominated bonds.
- (3) These non-rated financial assets are mainly other debt instruments and trading securities which are not rated by independent rating agencies.



Management Discussion and Analysis

Margin Financing and Securities Lending Business

The table below sets forth the market value of collaterals and the collateral ratio of the margin financing and securities lending business of the Group as of the date indicated:

| | As of June 30, 2018 (RMB in million) | As of December 31, 2017 (RMB in million) |
|-----------------------------|--|--|
| Market Value of Collaterals | 52,337.9 | 60,683.8 |
| Collateral ratio | 249% | 273% |

Note: The collateral ratio is calculated as the ratio of the client's total account balance (including cash and securities held) to the client's balance of margin loans and securities borrowed from our Company (i.e. the sum of margin loans extended, the securities sold short and any accrued interests and fees).

As of June 30, 2018, the collateral ratio of the margin financing and securities lending business of the Group was 249%. Assuming the market value of all securities as collaterals of the Group's margin financing and securities lending business declines by 10% and 20% respectively, the collateral ratio of the Group's margin financing and securities lending business as of June 30, 2018, will be 224% and 202% respectively.

Stock-based Lending Business

The table below sets out market value of collaterals and the collateral ratio of the stock-based lending business of the Group as of the date indicated:

| | As of June 30, 2018 (RMB in million) | As of December 31, 2017 (RMB in million) |
|-----------------------------|--|--|
| Market Value of Collaterals | 24,040.2 | 29,723.5 |
| Collateral ratio | 223% | 252% |

Note: The collateral ratio refers to the ratio of the total market value of the pledged collateral and its yields to the client's total amount payable to our Company.



Management Discussion and Analysis

Liquidity Risk

Liquidity risk refers to the risks arising from our Company's inability to obtain sufficient funds in a timely manner or inability to obtain sufficient funds at reasonable costs in a timely manner to respond to asset growth, settle debts due and satisfy the funding needs in conducting normal business operations.

Our Company implements vertical and centralized management on liquidity risks of all domestic and overseas branches and subsidiaries. Our Company has adopted the following measures to manage liquidity risk:

- Closely monitoring balance sheets of our Company and its branches and subsidiaries, and managing liquidity gaps between assets and liabilities;
- Setting liquidity risk limits based on regulatory requirement and our Company's overall situation;
- Conducting cash flow forecast and stress testing on liquidity risk indicators on a regular and irregular basis to analyze and assess our liquidity risk exposure;
- Holding cash balances in hand and substantial high-quality liquid asset for a long term to support normal business operations, and establishing liquidity contingency plan for potential liquidity emergencies.

Our Company constantly broadened and diversified its funding channels to optimize the liability structure. The funding instruments of our Company included perpetual subordinated bonds, subordinated bonds, corporate bonds, syndication loan, short-term commercial papers, beneficiary certificates, inter-bank borrowing, REPOs, etc. Our Company maintained good relationship with major commercial banks and had sufficient bank credit to meet the funding requirement for business development. As at the Latest Practicable Date, as assessed by China

Chengxin Securities Rating Co., Ltd (中誠信證券評估有限公司), the credit rating of our Company was AAA and the rating outlook is stable. As assessed by Standard & Poor's, the long-term rating of the Group was BBB, the short-term rating was A-2 and the rating outlook is positive. As assessed by Moody's, the long-term rating of the Group was Baa1, the short-term rating was P-2 and the rating outlook is stable. As assessed by Fitch, the long-term rating of the Group was BBB+, the short-term rating was F2 and the rating outlook is stable.

During the Reporting Period, there was no substantial change in substance and type of liquidity risks exposed to our Company. Our Company's liquidity risk management was sound, the liquid reserve was sufficient, and the liquidity risk was under control.

During the Reporting Period, the regulatory liquidity risk management indicator of our Company continued to comply with the regulatory requirements. As of June 30, 2018, the liquidity coverage ratio and the net stable funding ratio of our Company were 283.1% and 163.1%, respectively.

Operational Risk

Operational risk refers to the risks of losses resulting from failed or defective internal procedures or IT systems, human factors and external events.

Our Company has adopted the following measures to manage operational risk:

- Establishing a transparent organizational structure with a proper decision-making mechanism;
- Implementing sound policies and procedures and enforcing checks and balances;
- Establishing new product approval policy to define roles and responsibilities;



Management Discussion and Analysis

- Establishing a business continuity plan to ensure business continuity in the event of sudden business disruptions.

During the Reporting Period, there was no substantial change in nature and extent of operational risks exposed to our Company. Our Company continued to strengthen the operational risk management by enhancing IT systems and streamlining business procedures. Through developing business-related IT systems and optimizing and standardizing business procedures, our Company further improved the operation efficiency and reduced operational risk. Meanwhile, our Company continuously reinforces the firmwide culture of risk awareness and encourages all staff to proactively participate in operational risk management and to jointly control and manage risk.

Compliance Risk

Compliance risk refers to the risk of legal sanctions, regulatory actions, loss of property or damage to our reputation because of the violation of laws, regulations, self-regulatory rules or our internal policies arising from our operations and management activities or employee behavior.

Our Company has mainly adopted the following measures to manage and prevent compliance risk:

- Our Company formulates and updates our internal policies and procedures to keep abreast with changes in laws, regulations and industry norms;
- Our Company conducts compliance reviews for new businesses. Our professional compliance team is responsible for examining new businesses and providing compliance advice. We implement effective compliance risk management measures at an early stage of new businesses;

- Our Company controls the circulation of sensitive information by monitoring information flows and establishing dynamic Chinese walls, with the aim to prevent risks of insider trading and manage conflicts of interest;

- Our Company has established a sound internal control system for anti-money laundering to fulfill our responsibilities for client identification and classification of client risk level. We identify and analyze suspicious transactions and promptly report to the regulators where necessary;

- Our Company undertakes compliance reviews in accordance with applicable laws, regulations, other regulatory documents, self-regulatory rules, industry norms and our internal policies, to monitor the compliance of our business operations and employee activities and identify and manage compliance risks in a proactive manner;

- Our Company adopts various means to cultivate a compliance culture with each business line, functional department and branch and provide compliance training to our employees to improve their compliance awareness;

- Our Company has established an accountability system in respect of employees' violations of laws, regulations and internal policies to impose applicable punishments on offenders.

During the Reporting Period, there was no substantial change in nature and extent of compliance risks exposed to our Company.



Management Discussion and Analysis

Legal Risk

Legal risk refers to the possible risk of economic loss or damage to our Company's reputation resulting from breach of contracts, infringement-related disputes, litigation or other legal disputes.

Our Company manages, controls and prevents legal risks mainly through the following measures:

- Our Company continuously enhances our internal policies and business procedures from a legal perspective to ensure that our operations and management satisfy the requirements of applicable laws and regulations;
- Our Company formulates templates for various business contracts and requires our business departments to use our in-house templates to the fullest extent. We also review contracts drafted or provided by counterparties prior to entering into such contracts to mitigate the legal risk associated with performing such contracts;
- The application, maintenance and protection of our trademarks, protection of our goodwill and trade secrets and taking actions against behavior that harms our reputation or interests;
- Our Company conducts legal training to enhance our employees' legal awareness;
- Our Company takes active measures to mitigate legal risks when disputes and litigation arise.

During the Reporting Period, there was no material change in the nature and extent of legal risks of our Company or in our ability to respond to legal risks.

Reputational Risk

Reputational risk refers to the risk of negative comments on the Company caused by the Company's operational activities, business management and other actions as well as external events. Reputational risk can occur in all business areas and activities, and the Company assesses and manages reputational risk across all areas such as operation management, business activities and employee behaviors.

Our Company has mainly adopted the following measures to manage and prevent reputational risk:

- All business departments take measures to prevent and control reputational risks across important business activities and processes, and strictly follow "Know your Customers (KYC)" principle, enhance project due diligence and quality control, as well as timely prevent and deal with potential reputational risk;
- Reinforcing the firm-wide culture of risk awareness for all employees and enhancing the professional ethics of employees through policy making and employee training; and any employee who causes a significant reputational loss to the Company due to any misconduct or improper behavior will be subject to disciplinary actions;
- The Public Relations Department monitors the overall reputational risk of the Company by public opinion monitoring and media communications, and takes proper actions to intervene in a timely manner according to the severity of events, and releases or communicates with media the correct information and stance related to the Company, so as to further prevent the spread of false information in public environment.



Other Events

I. INTERIM DIVIDEND

The Board of Directors did not recommend to declare any interim dividend for the six months ended June 30, 2018 to the Shareholders.

II. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As of the end of the Reporting Period, the interests or short positions of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

| Name of Director/ Supervisor/chief executive | Class of shares | Capacity | Number of securities/Type of shares held | Approximate percentage of shareholding in the total share capital of the Company (%) | Approximate percentage of shareholding in the relevant class of shares (%) |
|---|--------------------|---|--|---|--|
| David Bonderman | H Shares | Interest of controlled corporation (<i>Note 1</i>) | 171,749,719/ Long positions | 4.096 | 9.941 |
| Cha Mou Daid Johnson | H Shares | Beneficial owner | 753,600/ Long positions | 0.018 | 0.044 |
| | H Shares | Beneficiary of a discretionary trust (<i>Note 2</i>) | 122,559,265/ Long positions | 2.923 | 7.094 |
| Liu Haifeng David | H Shares | Founder of a discretionary trust (<i>Note 3</i>) | 636,400/ Long positions | 0.015 | 0.037 |
| | | Interest of controlled corporation (<i>Note 4</i>) | 669,600/ Long positions | 0.016 | 0.039 |
| Bi Mingjian | H Shares | Beneficiary of a trust (<i>Note 5</i>) | 1,036,252/ Long positions | 0.025 | 0.060 |
| Edwin Roca Lim | H Shares | Beneficial owner | 356,000/ Long positions | 0.008 | 0.021 |
| Siu Wai Keung | H Shares | Beneficial owner | 100,000/ Long positions | 0.002 | 0.006 |



Other Events

Notes:

- (1) The interests deemed to be held by Mr. David Bonderman consists of 171,749,719 H Shares held by TPG. Each of TPG Asia GenPar V, L.P. (as general partner of TPG), TPG Asia GenPar V Advisors, Inc. (as general partner of TPG Asia GenPar V, L.P.), TPG Holdings I, L.P. (as the sole member of TPG Asia GenPar V Advisors, Inc.), TPG Holdings I-A, LLC (as general partner of TPG Holdings I, L.P.), TPG Group Holdings (SBS), L.P. (as the sole member of TPG Holdings I-A, LLC and the sole member of TPG Holdings II-A, LLC), TPG Group Holdings (SBS) Advisors, Inc. (as general partner of TPG Group Holdings (SBS), L.P.), Mr. David Bonderman and Mr. James Coulter (each holds a 50% interest in TPG Group Holdings (SBS) Advisors, Inc.), as well as TPG Capital Management, L.P. (as the managing general partner of TPG), TPG Capital Advisors, LLC (as the sole member of TPG Capital Management, LLC, which is the general partner of TPG Capital Management, L.P.), TPG Holdings II Sub, L.P. (as the sole member of TPG Capital Advisors, LLC), TPG Holdings II, L.P. (as general partner of TPG Holdings II Sub, L.P.), TPG Holdings II-A, LLC (as general partner of TPG Holdings II, L.P.), is deemed to be interested in the H Shares held by TPG under the SFO. Mr. Bonderman and Mr. Coulter disclaim beneficial ownership of the securities held by TPG.
- (2) The interests deemed to be held by Mr. Cha Mou Daid Johnson consists of 122,559,265 H Shares held by Mingly. Mingly is held by certain discretionary trusts as to 96.12% as at June 30, 2018, of which CCM Trust (Cayman) Limited, LBJ Regents Limited and Dolios Limited are the corporate trustees, and Mr. Cha Mou Daid Johnson is among the members of the class of discretionary beneficiaries.
- (3) Mr. Liu Haifeng David is interested in 636,400 H Shares through a discretionary trust, The Liu Family Legacy Trust, of which he is the founder.
- (4) New Trace Limited is wholly-owned by Mr. Liu Haifeng David. Therefore, Mr. Liu Haifeng David is deemed to be interested in 669,600 H Shares held by New Trace Limited for the purpose of the SFO.
- (5) Mr. Bi Mingjian holds interests through COFCO Trust Co., Ltd. Qiqiyuan No.2 Collective Fund Trust Scheme, the trust scheme established by COFCO Trust Co., Ltd.

III. RIGHTS OF DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

As of the end of the Reporting Period, none of the Directors, Supervisors or their respective spouses or minor children were granted with rights or had exercised any such rights to acquire benefits by means of acquisition of shares or debentures of the Company. Neither the Company nor any of its subsidiaries were a party to any arrangements to enable the Directors, Supervisors or their respective spouses or minor children to acquire such rights from any other body corporate.



Other Events

IV. SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

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

| Name of Substantial Shareholders | Class of shares | Capacity | Number of securities/Type of shares held | Approximate percentage of shareholding in the total share capital of the Company (%) | Approximate percentage of shareholding in the relevant class of shares (%) |
|----------------------------------|-----------------|---|--|--|--|
| Huijin (Note 1) | Domestic Shares | Beneficial owner | 2,334,655,680/ Long positions | 55.684 | 94.714 |
| | | Interests of controlled corporation | 2,734,800/ Long positions | 0.065 | 0.111 |
| Tencent Holdings (Note 2) | H Shares | Interests of controlled corporation | 207,537,059/ Long positions | 4.950 | 12.012 |
| TPG (Note 3) | H Shares | Beneficial owner | 171,749,719/ Long positions | 4.096 | 9.941 |
| GIC Private Limited | H Shares | Investment manager | 158,162,635/ Long positions | 3.772 | 9.154 |
| I&G (Note 4) | Domestic Shares | Beneficial owner | 127,562,960/ Long positions | 3.043 | 5.175 |
| Mingly (Note 5) | H Shares | Beneficial owner | 122,559,265/ Long positions | 2.923 | 7.094 |
| JPMorgan Chase & Co. | H Shares | Beneficial owner | 5,377,708/ Long positions | 0.128 | 0.311 |
| | | | 2,636,384/ Short positions | 0.063 | 0.153 |
| | | Investment manager | 36,800/ Long positions | 0.001 | 0.002 |
| | | | Approved lending agent | 98,749,025/ Long positions | 2.355 |
| OppenheimerFunds, Inc. | H Shares | Investment manager | 91,913,460/ Long positions | 2.192 | 5.320 |
| UBS Group AG | H Shares | Person having a security interest in shares | 61,492,800/ Long positions | 1.467 | 3.559 |
| | | Interest of controlled corporation (Note 6) | 26,835,318/ Long positions | 0.640 | 1.553 |
| | | | 4,482,000/ Short positions | 0.107 | 0.259 |



Other Events

Notes:

- (1) Each of Jianyin Investment, JIC Investment and China Investment Consulting is wholly-owned by Huijin. Therefore, Huijin is deemed to be interested in 2,734,800 Domestic Shares held by Jianyin Investment, JIC Investment and China Investment Consulting for the purpose of the SFO. In addition, according to the share transfer agreement dated June 6, 2018 between Huijin and Haier Group (Qingdao) Financial Holdings Ltd., Huijin agreed to transfer to Haier Group (Qingdao) Financial Holdings Ltd. 398,500,000 Domestic Shares (representing approximately 9.505% of the total share capital of Our Company and approximately 16.167% of the relevant class of shares) it held in Our Company at a consideration of RMB5,411.63 million. Completion of the share transfer is subject to the approval from China Securities Regulatory Commission and other regulatory authorities and the completion of relevant share transfer registration procedures. It had not yet completed as at June 30, 2018. Each of Haier Electric International Co., Ltd. (as the sole member of Haier Group (Qingdao) Financial Holdings Ltd.), Qingdao Haichuangke Management Consulting Enterprise (Limited Partnership) (holding 48.8% interest in Haier Electric International Co., Ltd.), Haier Group Corporation (holding 51.2% interest in Haier Electric International Co., Ltd.), and Qingdao Haichuangke Investment Management Co., Ltd. (as general partner of Qingdao Haichuangke Management Consulting Enterprise (Limited Partnership) and a member holding its 10% interest), is deemed to be interested in the Domestic Shares held by Haier Group (Qingdao) Financial Holdings Ltd. under the SFO.
- (2) As at June 30, 2018, Tencent Mobility Limited, directly interested in 207,537,059 H Shares, is a cooperation controlled by Tencent Holdings, which is therefore deemed to be interested in the H Shares held by Tencent Mobility Limited.
- (3) Each of TPG Asia GenPar V, L.P. (as general partner of TPG), TPG Asia GenPar V Advisors, Inc. (as general partner of TPG Asia GenPar V, L.P.), TPG Holdings I, L.P. (as the sole member of TPG Asia GenPar V Advisors, Inc.), TPG Holdings I-A, LLC (as general partner of TPG Holdings I, L.P.), TPG Group Holdings (SBS), L.P. (as the sole member of TPG Holdings I-A, LLC and the sole member of TPG Holdings II-A, LLC), TPG Group Holdings (SBS) Advisors, Inc. (as general partner of TPG Group Holdings (SBS), L.P.), Mr. David Bonderman and Mr. James Coulter (each holds a 50% interest in TPG Group Holdings (SBS) Advisors, Inc.), as well as TPG Capital Management, L.P. (as the managing general partner of TPG), TPG Capital Advisors, LLC (as the sole member of TPG Capital Management, LLC, which is the general partner of TPG Capital Management, L.P.), TPG Holdings II Sub, L.P. (as the sole member of TPG Capital Advisors, LLC), TPG Holdings II, L.P. (as general partner of TPG Holdings II Sub, L.P.), TPG Holdings II-A, LLC (as general partner of TPG Holdings II, L.P.), is deemed to be interested in the H Shares held by TPG under the SFO. Mr. Bonderman and Mr. Coulter disclaim beneficial ownership of the H Shares held by TPG.
- (4) As at June 30, 2018, State Development & Investment Corporation (國家開發投資公司), a PRC state-owned enterprise, holds approximately 47.20% shares of I&G and is therefore deemed to be interested in the Domestic Shares held by I&G under the SFO.
- (5) As at June 30, 2018, Mingly is held by certain, but not identical discretionary trusts as to 96.12%, of which CCM Trust (Cayman) Limited, LBJ Regents Limited and Dolios Limited are the corporate trustees and members of the classes of discretionary beneficiaries comprise the late Dr. Cha Chi Ming's issue.
- (6) Each of UBS AG, UBS Switzerland AG, UBS Asset Management (Americas) Inc, UBS Asset Management (Australia) Ltd., UBS Asset Management (Deutschland) GmbH, UBS Asset Management (Hong Kong) Ltd, UBS Asset Management Trust Company, UBS Asset Management (UK) Limited, UBS Fund Management (Luxembourg) S.A., UBS Fund Management (Switzerland) AG., UBS Third Party Management Company S.A., UBS Securities LLC is wholly owned by UBS Group AG. UBS Group AG is therefore deemed to be interested in the H Shares held by UBS AG, UBS Switzerland AG, UBS Asset Management (Americas) Inc, UBS Asset Management (Australia) Ltd., UBS Asset Management (Deutschland) GmbH, UBS Asset Management (Hong Kong) Ltd, UBS Asset Management Trust Company, UBS Asset Management (UK) Limited, UBS Fund Management (Luxembourg) S.A., UBS Fund Management (Switzerland) AG., UBS Third Party Management Company S.A., UBS Securities LLC under the SFO.



Other Events

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

As at June 30, 2018, the Company and one of its subsidiaries entered into a beneficiary certificate purchase agreement, pursuant to which the subsidiary agreed to purchase and the Company agreed to sell a beneficiary certificate with the principal amount of RMB60 million.

Save as disclosed above, during the Reporting Period, neither the Company nor its subsidiaries have purchased, sold or redeemed any of the Company's securities.

VI. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the Reporting Period, save for Provision A.2.1 of the Corporate Governance Code, the Company strictly complied with the 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. For details of Provision A.2.1 of the Corporate Governance Code, please refer to the disclosure set out in "Corporate Governance Report-V. Chairman and Chief Executive Officer" in the 2017 Annual Report dated April 2, 2018 as published by the Company.

VII. COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' and Supervisors' securities transactions on terms no less exacting than the required standard set out in the Model Code. The Company has made specific enquiries to all Directors and Supervisors concerning the compliance with the Model Code. All Directors and Supervisors confirmed that they have strictly observed all standards set out in the Company's code of conduct regarding Directors' and Supervisors' securities transactions during the Reporting Period.

VIII. AUDIT

The 2018 interim financial report of the Company is unaudited. The Audit Committee under the Board of Directors has reviewed the unaudited interim financial report of the Company for the six months ended June 30, 2018, and did not raise any objection to the accounting policy and practices which were adopted by the Company. The external auditor of the Company has reviewed the interim financial report of the Company for the six months ended June 30, 2018 in accordance with Hong Kong Standard on Review Engagements 2410.

