



海通证券股份有限公司

HAITONG SECURITIES CO., LTD.*

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

Stock Code: 6837

2019 INTERIM REPORT



**For identification purpose only*

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IMPORTANT NOTICE

The Board, the Supervisory Committee, Directors, Supervisors and senior management of the Company represent and warrant the truthfulness, accuracy and completeness of the contents of this interim report (the "Report") and that there are no false representation, misleading statements contained herein or material omission of this Report, for which they will assume joint and several liabilities.

This Report was considered and approved at the third meeting of the seventh session of the Board and the second meeting of the seventh session of the Supervisory Committee. All the Directors of the Company attended the Board meeting. None of the Directors or Supervisors has any objection to this Report.

Deloitte Touche Tohmatsu has reviewed the 2019 unaudited interim financial report of the Company which was prepared in accordance with IFRS and issued standard and unqualified auditor's review report for the Company. All the data in this Report has been presented in RMB unless otherwise indicated.

Mr. Zhou Jie, Chairman of the Company, Mr. Zhang Xinjun, Chief Financial Officer, and Mr. Ma Zhong, head of the accounting department, hereby warrant the truthfulness, accuracy and completeness of the financial report contained in this Report.

The Company had no profit distribution proposal or proposal on conversion of capital reserve funds into share capital for the first half of 2019.

Forward-looking statements, including future plans and development strategies, may be included in this Report. All statements contained herein other than statements of historical fact are, or may be deemed to be, forward-looking statements. Neither the Company nor any of its subsidiaries undertakes any obligation to publicly update or revise any forward-looking statement as a result of new information. Investors should be reminded of the risks of investments and not place undue reliance on forward-looking statements.

No appropriation of funds on a non-operating basis by the Company's controlling shareholders, if any, or their respective related parties has occurred during the Reporting Period.

The Company did not provide external guarantees in violation of the stipulated decision-making procedures during the Reporting Period.



Section I DEFINITIONS AND IMPORTANT RISK WARNINGS

I. DEFINITIONS

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

| | |
|---|---|
| “A Share(s)” | domestic shares of the Company, with a nominal value of RMB1.00 each, which are listed and traded on the Shanghai Stock Exchange |
| “ABS” | Asset-backed Securities |
| “Articles of Association” or “Articles” | the articles of association of Haitong Securities |
| “Board” | the board of directors of Haitong Securities |
| “China” or “PRC” | the People’s Republic of China, and for the purposes of this Report only, excluding Hong Kong, Macau Special Administrative Region and Taiwan |
| “Code” | the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Hong Kong Listing Rules |
| “Company Law” | the Company Law of the People’s Republic of China |
| “Company” or “Haitong Securities” | Haitong Securities Co., Ltd. |
| “CSRC” | the China Securities Regulatory Commission |
| “Director(s)” | the director(s) of Haitong Securities |
| “ETF” | exchange traded fund |
| “EUR” or “Euro” | the official currency of the Eurozone |
| “FICC” | fixed-income instruments, currencies and commodities |
| “Fortune HFT” | Shanghai Fortune HFT Asset Management Co., Ltd. (上海富誠海富通資產管理有限公司) |
| “Fullgoal Fund” | Fullgoal Fund Management Co., Ltd. (富國基金管理有限公司) |
| “Group” | the Company and its subsidiaries |

Section I DEFINITIONS AND IMPORTANT RISK WARNINGS

| | |
|---|---|
| “Gui’an UT” | Gui’an UT Financial Leasing (Shanghai) Co., Ltd. (貴安恆信融資租賃(上海)有限公司) |
| “H Share(s)” | Ordinary shares of the Company, with a nominal value of RMB1.00 each, which are listed and traded in HK dollars on the Hong Kong Stock Exchange |
| “Haitong Bank” | Haitong Bank, S.A. |
| “Haitong Capital” | Haitong Capital Co., Ltd. (海通開元投資有限公司) |
| “Haitong Futures” | Haitong Futures Co., Ltd. (海通期貨股份有限公司) |
| “Haitong Innovation Securities” | Haitong Innovation Securities Investment Co., Ltd. (海通創新證券投資有限公司) |
| “Haitong International Holdings” | Haitong International Holdings Limited (海通國際控股有限公司) |
| “Haitong International” | Haitong International Securities Group Limited (海通國際證券集團有限公司), listed on the Hong Kong Stock Exchange, stock code: 665 |
| “Haitong Resource” | Shanghai Haitong Resource Management Co., Ltd. (上海海通資源管理有限公司) |
| “Haitong UniFortune” | Haitong UniFortune International Leasing Co., Ltd. (海通恆運國際租賃有限公司) |
| “Haitong UniTrust Financial Leasing (Shanghai)” | Haitong UniTrust Financial Leasing (Shanghai) Corporation (海通恆信融資租賃(上海)有限公司) |
| “Haitong UT Capital” | Haitong UT Capital Group Co., Limited (海通恆信金融集團有限公司) |
| “Haitong UT Holdings” | Haitong UT Holdings Limited (海通恆信融資租賃控股有限公司) |
| “Haitong UT Leasing HK” | Haitong UT Leasing HK Limited (海通恆信租賃(香港)有限公司) |

Section I DEFINITIONS AND IMPORTANT RISK WARNINGS

| | |
|-------------------------------|---|
| “Haitong UT” | Haitong UniTrust International Leasing Co., Ltd. (海通恒信國際租賃股份有限公司), listed on the Hong Kong Stock Exchange, stock code: 1905 |
| “Haitong Xinchuang” | Haitong Xinchuang Investment Management Co., Ltd. (海通新創投資管理有限公司) |
| “Haitong-Fortis PE” | Haitong-Fortis Private Equity Fund Management Co., Ltd. (海富產業投資基金管理有限公司) |
| “HFT Investment” | HFT Investment Management Co., Ltd. (海富通基金管理有限公司) |
| “HK\$”, “HKD” or “HK dollars” | the lawful currency of Hong Kong |
| “Hong Kong Listing Rules” | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |
| “Hong Kong Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Hong Kong” | the Hong Kong Special Administrative Region of the People’s Republic of China |
| “HT Asset Management” | Shanghai Haitong Securities Asset Management Company Ltd. (上海海通證券資產管理有限公司) |
| “IFRS” | International Financial Reporting Standards |
| “IPO” | initial public offering |
| “Model Code” | the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules |
| “NAFMII” | the National Association of Financial Market Institutional Investors |
| “NEEQ” | National Equities Exchange and Quotations (全國中小企業股份轉讓系統) |
| “NSSF” | the National Council for Social Security Fund of the PRC |

Section I DEFINITIONS AND IMPORTANT RISK WARNINGS

| | |
|---------------------------------|--|
| “QDII” | Qualified Domestic Institutional Investor |
| “Reporting Period” | from 1 January 2019 to 30 June 2019 |
| “RMB” or “Renminbi” | the lawful currency of the PRC |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time |
| “Shanghai Weitai Properties” | Shanghai Weitai Properties Management Co., Ltd. (上海惟泰置業管理有限公司) |
| “SSE” | the Shanghai Stock Exchange |
| “Supervisor(s)” | the supervisor(s) of Haitong Securities |
| “Supervisory Committee” | the supervisory committee of Haitong Securities |
| “SZSE” | the Shenzhen Stock Exchange |
| “US\$”, “USD” or “U.S. dollars” | the lawful currency of the United States of America |
| “WIND” | Wind Information Co., Ltd. |
| “WFOE” | a wholly foreign-owned enterprises |

Section I DEFINITIONS AND IMPORTANT RISK WARNINGS

II. IMPORTANT RISK WARNINGS

The business of the Company is highly dependent on the general economy and market conditions in jurisdictions where the Company operates. Our results of operations may be materially affected by various factors, such as macro-economic environment, cyclical fluctuations of the industry, development stages of the market, behavior of the investors and the international economic environment.

The Company is exposed to various risks in its business operations, primarily including (i) policy risks, whereby the operations of securities firms in general may be subject to material adverse effects caused by national macro-control measures, and changes of laws, regulations, regulatory policies or trading rules applicable to the securities industry; (ii) country risks, whereby the Group's business activities in a country or region may be affected by economic, political and social changes and events in such country or region; (iii) compliance risks, whereby the securities firms may be subject to legal punishment or regulatory penalties or may incur significant financial losses due to failure to comply with laws and regulations, regulatory requirements, rules, relevant standards made by the self-regulatory organisations or code of conducts applicable to the securities firms; (iv) risks of potential regulatory penalties due to failure to comply with anti money-laundering laws, regulations and regulatory requirements or arising from money-laundering, terrorist financing and sanctions compliance; (v) credit risks, which may result in losses to the operations due to the inability of a borrower, counterparty or debt issuer to meet its agreed financial obligations; (vi) market risks, where the proprietary investments record losses due to adverse fluctuations of market prices (such as the stock price, interest rate or exchange rate); (vii) operational risks triggered by deficiencies in internal processes, misoperation and misconduct of employees, IT system failures, or impact from external sources; (viii) liquidity risks, where the Company is unable to obtain sufficient funds in a timely manner at a reasonable cost to pay the debts due and fulfil other payment obligations and meet the requirements for carrying out normal business; and (ix) reputational risks, where the corporate image of the Company among stakeholders is damaged due to the Company's operational, management or other acts or the external incidents. All these risks may directly affect the results of operations and financial conditions of the Group. In addition, these effects may overlap with each other due to certain inherent correlation among these risk factors.

For the detailed analysis of the above risks and the specific measures that the Company has or will take, investors are advised to carefully read "Potential Risks and Prevention Measures" in section IV "Report of the Board of Directors" of this Report, and pay special attention to the above risk factors.

Section II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

I. CORPORATE INFORMATION

| | |
|---|-------------------------------|
| Chinese name of the Company | 海通證券股份有限公司 |
| Chinese abbreviation of the Company | 海通證券 |
| English name of the Company | Haitong Securities Co., Ltd. |
| English abbreviation of the Company | Haitong Securities |
| Legal representative of the Company | Zhou Jie |
| General manager of the Company | Qu Qiuping |
| Authorised representatives of the Company | Zhou Jie, Jiang Chengjun |
| Joint company secretaries | Jiang Chengjun, Wong Wai Ling |
| Chief compliance officer | Wang Jianye |

Registered capital and net capital

| | As at the end of the Reporting Period | As at the end of last year |
|--------------------|--|---------------------------------|
| | | <i>Unit: Yuan Currency: RMB</i> |
| Registered capital | 11,501,700,000.00 | 11,501,700,000.00 |
| Net capital | 71,580,786,214.85 | 71,377,006,860.38 |

Scope of business of the Company

Securities brokerage; securities proprietary trading business; securities underwriting and sponsoring; securities investment advisory; financial consultation relating to securities trading and investment activities; direct investment business; securities investment fund consignment; provision of intermediary introduction business for futures companies; margin financing and securities lending business; agency sales of financial products; stock options market making business; other businesses approved by the CSRC. In addition, the Company is permitted to establish subsidiaries to engage in investment business such as investing in financial products (projects subject to approval as required by law shall be conducted upon the approval by relevant authorities).

Qualification for each individual business of the Company

1. Online securities entrustment business qualification (Zheng Jian Xin Xi Zi [2001] No. 3)
2. Qualification for lending and purchase of bonds, bond transactions and bond repurchase business in the national inter-bank lending market and the bond market (Yin Ban Han [2001] No. 819)
3. Qualification for lending transactions and bond transactions in the national inter-bank lending centre (Zhong Hui Jiao Fa [2001] No. 306)
4. Qualification for acquisition of securities business departments (Hu Zheng Ji Bian [2002] No. 090)
5. Open-end securities investment fund consignment business qualification (Zheng Jian Ji Jin [2002] No. 076)
6. Securities company engaged in relevant innovative activity trials (Zhong Zheng Xie Han [2005] No. 079)

Section II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

7. Qualification for short-term commercial paper underwriting business (Yin Fa [2005] No. 173)
8. Qualification for quotation transfer business (Zhong Zheng Xie Han [2006] No. 3)
9. Trader Qualification for Shanghai Stock Exchange Fixed Income Securities Consolidated Electric Trading Platform (Shang Zheng Hui Han [2007] No. 86)
10. Qualification for Association of PRC Inter-bank Market Trader (August 2007)
11. Qualification for overseas securities investment management business as a qualified domestic institutional investor (Zheng Jian Xu Ke [2008] No. 146)
12. A-grade clearing participant qualification of China Securities Depository and Clearing Corporation Limited (Zhong Guo Jie Suan Han Zi [2008] No. 22)
13. Qualification for provision of intermediary introduction business for the futures companies (Hu Zheng Jian Ji Gou Zi [2010] No. 122)
14. Qualification for direct investment business trials (Ji Gou Bu Bu Han [2008] No. 421)
15. Qualification for implementation of the broker system (Hu Zheng Jian Ji Gou Zi [2009] No. 302)
16. Qualification of providing trading units for insurance agency investors (Bao Jian Zi Jin Shen Zheng [2009] No. 1)
17. Qualification for margin financing and securities lending business (Zheng Jian Xu Ke [2010] No. 315)
18. Qualification of engaging of stock index futures hedging business through proprietary trading of the company (Hu Zheng Jian Ji Gou Zi [2010] No. 372)
19. Qualification for securities house assigned by NSSF (August 2011)
20. Qualification for fund evaluation business (Zhong Zheng Xie Fa [2010] No. 070)
21. Qualification of engaging of stock index futures through asset management (Hu Zheng Jian Ji Gou Zi [2011] No. 237)
22. Stock repo transaction business trials (Ji Gou Bu Bu Han [2011] No. 512) (Shang Zheng Jiao Zi [2011] No. 37)
23. Qualification for issuance of overseas listed foreign shares (Zheng Jian Xu Ke [2011] No. 1821) (H Share)
24. Trial business of bond collateralised repo with quotes (Ji Gou Bu Bu Han [2011] No. 585)
25. Partnership independent custody business trials (Ji Gou Bu Bu Han [2012] No. 686)
26. Over-the-counter transaction business (Zhong Zheng Xie Han [2012] No. 825)
27. Pilot qualification of engaging of margin and securities refinancing business (Zhong Zheng Jin Han [2012] No. 113)
28. Pilot qualification of underwriting of private debts for SMEs (Zhong Zheng Xie Han [2012] No. 561)
29. Qualification for foreign exchange operation in the securities business (SC201307)
30. Qualification for issuance of short-term financing bonds (Ji Gou Bu Bu Han [2013] No. 407) (Department of Fund and Intermediary Supervision Han [2014] No. 1551)
31. Qualification for agency sale of financial products (Hu Zheng Jian Ji Gou Zi [2013] No. 180)
32. Pilot qualification of conducting capital consumption payment services for client securities (Ji Gou Bu Bu Han [2013] No. 741)
33. Qualification of the 11th batch of insurance agency for 2013 (Hu Bao Jian Xu Ke [2013] No. 204)

Section II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

34. Qualification for agency distributing precious metal spot contract such as gold and proprietary trading for gold spot contract (Ji Gou Bu Bu Han [2013] No. 959)
35. Custody qualification of security investment funds (Zheng Jian Xu Ke [2013] No. 1643)
36. Qualification for agency business of securities pledge registration (February 2014)
37. Internet securities business trials (Zhong Zheng Xie Han [2014] No. 358)
38. Membership qualification on the gold exchange (Certificate No. T004)
39. Pilot issuance of short-term corporate bonds by securities companies (Shang Zheng Duan Zhai [2014] No. 4)
40. Business pilot of financing-oriented option exercise with respect to share incentive schemes of listed companies (Shenzhen Han [2014] No. 321)
41. Qualification for the stock options market making business (Zheng Jian Xu Ke [2015] No. 153)
42. Principal market maker in SSE 50 ETF options contracts (Shang Zheng Han [2015] No. 214)
43. Business qualification for options settlement (Zhong Guo Jie Suan Han Zi [2015] No. 20)
44. Futures membership certificate (Certificate number: NO. G02008)
45. Qualification for offshore proprietary business (Ji Gou Bu Han [2015] No. 1204)
46. No comment letter on innovative programme of one-way video account opening (Zhong Guo Jie Suan Ban Zi [2015] No. 461)
47. Qualification for inter-bank gold price asking transactions (Shang Jin Jiao Fa [2015] No. 120)
48. Qualification for carrying on main underwriting business of debt financial instruments for nonfinancial enterprises (August 2016)
49. Qualification for note dealing (Yin Ban Fa [2016] No. 224)
50. Qualification for relevant business on tools mitigating credit risk (January 2017)
51. Qualification for secondary dealers for OTC options business (Zhong Zheng Xie Fa [2018] No. 386)
52. Registration of Haitong International (UK) Limited as the UK Cross-border Transfer Institution of Shanghai-London Stock Connect GDR (Shang Zheng Han (2018) No.1474)
53. Qualification for credit derivatives business (Ji Gou Bu Han (2019) No. 469)
54. Qualification for public issuance of financial bonds in the national inter-bank bond market (Ji Gou Bu Han (2019) No. 1624)

The Company holds membership qualification on the SSE and the SZSE and warrant clearing business qualification in China Securities Depository and Clearing Corporation Limited. All subsidiaries of the Company conduct their businesses legally or upon obtaining the relevant business qualifications as approved by the relevant regulatory authorities.