IX. MATERIAL LITIGATION AND ARBITRATION

During the Reporting Period, the Group did not have any material litigation or arbitration.



Other Events

X. CHANGE IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

(A) Change in Directors and composition of Board Committees

The Board of Directors considered and approved our appointment of Mr. Shi Jun as a member of the Strategy Committee of the Board, with effect from June 1, 2018. The aforesaid details in the change were disclosed in the announcement dated June 1, 2018 as published by the Company.

(B) Change in Supervisors

During the Reporting Period, there have been no changes in Supervisors.

(C) Change in biographies of Directors and Supervisors

The Company has made specific enquiries to all Directors and Supervisors, and it is confirmed that there have been no changes in biographies of Directors and Supervisors during the Reporting Period.

The biographies of Directors and Supervisors were disclosed in the 2017 Annual Report dated April 2, 2018 as published by the Company.

(D) Change in Senior Management

The Board of Directors considered and approved to appoint Mr. Ding Wei as a member of the Management Committee of our Company, with effect from January 31, 2018.

The Board of Directors considered and approved to appoint Mr. Xu Yicheng as Assistant President of our Company, with effect from March 2, 2018.

The Board of Directors considered and approved to appoint Mr. Wang Sheng as Assistant President of our Company, with effect from March 7, 2018.

Mr. Lin Shoukang ceased to serve as a member of the Management Committee due to changes in work arrangements, with effect from March 14, 2018.

The Board of Directors considered and approved to appoint Mr. Wu Bo as a member of the Management Committee of our Company, with effect from April 20, 2018. On the same day, Mr. Wu Bo ceased to serve as the secretary to the Board and the joint company secretary of our Company.

The Board of Directors considered and approved to appoint Mr. Xu Yicheng as the secretary to the Board and the joint company secretary of our Company, with effect from April 20, 2018. On the same day, Mr. Xu Yicheng ceased to serve as the Assistant President of our Company.

Save from the above-mentioned changes, there was no other change in Directors, Supervisors and senior management of our Company during the Reporting Period.



Other Events

XI. EMPLOYEES AND REMUNERATION

As at June 30, 2018, we had 7,184 employees, among which 6,678 employees were based in the PRC and 506 employees were based in Hong Kong, Singapore, the United States and the United Kingdom, representing 93% and 7%, respectively, of the total number of our employees. Approximately 45% and 37% of our employees had obtained bachelor's degrees or master's degrees and above, respectively. Moreover, approximately 23% of our employees and 24% of our managing directors had overseas education or working experience.

During the Reporting Period, there was no change in the remuneration policy and training plans of the Company. For related information, please refer to "Directors, Supervisors, Senior Management and Employees" in the 2017 Annual Report of the Company.

XII. TALENT MANAGEMENT MECHANISM

In order to better cultivate the sense of ownership and entrepreneurship, and establish a partnership culture that reflects the alignment of employees' and shareholders' interests within the Company, as approved by the Board of Directors, the Company announced to implement the Participating Managing Director Program (the "PMD" Program) during the Reporting Period, and selected a group of PMDs who recognized the values of CICC and made positive contributions to the Company's growth and development from various business lines and management functions of the Company.

As an important measure of corporate culture construction and talent cultivation, the PMDs will undertake the mission of promoting business development, participating in institutional building and nurturing talent team, and will be committed to the corporate culture of courage, pioneering and teamwork, so as to make greater contributions to the development and innovation of the Company.

XIII. SECURITIES OF OUR COMPANY BOUGHT BY EMPLOYEES

According to the statistics conducted by our Company, from January 1, 2018 up to the date of this report, certain Directors, Senior Management, PMDs and senior staff of our Company collectively and voluntarily bought H Shares of our Company out of their own funds on a voluntary basis at their own risks, which involved approximately 40 million H Shares in aggregate, representing approximately 1.0% of the total issued share capital of our Company.

The voluntary purchase of Shares represents the confidence of the Directors, Senior Management, PMDs and senior staff of our Company, which is conducive to the establishment of a corporate culture of strong sense of responsibility and ownership.



Review Report of the Independent Auditors

Review report to the board of directors of
CHINA INTERNATIONAL CAPITAL CORPORATION LIMITED
(Incorporated in the People's Republic of China with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 64 to 144 which comprises the consolidated statement of financial position of China International Capital Corporation Limited (the “Company”) as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report 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 Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquires, 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 Hong Kong 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.



Review Report of the Independent Auditors

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

24 August 2018



Consolidated Statement of Profit or Loss and Other Comprehensive Income – Unaudited

for the six months ended 30 June 2018 (Expressed in RMB, unless otherwise stated)

| | Note | Six months ended 30 June | |
|---|------|--------------------------|----------------------|
| | | 2018 | 2017 |
| Revenue: | | | |
| Fee and commission income | 7 | 3,945,639,898 | 3,002,007,105 |
| Interest income | 8 | 1,898,398,522 | 1,249,882,633 |
| Investment income | 9 | 2,887,831,413 | 1,567,665,905 |
| Total revenue | | 8,731,869,833 | 5,819,555,643 |
| Other operating income/(losses), net | 10 | 81,455,444 | (1,786,601) |
| Total revenue and other income | | 8,813,325,277 | 5,817,769,042 |
| Expenses: | | | |
| Fee and commission expenses | 11 | 445,613,525 | 283,067,623 |
| Interest expenses | 12 | 2,471,304,411 | 1,226,137,749 |
| Staff costs | 13 | 2,624,795,961 | 2,072,635,625 |
| Depreciation and amortisation expenses | | 138,269,693 | 85,258,331 |
| Tax and surcharges | | 35,560,561 | 20,742,966 |
| Other operating expenses and costs | 14 | 1,057,460,639 | 694,347,681 |
| Reversal of impairment losses | 15 | (35,058,233) | (2,286,846) |
| Total expenses | | 6,737,946,557 | 4,379,903,129 |
| Operating profit | | 2,075,378,720 | 1,437,865,913 |
| Share of profits of associates and joint ventures | | 51,773,332 | 39,441,666 |
| Profit before income tax | | 2,127,152,052 | 1,477,307,579 |
| Less: Income tax expense | 16 | 473,088,265 | 348,264,650 |
| Profit for the period | | 1,654,063,787 | 1,129,042,929 |
| Attributable to: | | | |
| Shareholders of the Company and holders of other equity instruments | 17 | 1,630,940,280 | 1,110,825,787 |
| Non-controlling interests | | 23,123,507 | 18,217,142 |
| Basic and diluted earnings per share (in RMB per share) | 17 | 0.39 | 0.34 |

The notes on pages 75 to 144 form part of this interim financial report.



Consolidated Statement of Profit or Loss and Other Comprehensive Income – Unaudited (Continued)

for the six months ended 30 June 2018 (Expressed in RMB, unless otherwise stated)

| | Six months ended 30 June | |
|--|--------------------------|---------------|
| | 2018 | 2017 |
| Profit for the period | 1,654,063,787 | 1,129,042,929 |
| Other comprehensive income for the period | | |
| Items that may be reclassified to profit or loss in subsequent periods: | | |
| Financial assets at fair value through other comprehensive income: | | |
| – Changes in fair value | 53,686,419 | – |
| – Reversal of impairment losses | (4,316,119) | – |
| – Tax effect | (30,513,815) | – |
| – Reclassified to profit or loss as investment income | 2,961,454 | – |
| Available-for-sale financial assets: | | |
| – Changes in fair value | – | 59,047,104 |
| – Tax effect | – | 1,946,120 |
| – Reclassified to profit or loss as investment income | – | (74,168,548) |
| Interest in associates and joint ventures: | | |
| – Share of other comprehensive income | (24,553) | 2,768,936 |
| – Tax effect | – | (692,234) |
| Exchange differences on translation of financial statements of overseas subsidiaries | 53,971,655 | (122,590,692) |
| Total other comprehensive income for the period, net of tax | 75,765,041 | (133,689,314) |
| Total comprehensive income for the period | 1,729,828,828 | 995,353,615 |
| Attributable to: | | |
| Shareholders of the Company and holders of other equity instruments | 1,706,705,321 | 977,095,750 |
| Non-controlling interests | 23,123,507 | 18,257,865 |

The notes on pages 75 to 144 form part of this interim financial report.



Consolidated Statement of Financial Position – Unaudited

As at 30 June 2018 (Expressed in RMB, unless otherwise stated)

| | Note | As at 30 June 2018 | As at 31 December 2017 |
|---|------|--------------------------|------------------------------|
| Non-current assets: | | | |
| Property and equipment | 18 | 470,140,516 | 474,933,404 |
| Goodwill | 19 | 1,582,678,646 | 1,582,678,646 |
| Intangible assets | 20 | 242,429,849 | 227,205,975 |
| Interest in associates and joint ventures | | 1,193,490,222 | 1,128,283,260 |
| Financial assets at fair value through profit or loss | 21 | 1,882,780,447 | – |
| Available-for-sale financial assets | 22 | – | 1,177,822,837 |
| Financial assets held under resale agreements (“reverse REPOs”) | 23 | 845,303,994 | 1,015,578,267 |
| Refundable deposits | 24 | 3,094,045,814 | 2,785,186,146 |
| Deferred tax assets | 25 | 842,106,144 | 1,151,148,106 |
| Other non-current assets | | 1,358,115,389 | 1,362,139,896 |
| Total non-current assets | | 11,511,091,021 | 10,904,976,537 |
| Current assets: | | | |
| Accounts receivable | 26 | 15,684,834,418 | 9,401,697,222 |
| Receivable from margin clients | 27 | 20,668,626,448 | 21,882,853,461 |
| Financial assets at fair value through other comprehensive income | 28 | 24,738,453,173 | – |
| Available-for-sale financial assets | 22 | – | 17,719,553,617 |
| Financial assets at fair value through profit or loss | 21 | 99,822,489,759 | 97,011,710,932 |
| Derivative financial assets | 29 | 5,692,761,889 | 3,447,916,489 |
| Reverse REPOs | 23 | 14,522,284,050 | 13,422,695,660 |
| Interest receivable | | 2,196,129,410 | 1,470,485,414 |
| Cash held on behalf of brokerage clients | 30 | 45,258,547,635 | 44,226,142,219 |
| Cash and bank balances | 31 | 23,423,286,203 | 18,130,922,701 |
| Other current assets | | 383,304,148 | 192,995,384 |
| Total current assets | | 252,390,717,133 | 226,906,973,099 |
| Total assets | | 263,901,808,154 | 237,811,949,636 |

The notes on pages 75 to 144 form part of this interim financial report.



Consolidated Statement of Financial Position – Unaudited (Continued)

As at 30 June 2018 (Expressed in RMB, unless otherwise stated)

| | Note | As at 30 June 2018 | As at 31 December 2017 |
|---|------|--------------------------|------------------------------|
| Current liabilities: | | | |
| Financial liabilities at fair value through profit or loss | 33 | 14,888,351,810 | 12,194,242,171 |
| Derivative financial liabilities | 29 | 3,064,634,231 | 3,448,340,994 |
| Accounts payable to brokerage clients | 34 | 49,318,755,344 | 47,346,517,792 |
| Placements from financial institutions | 35 | 8,709,417,202 | 10,280,774,792 |
| Short-term debt securities issued | 36 | 10,526,517,619 | 10,626,880,896 |
| Financial assets sold under repurchase agreements (“REPOs”) | 37 | 33,729,491,067 | 30,653,643,454 |
| Employee benefits payable | | 2,905,547,514 | 4,681,413,346 |
| Income tax payable | | 392,677,024 | 350,740,606 |
| Long-term debt securities issued due within one year | 38 | 9,497,543,350 | 5,098,498,424 |
| Dividends payable | 39 | 706,826,859 | – |
| Other current liabilities | 40 | 36,554,919,764 | 28,479,611,982 |
| Total current liabilities | | 170,294,681,784 | 153,160,664,457 |
| Net current assets | | 82,096,035,349 | 73,746,308,642 |
| Total assets less current liabilities | | 93,607,126,370 | 84,651,285,179 |
| Non-current liabilities: | | | |
| Non-current employee benefits payable | | 775,162,417 | 628,212,952 |
| Long-term debt securities issued | 38 | 50,383,614,530 | 44,835,943,007 |
| Deferred tax liabilities | 25 | 248,237,059 | 226,771,876 |
| Other non-current liabilities | | 2,065,690,876 | 2,067,919,722 |
| Total non-current liabilities | | 53,472,704,882 | 47,758,847,557 |
| Net assets | | 40,134,421,488 | 36,892,437,622 |

The notes on pages 75 to 144 form part of this interim financial report.



Consolidated Statement of Financial Position – Unaudited (Continued)

As at 30 June 2018 (Expressed in RMB, unless otherwise stated)

| | Note | As at 30 June 2018 | As at 31 December 2017 |
|---|------|--------------------------|------------------------------|
| Equity: | | | |
| Share capital | 41 | 4,192,667,868 | 3,985,130,809 |
| Other equity instruments | 42 | 1,000,000,000 | 1,000,000,000 |
| Reserves | 41 | 26,825,051,480 | 24,607,398,949 |
| Retained profits | | 7,943,829,777 | 7,114,159,008 |
| Total equity attributable to shareholders of the Company and holders of other equity instruments | | 39,961,549,125 | 36,706,688,766 |
| Non-controlling interests | | 172,872,363 | 185,748,856 |
| Total equity | | 40,134,421,488 | 36,892,437,622 |

Approved and authorised for issue by the board of directors on 24 August 2018.

Bi Mingjian
Chief Executive Officer

Wong King Fung
Chief Financial Officer

Company chop

The notes on pages 75 to 144 form part of this interim financial report.



Consolidated Statement of Changes in Equity – Unaudited

for the six months ended 30 June 2018 (Expressed in RMB, unless otherwise stated)

| | Attributable to shareholders of the Company and holders of other equity instruments | | | | | | | | | | |
|---|---|---------------------------------------|---------------------------------|---------------------------------|----------------------------------|--|--|------------------|----------------|---------------------------|----------------|
| | Share capital (Note 41(a)) | Other equity instruments (Note 42) | Capital reserve (Note 41(b)) | Surplus reserve (Note 41(b)) | Reserves | | | Retained profits | Total | Non-controlling interests | Total equity |
| | | | | | General reserves (Note 41(b)) | Investment revaluation reserve (Note 41(b)) | Foreign currency translation reserve (Note 41(b)) | | | | |
| | | | | | | | | | | | |
| Balance at 31 December 2017 | 3,985,130,809 | 1,000,000,000 | 22,721,145,372 | 347,068,722 | 2,030,134,969 | (135,103,088) | (355,847,026) | 7,114,159,008 | 36,706,688,766 | 185,748,856 | 36,892,437,622 |
| Adjustment on initial application of IFRS 9 (net of tax) | - | - | - | - | - | 15,213,647 | - | (48,226,392) | (33,012,745) | - | (33,012,745) |
| Balance at 1 January 2018 | 3,985,130,809 | 1,000,000,000 | 22,721,145,372 | 347,068,722 | 2,030,134,969 | (119,889,441) | (355,847,026) | 7,065,932,616 | 36,673,676,021 | 185,748,856 | 36,859,424,877 |
| Changes in equity for the six months ended 30 June 2018 | | | | | | | | | | | |
| Profit for the period | - | - | - | - | - | - | - | 1,630,940,280 | 1,630,940,280 | 23,123,507 | 1,654,063,787 |
| Other comprehensive income for the period | - | - | - | - | - | 21,793,386 | 53,971,655 | - | 75,765,041 | - | 75,765,041 |
| Total comprehensive income for the period | - | - | - | - | - | 21,793,386 | 53,971,655 | 1,630,940,280 | 1,706,705,321 | 23,123,507 | 1,729,828,828 |
| Appropriation to general reserves | - | - | - | - | 25,216,260 | - | - | (25,216,260) | - | - | - |
| Distributions to holders of perpetual subordinated bonds | - | - | - | - | - | - | - | (57,000,000) | (57,000,000) | - | (57,000,000) |
| Dividends to shareholders of the Company | - | - | - | - | - | - | - | (670,826,859) | (670,826,859) | - | (670,826,859) |
| Dividends to non-controlling shareholders | - | - | - | - | - | - | - | - | - | (36,000,000) | (36,000,000) |
| Issuance of H shares | 207,537,059 | - | 2,101,457,583 | - | - | - | - | - | 2,308,994,642 | - | 2,308,994,642 |
| Balance at 30 June 2018 | 4,192,667,868 | 1,000,000,000 | 24,822,602,955 | 347,068,722 | 2,055,351,229 | (98,096,055) | (301,875,371) | 7,943,829,777 | 39,961,549,125 | 172,872,363 | 40,134,421,488 |

The notes on pages 75 to 144 form part of this interim financial report.



Consolidated Statement of Changes in Equity – Unaudited (Continued)

for the six months ended 30 June 2018 (Expressed in RMB, unless otherwise stated)

| | Attributable to shareholders of the Company and holders of other equity instruments | | | | | | | | | | |
|--|---|--------------------------|-----------------|-----------------|------------------|--------------------------------|--------------------------------------|------------------|----------------|---------------------------|----------------|
| | Reserves | | | | | | | Retained profits | Total | Non-controlling interests | Total equity |
| | Share capital | Other equity instruments | Capital reserve | Surplus reserve | General reserves | Investment revaluation reserve | Foreign currency translation reserve | | | | |
| | | | | | | | | | | | |
| Balance at 1 January 2017 | 2,306,669,000 | 1,000,000,000 | 7,705,668,325 | 255,669,229 | 1,663,056,264 | 64,793,432 | (49,820,163) | 5,500,908,886 | 18,446,944,973 | 49,813,207 | 18,496,758,180 |
| Changes in equity for the six months ended 30 June 2017 | | | | | | | | | | | |
| Profit for the period | - | - | - | - | - | - | - | 1,110,825,787 | 1,110,825,787 | 18,217,142 | 1,129,042,929 |
| Other comprehensive income for the period | - | - | - | - | - | (11,139,345) | (122,590,692) | - | (133,730,037) | 40,723 | (133,689,314) |
| Total comprehensive income for the period | - | - | - | - | - | (11,139,345) | (122,590,692) | 1,110,825,787 | 977,095,750 | 18,257,865 | 995,353,615 |
| Appropriation to general reserves | - | - | - | - | 906,440 | - | - | (906,440) | - | - | - |
| Distributions to holders of perpetual subordinated bonds | - | - | - | - | - | - | - | (57,000,000) | (57,000,000) | - | (57,000,000) |
| Dividends to shareholders of the Company | - | - | - | - | - | - | - | (637,620,929) | (637,620,929) | - | (637,620,929) |
| Dividends to non-controlling shareholders | - | - | - | - | - | - | - | - | - | (17,831,593) | (17,831,593) |
| Issuance of shares for acquisition | 1,678,461,809 | - | 14,993,768,126 | - | - | - | - | - | 16,672,229,935 | - | 16,672,229,935 |
| Acquisition of subsidiary with contribution by non-controlling interests | - | - | - | - | - | - | - | - | - | 106,199,132 | 106,199,132 |
| Others | - | - | 21,708,921 | - | - | - | - | - | 21,708,921 | - | 21,708,921 |
| Balance at 30 June 2017 | 3,985,130,809 | 1,000,000,000 | 22,721,145,372 | 255,669,229 | 1,663,962,704 | 53,654,087 | (172,410,855) | 5,916,207,304 | 35,423,358,650 | 156,438,611 | 35,579,797,261 |

The notes on pages 75 to 144 form part of this interim financial report.



Consolidated Statement of Changes in Equity – Unaudited (Continued)

for the six months ended 30 June 2018 (Expressed in RMB, unless otherwise stated)

| | Attributable to shareholders of the Company and holders of other equity instruments | | | | | | | | | | |
|---|---|--------------------------|-----------------|-----------------|------------------|--------------------------------|--------------------------------------|------------------|----------------|---------------------------|----------------|
| | Reserves | | | | | | | Retained profits | Total | Non-controlling interests | Total equity |
| | Share capital | Other equity instruments | Capital reserve | Surplus reserve | General reserves | Investment revaluation reserve | Foreign currency translation reserve | | | | |
| | | | | | | | | | | | |
| Balance at 1 July 2017 | 3,985,130,809 | 1,000,000,000 | 22,721,145,372 | 255,669,229 | 1,663,962,704 | 53,654,087 | (172,410,855) | 5,916,207,304 | 35,423,358,650 | 156,438,611 | 35,579,797,261 |
| Changes in equity for the six months ended 31 December 2017 | | | | | | | | | | | |
| Profit for the period | - | - | - | - | - | - | - | 1,655,523,462 | 1,655,523,462 | 26,596,316 | 1,682,119,778 |
| Other comprehensive income for the period | - | - | - | - | - | (188,757,175) | (183,436,171) | - | (372,193,346) | (12,509) | (372,205,855) |
| Total comprehensive income for the period | - | - | - | - | - | (188,757,175) | (183,436,171) | 1,655,523,462 | 1,283,330,116 | 26,583,807 | 1,309,913,923 |
| Appropriation to surplus reserve | - | - | - | 91,399,493 | - | - | - | (91,399,493) | - | - | - |
| Appropriation to general reserves | - | - | - | - | 366,172,265 | - | - | (366,172,265) | - | - | - |
| Contribution by non-controlling interests | - | - | - | - | - | - | - | - | - | 2,850,000 | 2,850,000 |
| Others | - | - | - | - | - | - | - | - | - | (123,562) | (123,562) |
| Balance at 31 December 2017 | 3,985,130,809 | 1,000,000,000 | 22,721,145,372 | 347,068,722 | 2,030,134,969 | (135,103,088) | (355,847,026) | 7,114,159,008 | 36,706,688,766 | 185,748,856 | 36,892,437,622 |

The notes on pages 75 to 144 form part of this interim financial report.