Section II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

II. CONTACT PERSONS AND CONTACT METHODS

| | Secretary to the Board | Representative of Securities Affairs |
|------------------------|--|--|
| Name | Jiang Chengjun | Sun Tao |
| Correspondence address | 12/F, Haitong Securities Building, No. 689 Guangdong Road, Shanghai, the PRC (Postal Code: 200001) | 12/F, Haitong Securities Building, No. 689 Guangdong Road, Shanghai, the PRC (Postal Code: 200001) |
| Telephone | 8621-23219000 | 8621-23219000 |
| Facsimile | 8621-63410627 | 8621-63410627 |
| Email | jiangcj@htsec.com | sunt@htsec.com |

III. CHANGE OF BASIC CORPORATE INFORMATION

| | |
|--|--|
| Registered address | No. 689 Guangdong Road, Shanghai, the PRC |
| Postal code of registered address | 200001 |
| Business address | No. 689 Guangdong Road, Shanghai, the PRC |
| Postal code of business address | 200001 |
| Internet website | http://www.htsec.com |
| Email | haitong@htsec.com |
| Principal place of business in Hong Kong | 21/F, Li Po Chun Chambers, 189 Des Voeux Road Central, Central, Hong Kong |
| Unified social credit code in the business license | 9131000013220921X6 |

IV. INFORMATION DISCLOSURE AND CHANGE OF PLACE FOR INSPECTION

| | |
|---|--|
| Newspapers designated by the Company for information disclosure | China Securities Journal, Shanghai Securities News, Securities Times |
| Website designated by the CSRC for publication of interim reports | http://www.sse.com.cn |
| Website designated by the Hong Kong Stock Exchange for publication of interim reports | http://www.hkexnews.hk |
| Place where interim reports of the Company are available | Office of the Board, 12/F, Haitong Securities Building, No. 689 Guangdong Road, Shanghai, the PRC |
| Search index for changes in registration during the Reporting Period | http://www.sse.com.cn |

Section II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

V. BRIEF INFORMATION ON THE SHARES OF THE COMPANY

| Class of shares | Stock exchange of listing | Stock name | Stock code | Stock name before changes | Share Registrar |
|-----------------|---------------------------|--------------------|------------|---------------------------|---|
| A Share | Shanghai Stock Exchange | Haitong Securities | 600837 | / | Shanghai Branch of China Securities Depository and Clearing Corporation Limited |
| H Share | Hong Kong Stock Exchange | HAITONG SEC | 6837 | / | Computershare Hong Kong Investor Services Limited |

VI. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE COMPANY

(All of the accounting data and financial indicators set out in this Report are prepared in accordance with IFRS unless otherwise indicated)

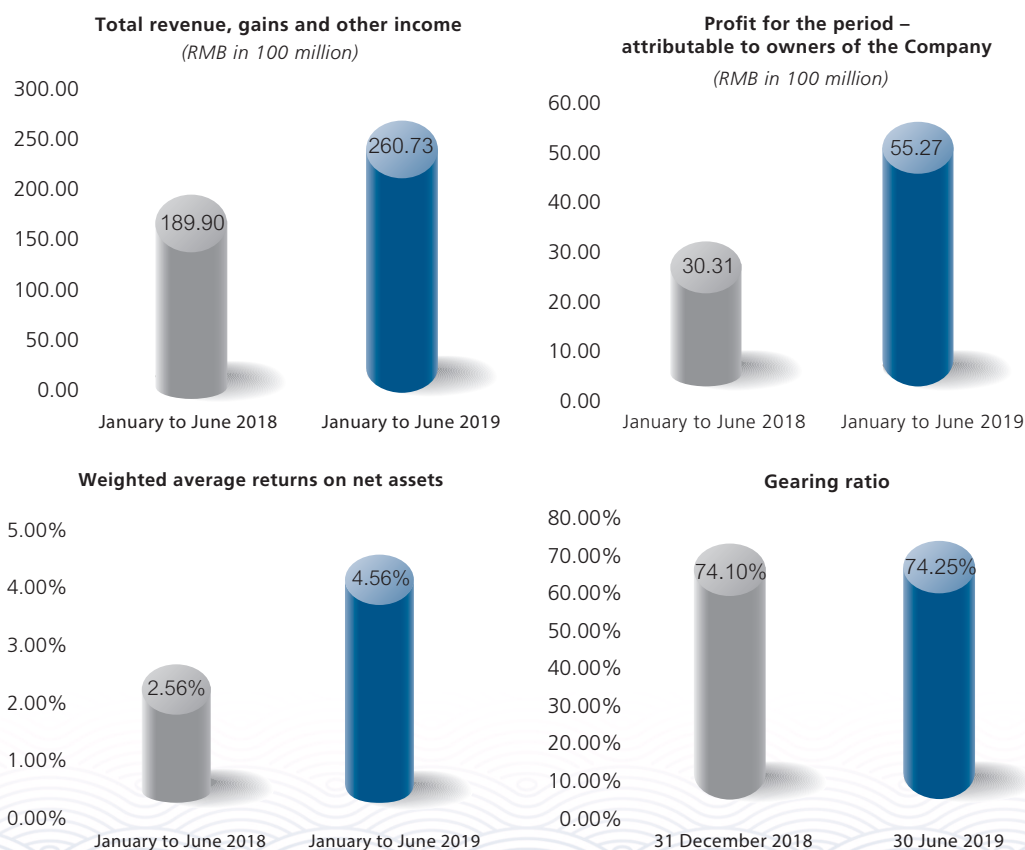
(I) Major accounting data and financial indicators

| Items | January to June 2019 | January to June 2018 | As compared to the corresponding period of last year |
|--|----------------------|----------------------|--|
| Results of operations (RMB'000) | | | <i>Change</i> |
| Total revenue, gains and other income | 26,073,460 | 18,989,573 | 37.30% |
| Profit before income tax | 8,003,757 | 4,501,386 | 77.81% |
| Profit for the period | | | |
| – attributable to owners of the Company | 5,526,505 | 3,030,926 | 82.34% |
| Net cash flow used in operating activities | (1,477,161) | (10,432,732) | N/A |
| Other comprehensive income | 916,827 | (702,352) | N/A |
| Earnings per share (RMB/share) | | | <i>Change</i> |
| Basic earnings per share | 0.48 | 0.26 | 84.62% |
| Diluted earnings per share | 0.48 | 0.26 | 84.62% |
| Index of profitability | | | <i>Change</i> |
| Weighted average returns on net assets (%) | 4.56 | 2.56 | +2.00 percentage points |

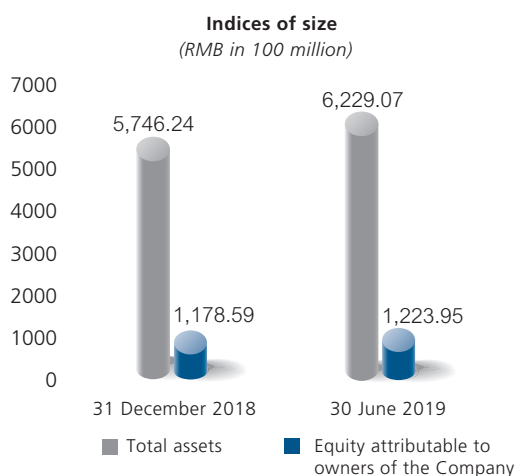
Section II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

| Items | As at 30 June 2019 | As at 31 December 2018 | As compared to the end of the last year |
|---|--------------------------|------------------------------|---|
| Indices of size (RMB'000) | | | |
| Total assets | 622,907,269 | 574,623,634 | 8.40% |
| Total liabilities | 485,779,723 | 444,437,715 | 9.30% |
| Accounts payable to brokerage clients | 90,371,199 | 71,893,535 | 25.70% |
| Equity attributable to owners of the Company | 122,395,334 | 117,858,575 | 3.85% |
| Total share capital ('000 shares) | | | |
| | 11,501,700 | 11,501,700 | – |
| Net assets per share attributable to owners of the Company (RMB/share) | | | |
| | 10.64 | 10.25 | 3.80% |
| Gearing ratio (%)⁽¹⁾ | | | |
| | 74.25 | 74.10 | +0.15 percentage point |

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



Section II COMPANY PROFILE AND KEY FINANCIAL INDICATORS



(II) Differences of accounting data between IFRS and PRC GAAP

The net profits for the periods from January to June 2019 and from January to June 2018 and the net assets as at 30 June 2019 and 31 December 2018 as stated in the consolidated financial statements of the Group prepared in accordance with PRC GAAP are consistent with those prepared in accordance with IFRS.

(III) Net capital and other risk control indicators of the Company

As at 30 June 2019, the net capital of the Company was RMB71,581 million, representing an increase of RMB204 million as compared to the end of the previous year (RMB71,377 million). During the Reporting Period, all risk control indicators including net capital of the Company met the regulatory requirements.

Unit: Yuan Currency: RMB

| Items | As at the end of the Reporting Period | As at the end of previous year |
|--|--|--------------------------------------|
| Net capital | 71,580,786,214.85 | 71,377,006,860.38 |
| Net assets | 111,101,373,857.93 | 108,194,829,712.33 |
| Risk coverage ratio (%) | 236.07 | 253.27 |
| Capital leverage ratio (%) | 24.62 | 26.03 |
| Liquidity coverage ratio (%) | 343.49 | 477.91 |
| Net stable funding rate (%) | 139.74 | 137.11 |
| Net capital/net assets (%) | 64.43 | 65.97 |
| Net capital/liabilities (%) | 42.58 | 46.07 |
| Net assets/liabilities (%) | 66.08 | 69.84 |
| Proprietary equity securities and securities derivatives/net capital (%) | 32.06 | 28.94 |
| Proprietary non-equity securities and derivatives held/net capital (%) | 135.12 | 117.20 |

Note: Above data are calculated based on the financial information prepared in accordance with PRC GAAP.

Section III SUMMARY OF THE COMPANY'S BUSINESS

I. DESCRIPTIONS OF THE PRINCIPAL BUSINESSES OF THE COMPANY, ITS OPERATING MODELS AND INDUSTRIES DURING THE REPORTING PERIOD

1. Principal businesses and operating models of the Company during the Reporting Period

The Company's principal business lines comprise wealth management, investment banking, asset management, trading and institutional client services, and financial leasing.

Wealth management mainly refers to the provision of comprehensive financial services and investment solutions to retail and high-net-worth customers, including securities and futures brokerage services, investment advisory services, financial planning services, and financing business services such as margin financing, securities lending and stock pledge.

Investment banking mainly refers to the provision of sponsorship and underwriting services for corporate and government customers with regard to financing activities in both equity capital markets and debt capital markets, the provision of financial advisory services to corporate customers for mergers and acquisitions as well as asset restructurings, and the provision of NEEQ services. Based on the nature of business, the investment banking business of the Company is further categorised into segments of equity financing business, debt financing business, mergers and acquisitions financing business, NEEQ and structural financing business. The Company strives to provide customers with "one stop" domestic and overseas investment banking services.

Asset management mainly refers to the provision of comprehensive investment management services on diversified products to individuals, corporations and institutional clients, including asset management, fund management, public and private equity investment services. HT Asset Management carries out businesses including targeted asset management, collective asset management, specialised asset management, QDII business, and innovative business. The principal businesses of HFT Investment and Fullgoal Fund include management of mutual funds (including QDII), asset management for corporate annuities, NSSF and specific customers, providing professional fund investment financing services for investors. The Company also operates a number of professional investment management platforms for private equity (PE) investment business, which provides services including management of industrial investment funds, investment consultation, promotion and establishment of investment funds, etc.

Section III SUMMARY OF THE COMPANY'S BUSINESS

Trading and institutional client services mainly refers to the provision of stock sale and trading, prime brokerage, stock borrowing and lending and stock research services in major global financial markets for global institutional investors, as well as the issuance and market making services for various financial instruments such as fixed income products, currency and commodity products, futures and options, exchange traded funds and derivatives. Meanwhile, the Company exerts and enhances the advantage of synergies among business segments through investment funds and private equity projects and focuses on exploring investment opportunities with reasonable capital returns and further expands client relationships and promotes the overall growth of its business.

Financial leasing mainly refers to the provision of innovative financial services and solutions to individuals, enterprises and governments, including financial leasing, operating leasing, factoring, entrusted loans and relevant advisory services. The Company's leasing businesses are mainly operated by Haitong UT. Currently, Haitong UT engages in a wide range of industries, including infrastructure, transportation & logistics, industrials, education, health care, construction & real estate and the chemical industry, etc. Haitong UT leverages rich industrial experience and market channels and works with renowned domestic and overseas equipment manufacturers to provide comprehensive financing solutions and services for the business development of clients. In the past two years, Haitong UT has taken the initiatives in exploring the business model of securities firm-featured financial leasing and has launched a diversified product portfolio that integrates equity investment and debt investment to provide more innovative structured financing solutions to customers.

Other segments mainly refer to the provision of comprehensive financial and information services to institutional customers, including warehouse receipt service, pricing service, market making service and services relating to risk management.



Section III SUMMARY OF THE COMPANY'S BUSINESS

2. Development stage and cyclical features of the industry in which the Company operates and its industry position during the Reporting Period

(1) *Market conditions*

In the first half of 2019, China's overall economic development was stable, the replacement of old growth drivers with new ones was accelerated, economic growth remained resilient, and the interim goal of the tough task of preventing and defusing financial risks was achieved. The capital market made continuous contributions to the high-quality growth of the economy. The performance of the securities market recovered markedly. The CSI 300 increased by 27% and the turnover of stocks and funds in the Shanghai and Shenzhen stock markets increased by 28% year-on-year.

In the first half of 2019, measures for reform and innovation and for opening up were constantly implemented in the capital market, including: the Sci-Tech Innovation Board (the "STAR Market") was set up and the pilot program of the registration system was officially implemented; securities companies were approved to issue financial bonds; the Shanghai-London Stock Connect was officially launched; A Shares were officially incorporated into the FTSE Russell Global Index; China-Japan ETF was successfully opened; nine policies to further expand the opening up of the capital market were officially released. The further opening up of the capital market will further improve the level of marketization of the domestic capital market, which will force domestic listed companies to improve their governance, and promote domestic securities firms to further enhance their service and management capabilities. It will be more convenient for foreign institutional investors to participate in the Chinese capital market.

(2) *Industry landscape*

The concentration of the securities industry will continue to increase. As a pilot program for the reform in the capital market, the STAR Market will further break the original business model of the securities industry, forcing breakthroughs in the investment banking model and reshaping the new ecology of the capital market. In the future, leading brokers with strong capital strength, mature investment banking teams, high-quality projects and accurate pricing capabilities will be most likely to become the main promoters and beneficiaries of the reform. In addition, removing restrictions on debt financing instruments and quotas of leading brokers will further enrich the financing vehicles of relevant brokers, reduce their financing costs and enhance their capital strength.

Section III SUMMARY OF THE COMPANY'S BUSINESS

(3) *Position of the Group in the industry*

In the first half of 2019, the Group recorded a total revenue, gains and other income of RMB26,073 million and a profit attributable to owners of the Company of RMB5,527 million and ranked second in the industry in terms of total revenue, gains and other income and net profit, respectively. The Company ranked second and third in the industry in terms of its total assets and net assets, respectively. The main businesses of the Company remained at the forefront of the industry. The Company has attained the highest rating of Grade AA under Category A in classification and evaluation of securities firms.

II. SIGNIFICANT CHANGES OF THE COMPANY'S MAJOR ASSETS DURING THE REPORTING PERIOD

For major changes in assets which accounted for over 5% of the total assets as at the end of the Reporting Period and range of such change during the Reporting Period exceeding 30%, see "II. (III). *Analysis on principal components of consolidated statement of financial position*" in Section IV of this Report for details.

Of which: overseas assets was RMB269,814,328,275.61, accounting for 43.32% of the total assets.

III. ANALYSIS ON THE COMPANY'S CORE COMPETITIVENESS DURING THE REPORTING PERIOD

During the course of its operations over the years, the Company has gradually built up its specific core competitiveness in following aspects:

1. **Solid capital strength**

From 2007 to 2019, the Company seized the market opportunities and rapidly enhanced its capital strength through several strategic equity financing and bond financing transactions. In the first half of 2019, the Company completed a series of domestic financing activities, raising an aggregate amount of approximately RMB30.0 billion through the issuance of corporate bonds, subordinated bonds, "margin financing and securities lending" ABS, beneficiary certificates and transfer of right to earnings. With its liquidity supervision indicators remained to be in compliance with the regulatory requirements, the Company properly arranged the replacement of matured debts with new debts and effectively satisfied the business capital requirements. In the first half of 2019, the Company also successfully obtained the approval from the People's Bank of China in respect of the qualification of issuing short-term financing bills, which has brought out a positive impact on increasing financing varieties, reducing financing costs, improving the rationality of asset and liability management, and enhancing the flexibility of liquidity management of the Company. Meanwhile, the Company was also actively expanding overseas financing channels to ensure the healthy and orderly development of overseas business. Adequate capital has laid a solid foundation for the Company's business optimisation and transformation.

Section III SUMMARY OF THE COMPANY'S BUSINESS

2. Outstanding comprehensive financial service platform

Starting from the Company's securities business, the Company has continuously expanded the scope of its financial products and services and extended the boundaries of financial services through the establishment and acquisition of professional subsidiaries. The Company has basically developed into a financial service conglomerate with businesses covering securities and futures brokerage, investment banking, asset management, private equity investment, alternative investment, financial leasing and offshore banking. The Company's brokerage business boasts a solid customer base; its investment banking business has high market influence; the assets under management (AUM) of actively managed assets business increases steadily; the scale and profit of its private equity investment business ranks top in the industry; the performance indicators of its Hong Kong business are in the forefront among all market players; its financial leasing business establishes an industry-leading position; and its research services business enjoys strong market influence. The integrated financial platform generates a strong scale effect and cross-selling potentiality, which vigorously supports business development and enables comprehensive financing services for customers.

3. Extensive branch network and solid customer base

As at 30 June 2019, the Company has 330 securities and futures business departments (including 290 securities business departments and 40 futures business departments) spanning across 30 provinces, municipalities and autonomous regions in the PRC. The Company also established branches and subsidiaries in 14 countries and regions in Asia, Europe, North America, South America and Oceania. With a nationwide network of locations and a strategic international presence, the Company has built a large and stable customer base. As at 30 June 2019, the Company had approximately 15.00 million domestic and overseas customers.

Section III SUMMARY OF THE COMPANY'S BUSINESS

4. Market leading international business platform

The Company has established an industry-leading international business platform through the acquisition and consolidation of Haitong International and Haitong Bank, the establishment of branch in Freed Trade Zone (“FTZ”), and hence acquired the first-mover advantages in the Asian-Pacific region, as well as the forward-looking strategic reserve in Europe and America. In the first half of 2019, Haitong International continued to maintain its leading position among PRC securities firms in Hong Kong: Haitong International ranked first among all investment banks in Hong Kong in terms of the number of IPO and equity financing projects underwritten; the Luckin Coffee IPO project completed by Haitong International was the largest IPO among all Asian companies listed on NASDAQ this year; in the Asian G3 High-yield Corporate Bond Issuance Markets (excluding Japan), Haitong International ranked first among global financial institutions in terms of the number and amount of bonds underwritten; the fund under Haitong International has been approved by the CSRC for mutual recognition qualification, and became the first “northbound” fund with a PRC securities firm background; a cross-border, cross-market and cross-department trading and clearing system has been established, and currently dozens of internationally renowned institutional clients trade directly through the algorithm of Haitong International; it has built a new generation of market making trading system to establish a global unified institutional trading platform; it has actively tried artificial intelligence and robot process automation technologies to further improve the digital transformation ability and form a new financial technology ecosystem.

Haitong Bank is an important part of the Company's globalisation strategy specializing in the local market in the European Union and South America with over 20 years' experience. The Haitong Bank aims to support cross-border business cooperation among China, Europe and South America, and to expand the Company's business to wider geographic region as well as to prepare the Company for its accelerated globalisation in advance. Currently, the operation of Haitong Bank has embarked on a virtuous cycle, and in the future, it will focus on three areas, including corporate banking, investment banking and asset management, and adhere to the strategy of “China Element (中國元素)” to achieve sustainable profitability.



Section III SUMMARY OF THE COMPANY'S BUSINESS

The Company's FTZ branch, as one of the first securities institutions participating in the FTU system of the free trade zone, became the first PRC securities firm that completed the cross-border financing project under FT. In May 2016, it became a Class A international member of Shanghai Gold Exchange, and it obtained the foreign currency lending membership of China Foreign Exchange Trade System in November 2018. In the first half of 2019, the Company's FTZ branch paid close attention to the policy trend of financial reforms in the FTZ, docked the global capital market platform of the Company, and gradually formed a comprehensive cross-border business platform in the FTZ by virtue of the cross-border capital advantage.