Consolidated Statement of Cash Flows – Unaudited

for the six months ended 30 June 2018 (Expressed in RMB, unless otherwise stated)

| | Six months ended 30 June | |
|--|--------------------------|------------------------|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Profit before income tax | 2,127,152,052 | 1,477,307,579 |
| Adjustments for: | | |
| Interest expenses on debt securities issued and other financing expenses | 1,530,938,448 | 621,291,327 |
| Depreciation and amortisation expenses | 138,269,693 | 85,258,331 |
| Reversal of impairment losses | (35,058,233) | (2,286,846) |
| Net losses on disposal of property, equipment and other assets | 9,191,239 | 1,179,744 |
| Fair value (gains)/losses on financial instruments at fair value through profit or loss | (814,237,439) | 226,921,148 |
| Foreign exchange (gains)/losses | (10,376,583) | 49,315,931 |
| Net gains on disposal of investments in financial assets | (20,064,002) | (70,849,672) |
| Dividend income from investments in financial assets, and share of profits of associates and joint ventures | (54,810,427) | (229,384,919) |
| Operating cash flows before movements in working capital | 2,871,004,748 | 2,158,752,623 |
| Decrease in receivable from margin clients | 1,232,752,046 | 1,988,753,862 |
| Increase in accounts receivable, other receivables and prepayments | (6,898,038,084) | (3,369,554,475) |
| (Increase)/decrease in reverse REPOs | (943,067,918) | 575,411,025 |
| Increase in financial instruments at fair value through profit or loss | (213,549,165) | (7,153,414,367) |
| Increase in financial assets at fair value through other comprehensive income/available-for-sale financial assets | (8,042,799,739) | (10,532,953,799) |
| Increase in cash held on behalf of brokerage clients | (1,032,405,416) | (1,379,956,683) |
| Decrease in restricted bank deposits | 388,933,188 | 118,370,200 |
| Increase in refundable deposits | (308,859,668) | (1,315,707,762) |
| Increase in accounts payable to brokerage clients | 1,972,237,552 | 5,387,508,507 |
| Increase in REPOs | 3,075,847,613 | 9,276,317,504 |
| Increase/(decrease) in other liabilities | 4,196,699,551 | (453,180,699) |
| Cash used in operating activities, before tax | (3,701,245,292) | (4,699,654,064) |
| Income taxes paid | (319,753,996) | (601,608,161) |
| Net cash used in operating activities | (4,020,999,288) | (5,301,262,225) |

The notes on pages 75 to 144 form part of this interim financial report.



Consolidated Statement of Cash Flows – Unaudited (Continued)

for the six months ended 30 June 2018 (Expressed in RMB, unless otherwise stated)

| | Six months ended 30 June | |
|--|--------------------------|-----------------|
| | 2018 | 2017 |
| Cash flows from investing activities: | | |
| Cash and cash equivalents from acquisition of a subsidiary | – | 7,631,792,908 |
| Investment returns received | 44,736,459 | 319,354,615 |
| Proceeds from sales of investments | 8,734,791 | 518,993,449 |
| Proceeds from disposal of property, equipment and other assets | 162,253 | 332,566 |
| Payment for acquisition of investments | (1,015,257,643) | (167,105,487) |
| Payment for the purchase of property, equipment and other assets | (163,143,784) | (109,599,394) |
| Net cash (used in)/generated from investing activities | (1,124,767,924) | 8,193,768,657 |
| Cash flows from financing activities: | | |
| Cash received from beneficiary certificates issued | 15,887,205,400 | 5,278,560,000 |
| Cash received from corporate bonds issued | 6,500,000,000 | 6,000,000,000 |
| Cash received from medium-term notes (“MTN”) issued | 4,412,780,000 | – |
| Cash received from structured notes issued | 3,786,755,819 | – |
| Proceeds from share issuance | 2,308,994,642 | – |
| Cash received from subordinated bonds issued | 1,000,000,000 | 600,000,000 |
| Cash received relating to other financing activities | 229,879,411 | 2,605,237,037 |
| Repayment of beneficiary certificates | (17,545,253,500) | (6,057,865,509) |
| Repayment of subordinated bonds | (2,000,000,000) | – |
| Repayment of structured notes | (1,828,717,905) | – |
| Repayment of MTN | (1,079,262,000) | – |
| Cash paid for interest | (673,976,196) | (170,052,644) |
| Distributions to holders of other equity instruments | (57,000,000) | (57,000,000) |
| Cash paid relating to other financing activities | (255,053,815) | (108,767,886) |
| Net cash generated from financing activities | 10,686,351,856 | 8,090,110,998 |

The notes on pages 75 to 144 form part of this interim financial report.



Consolidated Statement of Cash Flows – Unaudited (Continued)

for the six months ended 30 June 2018 (Expressed in RMB, unless otherwise stated)

| | Note | Six months ended 30 June | |
|--|------|--------------------------|----------------|
| | | 2018 | 2017 |
| Net increase in cash and cash equivalents | | 5,540,584,644 | 10,982,617,430 |
| Cash and cash equivalents at the beginning of the period | | 17,412,367,179 | 9,898,842,564 |
| Effect of changes in foreign exchange rate | | 140,712,046 | (76,292,678) |
| Cash and cash equivalents at the end of the period | 32 | 23,093,663,869 | 20,805,167,316 |
| Net cash generated from operating activities including: | | | |
| Interest received | | 2,191,866,376 | 1,623,138,328 |
| Interest paid | | (997,558,106) | (635,258,399) |

The notes on pages 75 to 144 form part of this interim financial report.



Notes to the Unaudited Interim Financial Report

(Expressed in RMB, unless otherwise stated)

1 GENERAL INFORMATION

China International Capital Corporation Limited (中國國際金融股份有限公司) (the “Company”) was established on 31 July 1995 in the People’s Republic of China (“PRC”) as approved by the People’s Bank of China (“PBOC”).

Pursuant to a conversion completed on 1 June 2015, the Company was converted into a joint stock company with limited liability.

The Company was listed on the Main Board of The Stock Exchange of Hong Kong on 9 November 2015.

The Company acquired 100% equity interests in China Investment Securities Company Limited (“CISC”) in March 2017 and issued 1,678,461,809 domestic shares to Central Huijin Investment Ltd. (“Huijin”) as a consideration of the acquisition. After the completion of the acquisition, the registered capital and share capital of the Company increased to RMB3,985,130,809.

The Company issued 207,537,059 new H shares to Tencent Mobility Limited in March 2018. After the completion of the issuance, the registered capital and share capital of the Company increased to RMB4,192,667,868.

The registered address of the Company is the 27th and 28th Floor, China World Trade Centre 2, 1 Jian Guo Men Wai Avenue, Beijing.

The Company and its subsidiaries (together “the Group”) are principally engaged in investment banking business, equities business, fixed-income, currency and commodity (“FICC”) business, wealth management business, investment management business and other business activities.

2 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board (the “IASB”). It was authorised for issue on 24 August 2018.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

This interim financial report contains consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2017 annual financial statements. The consolidated interim financial statements and selected notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

2 BASIS OF PREPARATION *(continued)*

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants.

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- IFRS 9, *Financial instruments*
- IFRS 15, *Revenue from contracts with customers*
- IFRIC 22, *Foreign currency transactions and advance consideration*

Details of the changes in accounting policies are discussed below.

IFRS 9, *Financial instruments*

IFRS 9 replaces IAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets and financial liabilities and for hedge accounting.

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under IAS 39.



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

The following table summarises the impact of transition to IFRS 9 on retained profits, reserves and the related tax impact at 1 January 2018.

| | <i>In RMB</i> |
|---|---------------------|
| Investment revaluation reserve | |
| Transferred to retained profits relating to financial assets now measured at fair value through profit or loss (FVTPL) | (83,697,016) |
| Recognition of expected credit losses under IFRS 9 for debt investments at fair value through other comprehensive income (FVTOCI) | 13,294,302 |
| Related tax effect | 20,270,493 |
| Effect of acquisition of a subsidiary | 65,204,948 |
| Impact as at 1 January 2018 | 15,072,727 |
| Attributable to: | |
| Shareholders of the Company and holders of other equity instruments | 15,213,647 |
| Non-controlling interests | (140,920) |
| | <i>In RMB</i> |
| Retained profits | |
| Transferred from investment revaluation reserve relating to financial assets now measured at FVTPL | 83,697,016 |
| Recognition of expected credit losses under IFRS 9 | (57,134,657) |
| Related tax effect | (9,442,883) |
| Effect of acquisition of a subsidiary | (65,204,948) |
| Impact as at 1 January 2018 | (48,085,472) |
| Attributable to: | |
| Shareholders of the Company and holders of other equity instruments | (48,226,392) |
| Non-controlling interests | 140,920 |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impacts of the new requirements on the Group's financial statements are as follows:

- Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) FVTPL and (3) FVTOCI:

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then interest income, impairment and gains/losses on disposal will be recognised in profit or loss.
- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset within the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

- Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances.

- Hedge accounting

IFRS 9 does not fundamentally change the requirements for measuring and recognising ineffectiveness under IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting.



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

The following table shows the original measurement categories for each class of the Group's financial assets under IAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with IAS 39 to those determined in accordance with IFRS 9.

| | Classification in IAS 39 | Classification in IFRS 9 | IAS 39 carrying amount at 31 December 2017 | Remeasurement | IFRS 9 carrying amount at 1 January 2018 |
|---|--|---------------------------------------|--|---------------|--|
| Assets: | | | | | |
| Loans and accounts receivable | Loans and accounts receivable | Financial assets at amortised cost | 112,551,462,144 | (43,840,355) | 112,507,621,789 |
| Available-for-sale debt investments | Available-for-sale financial assets | Financial assets at FVTOCI | 16,639,005,561 | - | 16,639,005,561 |
| Available-for-sale debt investments | Available-for-sale financial assets | Financial assets at FVTPL | 787,109,410 | - | 787,109,410 |
| Available-for-sale equity investments | Available-for-sale financial assets | Financial assets at FVTPL | 1,471,261,483 | - | 1,471,261,483 |
| Financial assets held for trading, financial assets designated as at FVTPL and derivative financial assets | Financial assets at FVTPL | Financial assets at FVTPL | 100,459,627,421 | - | 100,459,627,421 |
| Total | | | 231,908,466,019 | (43,840,355) | 231,864,625,664 |

The classification of financial liabilities under new requirements has not changed.



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

The following table reconciles the closing loss allowance determined in accordance with IAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with IFRS 9 as at 1 January 2018.

| | <i>In RMB</i> |
|---|---------------|
| Loss allowance as at 31 December 2017 under IAS 39 | 71,264,134 |
| Additional credit loss recognised at 1 January 2018 on: | |
| – Reverse REPOs | 22,796,131 |
| – Receivable from margin clients | 21,044,224 |
| – Financial assets at fair value through other comprehensive income | 13,317,597 |
| – Others | (23,295) |
| Loss allowance as at 1 January 2018 under IFRS 9 | 128,398,791 |

IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18, *Revenue*, IAS 11, *Construction Contracts* and IFRIC 13, *Customer Loyalty Programs*.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

IFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Some of these apply to interim financial reports prepared under IAS 34 as well as to annual financial statements. An entity may adopt IFRS 15 on a full retrospective basis. Alternatively, it may choose to adopt it from the date of initial application by adjusting opening balances at that date.

The application of IFRS 15 does not result in a significant impact on the Group's financial statements.

IFRIC 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining “the date of the transaction” for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The interpretation clarifies that “the date of the transaction” is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of IFRIC 22 does not have any material impact on the financial position and the financial result of the Group.



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

4 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

A number of new standards and amendments to standards are effective for annual periods beginning on or after 1 January 2019 and early adoption is permitted; however, the Group has not early adopted them in preparing these consolidated interim financial statements. The following standard is considered relevant to the Group.

IFRS 16, *Leases*

IFRS 16 replaces existing leases guidance, including IAS 17, *Leases*, IFRIC 4, *Determining whether an Arrangement contains a Lease*, SIC-15, *Operating Leases – Incentives* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted.

IFRS 16 introduces a single, on-balance-sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Group has started an initial assessment of the potential impact on its consolidated financial statements. So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases. As at 30 June 2018, the Group's future minimum lease payments under non-cancellable operating leases amounted to RMB1,500,883,969, on an undiscounted basis (see Note 43(b)). In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and with an interest expense on lease liabilities. The Group has not yet decided whether it will use the optional exemptions. No significant impact on the financial performance is expected for the Group's finance leases.

- Determining whether an arrangement contains a lease

On transition to IFRS 16, if the Group has an arrangement that is not in the legal form of a lease but contains a lease of equipment under IFRIC 4, the Group can choose whether to:

- Apply the IFRS 16 definition of a lease to all its contracts; or
- Apply a practical expedient and not reassess whether a contract is, or contains, a lease.

The Group is assessing whether to apply the practical expedient and the potential impact on its financial statements.



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

4 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE *(continued)*

IFRS 16, Leases *(continued)*

- Transition

As a lessee, the Group can either apply the standard using a:

- Retrospective approach; or
- Modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases. The Group currently plans to apply IFRS 16 initially on 1 January 2019. The Group has not yet determined which transition approach to apply.

The Group has not yet quantified the impact on its reported assets and liabilities of adoption of IFRS 16. The quantitative effect will depend on, among other things, the transition method chosen, the extent to which the Group uses the practical expedients and recognition exemptions, and any additional leases that the Group enters into.

5 USE OF JUDGEMENTS AND ESTIMATES

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

6 TAXATION

(a) Value-added tax (“VAT”) and surcharges

The applicable tax rate is 6%. The urban maintenance and construction tax, education surcharge and local education surcharge are charged at 7%, 3% and 2% of VAT respectively.

(b) Income tax

The income tax rate applicable to the Company and its domestic subsidiaries is 25%.

The income tax rate applicable to the subsidiaries in Hong Kong is 16.5%. Taxes of other overseas subsidiaries are charged at the relevant local rates.



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

7 FEE AND COMMISSION INCOME

| | Six months ended 30 June | |
|----------------------------------|--------------------------|----------------------|
| | 2018 | 2017 |
| Brokerage commission income | 1,923,238,450 | 1,312,744,167 |
| Underwriting and sponsoring fees | 848,740,966 | 650,125,284 |
| Asset management fees | 767,281,499 | 672,803,669 |
| Investment advisory fees | 229,735,294 | 99,047,210 |
| Financial advisory fees | 154,831,867 | 251,203,969 |
| Others | 21,811,822 | 16,082,806 |
| Total | 3,945,639,898 | 3,002,007,105 |

8 INTEREST INCOME

| | Six months ended 30 June | |
|--|--------------------------|----------------------|
| | 2018 | 2017 |
| Interest income from margin financing and securities lending | 801,773,869 | 523,659,825 |
| Interest income from financial institutions | 698,280,346 | 540,884,431 |
| Interest income from reverse REPOs | 385,622,532 | 174,746,521 |
| Others | 12,721,775 | 10,591,856 |
| Total interest income on financial assets not at fair value | 1,898,398,522 | 1,249,882,633 |

9 INVESTMENT INCOME

| | Six months ended 30 June | |
|--|--------------------------|----------------------|
| | 2018 | 2017 |
| Net losses from disposal of financial assets at fair value through other comprehensive income | (2,961,454) | – |
| Net gains from disposal of available-for-sale financial assets | – | 74,168,548 |
| Interest income from financial assets at fair value through other comprehensive income | 421,138,590 | – |
| Dividend income and interest income from available-for-sale financial assets | – | 280,548,569 |
| Net (losses)/gains from financial instruments at fair value through profit or loss | (1,264,650,487) | 1,888,218,699 |
| Net gains/(losses) from derivative financial instruments | 3,734,304,764 | (675,269,911) |
| Total | 2,887,831,413 | 1,567,665,905 |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

10 OTHER OPERATING INCOME/(LOSSES), NET

| | Six months ended 30 June | |
|-------------------|--------------------------|--------------------|
| | 2018 | 2017 |
| Government grants | 37,872,555 | 22,918,125 |
| Tax refunds | 20,005,395 | 19,337,100 |
| Commitment fee | 7,529,205 | – |
| Others | 16,048,289 | (44,041,826) |
| Total | 81,455,444 | (1,786,601) |

The government grants were received by the Company and its subsidiaries from the local government with no condition attached.

11 FEE AND COMMISSION EXPENSES

| | Six months ended 30 June | |
|--------------------------------------|--------------------------|--------------------|
| | 2018 | 2017 |
| Brokerage commission expenses | 390,761,765 | 242,582,513 |
| Underwriting and sponsoring expenses | 40,608,860 | 23,480,534 |
| Asset management expenses | 14,204,706 | 16,261,162 |
| Investment advisory expenses | 38,194 | 743,414 |
| Total | 445,613,525 | 283,067,623 |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

12 INTEREST EXPENSES

| | Six months ended 30 June | |
|--|--------------------------|---------------|
| | 2018 | 2017 |
| Interest expenses on: | | |
| – Corporate bonds | 672,775,622 | 263,106,468 |
| – REPOs | 541,532,857 | 371,483,391 |
| – Subordinated bonds | 372,314,342 | 233,697,414 |
| – Placements from financial institutions | 258,025,384 | 116,714,304 |
| – Beneficiary certificates | 238,205,145 | 45,196,790 |
| – Accounts payable to brokerage clients | 90,028,932 | 89,678,177 |
| – MTN | 73,293,317 | 50,841,511 |
| – Structured notes | 42,501,109 | – |
| – Others | 182,627,703 | 55,419,694 |
| Total interest expenses on financial liabilities not at fair value | 2,471,304,411 | 1,226,137,749 |

13 STAFF COSTS

| | Six months ended 30 June | |
|---------------------------------|--------------------------|---------------|
| | 2018 | 2017 |
| Salaries, bonus and allowance | 2,309,568,980 | 1,843,648,922 |
| Retirement scheme contributions | 126,105,599 | 84,798,817 |
| Other social welfare | 130,719,394 | 84,380,719 |
| Other benefits | 58,401,988 | 59,807,167 |
| Total | 2,624,795,961 | 2,072,635,625 |

The Group is required to participate in pension schemes in the Mainland China (for the purpose of this report, Mainland China excludes Hong Kong, Macau and Taiwan), Hong Kong and other jurisdictions whereby the Group is required to pay annual contributions for its employees at certain rates of the wages of employees. The Group has no other material obligations for payment of retirement benefits to its employees beyond the annual contributions described above.