These market leading, well established and multi-jurisdiction international business platforms enable the Company seize the opportunities for the ever growing cross-border businesses, meet customers' demands for cross-border business and improve the Company's international influence.

5. Prudential operational philosophy, effective compliance risk management and internal control system

The Company has adhered to the risk control philosophy of "prudence and even conservativeness" and has navigated through multiple market and business cycles, regulatory reforms and industry transformations and developments in the past 31 years of operations. Among the Chinese securities firms established in 1980s, the Company is the only large-scale securities firm that has been continuously operating under the same brand without any state-owned capital injection or being acquired or restructured. The Company continued to build a sound compliance management system with full coverage and a comprehensive risk management system to effectively manage various risks including compliance risk, money laundering and terrorist financing risk, credit risk, market risk, operational risks, liquidity risk and reputational risk. In addition, the Company has established an independent and centralised internal audit system to effectively examine and supervise the compliance, authenticity, completeness, and effectiveness of its operations and transactions.

Section III SUMMARY OF THE COMPANY'S BUSINESS

6. Continuously enhanced science and technology strength

The Company adheres to the science and technology guiding principle of “unified management, self-initiation and controllability, integration of business and leading development”, firmly promotes the in-depth integration of technology and business, and accelerates the building of a financial technology platform to provide comprehensive support for executing corporate strategies and establishing a benchmark investment bank in the PRC. Firstly, the Company kept pace with the development trend of financial technology, moved ahead with strategic initiatives relating to, among others, financial cloud, big data and artificial intelligence, and fully supported the innovative development of each business. Secondly, the Company continued to advance its independent research on the Internet finance and the professional version of Haitong Fangzhou to provide customers with overall and differentiated service experience. Thirdly, application scenarios of smart operations and statement analysis were constantly enriched and business management became more effective. Fourthly, the research and development advantages in areas such as compliance and risk management and information integration and data service continued to expand, further enhancing the Group's management and control.



Section IV REPORT OF THE BOARD OF DIRECTORS

I. MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2019, the Company took on the challenges brought by the complex macro environment and international situation, and achieved to rank among the top in the industry in terms of the key financial and operating indicators. The Company completed the re-election of the new session of the Board and Supervisory Committee and further improved the governance structure. Haitong UT successfully completed its listing on the Hong Kong Stock Exchange, making it the Company's third listed platform outside Mainland China. To seize the historic opportunity brought by the launch of the STAR Market, the Company established and improved systems related to the STAR Market, and completed the listing applications on the STAR Market of six enterprises, two of which completed the registration and offering, accounting for 8% of the total number of first batch of companies that have completed share issue for proposed listing. The Company steadily promoted the "asset management plan for supporting the development of private enterprises" (hereinafter referred to as "the plan supporting the development of private enterprises"), and the total assets of the plan supporting the development of private enterprises ranked among the top in the industry. The Company successfully injected capital in the amount of RMB2 billion into Haitong International Holdings. Haitong Bank gained a re-loan of EUR375 million, and Haitong International issued US\$700 million senior notes. The Company's application for non-public issuance of A Shares has been formally accepted by the CSRC. The Company has attained the regulatory rating of Grade AA under Category A company in classification and evaluation of securities firms. The Company's business competitiveness and compliance risk management and control capabilities were further enhanced.

As of 30 June 2019, the total asset of the Group was RMB622,907 million, the net asset attributable to the parent company was RMB122,395 million. In the first half of 2019, the Group realized an operating income of RMB26,073 million, a net profit attributable to the parent company of RMB5,527 million, and a weighted average returns on net assets of 4.56%.

Section IV REPORT OF THE BOARD OF DIRECTORS

II. OPERATIONS DURING THE REPORTING PERIOD

(I) Analysis of principal operations

> *Wealth management business*

Market conditions:

As the market expectation and liquidity improved, domestic stock market transactions increased significantly in the first half of 2019. According to WIND, the average daily turnover of stocks and funds in Shanghai and Shenzhen stock markets was RMB625.5 billion in the first half of 2019, representing an increase of 29.4% as compared to the corresponding period of the preceding year. The industry commission rate remained stable and the transformation of the wealth management business accelerated. In terms of the financing business, as the market recovered, the balance of advances to customers under margin financing and securities lending business at the end of June 2019 was RMB910.8 billion, representing an increase of 20.53% as compared to that at the end of 2018. The scale of stock pledge business continued to decline. At the end of the Reporting Period, the balance of stock pledge repurchase financing in Shanghai and Shenzhen stock markets was RMB1,069.4 billion, representing a decrease of 10.3% as compared to that as at the end of 2018.

Operating measures and performance:

In the first half of 2019, the number of the Company's customers continued to grow steadily. The market share of newly added accounts of Yimatong (一碼通) of the Company amounted to 9.03%. As of the end of June 2019, the total number of customers in the wealth management business was 11.04 million (excluding dormant accounts), representing an increase of 6.36% compared with that at the beginning of the year. The total customer assets was RMB1.73 trillion (tradable), representing an increase of RMB359.7 billion from the end of last year. The turnover of stocks and funds amounted to RMB5,790.7 billion (excluding trading volume of on-market currency funds), representing an increase of 30.33% over the same period of last year. The total number of the users of "e-Haitong Cai" (e海通財) mobile platform exceeded 28 million. The number of the monthly active users in the platform exceeds 3.5 million, ranking among the top five in the industry. The daily using time per user of the platform was up to 42 minutes, ranking first in the securities industry. The customer structure of the platform was optimized, as the number of customers with assets above RMB500,000 and the assets of these customers were on the rise.

Section IV REPORT OF THE BOARD OF DIRECTORS

Changes in Trading Volume of the Company in the first half of 2019

| | The Reporting Period | The corresponding period of previous year |
|---|-------------------------------------|--|
| Trading volume of stocks (RMB100 million) | 55,843 | 43,664 |
| Trading volume of funds (RMB100 million) ¹ | 2,064 | 767 |
| Total (RMB100 million) | 57,907 | 44,431 |

(1) Retail brokerage business

During the Reporting Period, the Company fully implemented the account manager system, strengthened business management by introducing technological means, reshaped the customer service system by effectively using the Internet platform, and enhanced the vitality of the branch companies. The layout of the Company's outlets was further optimized. Two new branches opened and the application for 15 securities branches was officially approved. By introducing preferential policy and allocating more resources in Guangdong-Hong Kong-Macao Greater Bay Area, the Economic Zone on the West Side of the Straits, the Beijing-Tianjin-Hebei Economic Zone, the Chengdu-Chongqing Economic Zone and the Yangtze River Delta Economic Zone, the coverage of network outlets in key areas was expanded, and the service level and expanding capacity of outlets were improved.

1. Trading volume of exchange-traded monetary funds exclusive.

Section IV REPORT OF THE BOARD OF DIRECTORS

(2) *Internet finance*

The Company continued to improve the development of Internet integrated financial services with “e-Haitong Cai” as its core brand, and promoted the transformation of the Group’s digital-based wealth management. As a result, the Company continuously made breakthroughs in targeted marketing, customer analysis and personalized services, improved the customer and service grading system and achieved more differentiated services. The Company further strengthened the four major capabilities comprising the research and development capability for Internet finance smart tools, the capability of the investment research team to integrate services, the capability of the Group to customise wealth management products, and online sales synergy.

At the end of the Reporting Period, the Company’s e-Haitong Cai APP had over 28 million users, with the APP transactions accounting for more than 80% of the customer coverage. The number of the APP active users ranked among the top in the industry, and the daily using time per user ranked first in the industry (source: APP Annie). Therefore, e-Haitong Cai APP had built up an excellent reputation in and outside the industry. At the same time, the Company entered into a strategic cooperation agreement with Tencent and was authorized by the SSE as the first batch of securities companies to issue Level-2 trading data on PC.

(3) *Financing business*

In the first half of 2019, the scale of the Company’s financing business stayed flat, and the Company maintained a solid position in the industry as the scale effect was obvious. As of the end of June 2019, the size of the Company’s financing business was RMB88,520 million, of which the balance of stock pledge business was RMB48,835 million, representing a decrease of RMB4,614 million from the beginning of the year, and the balance of margin financing and securities lending business was RMB39,610 million, representing an increase of RMB4,912 million from the beginning of the year. The overall percentage of the performance of the stock pledge projects reached 245.22%, representing an increase of 49.91 percentage points over the end of last year, and the risk in financing business was at a low level. In addition, the Company actively explored new business opportunities and was among the first batch of companies to obtain the qualification for piloting margin financing and securities lending business in the STAR Market.

Section IV REPORT OF THE BOARD OF DIRECTORS

Changes in the scale of the financing business of the Company in the first half of 2019

| | As at the end of the Reporting Period | As at the end of the corresponding period of previous year |
|---|--|--|
| Balance of margin financing and securities lending business (RMB100 million) | 396.10 | 346.98 |
| Balance of stock pledge business (RMB100 million) | 488.35 | 534.49 |
| Balance of stock repo transaction (RMB100 million) | 0.80 | 3.79 |
| Total (RMB100 million) | 885.20 | 885.26 |

Source: internal statistics of the Company

(4) The plan supporting the development of private enterprises

As at the end of June 2019, the Company has cooperated with local government platforms in Shanghai, Anhui, Xiamen, Xi'an, Qingdao and Anshan to jointly support the development of private enterprises and the target size of the fund for the plan supporting the development of private enterprises amounted to RMB45,620 million (including RMB15,050 million sub-fund to be established). The actual investment size was RMB4,511 million (including an investment of RMB2,416 million for the fund for the plan supporting the development of private enterprises, and an investment of RMB2,095 million for other asset management plans supporting the development of private enterprises). The Company provided comprehensive financial solutions for 11 private listed companies and shareholders in more than ten provinces and cities.

Section IV REPORT OF THE BOARD OF DIRECTORS

(5) *The sales of financial products*

In the first half of 2019, the Company continued to improve the financial products system and further promote the development of wealth management business. As at the end of June 2019, as for the cash management products, the asset size of the “Tongcai wallet (通財錢包)” amounted to RMB6 billion, representing an increase of 200% from the beginning of the year. The asset size of “Cash Winner (現金贏家)” amounted to RMB8.2 billion, representing an increase of 32% from the beginning of the year. As for the quantitative hedging products, eight tranches of products under the “Tongjuhuicui (通聚薈萃)” series were newly issued, with a total of 23 tranches of products issued and the accumulated management scale of “Tongjuhuicui (通聚薈萃)” series was RMB3.1 billion with a daily average inventory of RMB2.7 billion, representing an increase of RMB1.1 billion over the previous year. The average annualized rate of return of the products was 10% in the first half of 2019, with a maximum drawdown of less than 0.9%, still maintaining good performance. As for the private equity trust products, the total sales amounted to RMB4.06 billion in the first half of 2019, representing a year-on-year increase of 151%. The issuance scale of the income certificate was nearly RMB17 billion, and the stock volume exceeded RMB31 billion, representing an increase of 42% from the beginning of the year.

Section IV REPORT OF THE BOARD OF DIRECTORS

➤ *Investment banking business*

Market conditions:

In the first half of 2019, the total fund raised in the domestic equity capital market (including IPO, secondary offering, rights issue, preference shares and convertible bonds) was RMB554.4 billion, representing a decrease of 16% as compared to the corresponding period of the preceding year. A major breakthrough was made in the launch of the STAR Market. The first batch of companies listed on the STAR Market on 22 July 2019. In the first half of 2019, it was announced that the value of M&A transactions amounted to RMB1.16 trillion, representing a decrease of 65.40% as compared to the corresponding period of the preceding year. 153 companies were newly listed on the NEEQ, and 923 companies were delisted from the NEEQ. The number of listed companies decreased by 770 compared with that at the beginning of this year.

In the first half of 2019, the total amount of bonds issued by various institutions was RMB21.74 trillion, representing an increase of 5% as compared to the corresponding period of the preceding year. Among them, as for credit bonds, the subordinated debts issued by commercial banks increased by nearly 400% to RMB459.3 billion. The private debts issued in the exchanges increased by 148% to RMB576,673 million, becoming a product with the largest issue volume in the exchanges. The issuance of medium-term notes and short-term financing bills increased significantly, representing an increase over 15% as compared to the corresponding period of the preceding year.

Section IV REPORT OF THE BOARD OF DIRECTORS

Operating measures and performance:

During the Reporting Period, the Company completed ten equity issuance projects, 574 tranches of bond underwriting projects, and six M&A transactions in the domestic market. The net income of domestic investment banking business ranked third in the industry. Haitong International continued to maintain its leading position in the investment banking business in Hong Kong. Haitong Bank continued to make breakthroughs in bond issuance and M&A financing.

(1) Equity financing

In the first half of 2019, the equity financing business of the Company seized the opportunities brought by the launch of the STAR Market. In accordance with the requirements on the STAR Market by regulatory department, the Company continued to take forward systems setup, process optimisation and systems refinement, and made progress on preparatory works for capturing opportunities offered by the STAR Market. The Company successfully submitted listing application for six STAR Market projects, among which, Tianzhun Technology (天准科技) and Zhongwei Semiconductor (中微半導體), as two of the first batch of listing companies, were listed on July 22. In the first half of 2019, the Company applied for 34 equity financing projects to the CSRC, among which, the number of IPO applications ranked first in the industry, the number of IPO and refinancing projects ranked fourth in the industry. The Company completed 10 equity issuance projects, and had eight projects being in the CSRC approval process. The Company completed two listing projects, five private placement projects, and provided advisory services to 128 companies on an on-going basis on the NEEQ. In the first half of 2019, the Company kicked off 58 new projects in equity financing business, laying a solid foundation for the sustainable development of the business.

In the first half of 2019, Haitong International completed 24 IPO projects and 27 equity financing projects, and the underwriting volume ranked first among all investment banks in Hong Kong. The completed "Luckin Coffee" IPO project is the largest IPO project of Asian companies in NASDAQ this year.

Section IV REPORT OF THE BOARD OF DIRECTORS

(2) *Debt financing*

In the first half of 2019, the Company completed 574 tranches of underwriting bond projects as the lead underwriter, with a total underwritten amount of RMB184.3 billion, and its semi-annual income reached a new high. The Company ranked first in the industry in terms of both number and amount of enterprise bonds underwritten, ranked second in terms of number of non-financial enterprises credit bonds underwritten (including enterprise bonds, corporate bonds, debt financing tools for non-financial enterprises) and ranked third in terms of amount of non-financial enterprises credit bonds underwritten. At the same time, the Company continued to strengthen innovation-driven development in its bond financing business, and successfully issued many innovative products, including the first credit protection contract with ABS as the contract object, the first credit protection contract with poverty alleviation debt as the contract object, and the first venture capital fund special debt in the central region, which explored new paths to support the development of the private economy and support the national strategy.

Haitong International completed 125 bond issuance projects. In China's offshore bond issuance market, Haitong International ranked second and third among global financial institutions in terms of the number and the amount of bonds underwritten. In the ranking of Asian G3 High-yield Bond Issuance Markets (excluding Japan), Haitong International ranks first among global financial institutions in terms of both number and amount of bonds underwritten.

Haitong Bank actively expanded the "China Element (中國元素)" investment banking business and completed eight bond underwriting projects. Haitong Bank continued to maintain its leading position in the Portuguese domestic market, and acted as the sole global coordinator for the largest corporate bond issuance project in the Portuguese market, EUR200 million bond issuance project of Portugal Airlines, in the past seven years.

Section IV REPORT OF THE BOARD OF DIRECTORS

(3) *M&A financing*

In the first half of 2019, due to the fluctuations in the secondary market, the difficulty of financing faced by listed companies, and the liquidity strain of major shareholders, the M&A activities of listed companies declined. The Company timely adjusted its business development strategy and fully utilized the qualification as a comprehensive investment bank and the advantages of the team to develop new customers vigorously while maintaining strategic customers. In the first half of 2019, the Company completed six M&A transactions, ranking third in the market.

Haitong International completed five cross-border M&A projects and entered the Middle East market for the first time. Among them, the Company advised United Energy, a Hong Kong-listed company, in the acquisition of Kuwait Energy with a transaction amount of US\$500 million, and advised Sinochem International in the acquisition of Spanish companies with a transaction amount of more than EUR 200 million.

Haitong Bank out-competed other internationally renowned investment banks and successfully won the bid for Zhejiang Energy's overseas M&A projects. The investment banking service capability was further recognized in the "Belt and Road" regional market.

➤ **Asset management business**

Market conditions:

In the first half of 2019, affected by the new regulations and other policies, the scale of the asset management business of securities companies continued to decline and structural adjustment continued in those companies. As at the end of June 2019, the total AUM of the private equity management business of securities and futures institutions was RMB20.21 trillion (excluding social security funds, enterprise annuities and large collective asset management schemes), representing a decrease of 10.82% from the end of 2018. Among them, the total AUM of the asset management business of securities companies amounted to RMB11.15 trillion, representing a decrease of 13.63% from the end of 2018; the total AUM of the asset management business of fund companies amounted to RMB4.26 trillion, representing a decrease of 2.52% from the end of 2018; the total AUM of the asset management business of fund subsidiaries amounted to RMB4.67 trillion, representing a decrease of 11.05% from the end of 2018; the total AUM of the asset management business of the futures companies amounted to RMB126.8 billion, representing a decrease of 0.63% from the end of 2018.

Section IV REPORT OF THE BOARD OF DIRECTORS

Operating measures and performance:

As at the end of June 2019, the total AUM of the Company was more than RMB1.1 trillion, of which RMB307.9 billion was managed by HT Asset Management, RMB215.8 billion by HFT Investment, RMB519.8 billion by Fullgoal Fund, RMB21.7 billion by its industrial investment fund subsidiary and over HK\$48 billion by Haitong International.

(1) HT Asset Management

As at the end of June 2019, the AUM of the active management assets of HT Asset Management was RMB137.3 billion, representing an increase of 27% from the beginning of the year, among which RMB86.4 billion was the fixed-income products, representing an increase of 26% from the beginning of the year. In the first half of 2019, 53 small collective asset management schemes were newly issued, with an issuance scale of RMB14 billion, representing an increase of 2,073% as compared to the corresponding period of the preceding year. 12 ABS special asset management schemes were issued, with an issuance scale of RMB14.5 billion, representing an increase of 215% as compared to the corresponding period of the preceding year.

| | The Reporting Period | | The corresponding period of previous year | |
|------------------------------|----------------------------|-----------------------------------|---|-----------------------------------|
| | AUM (RMB100 million) | Net income (RMB10 thousand) | AUM (RMB100 million) | Net income (RMB10 thousand) |
| Collective asset management | 773 | 52,943 | 500 | 26,222 |
| Targeted asset management | 2,036 | 6,533 | 2,571 | 7,706 |
| Specialised asset management | 270 | 876 | 77 | 196 |
| Total | 3,079 | 60,352 | 3,148 | 34,124 |

(2) Fund management company

HFT Investment's various operating indicators have grown steadily. As at the end of June 2019, the AUM of public funds reached RMB78 billion. HFT Alpha Hedge Fund was awarded three major awards including "Gold Fund • Three-year Flexible-Configuration Hybrid Fund (金基金 • 三年期靈活配置型基金)" awarded by Shanghai Securities News, and the AUM of the Fund increased by 32% from the beginning of the year.

Section IV REPORT OF THE BOARD OF DIRECTORS

The active customers of Fullgoal Fund increased rapidly, and its total AUM reached a new high. The AUM of public funds was RMB263 billion, representing an increase of 33% as compared to the beginning of the year. The company took the initiative in developing business in the STAR Market, and issued two funds in the STAR Market, making it the first company to issue such fund in the industry; The pension business was further developed, with a total scale exceeding RMB100 billion.

(3) *Private equity investment fund*

The Company further increased customer reserves to provide resources for follow-up fund raising, enhanced the whole-process management “offering, investment, management and withdrawal (募投管退)”, promoted the centralised management of the middle and back end of the PE business, and strengthened the post-investment tracking management, to promote the professional investment capability and standardized operation level of PE business line. As at the end of June 2019, there were 325 existing projects under management and 20 projects in the CSRC approval process. In the first half of 2019, the Company had six listed projects (including those approved), nine M&A projects, 11 divestment projects through equity transfer and other means and achieved 75 listing projects (including those approved and by backdoor) and M&A projects in total. In the first half of 2019, the Company’s direct investment business and the PE equity investment funds managed by its subsidiaries have realized a total of RMB600 million in income from project divestment.

(4) *Overseas asset management*

In the first half of 2019, Haitong International realized an AUM of over HK\$48 billion, increasing approximately five-fold in the past seven years. Many fund products have good performance: the net value of Haitong China A-share Fund increased by more than 20%, ranking among the top products of similar funds. With outstanding brand and the advantage of deeply exploring Hong Kong market, Haitong Asia High Yield Bond Fund became Hong Kong’s first fund for northbound trading issued by a Hong Kong-based Chinese brokerage firm.

Section IV REPORT OF THE BOARD OF DIRECTORS

➤ *Trading and institutional client services*

Market conditions:

In the first half of 2019, the A-share market achieved good performance, and the CSI 300 rose by 27%. The blue-chip and SME stocks all achieved rapid growth. The bond market was affected by a mix of factors, including the comprehensive and targeted RRR cuts by the central bank and the favourable macro data. The domestic fixed income market fluctuated slightly under the overall stability. The CSI Aggregate Bond Index rose by 1.49% during the Reporting Period, and credit bonds performed better than interest rate bonds.

Operating measures and performance:

The Company seized the opportunity brought by the recovery of the market to optimize the allocation of its own capital assets, and achieved good returns. The Company also strengthened its services to institutional customers, and enhances the personalized service capabilities of product design and operation based on customer needs.

(1) Trading business

In the first half of 2019, the Company increased the principal of fixed income investment and achieved good returns. The Company is also actively engaged in derivatives trading. As at the end of June 2019, the Company signed the NAFMII agreement with 74 institutions, ranking among the top in the industry, and the Company's nominal principal of interest rate swaps reached RMB21.04 billion. The Company seized market opportunities of equity investment and achieved good returns. The Company actively carried out and extended the ETF market-making business with the turnover of the core ETF market-making products keeping ranking first in the market. The derivatives business continued to develop, and the Company was again awarded the SSE 50 ETF option main market maker Class A rating. For the free trade zone business, the Company actively carried out the gold international board and cross-border investment businesses.

Section IV REPORT OF THE BOARD OF DIRECTORS

In the first half of 2019, Haitong International, as the first Chinese market maker of NASDAQ, established a cross-border, cross-market and cross-sector transaction clearing system, with the number of US underlying shares covered increasing over five times. At the same time, thanks to the Company's ever-improving execution capability in e-transaction, nearly 100 institutional clients have directly traded through Haitong International algorithms. The FICC business was reorganized into three types: credit products, macro and hybrid products, and institutional customer solutions, to improve the management efficiency. In the first half of 2019, the revenue from the FICC business represented a year-on-year increase of over 150%. The Company's business income in the exchanges of New York and London has grown steadily and these exchanges are expected to become new profit centres outside the Asia Pacific region. The position of the derivatives business in the first echelon of the Hong Kong market continued to be stable: a total of 1,397 warrants and CBBCs were issued in the first half of 2019, with a turnover of HK\$380 billion, ranking second in the Hong Kong market. As the first Chinese securities company to develop and conduct Inline Warrants business in the Hong Kong Stock Exchange, the Company provided investors with more diversified listed structured products.

(2) *Institutional client business*

In the first half of 2019, the Company further strengthened its services to institutional clients in public funds, insurance, private investment funds and other business, and published more than 2,600 reports, held 230 on-site meetings and teleconferences, and served more than 7,500 customers in various institutions. The Company's market share of public funds (including special accounts and social security) reached 4.55%, representing an increase of 0.14 percentage point over the previous year and the net income of the Company's trading unit seats ranked second in the industry in the first half of 2019. Driven by capital and services, the Company actively expands private equity customers. As at the end of June 2019, the Company had over 500 private placement customers with an overall scale of more than RMB150 billion and a total transaction volume of over RMB650 billion.

Section IV REPORT OF THE BOARD OF DIRECTORS

In the context of the overall recovery of the market, the size and number of custody projects have grown rapidly, with 504 new custody products launched and with income increasing by RMB30.9 billion. 105 new PB business products were launched, with income increasing by RMB16.7 billion. The Company actively expanded the public fund custody market. Among them, Huaan Csi Private-Owned Enterprises Growth ETF Fund has completed fundraising and became the first ETF fund formed by a domestic securities company. The Company launched five new products for existing WFOE customers, and perfected the personalized service of product design and operation.

Haitong International has set up prime brokerage trading business and bond income swap business, providing customers with investment plans across asset classes. It also independently developed the Exotics pricing model library, which can provide quotations for more than 60 structured products covering bills, over-the-counter swaps and OTC options in multiple markets around the world.

➤ *Financial leasing business*

Market conditions:

In the first half of 2019, due to the downward pressure on the macro economy and major changes in the industry supervision system, the number of enterprises and business volume in China's leasing industry increased only slightly in a few regions, and the overall growth of the industry slowed down. In the first half of 2019, under the prudent monetary policy, liquidity condition was moderate and appropriate, and social financing recovered. The financing cost of the leading leasing companies declined.

Operating measures and performance:

Haitong UT successfully listed on the Hong Kong Stock Exchange on June 3, 2019, raising a total of about HK\$2,322 million, which injected new capital into Haitong UT, and provide a strong guarantee for subsequent development.

In the first half of 2019, the scale of Haitong UT continued to increase and its profitability improved, with new business scale totalling RMB27,348 million. It recorded total revenue of RMB3,539 million, representing an increase of 44.2% as compared to the corresponding period of the previous year. It recorded a net profit of RMB729 million, non-performing asset ratio of 0.96% and provision coverage ratio of 334.66%.

Section IV REPORT OF THE BOARD OF DIRECTORS

Haitong UT continually stuck to the development strategies of “One Body, Two Wings (一體兩翼)”, and “One Big One Small (一大一小)”, further clarified the market demand and management resources under the traditional business, optimized and perfected the corresponding supporting system and process, and promoted the specialization and localization of various business units so as to improve the efficiency of business operation and the competitiveness of business in the market. At the same time, Haitong UT further explored diversified financing channels and appropriately managed its debt structure to effectively control its capital cost and liquidity risk. It also enhanced the comprehensive risk management system and the quantitative and qualitative analysis management functions, laying a solid foundation for the efficient implementation of projects.

(II) Major items in the consolidated statement of profit or loss

1. Composition of revenue

Unit: RMB'000

| Item | January to June 2019 | January to June 2018 | Increase/ decrease of amount | Increase/ decrease of percentage |
|--|-------------------------|-------------------------|------------------------------------|--|
| Commission and fee income | 6,209,922 | 5,347,240 | 862,682 | 16.13% |
| Interest income | 6,654,733 | 7,405,059 | -750,326 | -10.13% |
| Finance lease income | 2,359,689 | 1,689,926 | 669,763 | 39.63% |
| Investment income and gains (net) | 5,846,516 | 1,636,571 | 4,209,945 | 257.24% |
| Other income and gains | 5,002,600 | 2,910,777 | 2,091,823 | 71.86% |
| Total revenue, gains and other income | 26,073,460 | 18,989,573 | 7,083,887 | 37.30% |

In the first half of 2019, the Group joined forces and seized the opportunities, the total revenue, gains and other income realised by the Group amounted to RMB26,073 million, representing an increase of RMB7,084 million or 37.30% as compared to the corresponding period of last year.

Section IV REPORT OF THE BOARD OF DIRECTORS

Commission and fee income

| Items | January to June 2019 | January to June 2018 | Unit: RMB'000 | |
|--|-------------------------|-------------------------|------------------------------------|--|
| | | | Increase/ decrease of amount | Increase/ decrease of percentage |
| Commission and fee income of securities brokerage business | 2,494,218 | 2,171,290 | 322,928 | 14.87% |
| Commission and fee income of futures brokerage business | 715,965 | 605,347 | 110,618 | 18.27% |
| Financial advisory and consultancy fee income | 600,218 | 610,382 | -10,164 | -1.67% |
| Underwriting and sponsors fees | 1,194,102 | 1,022,195 | 171,907 | 16.82% |
| Asset management fee income (including fund management income) | 1,143,944 | 897,721 | 246,223 | 27.43% |
| Others | 61,475 | 40,305 | 21,170 | 52.52% |
| Total commission and fee income | 6,209,922 | 5,347,240 | 862,682 | 16.13% |

The total commission and fee income amounted to RMB6,210 million, representing an increase of RMB863 million or 16.13% as compared to the corresponding period of last year. Commission and fee income of securities brokerage business increases because the Group focuses on transformation of wealth management business and broadens its product lines. Asset management fee income increases because the AUM actively managed by the Group's asset management subsidiary grows rapidly. Underwriting and sponsors fee increases because the Group develops high-quality customers and improves project execution effectiveness.

Interest income

Interest income amounted to RMB6,655 million, representing a decrease of RMB750 million or 10.13% as compared to the corresponding period of last year, mainly due to the decrease of interest income from financial assets held under resale agreements.

Investment income and gains (net)

Investment income and gains (net) amounted to RMB5,847 million, representing an increase of RMB4,210 million or 257.24% as compared to the corresponding period of last year, because the Group seizes market opportunities, adjusts asset portfolio and achieves good results.

Section IV REPORT OF THE BOARD OF DIRECTORS

Statement of the Principal Businesses of the Group

Principal businesses by segment

Unit: RMB'000

| By segment | Segment income | Segment expense | Segment Profit margin | Segment income movement as compared to last period | Segment expense movement as compared to last period | Segment profit margin movement as compared to last period |
|---|-----------------------|------------------------|------------------------------|---|--|--|
| Wealth management business | 7,754,858 | 4,976,628 | 35.83% | -0.53% | -1.33% | 0.52% |
| Investment banking business | 1,933,738 | 1,124,210 | 41.86% | 16.22% | -7.45% | 14.87% |
| Asset management business | 1,459,106 | 722,221 | 50.50% | 45.90% | 32.32% | 5.08% |
| Trading and institutional client business | 7,500,430 | 4,683,724 | 37.55% | 93.55% | 27.98% | 31.99% |
| Financial leasing business | 3,705,987 | 2,961,051 | 20.10% | 41.17% | 49.19% | -4.29% |
| Others | 3,719,341 | 3,753,295 | -0.91% | 83.30% | 87.37% | -2.19% |

Principal businesses by region

Unit: RMB'000

| By region | Segment income | Segment expense | Segment profit margin | Segment income movement as compared to last year | Segment expense movement as compared to last year | Segment profit margin movement as compared to last year |
|-------------------|-----------------------|------------------------|------------------------------|---|--|--|
| Domestic business | 17,738,143 | 11,879,234 | 33.03% | 42.57% | 26.60% | 8.45% |
| Overseas business | 8,335,317 | 6,341,895 | 23.92% | 27.30% | 25.13% | 1.32% |
| Sub-total | 26,073,460 | 18,221,129 | 30.12% | 37.30% | 26.08% | 6.22% |

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2. Composition of expenses

Unit: RMB'000

| Total expenses | January to June 2019 | January to June 2018 | Increase/Decrease | |
|---|---------------------------------|-------------------------|-------------------|------------|
| | | | Amount | Percentage |
| Depreciation and amortisation | 524,164 | 283,673 | 240,491 | 84.78% |
| Staff costs | 3,442,950 | 2,554,605 | 888,345 | 34.77% |
| Commission to account executives | 238,502 | 289,468 | -50,966 | -17.61% |
| Brokerage transaction fees and other services expenses | 1,108,832 | 874,917 | 233,915 | 26.74% |
| Interest expenses | 6,761,366 | 6,443,120 | 318,246 | 4.94% |
| Expected credit losses | 1,059,233 | 682,526 | 376,707 | 55.19% |
| Impairment losses on other assets | 12,260 | 15,303 | -3,043 | -19.88% |
| Other expenses | 5,073,822 | 3,308,268 | 1,765,554 | 53.37% |
| Total | 18,221,129 | 14,451,880 | 3,769,249 | 26.08% |

In the first half of 2019, total expenses of the Group amounted to RMB18,221 million, representing an increase of RMB3,769 million or 26.08% as compared to the corresponding period of the last year, mainly due to the increase in other expenses. Other expenses amounted to RMB5,074 million, representing an increase of RMB1,766 million or 53.37% as compared to the corresponding period of the last year, mainly due to the increase in sales cost of subsidiaries.

In the first half of 2019, the Group achieved a net profit attributable to owners of the Company of RMB5,527 million, representing an increase of 82.34% as compared to the corresponding period of the preceding year; realised basic earnings per share of RMB0.48, representing an increase of 84.62% as compared to the corresponding period of the preceding year; the weighted average return on net assets was 4.56%, representing an increase of 2.00 percentage points as compared to the corresponding period of the preceding year.

Section IV REPORT OF THE BOARD OF DIRECTORS

3. Public welfare contributions

During the first half of 2019, the Group contributed RMB12,985 thousands in total in public welfare areas including environmental protection, disaster relief donations, education subsidies and charity donations.

Breakdown of public welfare contributions for the first half of 2019

| Item | <i>Unit: RMB'000</i> Amount during the period |
|-------------------|---|
| Charity donations | 12,985 |
| Total | 12,985 |

4. Cash flow

In the first half of 2019, the Group's net cash and cash equivalents increased by RMB10.812 billion, in which:

- (1) net cash used in operating activities was RMB1,477 million, which was mainly due to:
 - Cash outflow of RMB17,606 million caused by increase in financial assets at fair value through profit or loss and derivative financial assets;
 - Cash outflow of RMB14,331 million caused by increase in cash held on behalf of clients;
 - Cash outflow of RMB6,606 million caused by increase in finance lease receivables and receivables arising from sale-leaseback arrangements.
- (2) net cash used in investing activities was RMB772 million, which was mainly due to the cash outflow of RMB907 million caused by the increase in purchase of property and equipment and other intangible assets.
- (3) net cash from financing activities was RMB13,061 million, which was mainly due to the cash inflow of RMB11,504 million caused by the net increase in the Group's borrowings, bonds payables and short-term financing bills payables.

5. Others

Details of material changes in the composition or sources of the Company's profits

During the Reporting Period, there were no material changes in the composition or sources of the Company's profits.

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Progress of the business plan

In the first half of 2019, under the guidance and stream of development of overall strategy, the Company has adhered to prudent operations, focused on main development line, enhanced business collaboration and reinforced Group management control, upheld the customer-centric concept in the context of complex and changing market conditions. By further exploring the service value chain and building a customer ecosystem, the Company has grasped the opportunities arising from capital market reform and development that emphasized on establishment of the Sci-Tech Innovation Board and the pilot registration system, to comprehensively improve the overall competitive strength of the Company. For the brokerage business line, the Company strengthened management control, enhanced the layout, and further promoted the reform and transformation of its branches; the Company reshaped the customer service system by deploying fin-tech to gradually improve the Internet operation platform. The financing business continued to play the role as a bedrock of the Company's income, based on the keynote of stabilizing the size and adjusting the structure. In addition, the efforts on research services were stepped up, with products and services under custody of the funds to be diversified, and the futures business has remained at the forefront of the industry. In terms of general investment banking business line, the Company's equity financing business seized the historical opportunities to fully promote projects for the Sci-Tech Innovation Board and expand project reserve. The bond financing business, which serves the nation's strategies with innovation, has grown significantly in scale and recorded a new high in revenue. The mergers and acquisitions financing business made active strategic adjustments to accelerate project implementation. Regarding the assets management business line, total fund size under active management of its asset management subsidiary was increased progressively while its mutual fund subsidiary was in good shape seeing expansion in fund size; the private fund subsidiary furthered centralized management by steadily promoting its "offering, investment, management and withdrawal". As for the international business and leasing business lines, Haitong International pursued progress while ensured stability by consolidating the traditional advantages whilst making good use of technology; Haitong Bank put itself on a sound track of development as management was strengthened and a solid foundation was laid; Haitong UT, having completed its listing on the Hong Kong Stock Exchange, achieved a record level of business scale and further enhancement of risk control capability. In addition to such outstanding performance in various business lines, as for the management, the Company has sped up the unified management within the Group, promoted scientific and technological work overall, improved the construction of compliance risk control system, and improved the human resource security, laying a solid foundation for the Company to grow sustainably and robustly.