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

14 OTHER OPERATING EXPENSES AND COSTS

| | Six months ended 30 June | |
|--|--------------------------|--------------------|
| | 2018 | 2017 |
| Operating lease charges in respect of property and equipment | 287,226,046 | 199,800,570 |
| Business development expenses | 224,753,162 | 164,500,706 |
| Information technology related expenses | 148,286,157 | 89,756,123 |
| Travelling and transportation expenses | 101,281,293 | 74,573,299 |
| Securities Investor Protection Fund | 54,615,244 | 21,081,715 |
| Professional service fees | 50,772,639 | 52,185,220 |
| Utilities and maintenance | 31,380,558 | 24,999,194 |
| Auditors' remuneration | 3,200,000 | 2,600,000 |
| Others | 155,945,540 | 64,850,854 |
| Total | 1,057,460,639 | 694,347,681 |

15 REVERSAL OF IMPAIRMENT LOSSES

| | Six months ended 30 June | |
|---|--------------------------|--------------------|
| | 2018 | 2017 |
| Provision for/(reversal of) impairment losses against accounts receivable and other non-current assets | 17,901,026 | (640,227) |
| Reversal of impairment losses against receivable from margin clients | (39,564,725) | (802,096) |
| Reversal of impairment losses against reverse REPOs | (9,042,330) | (844,523) |
| Reversal of impairment losses against financial assets at fair value through other comprehensive income | (4,352,204) | – |
| Total | (35,058,233) | (2,286,846) |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

16 INCOME TAX EXPENSE

- (a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

| | Six months ended 30 June | |
|---|--------------------------|--------------|
| | 2018 | 2017 |
| Current tax | | |
| – PRC income tax | 117,692,594 | (57,366,995) |
| – Hong Kong profits tax | 44,434,956 | 36,607,243 |
| Subtotal | 162,127,550 | (20,759,752) |
| Deferred tax | | |
| – Origination and reversal of temporary differences | 310,960,715 | 369,024,402 |
| Total | 473,088,265 | 348,264,650 |

- (b) Reconciliation between income tax expense and accounting profit at applicable tax rates:

The income tax has been provided at the statutory rate of 25%, in accordance with the relevant tax laws in Mainland China during the period. Taxes on profits assessable outside Mainland China have been calculated at the applicable rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on the existing legislation, interpretations and practices. A reconciliation of income tax expense calculated by applying the PRC statutory income tax rate to profit before income tax to the income tax expense in the consolidated statement of profit or loss and other comprehensive income is as follows:

| | Six months ended 30 June | |
|---|--------------------------|---------------|
| | 2018 | 2017 |
| Profit before income tax | 2,127,152,052 | 1,477,307,579 |
| Income tax calculated at the PRC statutory income tax rate | 531,788,013 | 369,326,895 |
| Non-deductible expenses | 14,588,932 | 13,522,204 |
| Non-taxable income | (29,503,056) | (15,115,411) |
| Effect of different applicable tax rates of the subsidiaries | (53,126,442) | (34,275,053) |
| Effect of deductible temporary differences or deductible tax losses for which no deferred tax asset was recognised in the period | 12,062,890 | 21,656,642 |
| Effect of using the deductible temporary differences or deductible tax losses for which no deferred tax asset was recognised in previous period | (272) | (4,250,112) |
| Others | (2,721,800) | (2,600,515) |
| Total income tax expense | 473,088,265 | 348,264,650 |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

17 BASIC AND DILUTED EARNINGS PER SHARE

| | Six months ended 30 June | |
|---|--------------------------|---------------|
| | 2018 | 2017 |
| Profit attributable to shareholders of the Company and holders of other equity instruments | 1,630,940,280 | 1,110,825,787 |
| Interest for holders of perpetual subordinated bonds for the period | (28,265,753) | (28,265,753) |
| Subtotal | 1,602,674,527 | 1,082,560,034 |
| Weighted average number of ordinary shares in issue (Note) | 4,088,899,339 | 3,145,899,905 |
| Basic earnings per share (in RMB per share) | 0.39 | 0.34 |

Note: On 23 March 2018, the Company issued 207,537,059 new H shares at a price of HKD13.80 per share to Tencent Mobility Limited. After the completion of the issuance, the registered capital and share capital of the Company increased to RMB4,192,667,868.

Basic earnings per share was calculated as the profit for the period attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares in issue.

There were no dilutive potential ordinary shares during the six months ended 30 June 2018 and 2017, and therefore, diluted earnings per share are the same as the basic earnings per share.



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

18 PROPERTY AND EQUIPMENT

| | Buildings | Office equipment | Furniture and fixtures | Motor vehicles | Leasehold improvements | Construction in progress | Total |
|--|--------------|---------------------|---------------------------|----------------|---------------------------|-----------------------------|-----------------|
| Cost | | | | | | | |
| As at 1 January 2018 | 85,992,204 | 1,163,675,156 | 80,584,668 | 64,896,377 | 661,324,246 | 1,800,808 | 2,058,273,459 |
| Additions | 5,337,788 | 69,882,240 | 1,498,405 | - | 19,310,206 | 3,178,144 | 99,206,783 |
| Transfer during the period | - | - | - | - | - | (2,528,919) | (2,528,919) |
| Disposals | - | (17,671,092) | (62,262) | (1,686,652) | - | - | (19,420,006) |
| Effect of changes in foreign exchange rate | - | 581,069 | 56,527 | 4,820 | 215,740 | - | 858,156 |
| As at 30 June 2018 | 91,329,992 | 1,216,467,373 | 82,077,338 | 63,214,545 | 680,850,192 | 2,450,033 | 2,136,389,473 |
| Accumulated depreciation | | | | | | | |
| As at 1 January 2018 | (28,416,967) | (880,161,655) | (65,593,121) | (39,887,369) | (569,280,943) | - | (1,583,340,055) |
| Additions | (2,166,193) | (61,370,158) | (2,928,061) | (4,015,604) | (26,281,552) | - | (96,761,568) |
| Disposals | - | 14,764,483 | 50,962 | 28,512 | - | - | 14,843,957 |
| Effect of changes in foreign exchange rate | - | (605,262) | (56,364) | (4,820) | (324,845) | - | (991,291) |
| As at 30 June 2018 | (30,583,160) | (927,372,592) | (68,526,584) | (43,879,281) | (595,887,340) | - | (1,666,248,957) |
| Carrying amount | | | | | | | |
| As at 30 June 2018 | 60,746,832 | 289,094,781 | 13,550,754 | 19,335,264 | 84,962,852 | 2,450,033 | 470,140,516 |
| As at 31 December 2017 | 57,575,237 | 283,513,501 | 14,991,547 | 25,009,008 | 92,043,303 | 1,800,808 | 474,933,404 |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

18 PROPERTY AND EQUIPMENT (continued)

| | Buildings | Office equipment | Furniture and fixtures | Motor vehicles | Leasehold improvements | Construction in progress | Total |
|--|--------------|---------------------|---------------------------|----------------|---------------------------|-----------------------------|-----------------|
| Cost | | | | | | | |
| As at 1 January 2017 | 4,294,530 | 634,432,682 | 56,231,767 | 810,588 | 483,080,566 | - | 1,178,850,133 |
| Arising from acquisition of a subsidiary | 81,697,674 | 451,815,531 | 24,927,857 | 68,197,008 | 183,438,336 | 2,535,307 | 812,611,713 |
| Additions | - | 140,306,794 | 2,791,418 | 1,091,785 | 32,816,726 | 3,121,313 | 180,128,036 |
| Transfer during the year | - | - | - | - | - | (3,855,812) | (3,855,812) |
| Disposals | - | (59,146,069) | (2,757,910) | (5,168,257) | (33,833,928) | - | (100,906,164) |
| Effect of changes in foreign exchange rate | - | (3,733,782) | (608,464) | (34,747) | (4,177,454) | - | (8,554,447) |
| As at 31 December 2017 | 85,992,204 | 1,163,675,156 | 80,584,668 | 64,896,377 | 661,324,246 | 1,800,808 | 2,058,273,459 |
| Accumulated depreciation | | | | | | | |
| As at 1 January 2017 | (1,241,044) | (486,964,982) | (45,271,794) | (679,269) | (436,195,184) | - | (970,352,273) |
| Arising from acquisition of a subsidiary | (23,925,905) | (352,010,499) | (18,427,839) | (37,767,082) | (127,163,238) | - | (559,294,563) |
| Additions | (3,250,018) | (98,976,994) | (5,007,587) | (6,296,457) | (44,109,415) | - | (157,640,471) |
| Disposals | - | 52,890,293 | 2,517,648 | 4,820,692 | 33,853,393 | - | 94,082,026 |
| Effect of changes in foreign exchange rate | - | 4,900,527 | 596,451 | 34,747 | 4,333,501 | - | 9,865,226 |
| As at 31 December 2017 | (28,416,967) | (880,161,655) | (65,593,121) | (39,887,369) | (569,280,943) | - | (1,583,340,055) |
| Carrying amount | | | | | | | |
| As at 31 December 2017 | 57,575,237 | 283,513,501 | 14,991,547 | 25,009,008 | 92,043,303 | 1,800,808 | 474,933,404 |
| As at 31 December 2016 | 3,053,486 | 147,467,700 | 10,959,973 | 131,319 | 46,885,382 | - | 208,497,860 |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

19 GOODWILL

(a) Changes in goodwill

| | Six months ended 30 June 2018 | Year ended 31 December 2017 |
|---------------------------------------|----------------------------------|--------------------------------|
| At the beginning of the period/year | 1,582,678,646 | – |
| Additions for the period/year | – | 1,582,678,646 |
| Subtotal | 1,582,678,646 | 1,582,678,646 |
| Less: Provision for impairment losses | – | – |
| Carrying amount | 1,582,678,646 | 1,582,678,646 |

Note: The Company acquired CISC in 2017 and paid the consideration amounting to RMB16,700,695,000 as the cost of the combination. The difference between the consideration and the fair value of the net identifiable assets attributable to the Company was RMB1,582,678,646, which was recognised as goodwill.

(b) Impairment test

The Company acquired 100% equity interests in CISC in March 2017, aiming to generate long-term synergetic value leveraging product, service and distribution strength across the enlarged group. The Group recognised the excess of fair value of the consideration transferred over the fair value of the net identifiable assets acquired as the goodwill of the wealth management cash-generating unit (CGU).

The recoverable amount of the CGU is determined based on the present value calculations of expected future cash flows, which was determined on financial budgets approved by management covering certain period (including budgeted income and profit margins based on the CGU's past performance and management's expectations for the market development) and a pre-tax discount rate based on weighted average return of equity of the Group. Cash-flows beyond the certain period are extrapolated using an estimated annual growth rate based on industry growth forecasts.

As at 30 June 2018, based on the estimated recoverable amount, the goodwill arising from business combinations was not impaired and thus no impairment loss was recognised.



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

20 INTANGIBLE ASSETS

| | Securities trading seat rights | Others | Total |
|--|--------------------------------------|----------------------|----------------------|
| Cost | | | |
| As at 1 January 2018 | 163,948,747 | 263,603,732 | 427,552,479 |
| Additions | – | 44,928,355 | 44,928,355 |
| Disposal | – | (9,105,347) | (9,105,347) |
| Effect of changes in foreign exchange rate | 7,200 | 16,224 | 23,424 |
| As at 30 June 2018 | 163,955,947 | 299,442,964 | 463,398,911 |
| Accumulated amortisation | | | |
| As at 1 January 2018 | (84,445,428) | (115,901,076) | (200,346,504) |
| Additions | (3,620,042) | (21,965,114) | (25,585,156) |
| Disposal | – | 4,974,123 | 4,974,123 |
| Effect of changes in foreign exchange rate | – | (11,525) | (11,525) |
| As at 30 June 2018 | (88,065,470) | (132,903,592) | (220,969,062) |
| Carrying amount | | | |
| As at 30 June 2018 | 75,890,477 | 166,539,372 | 242,429,849 |
| As at 31 December 2017 | 79,503,319 | 147,702,656 | 227,205,975 |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

20 INTANGIBLE ASSETS (continued)

| | Securities trading seat rights | Others | Total |
|--|--------------------------------------|---------------|---------------|
| Cost | | | |
| As at 1 January 2017 | 41,268,843 | 939,535 | 42,208,378 |
| Arising from acquisition of a subsidiary | 122,731,804 | 195,031,566 | 317,763,370 |
| Additions | – | 82,037,215 | 82,037,215 |
| Disposal | – | (14,284,247) | (14,284,247) |
| Effect of changes in foreign exchange rate | (51,900) | (120,337) | (172,237) |
| As at 31 December 2017 | 163,948,747 | 263,603,732 | 427,552,479 |
| Accumulated amortisation | | | |
| As at 1 January 2017 | (41,153,426) | (483,889) | (41,637,315) |
| Arising from acquisition of a subsidiary | (36,044,000) | (107,230,049) | (143,274,049) |
| Additions | (7,248,002) | (22,349,961) | (29,597,963) |
| Disposal | – | 14,084,135 | 14,084,135 |
| Effect of changes in foreign exchange rate | – | 78,688 | 78,688 |
| As at 31 December 2017 | (84,445,428) | (115,901,076) | (200,346,504) |
| Carrying amount | | | |
| As at 31 December 2017 | 79,503,319 | 147,702,656 | 227,205,975 |
| As at 31 December 2016 | 115,417 | 455,646 | 571,063 |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Non-current

Analysed by type:

| | As at 30 June 2018 |
|-----------------------------|--------------------------|
| Equity investments | 1,824,798,439 |
| Funds and other investments | 57,982,008 |
| Total | 1,882,780,447 |

Analysed by listing status:

| | As at 30 June 2018 |
|---------------------|--------------------------|
| Listed | |
| – Outside Hong Kong | 33,189,424 |
| Unlisted | 1,849,591,023 |
| Total | 1,882,780,447 |

Current

Analysed by type:

| | As at 30 June 2018 |
|-----------------------------|--------------------------|
| Equity investments | 31,784,682,391 |
| Debt investments | 52,989,689,859 |
| Funds and other investments | 15,048,117,509 |
| Total | 99,822,489,759 |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Current

| | As at 31 December 2017 | | |
|-----------------------------|--------------------------------------|---|-----------------------|
| | Financial assets held for trading | Financial assets designated as at fair value through profit or loss | Total |
| Equity investments | 20,883,996,306 | 18,046,213,074 | 38,930,209,380 |
| Debt investments | 46,770,992,879 | 167,524,609 | 46,938,517,488 |
| Funds and other investments | 4,273,156,707 | 6,869,827,357 | 11,142,984,064 |
| Total | 71,928,145,892 | 25,083,565,040 | 97,011,710,932 |

Analysed by listing status:

| | As at 30 June 2018 | As at 31 December 2017 |
|---------------------|-----------------------|---------------------------|
| Listed | | |
| – In Hong Kong | 7,431,550,632 | 5,154,528,755 |
| – Outside Hong Kong | 62,855,430,096 | 60,997,647,724 |
| Unlisted | 29,535,509,031 | 30,859,534,453 |
| Total | 99,822,489,759 | 97,011,710,932 |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

22 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Non-current

| | As at 31 December 2017 |
|-------------------------------|---------------------------|
| At fair value | |
| – Equity investments | 1,112,184,827 |
| – Funds and other investments | 65,638,010 |
| Total | 1,177,822,837 |
| Analysed into: | |
| Listed | |
| – Outside Hong Kong | 44,269,556 |
| Unlisted | 1,133,553,281 |
| Total | 1,177,822,837 |

Current

| | As at 31 December 2017 |
|---------------------------------------|---------------------------|
| At fair value | |
| – Debt investments | 17,426,114,971 |
| – Equity investments | 188,202,859 |
| – Funds and other investments | 105,259,082 |
| Less: Provision for impairment losses | (23,295) |
| Total | 17,719,553,617 |
| Analysed into: | |
| Listed | |
| – In Hong Kong | 2,753,521,747 |
| – Outside Hong Kong | 14,697,216,934 |
| Unlisted | 268,814,936 |
| Total | 17,719,553,617 |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

23 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (“REVERSE REPOS”)

(a) Analysed by collateral type:

Non-current

| | As at 30 June 2018 | As at 31 December 2017 |
|---------------------------------------|-----------------------|---------------------------|
| Stocks | 851,725,358 | 1,016,332,500 |
| Less: Provision for impairment losses | (6,421,364) | (754,233) |
| Total | 845,303,994 | 1,015,578,267 |

Current

| | As at 30 June 2018 | As at 31 December 2017 |
|---------------------------------------|-----------------------|---------------------------|
| Stocks | 9,838,405,019 | 10,909,702,283 |
| Debt securities | 4,705,648,705 | 2,518,779,381 |
| Funds | – | 7,897,000 |
| Less: Provision for impairment losses | (21,769,674) | (13,683,004) |
| Total | 14,522,284,050 | 13,422,695,660 |

(b) Analysed by market:

Non-current

| | As at 30 June 2018 | As at 31 December 2017 |
|-------------------------|-----------------------|---------------------------|
| Stock exchanges | 650,327,136 | 884,494,267 |
| Over-the-counter market | 194,976,858 | 131,084,000 |
| Total | 845,303,994 | 1,015,578,267 |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

23 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (“REVERSE REPOS”) (continued)

(b) Analysed by market: (continued)

Current

| | As at 30 June 2018 | As at 31 December 2017 |
|-------------------------|-----------------------|---------------------------|
| Stock exchanges | 12,574,772,543 | 12,220,216,827 |
| Inter-bank market | 1,233,937,800 | 685,322,000 |
| Over-the-counter market | 713,573,707 | 517,156,833 |
| Total | 14,522,284,050 | 13,422,695,660 |

24 REFUNDABLE DEPOSITS

| | As at 30 June 2018 | As at 31 December 2017 |
|---|-----------------------|---------------------------|
| Self-owned refundable deposits | 1,505,357,094 | 1,276,007,633 |
| Refundable deposits held on behalf of clients | 1,588,688,720 | 1,509,178,513 |
| Total | 3,094,045,814 | 2,785,186,146 |

Refundable deposits are mainly placed at stock exchanges and clearing house, futures and commodity exchanges, China Securities Finance Corporation Limited, Shanghai Clearing House, futures companies and other institutions.



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

25 DEFERRED TAX ASSETS/(LIABILITIES)

(a) Deferred tax assets and liabilities recognised

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movement during the period/year are as follows:

| | As at 31 December 2017 | Adjustment on initial application of IFRS 9 | As at 1 January 2018 | (Charged)/ credited to profit or loss | Charged to equity | Exchange difference (Note) | As at 30 June 2018 | | |
|--|------------------------------|--|----------------------------|---|----------------------|----------------------------------|----------------------|------------------------|-----------------------------|
| | | | | | | | Deferred tax, net | Deferred tax assets | Deferred tax liabilities |
| Deferred tax assets/(liabilities) before set-off: | | | | | | | | | |
| Staff cost | 1,161,806,337 | - | 1,161,806,337 | (287,618,496) | - | 66,591 | 874,254,432 | 874,254,432 | - |
| Deductible tax losses | 21,874,486 | - | 21,874,486 | (3,322,427) | - | 51,195 | 18,603,254 | 18,603,254 | - |
| Depreciation and amortisation | 4,422,309 | - | 4,422,309 | (7,351,260) | - | 11,709 | (2,917,242) | - | (2,917,242) |
| Changes in fair values of financial instruments at fair value through profit or loss | (249,930,662) | (22,715,731) | (272,646,393) | (14,216,223) | - | - | (286,862,616) | - | (286,862,616) |
| Changes in fair values of available- for-sale financial assets | 10,918,153 | (10,918,153) | - | - | - | - | - | - | - |
| Changes in fair values of financial assets at fair value through other comprehensive income | - | 33,639,707 | 33,639,707 | (1,150,959) | (30,513,815) | - | 1,974,933 | 1,974,933 | - |
| Fair value adjustment arising from acquisition of a subsidiary | (191,661,156) | - | (191,661,156) | 4,992,701 | - | - | (186,668,455) | - | (186,668,455) |
| Others | 166,946,763 | 10,821,787 | 177,768,550 | (2,294,051) | - | 10,280 | 175,484,779 | 175,484,779 | - |
| Subtotal | 924,376,230 | 10,827,610 | 935,203,840 | (310,960,715) | (30,513,815) | 139,775 | 593,869,085 | 1,070,317,398 | (476,448,313) |
| Set off | | | | | | | | (228,211,254) | 228,211,254 |
| Deferred tax assets/(liabilities) recognised in the consolidated statement of financial position | | | | | | | | 842,106,144 | (248,237,059) |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

25 DEFERRED TAX ASSETS/(LIABILITIES) (continued)

(a) Deferred tax assets and liabilities recognised (continued)

| | As at 1 January 2017 | Arising from acquisition of a subsidiary | Credited/ (charged) to profit or loss | Credited/ (charged) to equity | Exchange difference (Note) | As at 31 December 2017 | | |
|--|----------------------------|--|---|-------------------------------------|----------------------------------|------------------------|------------------------|-----------------------------|
| | | | | | | Deferred tax, net | Deferred tax assets | Deferred tax liabilities |
| Deferred tax assets/(liabilities) before set-off: | | | | | | | | |
| Staff cost | 730,454,894 | 369,532,069 | 62,490,409 | - | (671,035) | 1,161,806,337 | 1,161,806,337 | - |
| Deductible tax losses | 34,301,021 | - | (10,445,318) | - | (1,981,217) | 21,874,486 | 21,874,486 | - |
| Depreciation and amortisation | 6,321,454 | - | (1,551,641) | - | (347,504) | 4,422,309 | 4,422,309 | - |
| Changes in fair values of financial instruments at fair value through profit or loss | (15,458,855) | 45,006,597 | (279,478,404) | - | - | (249,930,662) | - | (249,930,662) |
| Changes in fair values of available-for-sale financial assets | (18,975,370) | (23,480,877) | - | 53,374,400 | - | 10,918,153 | 10,918,153 | - |
| Fair value adjustment arising from acquisition of a subsidiary | - | (198,231,250) | 6,570,094 | - | - | (191,661,156) | - | (191,661,156) |
| Others | 53,246,241 | 54,814,704 | 60,018,744 | (983,865) | (149,061) | 166,946,763 | 166,946,763 | - |
| Subtotal | 789,889,385 | 247,641,243 | (162,396,116) | 52,390,535 | (3,148,817) | 924,376,230 | 1,365,968,048 | (441,591,818) |
| Set off | | | | | | | (214,819,942) | 214,819,942 |
| Deferred tax assets/(liabilities) recognised in the consolidated statement of financial position | | | | | | | 1,151,148,106 | (226,771,876) |

Note: Exchange difference represents foreign exchange difference in translation of financial statements of overseas subsidiaries.



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

25 DEFERRED TAX ASSETS/(LIABILITIES) (continued)

(b) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of deductible temporary differences and cumulative tax losses amounted to RMB236 million and RMB216 million at 30 June 2018 and 31 December 2017, respectively.

Deferred tax assets not recognised in respect of cumulative tax losses are mainly attributable to certain overseas subsidiaries of the Group which were set up to strengthen the Group's cross-border service capabilities.

Deferred tax asset arising from unused tax losses is recognised only to the extent that an entity has sufficient taxable temporary differences or there is other convincing evidence that sufficient taxable profit will be available against which the unused tax losses can be utilised by the entity, when the entity has a history of recent losses. The directors of the Company review the financial performance of these overseas subsidiaries at the end of reporting period to determine whether there is sufficient taxable profit to be available against the unused tax losses, and they are of the opinion that it is probable that sufficient future taxable profits against which the losses can be utilised may not be available in these overseas entities in the foreseeable future, given the current market conditions, and that further expenditures of these overseas subsidiaries are considered necessary for expanding the Group's overseas operations based on its business strategies.

26 ACCOUNTS RECEIVABLE

(a) Analysed by nature:

| | As at 30 June 2018 | As at 31 December 2017 |
|---|-----------------------|---------------------------|
| Trade receivable | 13,571,649,801 | 7,561,248,773 |
| Asset management fees receivable | 813,990,379 | 668,660,456 |
| Underwriting and advisory fees receivable | 529,129,738 | 829,733,557 |
| Trading seat rental fees receivable | 147,048,473 | 135,751,976 |
| Others | 667,266,862 | 231,857,710 |
| Less: Provision for impairment losses | (44,250,835) | (25,555,250) |
| Total | 15,684,834,418 | 9,401,697,222 |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

26 ACCOUNTS RECEIVABLE (continued)

(b) Analysed by aging:

| | As at 30 June 2018 | | | |
|---------------------------|-----------------------|----------------|---------------------------------|----------------|
| | Gross amount | | Provision for impairment losses | |
| | Amount | % | Amount | % |
| Within 1 year (inclusive) | 15,127,580,016 | 96.18% | (20,637,127) | 46.64% |
| 1 – 2 years (inclusive) | 329,520,466 | 2.09% | (79,593) | 0.18% |
| 2 – 3 years (inclusive) | 51,120,368 | 0.33% | (2,455,393) | 5.55% |
| More than 3 years | 220,864,403 | 1.40% | (21,078,722) | 47.63% |
| Total | 15,729,085,253 | 100.00% | (44,250,835) | 100.00% |

| | As at 31 December 2017 | | | |
|---------------------------|------------------------|----------------|---------------------------------|----------------|
| | Gross amount | | Provision for impairment losses | |
| | Amount | % | Amount | % |
| Within 1 year (inclusive) | 8,994,489,065 | 95.41% | (1,889,643) | 7.40% |
| 1 – 2 years (inclusive) | 197,068,581 | 2.09% | (1,521,642) | 5.95% |
| 2 – 3 years (inclusive) | 53,860,831 | 0.57% | (1,627,667) | 6.37% |
| More than 3 years | 181,833,995 | 1.93% | (20,516,298) | 80.28% |
| Total | 9,427,252,472 | 100.00% | (25,555,250) | 100.00% |

(c) Analysis of the movement of provision for impairment losses:

| | Six months ended 30 June 2018 | Year ended 31 December 2017 |
|--|----------------------------------|--------------------------------|
| At the beginning of the period/year | 25,555,250 | 26,335,500 |
| Arising from acquisition of a subsidiary | – | 8,653,451 |
| Provided/(reversed) for the period/year | 18,580,225 | (7,510,375) |
| Write-offs for the period/year | – | (40,288) |
| Effect of changes in foreign exchange rate | 115,360 | (1,883,038) |
| At the end of the period/year | 44,250,835 | 25,555,250 |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

27 RECEIVABLE FROM MARGIN CLIENTS

(a) Analysed by nature:

| | As at 30 June 2018 | As at 31 December 2017 |
|---------------------------------------|--------------------------|------------------------------|
| Individuals | 18,576,629,870 | 20,323,973,978 |
| Institutions | 2,094,676,260 | 1,582,632,074 |
| Less: Provision for impairment losses | (2,679,682) | (23,752,591) |
| Total | 20,668,626,448 | 21,882,853,461 |

(b) Analysed by fair value of collaterals:

| | Fair value of collaterals | |
|-----------------|---------------------------|------------------------------|
| | As at 30 June 2018 | As at 31 December 2017 |
| Stocks | 50,648,683,917 | 59,354,039,719 |
| Cash | 1,534,256,811 | 1,222,699,181 |
| Debt securities | 30,232,423 | 46,197,644 |
| Funds | 124,713,677 | 60,855,249 |
| Total | 52,337,886,828 | 60,683,791,793 |

(c) Analysis of the movement of provision for impairment losses:

| | Six months ended 30 June 2018 | Year ended 31 December 2017 |
|---|----------------------------------|--------------------------------|
| At the end of prior period/year | 23,752,591 | 25,907,805 |
| Additional expected credit loss recognised under IFRS 9 | 21,044,224 | – |
| At the beginning of current period/year | 44,796,815 | 25,907,805 |
| Reversed for the period/year | (39,564,725) | (802,096) |
| Write-offs for the period/year | (2,547,876) | – |
| Effect of changes in foreign exchange rate | (4,532) | (1,353,118) |
| At the end of the period/year | 2,679,682 | 23,752,591 |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

28 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 30 June 2018

| | |
|---------------------|----------------|
| At fair value | |
| – Debt investments | 24,738,453,173 |
| Analysed into: | |
| Listed | |
| – In Hong Kong | 2,908,663,735 |
| – Outside Hong Kong | 21,829,789,438 |
| Total | 24,738,453,173 |

29 DERIVATIVE FINANCIAL ASSETS/(LIABILITIES)

As at 30 June 2018

| | Notional amount | Fair value | |
|---------------------------|-----------------|---------------|-----------------|
| | | Assets | Liabilities |
| Hedging instruments (a) | | | |
| – Interest rate contracts | 20,100,000,000 | 320,958,820 | – |
| Non-hedging instruments | | | |
| – Interest rate contracts | 43,776,312,324 | 264,205,619 | (328,252,071) |
| – Currency contracts | 14,608,604,078 | 250,241,168 | (69,136,269) |
| – Equity contracts | 82,294,755,545 | 4,518,178,875 | (2,479,819,325) |
| – Credit contracts | 1,446,567,533 | 6,092,652 | (14,420,167) |
| – Other contracts | 21,679,586,558 | 334,461,024 | (293,184,856) |
| Total | 183,905,826,038 | 5,694,138,158 | (3,184,812,688) |
| Less: Settlement | | (1,376,269) | 120,178,457 |
| Net position | | 5,692,761,889 | (3,064,634,231) |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

29 DERIVATIVE FINANCIAL ASSETS/(LIABILITIES) (continued)

| | As at 31 December 2017 | | |
|---------------------------|------------------------|----------------------|------------------------|
| | Notional amount | Fair value | |
| | | Assets | Liabilities |
| Hedging instruments (a) | | | |
| – Interest rate contracts | 10,100,000,000 | 7,688,506 | (60,342,640) |
| Non-hedging instruments | | | |
| – Interest rate contracts | 68,512,583,777 | 310,848,617 | (386,052,410) |
| – Currency contracts | 7,685,476,409 | 44,042,978 | (94,624,931) |
| – Equity contracts | 69,813,915,504 | 2,562,114,764 | (2,426,551,170) |
| – Credit contracts | 1,728,125,872 | 5,151,263 | (20,969,394) |
| – Other contracts | 24,638,042,672 | 519,284,255 | (489,245,689) |
| Total | 182,478,144,234 | 3,449,130,383 | (3,477,786,234) |
| Less: Settlement | | (1,213,894) | 29,445,240 |
| Net position | | 3,447,916,489 | (3,448,340,994) |

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in futures in Mainland China are settled daily and the corresponding receipts and payments are reflected in "deposits with clearing houses". Accordingly, the Group did not hold any net position of those futures contracts as at 30 June 2018 and 31 December 2017.

(a) Hedging instruments

Fair value hedges are used by the Group to protect against changes in the fair value of financial assets and financial liabilities due to movements in market interest rates. Interest rate swaps are used as hedging instruments to hedge the interest rate risk of long-term debt securities issued.

The effectiveness of hedges based on changes in fair value of the derivatives and the profit or loss of the hedged items attributable to the hedged risk during the period is presented as follows:

| | Six months ended 30 June | |
|--|--------------------------|------------------|
| | 2018 | 2017 |
| Gains arising from fair value hedges, net: | | |
| – Interest rate contracts | 426,791,586 | 6,720,333 |
| – Hedged items attributable to the hedged risk | (377,976,846) | (4,229,109) |
| Total | 48,814,740 | 2,491,224 |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

30 CASH HELD ON BEHALF OF BROKERAGE CLIENTS

The Group maintains segregated deposit accounts with banks and authorised institutions to hold clients' monies arising from its normal course of brokerage business. The Group has classified their clients' monies as cash held on behalf of brokerage clients under the current assets of the consolidated statement of financial position and recognised the corresponding accounts payable to brokerage clients on the grounds that the Group is liable for any misappropriation of their clients' monies. In Mainland China, clients' monies are restricted and governed by relevant third-party deposit regulations issued by the China Securities Regulatory Commission (the "CSRC"). In Hong Kong, clients' monies are restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance.

31 CASH AND BANK BALANCES

| | As at 30 June 2018 | As at 31 December 2017 |
|-------------------------------|-----------------------|---------------------------|
| Cash on hand | 373,731 | 295,540 |
| Deposits with banks | 21,730,879,645 | 16,121,531,319 |
| Deposits with clearing houses | 1,692,032,827 | 2,009,095,842 |
| Total | 23,423,286,203 | 18,130,922,701 |

32 CASH AND CASH EQUIVALENTS

| | As at 30 June 2018 | As at 31 December 2017 |
|--------------------------------|-----------------------|---------------------------|
| Cash on hand | 373,731 | 295,540 |
| Deposits with banks | 21,730,879,645 | 16,121,531,319 |
| Deposits with clearing houses | 1,692,032,827 | 2,009,095,842 |
| Less: Restricted bank deposits | (329,622,334) | (718,555,522) |
| Total | 23,093,663,869 | 17,412,367,179 |

The restricted bank deposits mainly include the risk reserve deposits held for asset management business and temporary deposits held on behalf of non-brokerage clients.



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

33 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

| | As at 30 June 2018 | | |
|--------------------|---|--|-----------------------|
| | Financial liabilities held for trading | Financial liabilities designated as at fair value through profit or loss | Total |
| Equity investments | 9,117,393 | 11,862,410,176 | 11,871,527,569 |
| Debt investments | 883,311,617 | 2,133,512,624 | 3,016,824,241 |
| Total | 892,429,010 | 13,995,922,800 | 14,888,351,810 |

| | As at 31 December 2017 | | |
|-----------------------------|---|--|-----------------------|
| | Financial liabilities held for trading | Financial liabilities designated as at fair value through profit or loss | Total |
| Equity investments | 1,901 | 10,524,776,252 | 10,524,778,153 |
| Debt investments | 822,546,784 | – | 822,546,784 |
| Funds and other investments | 846,917,234 | – | 846,917,234 |
| Total | 1,669,465,919 | 10,524,776,252 | 12,194,242,171 |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

34 ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

| | As at 30 June 2018 | As at 31 December 2017 |
|---|-----------------------|---------------------------|
| Clients' deposits for brokerage trading | 45,946,356,874 | 44,764,529,711 |
| Clients' deposits for margin financing and securities lending | 3,372,398,470 | 2,581,988,081 |
| Total | 49,318,755,344 | 47,346,517,792 |

Accounts payable to brokerage clients represent the monies received from and repayable to brokerage clients, which are mainly held at banks and clearing houses. Accounts payable to brokerage clients are interest-bearing at the prevailing interest rate.

The balance of the accounts payable includes certain margin deposits and cash collaterals received from clients for their margin financing and securities lending activities under normal course of business. Only the amounts in excess of the required amount of margin deposits and cash collaterals are repayable on demand.

35 PLACEMENTS FROM FINANCIAL INSTITUTIONS

(a) Analysed by funding source:

| | As at 30 June 2018 | As at 31 December 2017 |
|-----------------------|-----------------------|---------------------------|
| Placements from banks | 7,448,245,158 | 10,280,774,792 |
| Others | 1,261,172,044 | – |
| Total | 8,709,417,202 | 10,280,774,792 |

(b) Analysed by residual maturity:

| | As at 30 June 2018 | | As at 31 December 2017 | |
|-------------------------------|----------------------|---------------------------|------------------------|---------------------------|
| | Book value | Range of interest rate | Book value | Range of interest rate |
| Within 1 month (inclusive) | 5,641,240,190 | 2.94% – 6.00% | 5,644,055,700 | 1.55% – 4.50% |
| 1 – 3 months (inclusive) | – | – | 1,116,880,000 | 4.50% |
| 3 months – 1 year (inclusive) | 3,068,177,012 | 3.35% – 5.42% | 3,519,839,092 | 4.50% – 5.42% |
| Total | 8,709,417,202 | | 10,280,774,792 | |



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(Expressed in RMB, unless otherwise stated)

36 SHORT-TERM DEBT SECURITIES ISSUED

| | Note | As at 30 June 2018 | As at 31 December 2017 |
|--------------------------|------|-----------------------|------------------------------|
| Beneficiary certificates | (a) | 7,136,831,900 | 8,824,880,000 |
| Notes payable | (b) | 3,389,685,719 | 1,802,000,896 |
| Total | | 10,526,517,619 | 10,626,880,896 |

(a) Beneficiary certificates:

| Nominal interest rate | Book value as at 1 January 2018 | Issuance | Redemption | Book value as at 30 June 2018 |
|-----------------------|------------------------------------|----------------|------------------|----------------------------------|
| 0.00% – 8.50% | 8,824,880,000 | 15,857,205,400 | (17,545,253,500) | 7,136,831,900 |

| Nominal interest rate | Book value as at 1 January 2017 | Arising from acquisition of a subsidiary | Issuance | Redemption | Book value as at 31 December 2017 |
|-----------------------|------------------------------------|--|----------------|------------------|--------------------------------------|
| 0.00% – 8.50% | 2,649,593,509 | 800,000,000 | 16,470,584,000 | (11,095,297,509) | 8,824,880,000 |

The Group has issued beneficiary certificates bearing nominal interest with:

- fixed rates, ranging from 3.10% to 6.80% per annum;
- a fixed rate plus a floating rate; or
- a floating rate.

The floating interest rate is calculated based on Shanghai & Shenzhen 300 Index, China Securities Index (CSI) 500, CSI 500 Total Return, price of commodities' product or USD index.



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

36 SHORT-TERM DEBT SECURITIES ISSUED (continued)

(b) Notes payable:

| Name | Book value as at 1 January 2018 | Issuance | Redemption | Amortisation and others | Book value as at 30 June 2018 |
|------------------------|------------------------------------|---------------|-----------------|----------------------------|----------------------------------|
| MTN (i) | 1,110,814,000 | - | (1,079,262,000) | (31,552,000) | - |
| MTN (ii) | - | 628,820,000 | - | 32,683,037 | 661,503,037 |
| Structured notes (iii) | 691,186,896 | 3,786,755,819 | (1,828,717,905) | 78,957,872 | 2,728,182,682 |
| Total | 1,802,000,896 | 4,415,575,819 | (2,907,979,905) | 80,088,909 | 3,389,685,719 |

| Name | Book value as at 1 January 2017 | Issuance | Redemption | Amortisation and others | Book value as at 31 December 2017 |
|------------------------|------------------------------------|---------------|------------|----------------------------|--------------------------------------|
| MTN (i) | - | 1,122,578,000 | - | (11,764,000) | 1,110,814,000 |
| Structured notes (iii) | - | 703,549,967 | - | (12,363,071) | 691,186,896 |
| Total | - | 1,826,127,967 | - | (24,127,071) | 1,802,000,896 |

- (i) The notes were issued on 15 November 2017 with a principle amount of USD170 million and a maturity date of 15 May 2018. The Company has redeemed the notes on 15 May 2018.
- (ii) The notes were issued on 7 February 2018 with a principle amount of USD100 million and a maturity date of 7 November 2018. The corresponding interest is due upon maturity of the principal.
- (iii) The notes were issued bearing nominal interest rates ranging from 1.10% to 4.10% per annum.



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

37 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS (“REPOs”)

(a) Analysed by collateral type:

| | As at 30 June 2018 | As at 31 December 2017 |
|-----------------|-----------------------|---------------------------|
| Debt securities | 29,686,992,508 | 26,562,260,712 |
| Others | 4,042,498,559 | 4,091,382,742 |
| Total | 33,729,491,067 | 30,653,643,454 |

(b) Analysed by market:

| | As at 30 June 2018 | As at 31 December 2017 |
|-------------------------|--------------------------|------------------------------|
| Stock exchanges | 10,426,473,000 | 17,210,957,030 |
| Inter-bank market | 16,194,751,688 | 7,939,384,535 |
| Over-the-counter market | 7,108,266,379 | 5,503,301,889 |
| Total | 33,729,491,067 | 30,653,643,454 |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

38 LONG-TERM DEBT SECURITIES ISSUED

| | Note | As at 30 June 2018 | As at 31 December 2017 |
|----------------------------|------|-----------------------|------------------------------|
| Due within one year | | | |
| – Beneficiary certificates | (a) | 2,696,735,260 | 1,600,700,609 |
| – Corporate bonds | (c) | 3,499,749,331 | 3,497,797,815 |
| – Notes payable | (d) | 3,301,058,759 | – |
| Subtotal | | 9,497,543,350 | 5,098,498,424 |
| Due after one year | | | |
| – Beneficiary certificates | (a) | – | 1,032,320,546 |
| – Subordinated bonds | (b) | 15,206,226,002 | 16,074,294,509 |
| – Corporate bonds | (c) | 31,220,677,377 | 24,473,332,658 |
| – Notes payable | (d) | 3,956,711,151 | 3,255,995,294 |
| Subtotal | | 50,383,614,530 | 44,835,943,007 |
| Total | | 59,881,157,880 | 49,934,441,431 |
| Fair value | | 60,596,017,277 | 49,460,153,719 |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

38 LONG-TERM DEBT SECURITIES ISSUED (continued)

(a) Beneficiary certificates:

| Nominal interest rate | Book value as at 1 January 2018 | Issuance | Interest accrued | Redemption | Book value as at 30 June 2018 |
|-----------------------|------------------------------------|------------|------------------|------------|----------------------------------|
| 0.00% – 5.20% | 2,633,021,155 | 30,000,000 | 33,714,105 | – | 2,696,735,260 |

| Nominal interest rate | Book value as at 1 January 2017 | Arising from acquisition of a subsidiary | Issuance | Interest accrued | Redemption | Book value as at 31 December 2017 |
|-----------------------|------------------------------------|--|---------------|------------------|---------------|---|
| 0.00% – 5.20% | – | 715,966,082 | 2,074,710,000 | 49,206,224 | (206,861,151) | 2,633,021,155 |

The Group has issued beneficiary certificates bearing nominal interest with:

- fixed rates, ranging from 3.90% to 5.20% per annum;
- a fixed rate plus a floating rate; or
- a floating rate.

The floating interest rate is calculated based on certain asset-backed securities. The Group has an early-repurchase option on certain beneficiary certificates.