Section IV REPORT OF THE BOARD OF DIRECTORS

(III) Analysis on principal components of the consolidated statement of financial position

Analysis on major items of consolidated statement of financial position of the Company is as follows:

| | 30 June | | 31 December | | Unit: RMB'000 | |
|---|--------------------|-------------|-------------|-------------|--------------------------|------------|
| | 2019 | Composition | 2018 | Composition | Increase/Decrease Amount | Percentage |
| Non-current assets | 122,357,969 | | 113,939,923 | | 8,418,046 | 7.39% |
| Of which: Finance lease receivables | 26,794,282 | 4.30% | 30,824,664 | 5.36% | -4,030,382 | -13.08% |
| Equity instruments at fair value through other comprehensive income | 15,932,967 | 2.56% | 15,228,291 | 2.65% | 704,676 | 4.63% |
| Debt instruments at fair value through other comprehensive income | 6,564,282 | 1.05% | 5,768,988 | 1.00% | 795,294 | 13.79% |
| Financial assets at fair value through profit or loss | 26,460,990 | 4.25% | 18,368,406 | 3.20% | 8,092,584 | 44.06% |
| Other loans and receivables | 3,439,034 | 0.55% | 5,647,819 | 0.98% | -2,208,785 | -39.11% |
| Investments accounted for using equity method | 5,293,083 | 0.85% | 5,312,881 | 0.92% | -19,798 | -0.37% |
| Financial assets held under resale agreements | 6,272,577 | 1.01% | 11,002,055 | 1.91% | -4,729,478 | -42.99% |
| Property and equipment | 6,496,853 | 1.04% | 6,044,423 | 1.05% | 452,430 | 7.49% |
| Loans and advances | 3,581,220 | 0.57% | 3,744,563 | 0.65% | -163,343 | -4.36% |
| Goodwill | 4,061,541 | 0.65% | 4,046,190 | 0.70% | 15,351 | 0.38% |
| Current assets | 500,549,300 | | 460,683,711 | | 39,865,589 | 8.65% |
| Of which: Bank balances and cash | 122,196,330 | 19.62% | 97,423,052 | 16.95% | 24,773,278 | 25.43% |
| Clearing settlement funds | 8,217,968 | 1.32% | 7,646,561 | 1.33% | 571,407 | 7.47% |
| Financial assets at fair value through profit or loss | 170,270,376 | 27.33% | 158,837,008 | 27.64% | 11,433,368 | 7.20% |
| Advances to customers on margin financing | 52,096,466 | 8.36% | 48,861,009 | 8.50% | 3,235,457 | 6.62% |
| Accounts receivable | 13,167,368 | 2.11% | 8,257,214 | 1.44% | 4,910,154 | 59.47% |
| Financial assets held under resale agreements | 59,558,212 | 9.56% | 71,676,737 | 12.47% | -12,118,525 | -16.91% |
| Finance lease receivables | 29,575,235 | 4.75% | 30,828,048 | 5.36% | -1,252,813 | -4.06% |
| Debt instruments at fair value through other comprehensive income | 6,586,108 | 1.06% | 9,362,242 | 1.63% | -2,776,134 | -29.65% |
| Deposits with exchanges | 8,060,179 | 1.29% | 5,601,350 | 0.97% | 2,458,829 | 43.90% |
| Derivative financial assets | 1,367,102 | 0.22% | 1,780,757 | 0.31% | -413,655 | -23.23% |
| Other loans and receivables | 17,873,162 | 2.87% | 14,043,711 | 2.44% | 3,829,451 | 27.27% |
| Total assets | 622,907,269 | | 574,623,634 | | 48,283,635 | 8.40% |

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| | 30 June | | 31 December | | Increase/Decrease | |
|--|--------------------|-------------|-------------|-------------|-------------------|------------|
| | 2019 | Composition | 2018 | Composition | Amount | Percentage |
| Current liabilities | 355,705,277 | | 301,851,733 | | 53,853,544 | 17.84% |
| Of which: Accounts payable to brokerage clients | 90,371,199 | 18.60% | 71,893,535 | 16.18% | 18,477,664 | 25.70% |
| Financial assets sold under repurchase agreements | 65,712,895 | 13.53% | 56,372,903 | 12.68% | 9,339,992 | 16.57% |
| Borrowings | 58,204,250 | 11.98% | 52,489,162 | 11.81% | 5,715,088 | 10.89% |
| Placements from banks and other financial institutions | 3,101,419 | 0.64% | 8,482,577 | 1.91% | -5,381,158 | -63.44% |
| Financial liabilities at fair value through profit or loss | 22,746,698 | 4.68% | 23,862,827 | 5.37% | -1,116,129 | -4.68% |
| Derivative financial liabilities | 2,002,562 | 0.41% | 2,218,774 | 0.50% | -216,212 | -9.74% |
| Other payables and accruals | 15,930,742 | 3.28% | 13,455,014 | 3.03% | 2,475,728 | 18.40% |
| Short-term financing bills payables | 35,381,594 | 7.28% | 26,537,968 | 5.97% | 8,843,626 | 33.32% |
| Customer accounts | 2,490,178 | 0.51% | 2,160,326 | 0.49% | 329,852 | 15.27% |
| Tax liabilities | 1,215,422 | 0.25% | 1,535,337 | 0.35% | -319,915 | -20.84% |
| Bonds payable | 57,220,798 | 11.78% | 41,923,410 | 9.43% | 15,297,388 | 36.49% |
| Net current assets | 144,844,023 | | 158,831,978 | | -13,987,955 | -8.81% |
| Non-current liabilities | 130,074,446 | | 142,585,982 | | -12,511,536 | -8.77% |
| Of which: Bonds payable | 84,218,934 | 17.34% | 98,223,447 | 22.10% | -14,004,513 | -14.26% |
| Long-term borrowings | 28,511,034 | 5.87% | 27,714,158 | 6.24% | 796,876 | 2.88% |
| Financial liabilities at fair value through profit or loss | 1,695,469 | 0.35% | 2,338,127 | 0.53% | -642,658 | -27.49% |
| Placements from banks and other financial institutions | 6,222,505 | 1.28% | 6,241,519 | 1.40% | -19,014 | -0.30% |
| Total liabilities | 485,779,723 | | 444,437,715 | | 41,342,008 | 9.30% |
| Total equity | 137,127,546 | | 130,185,919 | | 6,941,627 | 5.33% |

* Percentages for assets and liabilities refer to the share of the total assets and the share of the total liabilities respectively

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As at 30 June 2019, the total assets of the Group amounted to RMB622,907 million, representing an increase of RMB48,284 million or 8.40% as compared to the end of 2018; the total liabilities of the Group amounted to RMB485,780 million, representing an increase of RMB41,342 million or 9.30% as compared to the end of 2018.

As at 30 June 2019, non-current assets amounted to RMB122,358 million, representing an increase of 7.39% as compared with the end of 2018, mainly due to the increase in financial assets measured at fair value through profit or loss; current assets amounted to RMB500,549 million, representing an increase of 8.65% as compared with the end of 2018, mainly due to the increase in bank balance and cash; current liabilities amounted to RMB355,705 million, representing an increase of 17.84% as compared with the end of 2018, mainly due to the increase in accounts payable to brokerage clients; net current assets amounted to RMB144,844 million, representing a decrease of 8.81% as compared with the end of 2018; non-current liabilities amounted to RMB130,074 million, representing a decrease of 8.77% as compared with the end of 2018, mainly due to the decrease in bonds payable.

As at 30 June 2019, the Group's equity attributable to owners of the Company amounted to RMB122,395 million, representing an increase of RMB4,537 million or 3.85% as compared with the end of 2018; excluding the influencing factors of accounts payable to brokerage customers, the Group's gearing ratio was 74.25%, representing an increase of 0.15 percentage point from the gearing ratio of 74.10% at the end of 2018. The Group's asset-liability structure remained relatively stable.



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Borrowings and bond financing

As of 30 June 2019, the total borrowings and bond financing of the Group amounted to RMB263,537 million. Set out below is the breakdown of borrowings and bond financing of the Group as at the end of June 2019:

| | 30 June 2019 | <i>Unit: RMB'000</i> 31 December 2018 |
|-------------------------------------|-------------------------|---|
| Bonds payable | 141,439,732 | 140,146,857 |
| Borrowings | 86,715,284 | 80,203,320 |
| Short-term financing bills payables | 35,381,594 | 26,537,968 |
| Total | 263,536,610 | 246,888,145 |

For the details of interest rate and maturities of borrowings and bonds financing, please refer to notes 41, 42 and 43 set out in the appended financial report.

As at 30 June 2019, the Group's borrowings, short-term financing bills payables and bonds payable due within one year amounted to RMB150,807 million, and the Group's net current assets, net of liabilities such as bonds payable, borrowings and short-term financing bills payables due within one year, amounted to RMB144,844 million. Therefore, liquidity risk exposure of the Group was immaterial.

Save as the liabilities disclosed in this Report, as at 30 June 2019, the Group had no outstanding mortgage, charges, bonds, other debt capital, liabilities under acceptance or other similar indebtedness, lease purchase and financial leasing commitment, guarantee or other material contingent liabilities.

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(IV) Analysis on investment

1. General analysis on external equity investments

At the end of the Reporting Period, the investments accounted for using equity method of the Group was RMB5,293 million, with a reduction of RMB20 million as compared to the end of last year (RMB5,313 million), representing a decrease of 0.37%. For details about the investments accounted for using equity method, please refer to Note 21 of the consolidated financial statements in this Report.

(1) Significant equity investment

Unit: RMB0'000

| Name of the company | Shareholding in the company | Carrying value as at the end of the period | Profit and loss in the Reporting Period | Changes in equity of owners in the Reporting Period |
|---------------------|-----------------------------------|---|--|---|
| Fullgoal Fund | 27.775% | 97,930.18 | 10,498.95 | 412.74 |

(2) Material non-equity investment

The Group had no material non-equity investments during the Reporting Period.

(3) Financial assets at fair value through profit or loss

The financial assets at fair value is mainly consist of financial assets at fair value through profit or loss of RMB196,731 million, equity instruments at fair value through other comprehensive income of RMB15,933 million, debt instruments at fair value through other comprehensive income of RMB13,150 million, and derivative financial assets of RMB-635 million.

Section IV REPORT OF THE BOARD OF DIRECTORS

(V) Analysis of principal holding subsidiaries or joint-stock companies

1. HFT Investment, with a registered capital of RMB300 million, in which Haitong Securities holds 51% equity interest. As at 30 June 2019, the total assets of HFT Investment reached RMB1,837 million, and the net asset was RMB1,243 million. In the first half of 2019, HFT Investment realised an operating income of RMB320 million with a net profit of RMB96 million.
2. Fullgoal Fund, with a registered capital of RMB520 million, in which Haitong Securities holds 27.775% equity interest. As at 30 June 2019, the total assets of Fullgoal Fund reached RMB4,803 million, and the net asset was RMB3,535 million. In the first half of 2019, Fullgoal Fund realised an operating income of RMB1,275 million with a net profit of RMB383 million.
3. Haitong-Fortis PE, with a registered capital of RMB100 million, in which Haitong Securities holds 67% equity interest. As at 30 June 2019, the total assets of Haitong-Fortis PE reached RMB231 million, and the net asset was RMB169 million. In the first half of 2019, Haitong-Fortis PE realised an operating income of RMB62 million with a net profit of RMB29 million.
4. Haitong Futures, with a registered capital of RMB1,301.5 million, in which Haitong Securities holds 66.667% equity interest. As at 30 June 2019, the total assets of Haitong Futures reached RMB20,911 million, and the net asset was RMB2,647 million. In the first half of 2019, Haitong Futures realised an operating income of RMB4,049 million with a net profit of RMB78 million.
5. Haitong International Holdings, with a registered capital of HKD11,180 million, in which Haitong Securities holds 100% equity interest. As at 30 June 2019, the total assets of Haitong International Holdings reached HKD306,726 million, in which the net asset attributable to the parent company was HKD15,271 million. In the first half of 2019, Haitong International Holdings realised a revenue of HKD5,183 million with a net profit of HKD1,707 million.
6. Haitong Capital, with a registered capital of RMB10,650 million, in which Haitong Securities holds 100% equity interest. As at 30 June 2019, the total assets of Haitong Capital reached RMB17,378 million, and the net asset attributable to the parent company was RMB13,919 million. In the first half of 2019, Haitong Capital realised an operating income of RMB814 million with a net profit of RMB603 million.
7. Haitong Innovation Securities, with a registered capital of RMB4.1 billion, in which Haitong Securities holds 100% equity interest. As at 30 June 2019, the total assets of Haitong Innovation reached RMB5,255 million, and the net asset was RMB5,263 million. In the first half of 2019, Haitong Innovation Securities realised an operating income of RMB218 million with a net profit of RMB163 million.

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8. HT Asset Management, with a registered capital of RMB2.2 billion, in which Haitong Securities holds 100% equity interest. As at 30 June 2019, the total assets of HT Asset Management reached RMB7,701 million, and the net asset was RMB3,958 million. In the first half of 2019, HT Asset Management realised an operating income of RMB792 million with a net profit of RMB455 million.
9. Shanghai Weitai Properties, with a registered capital of RMB10 million, in which Haitong Securities holds 100% equity interest. As at 30 June 2019, the total assets of Shanghai Weitai Properties reached RMB142 million, and the net asset was RMB11 million. In the first half of 2019, Shanghai Weitai Properties realised an operating income of RMB23 million with a net profit of RMB546,300.

(VI) Structured entities controlled by the Company

1. *Establishment of special purpose entities controlled by the Company during the Reporting Period*

During the Reporting Period, the Company has not established any special purpose entities which are controlled by the Company.

2. *Structured entities or operating entities that were controlled through entrusted operations*

The Company has recognised and included 32 structured entities (which are managed by the Company's subsidiaries) in its consolidated financial statements, considering the variable returns to which the companies in the consolidated financial statement are entitled and the risks to which they are exposed from such structured entities.

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III. OTHER DISCLOSURE

- (I) **Warning and explanation on the expected potential loss in accumulated net profit from the beginning of the year to the end of the next reporting period or the significant changes therein as compared with the same period of last year**

✓ N/A

- (II) **Potential risks and prevention measures**

1. *Risks exposed to the Company in operating activities and measures taken*

The risks faced by the Company in business operation activities mainly include: compliance risk, money laundering and terrorism financing risk, credit risk, market risk, operational risk, liquidity risk and reputation risk, which are mainly represented in the following aspects:

(1) Compliance risk

The compliance risk mentioned in the Management Measures for the Compliance of Securities Companies and Securities Investment Fund Management Companies (《證券公司和證券投資基金管理公司合規管理辦法》) refers to the risk that the securities fund management company may be investigated for legal liabilities, subjected to regulatory measures, disciplinary actions, or suffers property loss or reputation loss due to violation of laws, regulations and rules due to the management or practices of the securities fund management company or its staff.

The Company has established scientific and reasonable compliance management framework systems with clear responsibilities according to the compliance management regulatory requirements and the practical circumstances of the Company. The responsibilities and duties of compliance management for the Board, the Supervisory Committee, the principal in charge of operation and management, the Compliance Officer, and other senior management are defined definitely, and the compliance department, other internal control departments and subordinate units of the Company (including each department, branch and subsidiary) have a clear division of work, and coordinate and interact with each other. The Company has developed the Management Measures for the Compliance of Haitong Securities Co., Ltd. and relevant supporting compliance management systems, and assigned a team of compliance management personnel to strictly carry out the compliance management for each business line. These measures serve to strengthen the enforcement of different systems, mechanisms and processes via prior review, in-process monitoring and post-action inspection, assessment and investigation. In addition, the Company enhanced the policy communication and compliance promotion so as to create a business environment of "Full Compliance and Active Compliance".

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(2) *Money laundering and terrorism financing risk*

The Guidelines for Management of Money Laundering and Terrorism financing risk of Corporate Financial Institutions (Trial) (《法人金融機構洗錢和恐怖融資風險管理指引(試行)》) sets out specific requirements for management of money laundering, terrorism financing and proliferation financing risks. The risk of money laundering, terrorism financing and proliferation financing facing the Company refers to the possibility that the Company's products or services are used by lawbreakers to carry out the money laundering, terrorism financing and proliferation financing activities. The Company has always adhered to the work principle of taking risk prevention as its first priority, and strictly adopted relevant measures to control the risks of money laundering and terrorism financing in accordance with anti-money laundering laws and regulations. The Company has developed a relatively well-established anti-money laundering internal control system, which consists of the basic anti-money laundering system, implementation rules and various anti-money laundering special systems, and incorporated the relevant anti-money laundering contents in the Company's document management, compliance assessment and punishment rules. The Company has established an anti-money laundering organisation framework, which tasks on anti-money laundering are coordinated and led by the anti-money laundering leading group at Company's headquarters, and are organised by the compliance and legal department, and implemented by the anti-money laundering work leading group of the relevant business departments and branches.

(3) *Credit risk*

Credit risk refers to the risk that the Company may suffer loss since the borrower, counterparty or debt issuer fails to perform the stipulated financial obligations or there is any adverse change in credit standing.

Credit risk faced by the Company mainly relates to self-owned monetary funds deposited in other financial institutions, transaction settlements from customers in trading of securities on behalf of customers, and providing margin financing and securities lending services and stock repurchase and stock pledged repurchase transaction services to customers, as well as debt product investment, treasury business and derivative transactions. The Company may face losses if the above transactions have circumstances of failing to perform due to the borrowers, counterparties or debt issuers.

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The Company's monetary funds are mainly deposited in state-owned commercial banks or joint-stock commercial banks with good reputation, while the clearing settlement funds are deposited in the China Securities Depository and Clearing Corporation Limited. Therefore, the Company's cash and cash equivalents are facing a relatively low credit risk. In terms of securities brokerage business, trading is settled under gross margin for credit risk avoidance. For margin financing and securities lending business, stock repo transaction and stock pledged repo business, credit risk involved in the business are controlled through the establishment and enforcement of various strict systems and measures in areas as due diligence, credit assessment, credit approval, daily mark-to-market, mandatory liquidation of positions, credit enhancement and judicial recourse. The Company emphasizes diversified investment in terms of the debt product investment such as credit investment, with its existing investments comprised mainly of high credit rating products. The Company keeps a close track of the operating conditions and credit rating changes of investment subjects during credit risk management. Therefore, credit risks associated with the investment subjects are under well control. As for the treasury business such as bond repurchase, the Company strictly selects the counterparties with good credit standing and secured securities with high credit rating through access and credit granting management, so as to reduce the level of credit risk. In terms of over-the-counter derivatives business, the Company established a sound regulation system and procedures covering areas including customer access, subject securities management, counterparty credit management and risk responses and handling procedure and conducted daily mark-to-market evaluation throughout the term of each over-the-counter derivative trade and managed credit risk by adopting robust pre-warning, stop loss policy and other measures.

The Company establishes internal credit rating and asset risk classification systems, and takes credit risk management measures such as credit extending to customers, limit management and risk provisioning based on risk measurement and analysis. In order to further increase the timeliness and effectiveness of credit risk management, the Company continues to strengthen the construction of related information management system, and to improve the automation of various management processes, such as credit rating, extension, measurement, early warning, monitoring and reporting. Credit risk is also correlated with market risk to some extent, so that, if and when the market fluctuates, the exposure degree of credit risk caused by holding or trading of some financial products of the Company will change accordingly. In this regard, the Company takes necessary monitoring and preventive measures against market fluctuations to achieve effective management of the credit risk.

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In addition to the aforesaid risk factors, several subsidiaries of the Group are also exposed to credit risk when carrying out securities financing business, debt product investment business, leasing business, credit business, treasury business and over-the-counter derivatives business and other businesses. Pursuant to the Management Measures on (Group) Credit Risk of Haitong Securities Co., Ltd., the Company fine tunes the group credit risk management mechanism, and formulates with studies the group credit risk management indicator system. That enables the establishment of a collectivized credit risk measurement and concentration risk management framework, perfection of the collectivized credit rating and credit granting management framework, and further enhancement of credit risk monitoring, reporting and response mechanism for subsidiaries.

(4) *Market risk*

Market risk mainly refers to the risk of loss of its self-owned funds investment due to adverse changes in market prices (stock prices, interest rates, exchange rates, etc.) in the Company's business activities.

- A. Stock price risk. Stock price risk mainly refers to the risk of changes in the market price of the equity securities invested which could bring loss to the Company. The businesses with such risk mainly include equity securities proprietary trading business, market-making business and over-the-counter derivatives business, etc. With high uncertainties, stock price risk is one of the major market risks that the Company faces. The Company closely monitors the price fluctuation of relevant assets and has adopted relevant preventive measures.