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

38 LONG-TERM DEBT SECURITIES ISSUED (continued)

(b) Subordinated bonds:

| Name | Issuance date | Maturity date | Interest payment | Nominal interest rate | Book value as at 1 January 2018 | Issuance | Redemption | Amortisation and others | Book value as at 30 June 2018 |
|-----------------------|---------------|---------------|------------------|--|---------------------------------|---------------|-----------------|-------------------------|-------------------------------|
| 15 CICC C1 (i) | 29/05/2015 | 29/05/2021 | Annually | 1st – 3rd years 5.25% 4th – 6th years 8.25% | 2,000,000,000 | - | (2,000,000,000) | - | - |
| 16 CICC C1 (ii) | 21/07/2016 | 21/07/2021 | Annually | 1st – 2nd years 3.25% 3rd – 5th years 6.25% | 2,000,000,000 | - | - | - | 2,000,000,000 |
| 16 CICC C2 | 15/12/2016 | 15/12/2021 | Annually | 4.60% | 3,400,000,000 | - | - | - | 3,400,000,000 |
| 16 CICC Futures (iii) | 16/12/2016 | 16/12/2024 | Annually | 1st – 5th years 5.00% 6th – 8th years 8.00% | 100,000,000 | - | - | - | 100,000,000 |
| 17 CICC C1 | 22/05/2017 | 22/05/2022 | Annually | 5.39% | 601,136,664 | - | - | 15,562,089 | 616,698,753 |
| 17 CICC C2 | 24/07/2017 | 24/07/2022 | Annually | 4.98% | 1,480,139,603 | - | - | 49,968,260 | 1,530,107,863 |
| 17 CICC C3 | 16/11/2017 | 16/11/2022 | Annually | 5.50% | 1,500,000,000 | - | - | 52,214,602 | 1,552,214,602 |
| 18 CICC C1 | 20/04/2018 | 20/04/2023 | Annually | 5.30% | - | 1,000,000,000 | - | 12,887,176 | 1,012,887,176 |
| 16 CISC 01 | 07/12/2016 | 07/12/2019 | Annually | 4.00% | 2,197,269,866 | - | - | 680,632 | 2,197,950,498 |
| 17 CISC 01 | 23/02/2017 | 23/02/2020 | Annually | 4.85% | 998,622,825 | - | - | 305,590 | 998,928,415 |
| 17 CISC 02 | 23/02/2017 | 23/02/2022 | Annually | 5.00% | 1,797,125,551 | - | - | 313,144 | 1,797,438,695 |
| Total | | | | | 16,074,294,509 | 1,000,000,000 | (2,000,000,000) | 131,931,493 | 15,206,226,002 |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

38 LONG-TERM DEBT SECURITIES ISSUED (continued)

(b) Subordinated bonds: (continued)

| Name | Issuance date | Maturity date | Interest payment | Nominal interest rate | Book value as at 1 January 2017 | Arising from acquisition of a subsidiary | Issuance | Redemption | Amortisation and others | Book value as at 31 December 2017 |
|-----------------------|---------------|---------------|------------------|--|---------------------------------|--|---------------|------------|-------------------------|-----------------------------------|
| 15 CICC C1 (i) | 29/05/2015 | 29/05/2021 | Annually | 1st – 3rd years 5.25% 4th – 6th years 8.25% | 2,000,000,000 | - | - | - | - | 2,000,000,000 |
| 16 CICC C1 (ii) | 21/07/2016 | 21/07/2021 | Annually | 1st – 2nd years 3.25% 3rd – 5th years 6.25% | 2,000,000,000 | - | - | - | - | 2,000,000,000 |
| 16 CICC C2 | 15/12/2016 | 15/12/2021 | Annually | 4.60% | 3,400,000,000 | - | - | - | - | 3,400,000,000 |
| 16 CICC Futures (iii) | 16/12/2016 | 16/12/2024 | Annually | 1st – 5th years 5.00% 6th – 8th years 8.00% | 100,000,000 | - | - | - | - | 100,000,000 |
| 17 CICC C1 | 22/05/2017 | 22/05/2022 | Annually | 5.39% | - | - | 600,000,000 | - | 1,136,664 | 601,136,664 |
| 17 CICC C2 | 24/07/2017 | 24/07/2022 | Annually | 4.98% | - | - | 1,500,000,000 | - | (19,860,397) | 1,480,139,603 |
| 17 CICC C3 | 16/11/2017 | 16/11/2022 | Annually | 5.50% | - | - | 1,500,000,000 | - | - | 1,500,000,000 |
| 16 CISC 01 | 07/12/2016 | 07/12/2019 | Annually | 4.00% | - | 2,200,000,000 | - | - | (2,730,134) | 2,197,269,866 |
| 17 CISC 01 | 23/02/2017 | 23/02/2020 | Annually | 4.85% | - | 1,000,000,000 | - | - | (1,377,175) | 998,622,825 |
| 17 CISC 02 | 23/02/2017 | 23/02/2022 | Annually | 5.00% | - | 1,800,000,000 | - | - | (2,874,449) | 1,797,125,551 |
| Total | | | | | 7,500,000,000 | 5,000,000,000 | 3,600,000,000 | - | (25,705,491) | 16,074,294,509 |

(i) The Company has redeemed the bonds on 29 May 2018.

(ii) The Company has redeemed the bonds on 23 July 2018.

(iii) CICC Futures Co., Ltd. (“CICC Futures”) has an option to redeem the bonds on 16 December 2021.



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

38 LONG-TERM DEBT SECURITIES ISSUED (continued)

(c) Corporate bonds:

| Name | Issuance date | Maturity date | Interest payment | Nominal interest rate | Book value as at 1 January 2018 | Issuance | Redemption | Amortisation and others | Book value as at 30 June 2018 |
|------------------|---------------|---------------|------------------|-----------------------|---------------------------------|---------------|------------|-------------------------|-------------------------------|
| 16 CICC 01 (i) | 18/07/2016 | 18/07/2021 | Annually | 2.99% | 3,000,000,000 | - | - | - | 3,000,000,000 |
| 16 CICC 02 (ii) | 18/07/2016 | 18/07/2023 | Annually | 3.29% | 1,000,000,000 | - | - | - | 1,000,000,000 |
| 16 CICC 03 (iii) | 27/10/2016 | 27/10/2021 | Annually | 2.95% | 1,100,000,000 | - | - | - | 1,100,000,000 |
| 16 CICC 04 (iv) | 27/10/2016 | 27/10/2023 | Annually | 3.13% | 900,000,000 | - | - | - | 900,000,000 |
| 16 CICC 05 | 26/12/2016 | 26/12/2019 | Annually | 4.50% | 2,000,000,000 | - | - | - | 2,000,000,000 |
| 17 CICC 01 | 20/01/2017 | 20/01/2020 | Annually | 4.35% | 3,974,367,918 | - | - | 52,900,277 | 4,027,268,195 |
| 17 CICC 02 | 08/05/2017 | 08/05/2020 | Annually | 4.97% | 1,005,797,807 | - | - | 10,845,705 | 1,016,643,512 |
| 17 CICC 03 | 08/05/2017 | 08/05/2022 | Annually | 5.19% | 1,007,657,164 | - | - | 24,420,809 | 1,032,077,973 |
| 17 CICC 04 | 27/07/2017 | 27/07/2020 | Annually | 4.78% | 1,985,509,769 | - | - | 37,875,523 | 2,023,385,292 |
| 17 CICC 05 | 20/10/2017 | 20/10/2020 | Annually | 5.13% | 2,000,000,000 | - | - | 33,061,569 | 2,033,061,569 |
| 17 CICC 06 | 21/11/2017 | 21/11/2020 | Annually | 5.45% | 2,500,000,000 | - | - | 48,887,510 | 2,548,887,510 |
| 18 CICC 01 | 26/01/2018 | 26/01/2020 | Annually | 5.58% | - | 1,000,000,000 | - | 12,327,780 | 1,012,327,780 |
| 18 CICC 02 | 26/01/2018 | 26/01/2021 | Annually | 5.70% | - | 1,000,000,000 | - | 18,883,718 | 1,018,883,718 |
| 18 CICC 03 | 24/04/2018 | 24/04/2020 | Annually | 4.80% | - | 500,000,000 | - | - | 500,000,000 |
| 18 CICC 04 | 24/04/2018 | 24/04/2021 | Annually | 4.94% | - | 1,000,000,000 | - | 8,141,828 | 1,008,141,828 |
| 18 CICC 05 | 28/06/2018 | 28/06/2020 | Annually | 5.20% | - | 1,000,000,000 | - | - | 1,000,000,000 |
| 18 CICC 06 | 28/06/2018 | 28/06/2021 | Annually | 5.30% | - | 1,000,000,000 | - | - | 1,000,000,000 |
| 15 CISC G1 (v) | 24/07/2015 | 24/07/2018 | Annually | 3.62% | 3,497,797,815 | - | - | 1,951,516 | 3,499,749,331 |
| 17 CISC F1 | 18/07/2017 | 18/07/2020 | Annually | 4.95% | 3,000,000,000 | - | - | - | 3,000,000,000 |
| 17 CISC F2 | 18/07/2017 | 18/07/2022 | Annually | 5.10% | 1,000,000,000 | - | - | - | 1,000,000,000 |
| 18 CISC 01 | 23/03/2018 | 23/03/2021 | Annually | 5.95% | - | 1,000,000,000 | - | - | 1,000,000,000 |
| Total | | | | | 27,971,130,473 | 6,500,000,000 | - | 249,296,235 | 34,720,426,708 |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

38 LONG-TERM DEBT SECURITIES ISSUED (continued)

(c) Corporate bonds: (continued)

| Name | Issuance date | Maturity date | Interest payment | Nominal interest rate | Book value as at 1 January 2017 | Arising from acquisition of a subsidiary | Issuance | Redemption | Amortisation and others | Book value as at 31 December 2017 |
|------------------|---------------|---------------|------------------|-----------------------|---------------------------------|--|----------------|------------|-------------------------|-----------------------------------|
| 16 CICC 01 (i) | 18/07/2016 | 18/07/2021 | Annually | 2.99% | 3,000,000,000 | - | - | - | - | 3,000,000,000 |
| 16 CICC 02 (ii) | 18/07/2016 | 18/07/2023 | Annually | 3.29% | 1,000,000,000 | - | - | - | - | 1,000,000,000 |
| 16 CICC 03 (iii) | 27/10/2016 | 27/10/2021 | Annually | 2.95% | 1,100,000,000 | - | - | - | - | 1,100,000,000 |
| 16 CICC 04 (iv) | 27/10/2016 | 27/10/2023 | Annually | 3.13% | 900,000,000 | - | - | - | - | 900,000,000 |
| 16 CICC 05 | 26/12/2016 | 26/12/2019 | Annually | 4.50% | 2,000,000,000 | - | - | - | - | 2,000,000,000 |
| 17 CICC 01 | 20/01/2017 | 20/01/2020 | Annually | 4.35% | - | - | 4,000,000,000 | - | (25,632,082) | 3,974,367,918 |
| 17 CICC 02 | 08/05/2017 | 08/05/2020 | Annually | 4.97% | - | - | 1,000,000,000 | - | 5,797,807 | 1,005,797,807 |
| 17 CICC 03 | 08/05/2017 | 08/05/2022 | Annually | 5.19% | - | - | 1,000,000,000 | - | 7,657,164 | 1,007,657,164 |
| 17 CICC 04 | 27/07/2017 | 27/07/2020 | Annually | 4.78% | - | - | 2,000,000,000 | - | (14,490,231) | 1,985,509,769 |
| 17 CICC 05 | 20/10/2017 | 20/10/2020 | Annually | 5.13% | - | - | 2,000,000,000 | - | - | 2,000,000,000 |
| 17 CICC 06 | 21/11/2017 | 21/11/2020 | Annually | 5.45% | - | - | 2,500,000,000 | - | - | 2,500,000,000 |
| 15 CISC G1 (v) | 24/07/2015 | 24/07/2018 | Annually | 3.62% | - | 3,494,901,054 | - | - | 2,896,761 | 3,497,797,815 |
| 17 CISC F1 | 18/07/2017 | 18/07/2020 | Annually | 4.95% | - | - | 3,000,000,000 | - | - | 3,000,000,000 |
| 17 CISC F2 | 18/07/2017 | 18/07/2022 | Annually | 5.10% | - | - | 1,000,000,000 | - | - | 1,000,000,000 |
| Total | | | | | 8,000,000,000 | 3,494,901,054 | 16,500,000,000 | - | (23,770,581) | 27,971,130,473 |

- (i) The Company has an option to redeem the bonds on 18 July 2019. If the early-redemption option is not exercised, the Company has an option to increase the coupon rate and an obligation to redeem the bonds if required by the investors.
- (ii) The Company has an option to redeem the bonds on 18 July 2021. If the early-redemption option is not exercised, the Company has an option to increase the coupon rate and an obligation to redeem the bonds if required by the investors.
- (iii) The Company has an option to redeem the bonds on 27 October 2019. If the early-redemption option is not exercised, the Company has an option to increase the coupon rate and an obligation to redeem the bonds if required by the investors.
- (iv) The Company has an option to redeem the bonds on 27 October 2021. If the early-redemption option is not exercised, the Company has an option to increase the coupon rate and an obligation to redeem the bonds if required by the investors.
- (v) CISC has redeemed the bonds on 24 July 2018.



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

38 LONG-TERM DEBT SECURITIES ISSUED (continued)

(d) Notes payable:

| Name | Issuance date | Maturity date | Nominal interest rate | Book value as at 1 January 2018 | Issuance | Redemption | Amortisation and others | Book value as at 30 June 2018 |
|----------|---------------|---------------|-----------------------|---------------------------------|---------------|------------|-------------------------|-------------------------------|
| MTN (i) | 18/05/2016 | 18/05/2019 | 2.75% | 3,255,995,294 | - | - | 45,063,465 | 3,301,058,759 |
| | | | 3M LIBOR | | | | | |
| MTN (ii) | 25/04/2018 | 25/04/2021 | plus 1.2% | - | 3,783,960,000 | - | 172,751,151 | 3,956,711,151 |
| Total | | | | 3,255,995,294 | 3,783,960,000 | - | 217,814,616 | 7,257,769,910 |

| Name | Issuance date | Maturity date | Nominal interest rate | Book value as at 1 January 2017 | Issuance | Redemption | Amortisation and others | Book value as at 31 December 2017 |
|---------|---------------|---------------|-----------------------|---------------------------------|----------|------------|-------------------------|-----------------------------------|
| MTN (i) | 18/05/2016 | 18/05/2019 | 2.75% | 3,448,469,092 | - | - | (192,473,798) | 3,255,995,294 |

- (i) The notes were issued on 18 May 2016 with a principal amount of USD500 million and a maturity date of 18 May 2019. Interests of the notes are paid semi-annually.
- (ii) The notes were issued on 25 April 2018 with a principal amount of USD600 million and a maturity date of 25 April 2021. Interests of the notes are paid quarterly.



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

39 DIVIDENDS PAYABLE

| | As at 30 June 2018 | As at 31 December 2017 |
|---|--------------------------|------------------------------|
| Dividends payable to shareholders of the Company | 670,826,859 | – |
| Dividends payable to non-controlling shareholders | 36,000,000 | – |
| Total | 706,826,859 | – |

40 OTHER CURRENT LIABILITIES

| | As at 30 June 2018 | As at 31 December 2017 |
|---|--------------------------|------------------------------|
| Trade payable | 29,834,559,216 | 21,852,867,481 |
| Payables to the investors of consolidated structured entities | 3,388,830,053 | 3,225,830,492 |
| Interest payable | 1,732,183,585 | 1,117,799,714 |
| Accrued expenses | 552,154,102 | 482,611,963 |
| Sundry tax payable | 333,640,012 | 398,513,863 |
| Others | 713,552,796 | 1,401,988,469 |
| Total | 36,554,919,764 | 28,479,611,982 |

41 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

Pursuant to a conversion completed on 1 June 2015, the Company was converted into a joint stock company with limited liability. After the conversion, the Company issued 1,667,473,000 domestic shares with par value of RMB1 each.

On 9 November 2015, the Company issued 555,824,000 H shares with a par value of RMB1 at an offering price of HKD10.28 per share. On 18 November 2015, the Company exercised the over-allotment option and issued 83,372,000 H shares with a par value of RMB1 at an offering price of HKD10.28 per share.

Pursuant to the completion of acquisition of 100% equity interests in CISC, the Company issued 1,678,461,809 consideration shares at a price of RMB9.95 per share to Huijin in 2017. Accordingly, the registered capital of the Company increased to RMB3,985,130,809 and the total number of shares of the Company increased to 3,985,130,809 shares, which composes 2,464,953,440 domestic shares and 1,520,177,369 H shares.



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

41 CAPITAL, RESERVES AND DIVIDENDS (continued)

(a) Share capital (continued)

On 23 March 2018, the Company issued 207,537,059 new H shares at a price of HKD13.80 per share to Tencent Mobility Limited. Accordingly, the registered capital of the Company increased to RMB4,192,667,868 and the total number of the shares of the Company increased to 4,192,667,868 shares, which was divided into 2,464,953,440 domestic shares and 1,727,714,428 H shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regards to the Company's residual assets.

(b) Reserves

(i) Capital reserve

| | As at 30 June 2018 | As at 31 December 2017 |
|----------------------|--------------------------|------------------------------|
| Share premium (Note) | 24,775,868,127 | 22,674,410,544 |
| Others | 46,734,828 | 46,734,828 |
| Total | 24,822,602,955 | 22,721,145,372 |

Note: The premium arising from the Company's H share offering and the issuance of shares for acquisition (see Note 41(a)) was recorded in share premium.

(ii) Surplus reserve

The surplus reserve represents statutory surplus reserve. The Company is required to appropriate 10% of its net profit as determined under the Accounting Standards for Business Enterprises and other relevant requirements issued by the MOF after offsetting prior year's accumulated losses, to 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, or converted into capital of the Company provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before the capitalisation.

The Company makes the appropriation of surplus reserve at the end of each year.



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

41 CAPITAL, RESERVES AND DIVIDENDS (continued)

(b) Reserves (continued)

(iii) General reserves

General reserves include general risk reserve and trading risk reserve.

In accordance with the Financial Rules for Financial Enterprises (Order of the MOF No. 42) and the application guidance (Caijin [2007] No. 23) issued by the MOF, and the Guideline of Supervision of Annual Report of Securities Companies issued by the CSRC, the Company is required to appropriate an amount equivalent to 10% of the net profit to the general risk reserve.

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

In accordance with the Guideline of Supervision of Annual Report of Securities Companies issued by the CSRC, the Company is required to appropriate an amount equivalent to 10% of the net profit to the trading risk reserve.

General reserves for the Company's subsidiaries are appropriated if relevant requirements are in place.

(iv) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net changes in fair values of financial assets at fair value through other comprehensive income or available-for-sale financial assets held at the end of reporting period.

(v) Foreign currency translation reserve

The foreign currency translation reserve comprises foreign exchange differences arising from the translation of the financial statements of the Group entities from their respective reporting currencies to RMB.

(c) Dividends

Upon the approval of the Annual General Meeting on 18 May 2018, the Company announced the payment of cash dividend for its 2017 profit distribution. The amount of cash dividend was RMB670,826,859 (or RMB1.60 every 10 shares, tax inclusive).



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

42 OTHER EQUITY INSTRUMENTS

The Company issued its 2015 perpetual subordinated bonds with a total principal amount of RMB1 billion on 29 May 2015. The interest rate of the perpetual subordinated bond is determined as the following:

- The bond bears at a fixed interest rate;
- The nominal interest rate of the first five interest-bearing years is determined by inquiry and will remain unchanged. The nominal interest rate resets every five years since the sixth interest-bearing year.

The Company does not have any contractual obligation to deliver cash or other financial assets to redeem the perpetual subordinated bonds. The redemption of the perpetual subordinated bonds is solely at the discretion of the Company.

43 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 30 June 2018 and 31 December 2017 not provided for in the financial statements were as follows:

| | As at 30 June 2018 | As at 31 December 2017 |
|----------------------------------|--------------------------|------------------------------|
| Contracted, but not provided for | 1,709,173,447 | 1,593,343,836 |

(b) Operating lease commitments

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | As at 30 June 2018 | As at 31 December 2017 |
|---------------------------|--------------------------|------------------------------|
| Within 1 year (inclusive) | 540,226,333 | 539,104,713 |
| 1 – 2 years (inclusive) | 311,555,653 | 389,937,802 |
| 2 – 3 years (inclusive) | 257,158,886 | 240,323,288 |
| More than 3 years | 391,943,097 | 469,607,047 |
| Total | 1,500,883,969 | 1,638,972,850 |

(c) Underwriting commitments

According to the relevant tendering documents, the underwriting commitments taken but not provided for at 30 June 2018 was RMB3,011 million for the Group (31 December 2017: RMB3,346 million).



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(Expressed in RMB, unless otherwise stated)

44 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) Largest shareholder of the Company – Huijin

As at 30 June 2018, Huijin directly or indirectly owned 55.75% of the equity interest of the Company (31 December 2017: 58.65%).

On 6 June 2018, Huijin and Haier Group (Qingdao) Financial Holdings Ltd. (“Haier”) entered into a share transfer agreement, pursuant to which and agreed to sell its 398,500,000 domestic shares in the Company to Haier. After the completion of the transfer, Huijin will directly hold 1,936,155,680 domestic shares in the Company, representing approximately 46.2% of the total shares of the Company. Completion of the share transfer is subject to the approval from the CSRC and other regulatory authorities and the completion of relevant share transfer registration procedures.