In the first half of 2019, the stock market in the PRC showed an upward trend in the first quarter but continued to consolidate since the second quarter. The SSE Composite Index opened at 2,497.88 points at the beginning of the year, and closed at 2,978.88 points at the end of June 2019, with a cumulative rise of 19.45%. In the same period, the SSE 50 Index rose by 27.80%, the CSI 300 Index rose by 27.07%, the SME Index rose by 20.75%, and the GEM Index rose by 20.87%.

The Company tracks any variation in investment scale and value-at-risk (VaR) of securities positions on a daily basis to monitor the impact of relevant risk factors. By implementing diversified investment strategies, the Company properly controlled and timely adjusted total investment amounts of various securities, and managed the market risk effectively combining the use of various hedging instruments.

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- B. Interest rate risk. Interest rate risk refers to the risk resulting from market interest rate fluctuations. The Company's assets which are exposed to interest rate risk mainly include monetary deposits, bond investment and debt issuance, etc. In the first half of 2019, the ChinaBond Composite Full-price Index had experienced tight range of fluctuations, first moving up to the range top in mid-February 2019, and then declining back to the lowest point for the first half of the year, followed by a bumpy rise. The ChinaBond Composite Full-price Index closed at 119.08 points at the mid of the year, with a rise of 0.24% from that at the end of last year. Compared with the end of last year, the yield to maturity of ChinaBond 5-year Treasury Bond rose by about 9bp to 3.06%, and the yield to maturity of ChinaBond 10-year Treasury Bond was 3.23%, being flat with the end of the previous year. The Company managed interest rate risk by employing methods such as size control and investment portfolio re-balancing to achieve a reasonable allocation of assets, to match the maturities of liabilities and assets and by evaluating interest rate risk through regular measurement of indicators such as duration, convexity and DV01 of investment portfolios.
- C. Exchange rate risk. Exchange rate risk refers to the risk resulting from changes in foreign exchange rates. With the international expansion of the Company, the exchange rate risk is becoming evident. Apart from the Company's overseas equity investments, the headquarters, subsidiaries and affiliates also increased the debts scale in foreign currencies by issuing foreign currency bonds and other means, resulting in the increased size of foreign currencies of the Group as a whole together with the increase in foreign currency assets and difficulties in management. The Company continued to monitor and study the latest developments in the foreign exchange market and constantly optimised system construction and internal management, taking various measures to hedge and mitigate exchange rate risks to support the Company's overseas business development. The Company also focused on the natural match between foreign currency assets and liabilities from the Group level to reduce the foreign exchange risk exposure. At the same time, the Company also adopted accounting treatments, for example, hedges of net investment in overseas operations and other means, to reduce the influence of foreign currency exposure on the Group's operating results. As at the end of the Reporting Period, the Group's exchange rate risk had no material impact on the financial statements.

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Save as the above-mentioned risk factors, overseas investment and transaction businesses conducted by the Group are also exposed to relevant market risks. Fluctuations of each element of market risk around the world may affect the overall profit or loss of the Group. Under the Management Measures on (Group) Market Risk of Haitong Securities Co., Ltd., the Company sped up to the implementation of the procedures of market risk identification, assessment, measurement, monitoring, response and reporting from the Group level, as well as included the investment and transaction businesses of subsidiaries into the overall market risk management system. In terms of investment and transaction businesses conducted by the subsidiaries of the Group, the Group set and assigned market risk limit indicators such as value-at-risk (VaR) limit and stop loss limit. Subsidiaries are required to strictly implement such indicators in daily business activities and submit risk reports to the parent company as required. The Group tracks and supervises its subsidiaries on their market risk profile and the implementation of risk limits.

(5) *Operational risk*

Operational risk refers to the risk associated with losses arising from the defects of the internal processes, faulty operation or misconduct of employees, information system defects or external events. Under this risk category, information technology risk refers to the risk of losing the availability and integrity of information systems due to system interruption or slow operation and the risk of disclosure of confidential information in the information systems as a result of external attacks to the server. Information technology risk is an important component of the present operational risks. Information technology is critical to the business development and management of securities trading, settlement and service, etc. The Company will suffer losses due to unreliable system, default network technology and data error. In addition, the Company is also faced with the risk of being prosecuted for legal liability, being imposed regulatory measures, being enforced disciplinary sanctions, or suffering property or reputation loss due to its or its employees' violation of laws, regulations or norms in business operations or performance of duty.

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The Company adheres to improving the building of operational risk management system. To further enhance operational risk management, the Company, in reliance on the Management Measures on (Group) Operational Risk of Haitong Securities Co., Ltd., improves the Group's operational risk management before, during and after the relevant incidents by making use of three major operational risk management tools, namely Risk and Control Self-Assessment (RCSA), Key Risk Indicators (KRI) and Loss Data Collection (LDC). While conducting RCSA within the Group, the Group proactively identified operational risk, assessed inherent risk level, performed self-assessment of the effectiveness of risk control measures, and measured the remaining risk level to form a risk heat map. The Company established and continued to improve KRI system while collecting and tracking the indicator values and their dynamic changes regularly. The Group conducted LDC of operational risk within the Group and picked out the operation risk incidents in the system in a centralized way to assess the extent of loss caused by the relevant risk incidents as well as followed up the progress of risk mitigation measures.

In addition, the Company continued to improve its internal control management mechanism, enhance system building, regulate the operational processes, strengthen audit and inspection, and strengthen its accountability system, to reduce the odd of operational risk events and actively and properly address the adverse effects brought by any such event in accordance with such regulatory provisions as the Guidelines for Internal Control of Securities Company issued by the CSRC, Basic Standards for Enterprise Internal Control issued by Five ministries and for meeting the internal management needs of the Company. The Company always emphasizes implementation of refined management, constantly improves the business process and gives more training to employees in terms of professional integrity and professional ethics and strives to manage and reduce operational risk events. The Company continued to step up efforts in developing information technology management and system, improved IT-related emergency response plans, and prevented information technology risk by taking multiple measures including regular or sporadic monitoring and special inspections, in order to monitor and control the Company's information technology aspect ranging from system operation, application R&D, information security to technology management.

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(6) *Liquidity risk*

Liquidity risk refers to the risk that the Company is unable to gain sufficient funds with reasonable cost in a timely manner to pay its due debts, satisfy other payment obligations and meet the requirements for carrying out normal business operations. As the proprietary trading business and financing business of the Company are relatively large, it is easily affected by the factors including macro-economic policy, changes in market, operation conditions and client credit profile during its operations. Meanwhile, liquidity risk may also result due to unmatched asset-liability structure.

In terms of daily liquidity risk management, the Company has always adhered to the mindset of “proper and even conservative risk control” and successfully contained the liquidity risk exposure within a reasonable range through reasonable monitoring mechanism and control measures by adhering to the determined liquidity risk preferences and limits of risk indicators. The Company reserved sufficient quality liquidity assets in strict compliance with relevant internal regulations and measures, which ensured smooth business development and timely repayment of matured liabilities of the Company. Moreover, the Company continued to improve the management and control system for daily liquidity and risk indicators, and built a linkage mechanism of capital and indicators that tracks the Company’s assets and liabilities position, and improved a liquidity risk analysis framework including mechanisms such as daily indicator position follow-up, monthly indicator assessment and forecast and department indicator disassemble. These initiatives enriched tools of liquidity risk management over different periods of time and deeply strengthened the Company’s scientific management and control over and forecasting accuracy of liquidity risk.

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In terms of mid-term and long-term liquidity risk management, the Company continued to optimise its capital allocation structure, intensified its analysis on the development trend of assets and liabilities and strengthened its management and control over liquidity risks from the source. On the one hand, the Company set up the assets and liabilities allocation committee to actively carry out asset and liability management work and adjust its liability maturity mix by timely analysing business development trend and potential need for mid-term and long-term funds, in order to ensure a reasonable range of the maturity mismatch of assets and liabilities. On the other hand, the Company enhanced liquidity refined management system to ensure more reasonable liability structure and distribution of maturities, whilst allowing a balance among asset safety, liquidity and profitability. During the Reporting Period, the Company valued maintaining good relationships with major commercial banks, emphasised regulated operations, maintained good reputation, and kept financing channels open.

In terms of Group liquidity risk control, the Company steadily implemented the requirements on the liquidity risk management for the Group and subsidiaries. Firstly, the Company implemented classified management of subsidiaries from the risk lines and asset-liability management lines on the basis of liquidity risk management, with different requirements proposed from three aspects: organizational system guarantee, risk control framework and risk response measures. Pursuant to the Management Measures on (Group) Liquidity Risk of Haitong Securities Co., Ltd, the Company specified the overall strategy, framework, and control requirements of the Group-wise liquidity risk management. Secondly, the Company issued limit management requirements for the subsidiaries based on the liquidity risk indicators and the industry, location and risk features of the subsidiaries, to monitor the liquidity risk actuality of each subsidiary more effectively. Finally, riding on the liquidity risk management system of the parent company, the Company improved the group's liquidity risk system in conjunction with the management of risk control indicators consolidated system.

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(7) *Reputation risk*

Reputation risk refers to the risk resulting from negative comments on the Company by a party of stakeholder with respect to the Company's operations, management or other activities, or due to external events. Reputation events refer to the activities or events that may impact the reputation risk of the Company. The formation of reputation events include but are not limited to mistaken, untrue and critical reports of the news media, rumour and negative online public opinion against the Company, acceptances of media interviews by the staff of the Company without prior authorisation and also violating the statutory disclosure regulations, reputation events triggered by improper opinions or behaviours of the Company's staff, the industry or trading partners; reputation events triggered by customer complaint, internal or external audit or compliance investigation by the regulatory authority because of the operation problems of the Company; and other sudden reputation events that might have material negative impact on the Company. As such, in order to effectively manage the reputation risk, the Company has taken necessary monitoring and preventive measures. The Company has established a reputation risk forewarning system to monitor public opinions and to ensure that negative emergent events are reported to the management of the Company as soon as possible. For those emergent events with significant negative impact on reputation, the Company's General Manager's Office shall report to competent superior authorities and regulatory bodies in accordance with the Management Measures for Reputation Management of Haitong Securities Co., Ltd., the Measures for Handling Emergency Events of Haitong Securities Co., Ltd., etc., and work with relevant departments to formulate communication strategy and to unify line-to-take, so as to pave the groundwork on which the spokesman of the Company can make a public announcement or respond to the event. After the effect of the event ceases, relevant department will actively take measures to restore reputation, analyse and report on the process of handling the aforesaid emergency event, and closely observe latest developments and new issues so as to prevent recurrence of public opinions. Meanwhile, the Company will enhance communication and contact with the media and restore the Company's image by promoting the Company's positive image and through other measures. Before accepting interviews by the media, employees of the Company are obligated to initiate media interviews process through the office's system in accordance with Rules of Haitong Securities Co., Ltd. on Publicity Work, and shall only publish comments after obtaining approval from the Company upon examination while the interview transcripts shall be submitted to the General Manager's Office for record.

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2. Reflection of main risk factors during the Reporting Period and countermeasures taken (or proposed to be taken) by the Company

During the Reporting Period, the Company enhanced risk control consolidated management and further promoted the construction of the group comprehensive risk management system according to the Standards of Comprehensive Risk Management of Securities Companies (《證券公司全面風險管理規範》) and other regulatory requirements and internal systems. In terms of full coverage, the Company built a clearly arranged risk management framework covering various risks, different business lines and all departments/branches/subsidiaries, and revamped various pre-event risks management processes including risk identification, assessment, measurement, monitoring, reporting and response and continually enhanced prevention, in-process monitoring and follow-up inspections & disposal as to various risks. In terms of monitoring, the Company established a three-level indicator system covering supervising indicators, tolerance & limit indicators and business risk control indicators, and conducted continuous monitoring and assessed extreme risks through various stress tests. In terms of measurement, the Company measured market risks, credit risks, liquidity risks and other risks, and continuously optimised its quantitative models and methods. In terms of analysis, the Company regularly prepared various reports, and prepared non-periodical reports for significant risk events and included its subsidiaries into the scope of reports. In terms of the risk-response ability, the Company chose proper countermeasures according to risk assessments and warning results, and established an effective response mechanism as well as formulated a specific emergency system. In addition, the Company provided support and guarantee for comprehensive risk management through the following measures: attached great importance to the promotion of risk control culture and promoted the risk culture by holding various training, seminars, and advertising on periodicals; improved the construction of risk management system and constructed a multi-level system covering various risks, businesses and management & control elements under the guidance of the Management Measures for Comprehensive Risk of Haitong Securities Co., Ltd.; established risk management systems with comprehensive coverage and carried forward data governance work; focused on the fostering of risk control specialists, developed recruitment plan, actively introduced talents, enhanced HR trainings, improved the skills and competence of the risk control specialists, established and improved talent fostering mechanism to continuously meet the regulatory requirements for the ratio of risk management staff and the needs of risk management; increased resource investment in risk management and formulated a specialised budget for information system and increased input in risk management information system, to provide guarantee for deepening and implementing the Group's risk management.

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During the Reporting Period, the specific performance of risk management factors mentioned above was as follows:

(1) *Compliance risk*

In the first half of 2019, the Company endeavoured to strengthen the enforcement of different systems, mechanisms and processes via prior review, in-process monitoring and post-action inspection, assessment and accountability. Meanwhile, the Company further explored the group compliance management mechanism, promoted the construction of compliance management team, and improved the information wall and conflict of interest management system and mechanism. In the first half of 2019, the Company satisfied the compliance requirements overall in its business operations. All businesses were carried out in a robust pattern with no major compliance risk.

(2) *Money laundering and terrorism financing risk*

In the first half of 2019, the Company formulated and issued the Management Measures on Money Laundering and Terrorism Financing Risk of Haitong Securities Co., Ltd., explicitly defining anti-money laundering duties of the Board, the Supervisory Committee, senior management, operating departments and functional management departments, with the objective, culture construction goal, as well as the principle, policy and procedures, for the money laundering risk management put forward. Various subsidiaries of the Group shall follow and implement the measures accordingly. As required by the Shanghai branch of the People's Bank of China, the Company carried out the self-evaluation of classification and rating of anti-money laundering, and initiated the management of customer ID information to increase the effectiveness of customer ID identification, so as to improve the long-term mechanism of customer ID information management.

(3) *Credit risk*

As at the end of June 2019, the average maintenance guarantee ratio of our customers in margin financing and securities lending business was 265.93%, and the average performance guarantee ratio of our customers in stock repo transaction and stock pledged repo business were 207.44% and 245.22% respectively. The collaterals provided by the lenders were sufficient and the overall credit risk of the financing business was under sound control. In terms of the Company's investment in credit type fixed income securities, the ratio of high credit rating securities whose debts or issuers with ratings of AA or above was 99%. The Company's counterparties of over-the-counter derivatives business are mainly financial institutions including commercial banks, securities companies and asset management plans. The Company is faced with limited credit risk from counterparties since it strictly controls the business scale and adopts appropriate and practical risk mitigation measures during the operations of the aforesaid businesses.

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In the first half of 2019, Haitong International adjusted the risk preference of credit business to “prudence and conservation”, actively controlling the scale of credit business in response to the impact of new international trade momentum on the macro environment, as well as the supervision trend of the financial regulatory institutions in Hong Kong on the margin financing business. In order to prudently control the risk of margin financing business, Haitong International has continuously strengthened its credit quality assessment on financers and the risk classification assessment system of guaranteed securities, which served to closely monitor each of the limit indexes of business and control the credit risk of margin financing business. In terms of credit risk management of counterparties, Haitong International continuously promoted and applied the internal credit rating system, evaluated the credit quality of counterparties comprehensively, and examined and monitored the credit limit one by one according to the authorization of hierarchical examination and approval, so that the current credit risk of counterparties are under control.

In the first half of 2019, against the backdrop of tightening external credit environment, Haitong UT Capital continued its further efforts in the leasing industry and actively improved and strengthened the risk management system as per the latest trends of regulation on finance leasing companies, covering the management and control in the whole process of credit risk, such as the determination of strategic industry, target customer selection, business due diligence and reporting, project credit review and approval, project investment and post-lease monitoring. Haitong UT Capital’s current credit risk indicators are in good operation, and the overall credit risk is controllable.

In the first half of 2019, according to the overall strategic planning, Haitong Bank continuously updated and improved the risk preference framework and credit policy, and further accelerated the disposal of risk assets. For the sake of meeting the need of developing businesses with Chinese characteristics, Haitong Bank has made great efforts to increase its capability of credit risk assessment on Chinese customers, so as to better serve the need of risk management. During the Reporting Period, no new credit risk events occurred on Haitong Bank and the overall credit risk was under control.

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(4) *Market risk*

In the first half of 2019, the ratio of the Company's VaR to its net assets at the end of each month and the ratio of the Group's VaR to its net assets both were kept under 0.2% and the market risk was controllable and acceptable. However, the use of various financial instruments was still influenced by the regulatory environment, market environment and effectiveness of investment strategy. The effectiveness of management methods would be also restricted by the adverse changes of market liquidity.

In the first half of 2019, the scale of the Company's equity securities investment remained stable. In addition to traditional trend investment, the Company actively conducted innovative businesses such as options market making and over-the-counter options. During the operation time of the above-mentioned innovative businesses, the Company adhered to risk-neutral investment strategy and effectively controlled the relevant risk exposures.

In the first half of 2019, based on the trend and judgment of the bond market, as well as the need of liquidity management, the Company flexibly adjusted the allocation of bonds, and maintained the scale of overall bond investment in a trend of steady increase. At the end of each month, the duration of non-equity investment changed to a minor extent, being relatively stable. At the end of the first half of 2019, the portfolio duration of non-equity investment was 2.48 years. In the first half of 2019, the Company maintained an overall sound market risk control over its fixed income investments.

(5) *Operational risk*

The Company has adhered to standard operation procedures in general, and no major operational risk events occurred during the Reporting Period. The Company continued to strengthen the building and maintenance of the information technology system and conducted regular and sporadic inspections and maintenance strictly pursuant to the operation management procedure, thus ensuring that the system is in reliable, stable and safe operation. During the Reporting Period, there were no significant information technology risk events. The Company constantly enhanced the construction of internal control system, strengthened the implementation of many rules and regulations and strived to improve various systems and processes. No operational risk events which may have substantial effects on the Company occurred during the Reporting Period.

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(6) *Liquidity risk*

In the first half of 2019, despite the continuing macro keynote of stabilizing leverage, and the resulting loose liquidity in the market, the Baoshang Bank event still had an impact on the market liquidity in stages. At the Company level, the influence of various large amount debt repayment or renewal practices became the main source of liquidity risk pressures suffered by the Company during the Reporting Period. Facing the change in market environment and internal capital demand, the Company proactively planned on the basis of different areas to continuously strengthen the control on liquidity risks via prior risk identification, in-process risk mitigation and ex post improvement. During the Reporting Period, the Company's sustained and sufficient capital reserves reduced the likelihood of the outbreak of liquidity risks and ensured its capability of stable operations in a complex market environment. In the first half of 2019, the daily average liquidity coverage ratio of the core liquidity monitoring indicators of the Company was 290.03% while the average daily NSFR was 136.09%, both of which were far higher than the regulatory requirement and pre-warning standard. In the meanwhile, the Company has constantly enhanced its ability to cope with liquidity risks by evaluating its financing channels and liquidity of high-quality liquid assets under pressure through liquidity emergency rehearsal.

In addition, the liquidity coverage rate was 193.95% while the NSFR was 125.96% in the Group's consolidated statements, the overall liquidity risk being controllable. Nevertheless, potential structural liquidity risks existed by reason of local industry or geography. In this connection, the Company, guided by the Management Measures on Group Liquidity Risk, developed scientific liquidity risk management strategies as per the business characteristics of the subsidiaries, which served to realise unified management of liquidity risk across the Group. Facing a complicated market environment in the future, the Group will continue to actively conduct asset-liability management and achieve higher capital utilization efficiency on the basis of safety and liquidity, so as to safeguard the stable operations of the Group.

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(7) *Reputation risk*

During the Reporting Period, the Company continually fulfilled the requirements of the regulators on the systematic reputation risk management by employing professional monitoring systems widely to strengthen monitoring on the public opinion, and further strengthening the prospective and proactive management of public opinion work. Once any negative news monitored, the Company is able to take the initiatives to respond, get to know the facts, unify the statement to outside, release the response draft timely, and actively interact with the mainstream media, effectively curbing the exaggeration of public opinion, and guiding the direction of public opinion according to the Management Measures on Reputation Risk of Haitong Securities Co., Ltd. and the Rules of Haitong Securities Co., Ltd. on Publicity Work. During the Reporting Period, the Company was in a favourable public opinion environment in general.

During the Reporting Period, the Company maintained sound operations of its various businesses, reasonable assets allocation and healthy financial situation, while various risk control indicators including the net capital were compliant with the regulatory requirements. The Group's comprehensive risk management structure was clear and its subsidiaries operated soundly, with controllable overall risk. The Group will continue to further enhance the system building, refine the internal control mechanisms, and improve the level of meticulous risk management.

Section V SIGNIFICANT EVENTS

I. BRIEFING OF THE GENERAL MEETING

| Session of the meeting | Date of the meeting | Query index of the designated website for resolutions disclosure | Disclosure date of resolutions |
|-------------------------------|----------------------------|---|---------------------------------------|
| 2018 Annual General Meeting | 18 June 2019 | http://www.sse.com.cn | 19 June 2019 |
| | | http://www.hkexnews.hk | 18 June 2019 |

Descriptions of the general meeting

During the Reporting Period, the Company held the 2018 Annual General Meeting at Pine City Hotel in Shanghai, the PRC on 18 June 2019 and 20 resolutions were considered and approved, including: 1. the Report of the Board of Directors of the Company for the year 2018; 2. the Report of the Supervisory Committee of the Company for the year 2018; 3. the annual report of the Company for the year 2018; 4. the final accounts report of the Company for the year 2018; 5. the profit distribution proposal of the Company for the year 2018; 6. the resolution regarding the appointment of accounting firms for the year 2019; 7. the resolution regarding compliance of the Company with conditions of non-public issuance of A Shares; 8. the resolution regarding the adjustment to plan of non-public issuance of A Shares of the Company; 9. the resolution regarding the revised proposal for non-public issuance of A Shares of the Company; 10. the resolution regarding the execution of share subscription agreement with specific subscriber subject to conditions; 11. the resolution regarding the revised feasibility report on the use of proceeds from the non-public issuance of A Shares of the Company; 12. the resolution regarding the related party transactions involved in the non-public issuance of A Shares of the Company; 13. the resolution regarding the dilution of current returns as a result of the non-public issuance of A Shares of the Company and the remedial measures (revised); 14. the resolution regarding advising the general meeting to authorize the Board of Directors and the delegation by the Board of Directors to the management to deal with specific matters relating to the non-public issuance of A Shares of the Company; 15. the resolution regarding projected daily related party transactions of the Company in 2019; 16. the resolution regarding the general mandate to issue onshore and offshore debt financing instruments by the Company; 17. the resolution regarding advising the general meeting to grant the Board of Directors general mandates to authorize, allot or issue A Shares and/or H shares; 18. the resolution regarding amendments to the Articles of Association and the appendix thereof; 19. the resolution regarding the election of new session of the Board of Directors of the Company; 20. the resolution regarding the election of new session of the Supervisory Committee of the Company. The relevant announcements were published on the websites of the Shanghai Stock Exchange (<http://www.sse.com.cn>), the Hong Kong Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.htsec.com>) on the date of the meeting, and published in the China Securities Journal, the Shanghai Securities News and the Securities Times on 19 June 2019.

Section V SIGNIFICANT EVENTS

II. PROPOSAL ON PROFIT DISTRIBUTION OR CONVERSION OF CAPITAL RESERVE FUNDS INTO SHARE CAPITAL

(I) Implementation or adjustment of profit distribution proposal during the Reporting Period

The Company's 2018 profit distribution proposal was considered and approved by its shareholders at the 2018 Annual General Meeting held on 18 June 2019. It was resolved that a cash dividend of RMB0.15 per share (inclusive of tax) (representing cash dividends of RMB1.50 for every 10 shares (inclusive of tax)) would be distributed to the shareholders of the Company on the basis of a total share capital of 11,501,700,000 Shares, totalling cash dividends of RMB1,725,255,000.00 (inclusive of tax). The Company distributed cash dividends of RMB1,213,819,677.00 to holders of A Shares in respect of total share capital of 8,092,131,180 A Shares and cash dividends of HKD580,983,707.79 to holders of H Shares in respect of total share capital of 3,409,568,820 H Shares.

The Company published relevant announcements relating to the implementation of 2018 profit distribution in the China Securities Journal, the Shanghai Securities News, the Securities Times, and the respective websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company. On 26 July 2019, the profit distribution proposal was fully implemented.

(II) Profit distribution proposal and proposal on conversion of capital reserve funds into share capital for the first half of 2019

The Company had no profit distribution proposal or proposal on conversion of capital reserve funds into share capital for the first half of 2019.

III. PERFORMANCE OF UNDERTAKINGS

(I) Undertakings Made by the Company's De Facto Controller, Shareholders, Related Parties, Acquirers, the Company and Other Related Undertakers during the Reporting Period or Subsisting in the Reporting Period

✓Not applicable

IV. APPOINTMENT AND DISMISSAL OF ACCOUNTING FIRMS

At the 2018 Annual General Meeting convened by the Company on 18 June 2019, the Resolution Regarding the Appointment of Accounting Firms for the Year 2019 was considered and approved. Therefore, the Company was approved to engage Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP as external auditors of the Company for 2019 to be jointly responsible for provision of relevant domestic and overseas audit services and review services in accordance with PRC GAAP and IFRS for a term of one year.

Explanations on change of accounting firms during the audit period

✓Not applicable

Section V SIGNIFICANT EVENTS

Explanations of the Company on “non-standard audit report” of accounting firm

✓Not applicable

Explanations of the Company on “non-standard audit report” issued by the certified public accountants regarding financial reports of the annual report of last year

✓Not applicable

V. BANKRUPTCY AND RESTRUCTURING RELATED MATTERS

The Company had no bankruptcy and restructuring related matters during the Reporting Period.

VI. MATERIAL LITIGATION AND ARBITRATION

During the Reporting Period, the Company was not involved in any material litigation or arbitration with a disputing amount over RMB10 million and accounting for more than 10% of the Company's net assets as audited in the latest financial statements, which shall be disclosed in accordance with the requirements under the Shanghai Stock Exchange Listing Rules.

VII. PUNISHMENT AGAINST AND RECTIFICATION OF THE LISTED COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDERS, DE FACTO CONTROLLERS AND ACQUIRERS

As at the end of the Reporting Period, the Company had neither any shareholder who directly held more than 5% of the equity interest of the Company nor any de facto controller. During the Reporting Period, the Company has not experienced any investigation and administrative penalty from the CSRC or any public reprimand from any stock exchange and none of the following circumstances happened to the Company, Directors, Supervisors or senior management, including being investigated by competent authorities, imposed coercive measures by a judiciary authority or disciplinary department, transferred to a judicial authority or held criminally liable, investigated or imposed administrative penalties by the CSRC, banned from access to market, identified as an unsuitable person, punished by other administrative authorities, or publicly condemned by a stock exchange. None of the Directors, Supervisors and senior management of the Company violated any rules or regulations with regard to trading of securities of the Company.

VIII. EXPLANATIONS ON THE CREDIT-WORTHINESS OF THE COMPANY, ITS CONTROLLING SHAREHOLDER, AND DE FACTO CONTROLLER DURING THE REPORTING PERIOD

The Company did not have any shareholder who directly held more than 5% of its equity interest or any de facto controller. During the Reporting Period, there was no failure to comply with any effective court judgement or settle any material debts that have fallen due.

Section V SIGNIFICANT EVENTS

IX. SHARE INCENTIVE SCHEME, EMPLOYEE STOCK OWNERSHIP PLAN OR OTHER EMPLOYEE INCENTIVES OF THE COMPANY AND THEIR EFFECTS

During the Reporting Period, the Company did not implement any share incentive scheme.

On 23 August 2002, with the approval of its shareholders, Haitong International adopted a share option scheme (the “2002 Share Option Scheme”), which expired on 22 August 2012. According to the 2002 Share Option Scheme, options could be granted to any full-time employees, executive and non-executive directors of Haitong International or any of its subsidiaries or associated companies. The exercise price of the share options was determinable by the directors of Haitong International and should be at least the highest of (1) the closing price of shares of the company as quoted in the Hong Kong Stock Exchange’s daily quotations sheet on the offer date; (2) the average closing price of shares of the company as quoted in the Hong Kong Stock Exchange’s daily quotations sheets for the 5 trading days immediately preceding the offer date; and (3) the nominal value of shares of the company. For the six months ended 30 June 2019, holders of options of Haitong International exercised 2,582,759 share options under the 2002 Share Option Scheme.

At an extraordinary general meeting held on 8 June 2015, shareholders of Haitong International approved the adoption of a new share option scheme (the “2015 Share Option Scheme”), which would be valid and effective for a period of 10 years commencing from the date of adoption. According to the 2015 Share Option Scheme, options could be granted to any director (including executive directors, non-executive directors and independent directors) or employees (no matter full-time or part-time) of Haitong International and any of its subsidiaries. The exercise price of the share options was determinable by the directors of Haitong International, and should be at least the highest of (1) 110% of the closing price of shares of the company as quoted in the Hong Kong Stock Exchange’s daily quotations sheet on the offer date; (2) the average closing price of shares of the company as quoted in the Hong Kong Stock Exchange’s daily quotations sheets for the five trading days immediately preceding the offer date; and (3) the nominal value of its shares.

For the six months ended 30 June 2019, a total of 10,645,000 share options under the 2015 Share Option Scheme of Haitong International were granted and accepted, and 1,977,942 share options lapsed during the period due to the resignation of employees.

Section V SIGNIFICANT EVENTS

As at 30 June 2019, share options of Haitong International which have been granted but not yet exercised are set out as follows:

| Share Option Scheme | Number of share options issued but not yet exercised (Note) | Exercise price per share (Note) | Exercise period |
|--------------------------|---|---------------------------------|---------------------------------|
| 2015 Share Option Scheme | 14,142,301 | HK\$4.645 | 8 December 2016 to 11 May 2021 |
| | 12,007,201 | HK\$5.014 | 7 June 2018 to 9 November 2022 |
| | 18,590,000 | HK\$2.904 | 28 May 2019 to 31 October 2023 |
| | 10,645,000 | HK\$2.56 | 27 December 2019 to 30 May 2024 |
| Total | 55,384,502 | | |

Note: The amount of share options and the exercise price of share options may be adjusted for rights issue, scrip dividend, bonus share issuance or other similar changes in the Company's share capital.

Share options of the 2015 Share Option Scheme which have not yet been exercised accounted for approximately 0.96% of the issued shares of Haitong International as at 30 June 2019. If the remaining options are fully exercised, under the current share capital structure of Haitong International, an additional 55,384,502 ordinary shares of Haitong International shall be issued, while the share capital of Haitong International will increase by approximately HK\$5,538,000 and the share capital premium will be approximately HK\$201,593,000 (including issuing expenses).

For details of the above-mentioned share option schemes and share award schemes, please refer to the 2019 interim report of Haitong International.

Section V SIGNIFICANT EVENTS

X. MATERIAL RELATED PARTY TRANSACTIONS

(I) Related party transactions relevant to daily operations

During the Reporting Period, the Company conducted routine related party transactions in strict compliance with the proposal regarding projected routine related party transactions of the Company in 2019 considered and approved at the 2018 Annual General Meeting. Details of the implementation were as follows:

1. Related party transactions with BNP Paribas Investment Partners BE Holding SA and its related companies

| Category of Transactions | Contents of Transactions | Transaction volume during the Reporting Period (RMB'0000) | Notes |
|--|--|---|--|
| Services for Securities and Financial Products | Fee and commission income | 126.51 | Fund management fee and investment consulting service fees charged against related parties |
| | Business and management expenses | – | Sales and service fees paid to related parties |
| Trading in Securities and Financial Products | Fee and commission income | – | Trading commission received from related parties |
| | Interest expense | 1,054.01 | Interest expense incurred from financial leasing |
| | Account from securities agency trading | 25,539.73 | Balance of margin deposits |
| | Long-term borrowing | 51,415.15 | Balance of loan from financial leasing |
| | Bank savings | 17,628.79 | Balance of bank savings |
| | Accounts payable | 3.05 | Sales and service fees paid to related parties |
| | Dividend payable | 4,725.83 | Dividend payable to minority shareholders by controlling subsidiaries |

Section V SIGNIFICANT EVENTS

2. *Related party transactions with Shanghai Shengyuan Real Estate (Group) Co., Ltd. (上海盛源房地產(集團)有限公司)*

| Category of Transactions | Contents of Transactions | Transaction volume during the Reporting Period (RMB'0000) | Notes |
|--|--|---|---|
| Trading in Securities and Financial Products | Fee and commission income | 0.02 | Securities trading fees and commission income received from related parties |
| | Interest income | 0.01 | Interest income from margin deposits of related parties |
| | Account from securities agency trading | 6.06 | Balance of margin deposits from clients placed by related parties |

3. *Related party transactions with companies (other than the Company and its subsidiaries), where the Company's directors, supervisors and senior management hold positions as directors or senior management, and other related corporate legal persons*

| Category of Transactions | Contents of Transactions | Transaction volume during the Reporting Period (RMB'0000) | Notes |
|--|----------------------------------|---|--|
| Services for Securities and Financial Products | Fees and commission income | 308.87 | Income from investment banking business, income from sales service and income from investment consulting service received from related parties |
| | Business and management expenses | 1,023.07 | Sales and consulting service fees paid to related parties |

Section V SIGNIFICANT EVENTS

| Category of Transactions | Contents of Transactions | Transaction volume during the Reporting Period (RMB'0000) | Notes |
|---|--|--|--|
| Trading in Securities and Financial Products | Fees and commission income | 14,122.18 | Securities trading fees and commission income received from related parties |
| | Interest income | 7,160.34 | Interest income received from related parties |
| | Interest expense | 4,286.18 | Interest expense incurred from financial leasing |
| | Investment gains | 328.38 | Investment gains from unlisted options |
| | Business and management expenses | 1,023.16 | Sales fee |
| | Account from securities agency trading | 6,999.06 | Balance of margin deposits |
| | Financial assets held for trading | 4,575.15 | Balance of bond transaction held for related parties |
| | Other equity instruments investment | 1,500.00 | Policies investment |
| | Other payable | 1,003.63 | Sales service fee payable for asset management business |
| | Other receivable | 3,710.43 | Other receivable for asset management business |
| | Bank savings | 412,723.36 | Balance of bank savings |
| | Long-term borrowing | 195,169.56 | Balance of long-term borrowing for leasing |
| | Derivative liabilities | 822.19 | Unlisted options linked to stock indexes |
| | OTC trading | 12,909.47 | Product expiration |
| | Repurchase | 1,705,072.50 | Balance of related assets and transaction amount involved in fund management |
| | Placements from banks and other financial institutions | 24,415,000.00 | |
| | Deposit of certificate | 25,000.00 | |
| | Purchase of certificate | 20,000.00 | |
| | Gold option | 893,000.00 | |
| | Balance of gold option | 2,417,200.00 | |
| | Balance of gold forward | 67,288.00 | |
| | Reverse repurchase | 37,606.00 | |
| Financial assets sold under repurchase agreements | 29,450.00 | | |
| Bonds payable | 1,096,500.00 | | |
| Repurchase trading | 1,335,200.00 | Transaction amount of fixed income business | |
| Spot trading | 234,838.41 | | |
| Credit lending | 200,000.00 | | |
| Interest rate swaps | 51,000.00 | | |

Section V SIGNIFICANT EVENTS

(II) Related party transactions relating to acquisition of assets or acquisition and disposal of equity interests

During the Reporting Period, the Company was not involved in any related party transactions relating to acquisition of assets or acquisition and disposal of equity interests.

(III) Material related party transactions relating to external joint investment

During the Reporting Period, the Company was not involved in any material related party transactions relating to external joint investment.

(IV) Related party debts and liabilities

During the Reporting Period, the Company was not involved in any material related party transactions relating to external joint investment.



Section V SIGNIFICANT EVENTS

XI. MATERIAL CONTRACTS AND THEIR PERFORMANCE

(I) Custody, contracting and leasing matters

During the Report Period, the Company was not involved in any material custody, contracting or leasing matters.

(II) Guarantees

Unit: Yuan Currency: RMB

| External guarantees provided by the Company (excluding the guarantees for subsidiaries) | |
|--|----------------|
| Total amount of guarantees incurred in the Reporting Period (excluding guarantees provided for subsidiaries) | 0 |
| Total balance of guarantees at the end of the Reporting Period (A) (excluding guarantees provided for subsidiaries) | 0 |
| Guarantees provided by the Company for its subsidiaries | |
| Total amount of guarantees provided for subsidiaries during the Reporting Period | 2,931,375,000 |
| Total guarantee balance provided for subsidiaries as at the end of the Reporting Period (B) | 26,192,904,099 |
| Total amount of guarantees provided by the Company (including those provided for subsidiaries) | |
| Total amount of guarantees (A+B) | 26,192,904,099 |
| Percentage of total guarantee amount to the net assets of the Company (%) | 21.4 |
| Including: | |
| Amount of guarantees provided to shareholders, de facto controllers and their related parties (C) | 0 |
| Amount of debt guarantees directly or indirectly provided for the parties guaranteed with the gearing ratio exceeding 70% (D) | 19,576,588,000 |
| Amount of the portion of total guarantee exceeding 50% of net assets (E) | 0 |
| Total amount of the above three types of guarantees (C+D+E) | 19,576,588,000 |
| Explanations on outstanding guarantee which may undertake joint and several liabilities for repayment | - |

Explanations on guarantees

- On 29 August 2018, the Company held the 31st meeting of the sixth session of the Board, considering and approving the Resolution on Providing Joint Liability Guarantee for Offshore Debt Financing of an Offshore Wholly-owned Subsidiary. On 22 March 2019, the Company signed the Loan Agreement as a guarantor to provide a joint liability guarantee of EUR375 million for the syndicated loan of Haitong Investment Ireland Public Limited Company, a subsidiary of Haitong Bank, S.A., an offshore wholly-owned subsidiary of the Company.