(i) Related party transactions with Huijin and Huijin’s affiliates

| | Six months ended 30 June | |
|--|--------------------------|-------------|
| | 2018 | 2017 |
| Brokerage commission income | 3,036,157 | 6,490,971 |
| Underwriting and sponsoring fees | 17,805,321 | 9,583,941 |
| Asset management fees | 15,819,110 | 17,658,216 |
| Interest income | 244,655,585 | 186,857,835 |
| Net gains from financial assets at fair value through other comprehensive income | 27,034,883 | – |
| Net gains from financial instruments at fair value through profit or loss | 28,302,601 | 29,122,775 |
| Other operating income, net | 523,210 | 282,816 |
| Brokerage commission expenses | 16,559,574 | 11,929,004 |
| Interest expenses | 186,088,161 | 95,722,902 |
| Other operating expenses and costs | 7,958,182 | – |

(ii) The balances of transactions with Huijin and Huijin’s affiliates

| | As at 30 June 2018 | As at 31 December 2017 |
|---|--------------------------|------------------------------|
| Accounts receivable | 234,848,154 | 77,867,649 |
| Financial assets at fair value through other comprehensive income | 99,338,020 | – |
| Available-for-sale financial assets | – | 1,339,861,115 |
| Financial assets at fair value through profit or loss | 1,362,696,179 | 1,574,288,790 |
| Interest receivable | 11,995,749 | 25,579,258 |
| Cash and bank balances (Note) | 25,587,310,617 | 24,741,694,582 |
| Financial liabilities at fair value through profit or loss | 89,435,600 | 170,835,700 |
| Accounts payable to brokerage clients | 59,168,547 | 2,357,793 |
| Placements from financial institutions | 1,026,465,000 | 2,811,696,500 |
| Short-term debt securities issued | 300,000,000 | – |
| REPOs | 4,481,793,315 | 1,395,040,000 |
| Long-term debt securities issued | 5,149,797,000 | 4,443,000,000 |
| Other current liabilities | 163,495,057 | 60,215,961 |
| Entrusted funds | 12,064,459,781 | 12,989,062,105 |

Note: The cash and bank balances deposited with Huijin and Huijin’s affiliates includes self-owned cash and bank balances and cash held on behalf of brokerage clients.



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

44 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(b) Related party transactions with key management personnel

The key management personnel are those who have the authority and responsibility to plan, direct and control directly or indirectly, the activities of the Group, including members of the Board of Directors and the supervisory board, and other senior executives.

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors and supervisors, is as follows:

| | Six months ended 30 June | |
|---|--------------------------|-------------------|
| | 2018 | 2017 |
| Salaries, allowances and benefits in kind | 15,982,088 | 14,549,224 |
| Discretionary bonuses (Note) | – | – |
| Retirement scheme contributions | 456,719 | 421,037 |
| Total | 16,438,807 | 14,970,261 |

Note: The discretionary bonuses of the Group's management personnel for the six months ended 30 June 2018 have not yet been finalized.

(c) Related party transactions with other shareholders

(i) Related party transactions with other shareholders and their affiliates

| | Six months ended 30 June | |
|----------------------------------|--------------------------|---------|
| | 2018 | 2017 |
| Brokerage commission income | 87,324 | 160,418 |
| Underwriting and sponsoring fees | 2,433,731 | – |
| Interest expenses | 47,974 | 38,580 |

(ii) The balances of transactions with other shareholders and their affiliates

| | As at 30 June 2018 | As at 31 December 2017 |
|---------------------------------------|--------------------------|------------------------------|
| Accounts payable to brokerage clients | 18,679,836 | 50,075,947 |



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(Expressed in RMB, unless otherwise stated)

44 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

(d) Related party transactions with the Group's associates and joint ventures

(i) Related party transactions with associates and joint ventures and their affiliates

| | Six months ended 30 June | |
|------------------------------------|--------------------------|-----------|
| | 2018 | 2017 |
| Brokerage commission income | 320,857 | 819,069 |
| Asset management fees | 6,195,788 | – |
| Investment advisory fees | 776,699 | 1,747,573 |
| Interest income | 4,185,563 | – |
| Asset management expenses | 582,265 | 3,185,985 |
| Other operating expenses and costs | 28,879,690 | 1,886,792 |

(ii) The balances of transactions with associates and joint ventures and their affiliates

| | As at 30 June 2018 | As at 31 December 2017 |
|---------------------------|--------------------------|------------------------------|
| Accounts receivable | 264,664,000 | 932,055 |
| Interest receivable | 2,484,294 | – |
| Other current liabilities | 5,132,445 | 474,283 |

45 SEGMENT REPORTING

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organization, management requirements and internal reporting system. An operating segment is a component of the Group:

- that engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are regularly reviewed by the Group's management for the purposes of resources allocation and performance evaluation; and
- for which financial statements regarding financial position, results of operations and cash flows is available.

Two or more operating segments may be aggregated into a single operating segment if the segments have similar economic characteristics in respect of:

- the nature of services;
- the type or class of customers for the services;
- the methods used to provide the services; and
- the nature of the regulatory environment.



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

45 SEGMENT REPORTING *(continued)*

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 unit that offers services which are subject to risks and returns that are different from the other operating segments. A summary of the operating segments is as follows:

- the Investment Banking segment provides investment banking services, including equity financing, debt and structured financing and financial advisory services as well as the National Equities Exchange and Quotations (“NEEQ”) services, to clients in the PRC and overseas.
- the Equities segment provides a wide range of equity sales and trading services, including brokerage services and capital-based intermediary services, and product services, to institutional investors, including financial institutions, corporations and governmental entities, and other investors.
- the FICC segment engages in trading of financial products, including fixed-income, equities, currencies and commodities products, using the Group's own capital, as well as for clients facilitation purposes. It also provides product structuring, fixed income distribution and futures brokerage services.
- the Wealth Management segment provides a wide range of wealth management products and services, consisting of advisory services, transactional services, capital-based intermediary services and product services, to high-net-worth individuals, family offices and corporate clients.
- the Investment Management segment designs and provides a wide range of asset management products and services for domestic and overseas investors. It also manages mutual funds, private equity funds as well as funds of funds.
- The Company acquired 100% equity interests in CISC in March 2017. As at 30 June 2018, the restructuring and integration work are still in progress. Thus, CISC is currently managed and presented as a separate segment.

The CISC segment principally engages in securities brokerage, investment consulting, financial advisory, securities underwriting and sponsorship, securities proprietary trading, asset management, margin financing and securities lending, distribution of financial products and other business activities as approved by the CSRC.

- the Others segment mainly comprises of other business departments and back offices.



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

45 SEGMENT REPORTING (continued)

(a) Segment results

| | Six months ended 30 June 2018 | | | | | | | |
|--|-------------------------------|---------------|-----------------|----------------------|--------------------------|-----------------|---------------|-----------------|
| | Investment banking | Equities | FICC | Wealth management | Investment management | CISC | Others | Total |
| Segment revenue | | | | | | | | |
| - Fee and commission income | 754,676,473 | 858,899,750 | 176,291,787 | 274,699,453 | 776,255,097 | 1,104,569,827 | 247,511 | 3,945,639,898 |
| - Interest income | 7,408,512 | 111,690,520 | 89,527,779 | 308,739,233 | 10,254,358 | 1,238,433,002 | 132,345,118 | 1,898,398,522 |
| - Investment income | 197,296,685 | 538,291,191 | 1,255,545,309 | 207,662,486 | 130,964,363 | 325,406,308 | 232,665,071 | 2,887,831,413 |
| - Other operating income/(losses), net | 7,600,932 | (32,541,498) | 4,738,821 | 3,409,410 | 14,283,908 | 10,742,160 | 73,221,711 | 81,455,444 |
| Segment revenue and other income | 966,982,602 | 1,476,339,963 | 1,526,103,696 | 794,510,582 | 931,757,726 | 2,679,151,297 | 438,479,411 | 8,813,325,277 |
| Segment expenses | (925,943,128) | (713,448,471) | (1,119,999,761) | (584,029,257) | (466,356,752) | (2,024,140,751) | (904,028,437) | (6,737,946,557) |
| Segment operating profit/(loss) | 41,039,474 | 762,891,492 | 406,103,935 | 210,481,325 | 465,400,974 | 655,010,546 | (465,549,026) | 2,075,378,720 |
| Share of profits of associates and joint ventures | - | - | - | 3,401,155 | 20,192,690 | 5,591,302 | 22,588,185 | 51,773,332 |
| Profit/(loss) before income tax | 41,039,474 | 762,891,492 | 406,103,935 | 213,882,480 | 485,593,664 | 660,601,848 | (442,960,841) | 2,127,152,052 |
| Interest expenses (Note) | (70,845,049) | (329,107,138) | (909,288,711) | (264,986,457) | (30,919,448) | (731,542,510) | (134,615,098) | (2,471,304,411) |
| Depreciation and amortisation expenses | (5,191,784) | (6,236,811) | (3,262,852) | (12,475,385) | (5,791,987) | (61,736,229) | (43,574,645) | (138,269,693) |
| Reversal of/(provision for) impairment losses | - | 726,947 | (885,798) | 17,205,641 | (9,539,333) | 26,907,691 | 643,085 | 35,058,233 |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

45 SEGMENT REPORTING (continued)

(a) Segment results (continued)

| | Six months ended 30 June 2017 | | | | | | | |
|---|-------------------------------|---------------|---------------|----------------------|--------------------------|-----------------|---------------|-----------------|
| | Investment banking | Equities | FICC | Wealth management | Investment management | CISC | Others | Total |
| Segment revenue | | | | | | | | |
| - Fee and commission income | 686,520,881 | 668,731,887 | 91,788,075 | 282,843,571 | 659,184,620 | 612,737,022 | 201,049 | 3,002,007,105 |
| - Interest income | 89,422 | 190,628,861 | 70,534,915 | 243,263,320 | 9,526,125 | 648,369,981 | 87,470,009 | 1,249,882,633 |
| - Investment income | 39,413,412 | 488,971,084 | 546,008,533 | 222,987,286 | 218,440,474 | 18,932,347 | 32,912,769 | 1,567,665,905 |
| - Other operating (losses)/income, net | (432) | (24,606,983) | 19,606,341 | 13,793,167 | 9,043,334 | 5,623,601 | (25,245,629) | (1,786,601) |
| Segment revenue and other income | 726,023,283 | 1,323,724,849 | 727,937,864 | 762,887,344 | 896,194,553 | 1,285,662,951 | 95,338,198 | 5,817,769,042 |
| Segment expenses | (633,344,240) | (479,660,163) | (703,383,635) | (514,007,741) | (487,593,774) | (1,028,205,750) | (533,707,826) | (4,379,903,129) |
| Segment operating profit/(loss) | 92,679,043 | 844,064,686 | 24,554,229 | 248,879,603 | 408,600,779 | 257,457,201 | (438,369,628) | 1,437,865,913 |
| Share of (losses)/profits of associates and joint ventures | - | - | - | (4,466) | 29,276,743 | (599,521) | 10,768,910 | 39,441,666 |
| Profit/(loss) before income tax | 92,679,043 | 844,064,686 | 24,554,229 | 248,875,137 | 437,877,522 | 256,857,680 | (427,600,718) | 1,477,307,579 |
| Interest expenses (Note) | (8,643,375) | (144,945,966) | (555,307,758) | (244,330,900) | (26,740,743) | (311,494,616) | 65,325,609 | (1,226,137,749) |
| Depreciation and amortisation expenses | (2,607,668) | (2,601,900) | (2,653,569) | (8,577,150) | (6,728,829) | (40,358,838) | (21,730,377) | (85,258,331) |
| Reversal of/(provision for) impairment losses | 1,032,560 | (30,658) | - | 1,677,277 | - | (392,333) | - | 2,286,846 |

Note: The Group allocates interest expenses across the reportable segments according to the capital used during the reporting periods for the purpose of measuring segment operating performance and improving the efficiencies of capital management.



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

45 SEGMENT REPORTING (continued)

(b) Geographical information

The following table sets out the Group's revenue and other income from external clients and the Group's non-current assets (excluding financial assets at fair value through profit or loss, available-for-sale financial assets, deferred tax assets, and reverse REPOs, same as below) in terms of geographical locations. The geographical locations of the revenue and other income from external clients are identified based on the locations of the clients to whom the services are rendered or the products are purchased. The geographical locations of the non-current assets are identified based on the locations where the fixed assets are located or the intangible assets are allocated or the associates and joint ventures operate.

| | Revenues and other income from external customers | |
|------------------------|--|----------------------|
| | Six months ended 30 June | |
| | 2018 | 2017 |
| Mainland China | 7,534,030,991 | 4,763,826,563 |
| Outside Mainland China | 1,279,294,286 | 1,053,942,479 |
| Total | 8,813,325,277 | 5,817,769,042 |

| | Non-current assets | |
|------------------------|----------------------|----------------------|
| | As at 30 June | As at 31 December |
| | 2018 | 2017 |
| Mainland China | 7,013,326,760 | 6,700,115,080 |
| Outside Mainland China | 927,573,676 | 860,312,247 |
| Total | 7,940,900,436 | 7,560,427,327 |

Reconciliation of segment non-current assets:

| | Non-current assets | |
|---|----------------------|----------------------|
| | As at 30 June | As at 31 December |
| | 2018 | 2017 |
| Total non-current assets for segments | 26,306,614,250 | 25,852,713,418 |
| Elimination of inter-segment non-current assets | (18,365,713,814) | (18,292,286,091) |
| Total | 7,940,900,436 | 7,560,427,327 |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

45 SEGMENT REPORTING *(continued)*

(c) Major clients

The Group's customer base is diversified and no customer had transactions which exceeded 10% of the Group's revenue for the six months ended 30 June 2018.

46 FAIR VALUE INFORMATION

The Group adopts the following methods and assumptions when evaluating fair values:

- (i) Financial assets including cash and bank balances, cash held on behalf of brokerage clients, reverse REPOs and financial liabilities including short-term placements from financial institutions and REPOs, are mainly instruments with floating interest rates or short-term financing. Accordingly, their carrying amounts approximate the fair values.
- (ii) Financial instruments at fair value through profit or loss, or through other comprehensive income, derivatives and available-for-sale financial assets are stated at fair value unless the fair values cannot be reliably measured. For the financial instruments traded in active markets, the Group uses market prices as the best estimate for their fair values. For the financial instruments without any market price, the Group determines the fair values of these financial assets and financial liabilities by discounted cash flows or other valuation techniques.
- (iii) The fair values of short-term and long-term debt securities issued are determined with reference to the available market prices or quotes from brokers or agents. If there is no quoted market price in an active market, the Group refers to the yield of financial instruments with similar characteristics such as similar credit risk and maturity, to estimate the fair values using discounted cash flows or other valuation techniques. The fair values of long-term debt securities issued are disclosed in Note 38. The carrying amounts of short-term debt securities issued approximate their fair values.
- (iv) Accounts receivable and accounts payable to brokerage clients are due mainly within one year. Accordingly, the carrying amounts approximate the fair values.

(a) Financial assets and liabilities measured at fair value

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level I valuations: Fair value measured using only Level I inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level II valuations: Fair value measured using Level II inputs i.e. observable inputs which fail to meet Level I, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level III valuations: Fair value measured using significant unobservable inputs.



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

46 FAIR VALUE INFORMATION (continued)

(a) Financial assets and liabilities measured at fair value (continued)

If there is a reliable market quote for a financial instrument, the fair value of the financial instrument is based on quoted market price. If a reliable quoted market price is not available, the fair value of the financial instrument is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

The table below analyses financial instruments measured at fair value at the end of the reporting periods, by the level in the fair value hierarchy into which the fair value measurement is categorized:

| | As at 30 June 2018 | | | Total |
|---|-----------------------|-----------------------|----------------------|------------------------|
| | Level I | Level II | Level III | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| – Equity investments | 28,439,768,807 | 3,143,459,093 | 2,026,252,930 | 33,609,480,830 |
| – Debt investments | 5,596,384,969 | 46,400,814,890 | 992,490,000 | 52,989,689,859 |
| – Funds and other investments | 2,340,610,107 | 12,760,076,546 | 5,412,864 | 15,106,099,517 |
| Derivative financial assets | 95,045,750 | 5,597,716,139 | – | 5,692,761,889 |
| Financial assets at fair value through other comprehensive income | | | | |
| – Debt investments | 5,921,674,254 | 18,816,778,919 | – | 24,738,453,173 |
| Total | 42,393,483,887 | 86,718,845,587 | 3,024,155,794 | 132,136,485,268 |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

46 FAIR VALUE INFORMATION (continued)

(a) Financial assets and liabilities measured at fair value (continued)

| | As at 30 June 2018 | | | Total |
|--|--------------------|------------------|---------------|------------------|
| | Level I | Level II | Level III | |
| Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Financial liabilities held for trading | | | | |
| – Equity investments | (9,117,150) | (243) | – | (9,117,393) |
| – Debt investments | – | (883,311,617) | – | (883,311,617) |
| Financial liabilities designated as at fair value through profit or loss | | | | |
| – Equity investments | (1,682,980,155) | (10,179,430,021) | – | (11,862,410,176) |
| – Debt investments | – | (2,133,512,624) | – | (2,133,512,624) |
| Derivatives financial liabilities | (9,451,727) | (3,055,182,504) | – | (3,064,634,231) |
| Total | (1,701,549,032) | (16,251,437,009) | – | (17,952,986,041) |
| As at 31 December 2017 | | | | |
| | Level I | Level II | Level III | Total |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Financial assets held for trading | | | | |
| – Equity investments | 14,481,171,235 | 6,402,825,071 | – | 20,883,996,306 |
| – Debt investments | 7,987,691,486 | 37,803,171,393 | 980,130,000 | 46,770,992,879 |
| – Funds and other investments | 1,882,010,847 | 2,385,910,631 | 5,235,229 | 4,273,156,707 |
| Financial assets designated as at fair value through profit or loss | | | | |
| – Equity investments | 17,864,495,511 | 181,717,563 | – | 18,046,213,074 |
| – Debt investments | – | 167,524,609 | – | 167,524,609 |
| – Funds and other investments | – | 6,869,827,357 | – | 6,869,827,357 |
| Derivative financial assets | 13,575,605 | 3,434,340,884 | – | 3,447,916,489 |
| Available-for-sale financial assets | | | | |
| – Equity investments | 56,281,305 | 12,084,840 | 1,231,998,246 | 1,300,364,391 |
| – Debt investments | 4,677,778,640 | 12,748,336,331 | – | 17,426,114,971 |
| – Funds and other investments | 527,121 | 170,369,971 | – | 170,897,092 |
| Total | 46,963,531,750 | 70,176,108,650 | 2,217,363,475 | 119,357,003,875 |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

46 FAIR VALUE INFORMATION (continued)

(a) Financial assets and liabilities measured at fair value (continued)

| | As at 31 December 2017 | | | Total |
|--|------------------------|------------------|-----------|------------------|
| | Level I | Level II | Level III | |
| Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Financial liabilities held for trading | | | | |
| – Equity investments | (1,660) | (241) | – | (1,901) |
| – Debt investments | – | (822,546,784) | – | (822,546,784) |
| – Funds and other investments | – | (846,917,234) | – | (846,917,234) |
| Financial liabilities designated as at fair value through profit or loss | | | | |
| – Equity investments | (945,835,168) | (9,578,941,084) | – | (10,524,776,252) |
| Derivative financial liabilities | (10,585,083) | (3,437,755,911) | – | (3,448,340,994) |
| Total | (956,421,911) | (14,686,161,254) | – | (15,642,583,165) |

(i) The Group's investment in certain suspended stocks were transferred from Level I to Level II as the quoted prices of these stocks were no longer regularly available:

| | As at 30 June 2018 | As at 31 December 2017 |
|--|--------------------------|------------------------------|
| Financial assets at fair value through profit or loss | 1,841,968,829 | 1,519,884,063 |
| Financial liabilities at fair value through profit or loss | (1,454,658) | – |

For the six months ended 30 June 2018 and the year ended 31 December 2017, there were no other significant transfer between Level I and Level II of the fair value hierarchy.



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

46 FAIR VALUE INFORMATION (continued)

(a) Financial assets and liabilities measured at fair value (continued)

(ii) Information about Level III fair value measurements

As at 30 June 2018 and 31 December 2017, it is estimated that the sensitivity of the Group's profit or loss and other comprehensive income to the fluctuation of parameters used in Level III fair value measurements is not significant.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in Level III of the fair value hierarchy:

| | Financial assets at fair value through profit or loss | Available-for-sale financial assets |
|--|---|--|
| As at 31 December 2017 | 985,365,229 | 1,231,998,246 |
| Adjustment on initial application of IFRS 9 | 1,231,998,246 | (1,231,998,246) |
| As at 1 January 2018 | 2,217,363,475 | – |
| Gains for the period | 136,338,992 | – |
| Purchases | 668,300,627 | – |
| Sales and settlements | (27,560,739) | – |
| Transfer into Level III | 29,713,439 | – |
| As at 30 June 2018 | 3,024,155,794 | – |
| Total gains for the period included in profit or loss for assets held at the end of the reporting period | 147,495,150 | – |
| As at 1 January 2017 | 8,069,097 | 1,022,289,275 |
| Gains for the year | 82,778,560 | 321,626,128 |
| Changes in fair value recognised in other comprehensive income | – | 5,251,201 |
| Arising from acquisition of a subsidiary | – | 83,855,404 |
| Purchases | 913,481,160 | 352,739,461 |
| Sales and settlements | (18,963,588) | (541,678,588) |
| Transfer out of Level III | – | (12,084,635) |
| As at 31 December 2017 | 985,365,229 | 1,231,998,246 |
| Total gains for the year included in profit or loss for assets held at the end of the year | 82,922,660 | 173,981,544 |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

46 FAIR VALUE INFORMATION *(continued)*

(a) Financial assets and liabilities measured at fair value *(continued)*

(ii) Information about Level III fair value measurements *(continued)*

For financial instruments in Level III, prices are determined using valuation methodologies such as discounted cash flow models and other similar techniques. Determinations to classify fair value measures within Level III of the valuation hierarchy are generally based on the significance of the unobservable inputs to the overall fair value measurement. The following table presents the related valuation techniques and inputs of the major financial instruments in Level III.

| Financial assets | Fair value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable input(s) | Relationship of unobservable input(s) to fair value |
|-----------------------------|----------------------|---|------------------------------------|--|
| Funds and other investments | Level III | Allocated net assets value | Net asset value | The higher the allocated net assets value, the higher the fair value |
| Debt investments | Level III | Discounted cash flow models | Discount rate | The higher the discount, the lower the fair value |
| Unlisted equity investments | Level III | Market comparable companies | Discount for lack of marketability | The higher the discount, the lower the fair value |

(b) Fair value of financial assets and liabilities carried at other than fair value

The fair values of long-term debt securities issued have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of the Group, which are classified as Level II categories and disclosed in Note 38.

Except for the above, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities carried at amortised cost in the Group's statement of financial position approximate their fair values.



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(Expressed in RMB, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT

The Group monitors and controls key exposures to the credit risk, liquidity risk and market risk from its use of financial instruments.

(a) Credit risk

Credit risk refers to the risk resulting from defaults or deterioration in creditworthiness of counterparties, borrowers and security issuers.

The exposure to credit risk of the Group arises mainly from: (1) Credit risk from debt borrowers or bond issuers' default or bankruptcy, including the loss due to intermediary institutions (such as brokers or custodian banks). The risk exposure represents the total value of outstanding debts; (2) Credit risk from a counterparty's default on the OTC derivative transactions (such as swaps or forward transactions). The risk exposure is determined by the changes in the market value of the derivatives; (3) The settlement risk from a business partner's failure in delivery of funds or securities when the Group has fulfilled its delivery obligation.

The Group adopted the following measures to manage credit risk in the trading and investment activities: setting up investment criteria and limits on products and issuers; reviewing credit terms in agreements with counterparties; and monitoring the credit exposure to counterparties.

The Group has adopted the following measures to manage credit risk in capital businesses, including margin financing and securities lending, stock-based lending transactions and other businesses: approving counterparties, and assigning credit ratings and lending limits to counterparties; managing collaterals (haircut rates, liquidity and concentration) and closely monitoring margin ratios and/or collateral ratios; and establishing and implementing margin call and mandatory liquidation policy.

(i) Maximum exposure to credit risk of the Group without taking into account of any collateral or other credit enhancements:

| | As at 30 June 2018 | As at 31 December 2017 |
|---|--------------------------|------------------------------|
| Refundable deposits | 3,094,045,814 | 2,785,186,146 |
| Financial assets at fair value through profit or loss | 52,989,689,859 | 46,967,273,718 |
| Derivative financial assets | 5,597,716,139 | 3,434,340,884 |
| Reverse REPOs | 15,367,588,044 | 14,438,273,927 |
| Receivable from margin clients | 20,668,626,448 | 21,882,853,461 |
| Financial assets at fair value through other comprehensive income | 24,738,453,173 | – |
| Available-for-sale financial assets | – | 17,426,114,971 |
| Cash held on behalf of brokerage clients | 45,258,547,635 | 44,226,142,219 |
| Bank balances | 23,422,912,472 | 18,130,627,161 |
| Accounts receivable | 15,684,834,418 | 9,401,697,222 |
| Others | 2,196,129,410 | 1,470,485,414 |
| Total maximum credit risk exposure | 209,018,543,412 | 180,162,995,123 |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(ii) Risk concentrations

The Group's maximum credit risk exposure categorized by geographical area without taking into account of any collateral and other credit enhancements:

| | By geographical area | | Total |
|---|------------------------|------------------------|------------------------|
| | Mainland China | Outside Mainland China | |
| As at 30 June 2018 | | | |
| Refundable deposits | 2,591,995,070 | 502,050,744 | 3,094,045,814 |
| Financial assets at fair value through profit or loss | 51,628,919,378 | 1,360,770,481 | 52,989,689,859 |
| Derivative financial assets | 3,074,875,144 | 2,522,840,995 | 5,597,716,139 |
| Reverse REPOs | 14,654,014,337 | 713,573,707 | 15,367,588,044 |
| Receivable from margin clients | 19,292,677,261 | 1,375,949,187 | 20,668,626,448 |
| Financial assets at fair value through other comprehensive income | 24,738,453,173 | – | 24,738,453,173 |
| Cash held on behalf of brokerage clients | 39,338,489,684 | 5,920,057,951 | 45,258,547,635 |
| Bank balances | 19,904,378,963 | 3,518,533,509 | 23,422,912,472 |
| Accounts receivable | 2,173,415,749 | 13,511,418,669 | 15,684,834,418 |
| Others | 2,050,960,280 | 145,169,130 | 2,196,129,410 |
| Total maximum credit risk exposure | 179,448,179,039 | 29,570,364,373 | 209,018,543,412 |

| | By geographical area | | Total |
|---|------------------------|------------------------|------------------------|
| | Mainland China | Outside Mainland China | |
| As at 31 December 2017 | | | |
| Refundable deposits | 2,482,895,963 | 302,290,183 | 2,785,186,146 |
| Financial assets at fair value through profit or loss | 46,748,451,164 | 218,822,554 | 46,967,273,718 |
| Derivative financial assets | 2,164,939,632 | 1,269,401,252 | 3,434,340,884 |
| Reverse REPOs | 13,921,117,095 | 517,156,832 | 14,438,273,927 |
| Receivable from margin clients | 20,895,980,306 | 986,873,155 | 21,882,853,461 |
| Available-for-sale financial assets | 15,499,805,407 | 1,926,309,564 | 17,426,114,971 |
| Cash held on behalf of brokerage clients | 39,210,288,875 | 5,015,853,344 | 44,226,142,219 |
| Bank balances | 15,106,403,437 | 3,024,223,724 | 18,130,627,161 |
| Accounts receivable | 3,761,966,527 | 5,639,730,695 | 9,401,697,222 |
| Others | 1,374,572,896 | 95,912,518 | 1,470,485,414 |
| Total maximum credit risk exposure | 161,166,421,302 | 18,996,573,821 | 180,162,995,123 |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(iii) Credit rating analysis of financial assets

The Group refers the credit ratings of its debt securities to the credit ratings of the debt securities or the debt securities' issuers from Bloomberg comprehensive ratings or the local major rating agencies. The carrying amount of debt securities investments analysed by the rating agency designations at the end of the reporting periods are as follows:

| | As at 30 June 2018 | As at 31 December 2017 |
|---|--------------------------|------------------------------|
| Outside Mainland China (by international rating agencies) | | |
| - AAA | 200,209,446 | 11,898,782 |
| - From AA- to AA+ | 85,945,709 | 85,797,055 |
| - From A- to A+ | 4,303,602,664 | 2,987,295,466 |
| - Below A- | 7,924,097,286 | 7,234,437,261 |
| Subtotal | 12,513,855,105 | 10,319,428,564 |
| Mainland China (by domestic rating agencies) | | |
| - AAA | 46,226,472,537 | 34,405,865,376 |
| - From AA- to AA+ | 4,660,385,737 | 5,141,572,582 |
| - From A- to A+ | 595,932,300 | 89,000,000 |
| - Below A- | 20,291,399 | 10,630,108 |
| Subtotal | 51,503,081,973 | 39,647,068,066 |
| Non-rated I (Note 1) | 7,316,523,127 | 7,438,391,798 |
| Non-rated II (Note 2) | 6,394,682,827 | 6,988,500,261 |
| Total | 77,728,143,032 | 64,393,388,689 |

Note 1: These non-rated financial assets mainly include government bonds, central bank bills, policy financial bonds, non-rated local government bonds and Special Drawing Rights ("SDR") denominated bonds.

Note 2: These non-rated financial assets are mainly other debt instruments and trading securities which are not rated by independent rating agencies.



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk

Liquidity risk refers to the risks arising from the Group's inability to obtain sufficient funds in a timely manner or inability to obtain sufficient funds at reasonable costs in a timely manner to respond to asset growth, settle debts due and satisfy the funding needs in conducting normal business operations.

The Group implements vertical and centralized management on liquidity risks of all domestic and overseas branches and subsidiaries. The Group has adopted the following measures to manage liquidity risk: closely monitoring balance sheets of the Group and its branches and subsidiaries, and managing liquidity gaps between assets and liabilities; setting liquidity risk limits based on regulatory requirement and the Group's overall situation; conducting cash flow forecast and stress testing on liquidity risk indicators on a regular and irregular basis to analyse and assess the liquidity risk exposure; holding cash balances in hand and substantial high-quality liquid asset for a long term to support normal business operations, and establishing liquidity contingency plan for potential liquidity emergencies.

The following tables show the undiscounted contractual cash flows of the Group's non-derivative and derivative financial liabilities (including interest payments computed using contractual rates or, if floating, based on rates prevailing at the end of the year), categorized by their remaining contractual maturities at the end of the year calculated based on the earliest date the Group can be required to pay:

| | As at 30 June 2018 | | | | | Undated | Total |
|--|------------------------------------|------------------------------|----------------------------|----------------------|---|---------|-----------------|
| | Overdue/ repayable on demand | Within 1 year (inclusive) | 1 – 5 years (inclusive) | More than 5 years | | | |
| Financial liabilities | | | | | | | |
| Accounts payable to brokerage clients | 49,318,755,344 | - | - | - | - | - | 49,318,755,344 |
| Placements from financial institutions | - | 8,865,063,601 | - | - | - | - | 8,865,063,601 |
| Financial liabilities at fair value | | | | | | | |
| through profit or loss | - | 14,888,540,575 | - | - | - | - | 14,888,540,575 |
| Derivative financial liabilities | - | 2,836,483,769 | 228,150,462 | - | - | - | 3,064,634,231 |
| REPOs | - | 33,791,085,881 | - | - | - | - | 33,791,085,881 |
| Short-term debt securities issued | - | 10,777,265,159 | - | - | - | - | 10,777,265,159 |
| Long-term debt securities issued | - | 11,976,527,116 | 53,512,192,112 | 2,077,070,000 | - | - | 67,565,789,228 |
| Others | 16,098,807,903 | 18,593,917,941 | 2,109,981,923 | 2,647,795 | - | - | 36,805,355,562 |
| Total | 65,417,563,247 | 101,728,884,042 | 55,850,324,497 | 2,079,717,795 | - | - | 225,076,489,581 |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

| | As at 31 December 2017 | | | | Undated | Total |
|---|------------------------------------|------------------------------|----------------------------|----------------------|---------|-----------------|
| | Overdue/ repayable on demand | Within 1 year (inclusive) | 1 – 5 years (inclusive) | More than 5 years | | |
| Financial liabilities | | | | | | |
| Accounts payable to brokerage clients | 47,346,517,792 | - | - | - | - | 47,346,517,792 |
| Placements from financial institutions | - | 10,517,039,490 | - | - | - | 10,517,039,490 |
| Financial liabilities at fair value through profit or loss | - | 12,194,242,171 | - | - | - | 12,194,242,171 |
| Derivative financial liabilities | - | 3,148,791,177 | 299,549,817 | - | - | 3,448,340,994 |
| REPOs | - | 30,758,576,151 | - | - | - | 30,758,576,151 |
| Short-term debt securities issued | - | 10,933,706,871 | - | - | - | 10,933,706,871 |
| Long-term debt securities issued | - | 7,243,188,060 | 48,150,012,625 | 2,077,070,000 | - | 57,470,270,685 |
| Others | 14,789,727,641 | 11,289,271,945 | 2,109,917,102 | 2,759,015 | - | 28,191,675,703 |
| Total | 62,136,245,433 | 86,084,815,865 | 50,559,479,544 | 2,079,829,015 | - | 200,860,369,857 |

(c) Market risk

Market risk is the risk of loss in the Group's income and value of financial instruments held arising from the adverse market movements such as changes in interest rates, stock prices, foreign exchange rates and etc. The objective of market risk management is to monitor and control the market risk within the acceptable range and to maximize the risk adjusted return. Stress testing is conducted regularly, and the potential movements of risk and operating indicators in a variety of scenarios are calculated.

The Group monitors the market risk for investment portfolios and non-trading portfolios separately.

(i) Market risk of investment portfolios

Investment portfolio includes financial assets at fair value through profit or loss, derivative financial assets, financial liabilities at fair value through profit or loss, derivative financial liabilities, financial assets at fair value through other comprehensive income and available-for-sale financial assets. The risk exposures are measured and monitored in terms of principal, stop loss limit and etc., and are maintained within the limits set up by management. The Group adopts various kinds of methodologies (such as Value-at-Risk ("VaR"), sensitivity limit, investment concentration limit, scenario analysis, stress test, and etc.) to manage market risk. The VaR analysis is a major tool used by the Group to measure and monitor market risk of the investment portfolios.

VaR is a technique which estimates the potential losses that could occur on risk positions taken, due to the adverse market movements, such as interest rates, stock prices, foreign exchange rates and so on over a specified time horizon and at a given level of confidence. The independent risk management personnel of the Group compute VaR by using a historical simulation method and implement relevant control of market risk. The historical simulation method is used to simulate future profit or loss based on the historical fluctuation of the key market risk factors and the sensitivity of current investment portfolio in respect of such risk factors.



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Market risk of investment portfolios (continued)

The Group has adopted the historical simulation method and set 95% as its confidence level to compute its daily VaR based on historical data of the previous three years, i.e. there is 95% chance that the expected loss based on historical data will not exceed the VaR value regarding the Group's investment portfolio. Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- When there is severe market illiquidity for a prolonged period, the realisable value of the Group's investment portfolio in a trade day may vary from the expected value due to a 1-day time horizon for VaR;
- The assigned confidence level of 95% does not reflect losses that may occur beyond this level. Even within the model used there is a probability of 5% that losses could exceed the VaR;
- VaR is calculated on an end-of-day basis and does not reflect intraday exposures; and
- The use of historical data as a basis for determining the possible distribution of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

The following tables set forth the Group computed VaRs by risk categories as of the dates and for the periods:

| | As at | For the six months ended 30 June 2018 | | |
|---|--------------|---------------------------------------|------------|------------|
| | 30 June 2018 | Average | Highest | Lowest |
| Price-sensitive financial instruments | 29,147,675 | 53,741,824 | 84,098,599 | 26,287,531 |
| Interest-rate-sensitive financial instruments | 28,238,059 | 29,297,451 | 47,292,618 | 22,723,042 |
| Exchange-rate-sensitive financial instruments | 13,891,652 | 18,049,234 | 26,134,597 | 13,891,652 |
| Total portfolio | 45,687,620 | 69,230,146 | 94,666,167 | 43,493,744 |

| | As at | For the year ended 31 December 2017 | | |
|---|------------------|-------------------------------------|------------|------------|
| | 31 December 2017 | Average | Highest | Lowest |
| Price-sensitive financial instruments | 57,015,113 | 26,997,690 | 59,398,188 | 6,037,812 |
| Interest-rate-sensitive financial instruments | 43,486,492 | 36,726,175 | 50,399,277 | 19,351,240 |
| Exchange-rate-sensitive financial instruments | 20,612,420 | 10,832,594 | 21,498,471 | 5,123,628 |
| Total portfolio | 83,306,657 | 50,121,176 | 83,598,736 | 23,402,695 |



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Market risk of non-trading portfolios

(1) Interest rate risk

The non-trading portfolios of the Group are subject to the risk of interest rate fluctuations. Except for the financial assets and liabilities managed through VaR, the Group's major interest-earning assets in its non-trading portfolios include deposits at banks and in clearing houses, receivable from margin clients and reverse REPOs; and its interest-bearing liabilities mainly include short-term debt securities issued, placements from financial institutions, REPOs and long-term debt securities issued.

The Group adopts sensitivity analysis to measure the interest rate risk of non-trading portfolios. Assuming all other variables remain constant, interest rate sensitivity analysis is as follows:

| | Sensitivity of net profit and equity | |
|--|--------------------------------------|------------------------------|
| | As at 30 June 2018 | As at 31 December 2017 |
| Changes in basis points | | |
| Increase by 50 basis points | (156,581,172) | (170,963,514) |
| Decrease by 50 basis points or decrease to 0 | 175,256,371 | 196,251,104 |

The sensitivity analysis is based on the static rate risk profile of the Group's assets and liabilities. The sensitivity analysis measures the impact of changes in interest rates within one year, showing how annualized net profit or loss and equity would have been affected by repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions that:

- The 50 basis points of changes in interest rates at the end of the reporting periods apply to all of the Group's non-trading financial instruments in the next 12 months;
- There is a parallel shift in the yield curve with the changes in interest rate;
- There are no changes to the assets and liabilities portfolios;
- Other variables (including exchange rate) remain unchanged; and
- Risk management measures undertaken by the Group are not considered.

Due to the above assumptions, the actual changes of interest rate and the impact to the Group's net profit and equity might vary from the estimated results of the sensitivity analysis.



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT *(continued)*

(c) Market risk *(continued)*

(ii) Market risk of non-trading portfolios *(continued)*

(2) Currency risk

Currency risk is the risk arising from the fluctuation of foreign exchange rates. The Group's currency risk regarding the non-trading portfolio primarily relates to business activities denominated in foreign currencies different from the Group's functional currency and is considered not material, because the proportion of the non-trading portfolios denominated in foreign currencies is relatively low.

48 CONTINGENCIES

As at 30 June 2018, CISC, the Company's subsidiary, held one piece of land under construction for which CISC had obtained the corresponding land use right certificates and construction permits in accordance with the PRC laws. Up to the date of approving the financial statements, construction of the land has not commenced. By relevant laws and regulations, in the event of delay in commencement of construction work on land, CISC may be subject to a fee on idle land of no more than RMB112.2 million (equivalent to 20% of the land transfer fee) and/or to forfeiture of the land use rights. However, if the delay is caused by government actions or force majeure, CISC may negotiate with relevant government authorities for postponing the commencement date and extending the time period for the development and construction of the land. CISC received an idle land verification report from the relevant government authorities on 1 February 2018. According to this report, the aforesaid land was recognised as idle land, and the idling was caused by government and corporate reasons. Upon now, CISC is still in the process of communicating with the relevant government authorities for postponing the construction commencement date and for extending the construction period. The amount of fee is subject to the decision of the relevant government authorities, and CISC is of the view that such amount cannot be reliably measured. As such, no relevant accrued liabilities was recognised as at 30 June 2018.

Except for the above, the Group has no other outstanding matters which have a material impact on its financial position as at 30 June 2018.



Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in RMB, unless otherwise stated)

49 SUBSEQUENT EVENTS

(a) Repayment of corporate bonds

The Group redeemed a corporate bond with a total principal amount of RMB3.5 billion on 24 July 2018.

(b) Repayment of subordinated bonds

The Group redeemed a subordinated bond with a total principal amount of RMB2.0 billion on 23 July 2018.

(c) Issuance and repayment of beneficiary certificates

During the period from 1 July 2018 to the date of approval of this financial statements, the Group issued and redeemed beneficiary certificates with total principal amounts of RMB10.92 billion and RMB7.56 billion, respectively.

(d) Issuance and repayment of structured notes

During the period from 1 July 2018 to the date of approval of this financial statements, the Group issued structured notes with total principal amounts of RMB32 million and USD158 million, respectively, and redeemed with a total principal amount of USD214 million.

(e) Profit distribution

The Company's Annual General Meeting of Shareholders approved the 2017 profit distribution plan on 18 May 2018. The distribution of cash dividends was made in July 2018.