Section V SIGNIFICANT EVENTS

2. On 27 March 2018, the Company held the 29th meeting of the sixth session of the Board, considering and approving the Resolution on Providing Joint Liability Guarantee for Offshore Debt Financing of an Offshore Wholly-owned Subsidiary. On 19 December 2018, the Company signed a guarantee letter as a guarantor to provide a joint liability guarantee of EUR300 million for the credit loan of Haitong International Holdings, an offshore wholly-owned subsidiary of the Company. As at 30 June 2019, Haitong International Holdings has not yet withdrawn the loan, so the Company's the guarantee responsibility has not actually taken place.
3. On 29 August 2017, the Company held the 25th meeting of the sixth session of the Board, considering and approving the Resolution on Providing Joint Liability Guarantee for Offshore Debt Financing of an Offshore Subsidiary. The loan was signed in separate two loan agreement. The Company signed the first loan agreement as a guarantor on 14 May 2018, and provided a joint liability guarantee of USD600 million for the syndicated loan of Haitong International Holdings, an offshore wholly-owned subsidiary of the Company.

On 8 October 2018, the Company signed the second loan agreement as a guarantor, and provided a joint liability guarantee of USD200 million for the bank loan of Haitong International Holdings, an offshore wholly-owned subsidiary of the Company. As at 30 June 2019, Haitong International Holdings had withdrawn the loan amount of USD170 million.

4. On 27 April 2017, the Resolution on Providing Joint Liability Guarantee for Offshore Debt Financing of an Offshore Wholly-owned Subsidiary was considered and approved at the 24th meeting of the sixth session of the Board. On 8 June 2017, the Company signed the Loan Agreement as a guarantor and provided a joint liability guarantee of EUR200 million for the syndicated loans of Haitong International Holdings, its offshore wholly-owned subsidiary.

In 2019, Haitong International Holdings paid the loan of EUR20 million in advance. Therefore, as at 30 June 2019, the Company's guarantee liability balance was EUR180 million.

5. On 29 August 2016, the Resolution on Providing Additional Guarantees for the Net Assets of HT Asset Management and Increasing Contribution to its Registered Capital was considered and approved at the 18th meeting of the sixth session of the Board, in which, the Company was approved to provide additional guarantees of no more than RMB4,000 million for the net assets of HT Asset Management. The Company provided guarantees up to RMB4,000 million for the net assets of HT Asset Management and undertook to provide cash within the abovementioned amount unconditionally to HT Asset Management when it needs cash to carry out business. The guarantees for the net assets are effective from the date of approval by the Board. With regard to this net capital guarantee, HT Asset Management has obtained the "No Objection Letter on Haitong Securities Co., Ltd. Issued a Net Capital Guarantee Commitment to Shanghai Haitong Securities Asset Management Co., Ltd." from the CSRC Shanghai Bureau (Hu Zheng Jian Ji Gou Zi [2016] No. 325).

Section V SIGNIFICANT EVENTS

6. On 9 February 2015, at the first extraordinary general meeting for 2015 and the first A Shareholders'/H Shareholders' Class Meetings for 2015, the Company considered and approved the Resolution on Increase in Quota of External Guarantee, in which, the Company was approved to provide joint and several guarantee for the offshore wholly-owned subsidiary(ies) of the Company for the issue of offshore debt financing instruments on a one-off or multiple issuances or multi-tranche issuances basis, through public or non-public offerings, and the aggregate size of the offshore corporate debt financing instruments should not exceed 50% of the net assets of the Company as at the end of the latest period.

On 5 June 2015, the Company held the sixth meeting of the sixth session of the Board, considering and approving the Resolution on Provision of Joint and Several Guarantee for Issuance of EUR Bonds by Offshore Wholly-owned Subsidiary. Due to actual condition of such issuance, it has been completed in two tranches, and two deeds of guarantee were signed. The Company signed the first deed of guarantee on 18 May 2016, pursuant to which, the Company provided joint and several guarantee for the issue of a Euro bond with the amount of EUR100 million and an interest rate of 1.6% which will be due in 2021 by Haitong International Finance Holdings 2015 Limited (an offshore wholly-owned subsidiary of the Company).

The Company signed the second deed of guarantee on 26 May 2016, pursuant to which, the Company provided joint and several guarantee for the issue of a Euro bond with the amount of EUR120 million and an interest rate of 1.6% which will be due in 2021 by Haitong International Finance Holdings 2015 Limited (an offshore wholly-owned subsidiary of the Company).

7. On 30 March 2016, the Company held the 15th meeting of the sixth session of the Board, considering and approving the Resolution on Providing Financing Guarantees for Subsidiaries. On 26 May 2016, the 2015 annual general meeting of the Company considered and approved the Resolution on Advising General Meeting to Approve Authorisation to the Board to Determine Provision of Guarantees for Subsidiaries of the Company, whereby the Company was approved to provide joint and several guarantees for its wholly-owned subsidiaries (including those with a gearing ratio of more than 70%) and controlling subsidiaries in respect of their issuance of onshore or offshore debt financing instruments (including but not limited to bonds, subordinated bonds, ultra short-term financing bills, short-term financing bills, medium-term notes, notes and establishment of note programmes) on a one-off or multiple issuance or multi-tranche issuance basis through public offerings or private placements, as well as domestic or overseas bank loans (including but not limited to bank credit, bank loans and syndicated loans), and the aggregate amount of the external guarantees and the individual amount of any guarantee provided by the Company shall not exceed 50% and 10% of the Company's audited net assets as at the end of the latest accounting period, respectively.

Section V SIGNIFICANT EVENTS

On 31 May 2016, the Company signed guarantee agreement and provided joint and several guarantee in respect of the syndicated loans of EUR750 million for Haitong Investment Ireland Public Limited Company, its offshore indirect wholly-owned subsidiary ("this guarantee"). This new financing was made for the purpose of replacing the former Euro loan of EUR750 million ("NB loan") provided by Novo Banco, S.A. ("NB") to Banco Espírito Santo de Investimento, S.A. (now renamed as Haitong Bank, S.A., "Haitong Bank"), the offshore subsidiary of the Company. The resolution determined that the principal amount of the guaranteed new financing shall not exceed EUR800 million, with a guarantee term of no more than five years, and will repeal the former guarantee provided by the Company for NB loan.

Meanwhile, Haitong Bank signed bilateral loan agreement with the guaranteed party and repaid the former NB loan with the proceeds in advance according to the agreement entered into with NB, thus the former guarantee obligation of the Company as to NB loan was discharged. Such discharged guarantee was under a guarantee agreement signed by the Company on 7 September 2015 for the purpose of acquiring Haitong Bank, for which, the Company was the guarantor, Banco Espírito Santo de Investimento, S.A. (now renamed as Haitong Bank, S.A.) was the guaranteed party and NB was the creditor. The guarantee amount is EUR750 million (including principal and interest) and the guarantee period is three years.

The financing agreement related to this guarantee was signed on 31 May 2016. According to the guarantee provisions of the agreement, the Company is the guarantor, Haitong Investment Ireland Public Limited Company is the guaranteed party, the London Branch of China Construction Bank Corporation is the lead bank and Frankfurt Branch of China Construction Bank Corporation is the agent bank. The guarantee amount is EUR750 million (including principal, interest, initiation fee and other fees to be borne by the borrower) and the guarantee period is five years.

In June 2019, Haitong Investment Ireland Public Limited Company repaid EUR375 million of syndicated loans upon maturity, therefore as of 30 June 2019, the balance of the guarantee obligation of the Company was EUR375 million.

8. On 13 April 2015, the Company held the third meeting of the sixth session of the Board, considering and approving the Resolution on Provision of Joint and Several Guarantee for Issuance of U.S. Dollar Bonds by an Offshore Wholly-owned Subsidiary. The Company provided joint and several guarantee for the issue of a USD bond with the amount of USD670 million and an interest rate of 3.5% which will be due in 2020 by Haitong International Finance Holdings 2015 Limited (an offshore wholly-owned subsidiary of the Company).

Section V SIGNIFICANT EVENTS

9. The Resolution on Providing Guarantee for the Net Assets of Shanghai Haitong Securities Asset Management Co., Ltd. was considered and approved at the 12th meeting of the fifth session of the Board, whereby the Company was approved by the Board to provide, at any time, guarantees of no more than RMB1,500 million for the net assets of HT Asset Management, to ensure that it maintains adequate net capital. On 9 June 2013, the CSRC Shanghai Branch issued the Letter on No-objection to the Issuance of Net Capital Guarantee Commitment Letter by Haitong Securities Co., Ltd. to Shanghai Haitong Securities Asset Management Co., Ltd. (Hu Zheng Jian Ji Gou Zi [2013] No.145), consenting the Company's provision of guarantee commitment of RMB800 million to HT Asset Management. The Company has deducted net capital of RMB800 million and correspondingly increased net capital of HT Asset Management by RMB800 million.

(III) Other material contracts

During the Reporting Period, there were no other discloseable material contracts of the Company that have not been disclosed.

XII. POVERTY ALLEVIATION WORK OF THE LISTED COMPANY

The year 2019 marks the watershed for implementing the decisions of the 19th National Congress of the Communist Party of China and winning the battle of poverty alleviation, and a sprint stage for the underprivileged counties which have paired up with the Company to shake off their poverty. Closely integrating poverty alleviation with the theme education of "bearing in mind the initial objective at the very beginning and being mindful of the mission", the Company continues to follow and implement the requirements of "Opinions of the CSRC on Serving the State's Strategy of Poverty Alleviation by the Functioning of Capital Market (《中國證監會關於發揮資本市場作用服務國家脫貧攻堅戰略的意見》)", implements the spirits under the "Notice on Taking the "Double One Hundred" Targeted Poverty Alleviation Actions through Villages and Enterprises Pair-up (《關於開展"雙一百"村企結對精準扶貧行動的通知》) issued by the Shanghai Municipal Committee, actively performs our social responsibilities and spares no effort in the work of poverty alleviation via poverty relief through "one company to one county (一司一縣)" pair-up, capital market industries supporting, a new round of village comprehensive poverty relief, and poverty alleviation through social charity, etc.

Section V SIGNIFICANT EVENTS

(I) Plans for targeted poverty alleviation

The Company has formulated a complete set of poverty alleviation plans and poverty alleviation models through years of poverty alleviation practices. In 2019, in light of the Company's three-year development strategy plan, and for serving state strategic target of achieving a moderately prosperous society by the year 2020, the Company issued the "Plan for Promotion of Key Poverty Alleviation Work of Haitong Securities (《海通證券推進重點扶貧工作方案》)" and formulated the Company's targeted poverty alleviation until 2020, which mainly includes the following five aspects: **Firstly, providing financial supporting.** The Company will continue to play the role of capital market to accurately meet financing needs, leverage the multi-level financing function of the capital market for ongoing identification of a batch of high-quality enterprises in state-level underprivileged counties with listing potential and financing capacity, and promote the steady growth of the local economy via poverty alleviation through finance. The Company will also leverage the professional advantage of its futures subsidiary to promote the action of "serving agriculture, rural areas and farmers" in the futures market. **Secondly, providing industries supporting.** With the framework for poverty relief through "one company to one county" and "hundred enterprises in support of hundred villages" pair-up, the Company has helped five state-level underprivileged counties and three poverty-stricken villages enhance the endogenous development momentum from all aspects, including the allocation of industrial funds to support the people's livelihood projects such as infrastructure, education and health of pair-up counties and promote the development of local eco-industrial parks. The Company also actively promotes a new round of village comprehensive poverty relief to make the villages in Shanghai become the highlights of international metropolises and the background of beautiful Shanghai. The Company has established a channel to participate in poverty alleviation by consumption to help underprivileged areas export and circulate high-quality agricultural products and promote the endogenous development momentum in underprivileged areas through providing industries supporting in various forms. **Thirdly, providing social charity supporting.** On the basis of previous flourishing poverty alleviation through social charity, the Company has continued to actively let its youth volunteer team play their role in promoting systematic, branded and diversified poverty alleviation through social charity in order to consolidate the love for improving the living standards of underprivileged areas. **Fourthly, providing intellectual supporting.** Through carrying out education and training activities in underprivileged areas about the capital market as well as protection of the lawful rights and interests of investors, the Company continues to popularize financial concepts and financial knowledge in underprivileged areas, indicating that poverty alleviation relies on knowledge in underprivileged areas. **Fifthly, providing talent supporting.** The Company assigned cadres and business backbones to underprivileged counties (cities) as economic consultants and temporary cadres, providing talent resources support for the underprivileged areas.

Section V SIGNIFICANT EVENTS

(II) Summary of targeted poverty alleviation during the Reporting Period

(1) *Implementing targeted poverty alleviation strategy and actively carrying out the activities of poverty relief through “one company to one county” and “double one hundred” pair-up*

Since the end of 2016, the Company has entered into framework agreements for poverty relief through “one company to one county” pair-up successively with Lixin County of Bozhou City in Anhui Province, Ningdu County of Ganzhou City in Jiangxi Province, Shucheng County of Lu’an City in Anhui Province, Yanshou County of Harbin City in Heilongjiang Province and Xichou County of Wenshan Autonomous Prefecture in Yunnan Province. The Company deepened cooperation with local governments on poverty alleviation funds, financial services, poverty alleviation by consumption, and talent exchange to build a long-term mechanism for poverty relief.

The Company continued to allocate poverty alleviation funds of RMB1 million to each of the three paired-up local governments in Anhui and Jiangxi for investing in the people’s livelihood projects such as construction of student information system of Ningdu Middle School in Ningdu County, the project for construction of road with a total length of 1.98 kilometers in Tianbu Village and Cangfang Village in Shucheng County, the rural poverty alleviation workshop processing plant and yellow peach industrial park processing base of Lixin County, as well as supporting local infrastructure education.

In the pair-up action of “hundred enterprises in support of hundred villages”, the three agricultural industrial parks in Xichou County, Yunnan Province invested by the Company also achieved initial results. The industry project for planting Chinese herbal medicine in Wangjiatang Village has completed the planting of 25 acres of *evodia rutaecarpa* and 50 acres of *radix sophorae flavescens*, respectively, while the newly built Chinese herbal medicine cooperative house has been basically completed and the inspection acceptance of the drying site has been completed. The citrus planting industry project of Zhongzhai Village has completed 1,500 acres of planting areas, surpassing the target for planting and meeting the conditions for primary acceptance. The black-bone chicken breeding industry project of Mepuzi Village completed the construction of 800 square meters of housing site, with 2,000 black-bone chickens bred herein and 15,000 black-bone chickens offered to peasant households for breeding. The project will gain profit in the second half of the year.

The financial industry service of “one company to one county” pair-up counties is also ongoing. The IPO for PFI Foods Co., Ltd. in Shucheng (舒城必斐艾食品有限公司) has commenced preliminary site investigation with a clear listing intention. The corporate bond project of Shucheng County Urban Construction Investment Co., Ltd. (舒城縣城鎮建設投資有限責任公司) is followed up on an ongoing basis, seeking rating upgrade of issuer. The business department in Ganzhou has visited several enterprises in Ningdu County such as Yongtong Technology (永通科技), Lingfeng Electronics (領豐電子) and Mengshan Dairy (蒙山乳業), developed subsequent industry support plans, and strived to enhance services including corporate financing and training.

Section V SIGNIFICANT EVENTS

Wang Wenbo, a young Party member, has been sent to station in Zhouzhuang Village, Caomiao Township, Pengyang County by Yinchuan business department of the Company for more than half a year. As the first person to deepen the poverty alleviation front, for seven months since he has stationed in the village, he has successively completed the poverty alleviation acceptance by the State Council, the establishment and improvement of industrial company in Zhouzhuang Village, the trademark design of industrial products in Zhouzhuang and the development of online applet stores. The work team stationed in the village was awarded the “2019 Advanced Work Team Stationed in the Village” by Caomiao Township, and Wang Wenbo was awarded the May Fourth Youth Medal by financial system in Ningxia.

(2) Utilizing professional financial services of the capital market and leveraging financial poverty alleviation to improve local economy

Leveraging its advantages in the securities and futures industry, the Company actively explores the functions and mechanism of inclusive finance in the capital market, and carries out targeted poverty alleviation in various areas including investment banking, bond financing, listing on NEEQ, futures operation, capital investment and financial leasing. Its business policies actively favor economic support for underprivileged areas such as supporting underprivileged areas to broaden financing channels and lower financing costs to resist market risks, so as to form a multi-channel and multi-level pattern of support.

After the successful issuance of two tranches of the poverty alleviation special corporate bonds of Lixin County Urban and Rural Development and Construction Investment Group Co., Ltd.* (利辛縣城鄉發展建設投資集團有限公司) (formerly known as Lixin County Chunlei Agricultural* (利辛縣春蕾農業)) for an amount of RMB275 million at the end of 2018 and the beginning of 2019, the Company also successfully issued the third tranche of corporate bonds for a total amount of RMB585 million on 1 July, including the first credit default swap (CDS) targeted at poverty alleviation special bonds. The CDS, created exclusively by the Company with an amount of RMB100 million, was successfully issued on the Shanghai Stock Exchange, which attracted 7 investors including HT Asset Management, Huishang Bank and CITIC Asset Management. By leveraging the poverty alleviation and bond issuance mode of “bond + credit derivatives”, the subject bonds (S19 Lifa 1) finally broke the minimum issuance rate of the district and county-level AA- in 2019, and issued smoothly at a coupon rate of 5.6%. The credit default swap for poverty alleviation bonds of Lixin created by the Company represents a bold innovation for the Company to explore poverty alleviation by the financial industry, and an innovative move for the securities industry to apply CDS reasonably in poverty alleviation bonds. Through credit creation, it gradually creates a good market image for issuers, enhances their market recognition, and hence improves the self-sufficiency of issuers. It has the significance of innovation and development of the bond market, and creates a precedent for enterprises in underprivileged areas to enhance their credit rating through bond issuance.

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In the first half of 2019, the Company served the underprivileged areas through multi-channels, providing diversified and sustainable financing services to enterprises in state-level underprivileged counties such as Jiaze New Energy (嘉澤新能) and Guihua Energy (桂花能源). The financing through non-public issuance of share by Jiaze New Energy (嘉澤新能) was approved by the CSRC and is expected to be completed in the second half of the year. The IPO project of Guihua Energy was in an on-going counselling phase in the first half of the year, and is expected to be approved while the issuance materials will be declared in 2020. In 2019, the Company continues to serve the Jinli Permanent Magnet (金力永磁) project, while the sponsored convertible bond project is currently under review, and the issuance is expected to be approved and completed in the second half of the year. In his inspection in May 2019, Xi Jinping, General Secretary of the Communist Party of China Central Committee, encouraged Jinli Permanent Magnet to grow bigger and stronger.

In the first half of 2019, Haitong Futures continued to implement the essence of the No.1 policy document issued by the Central Government, striving to explore the business mode by using the financial derivatives instruments to ensure farmers' incomes and effectively serve the agriculture, the rural areas and the farmers. At present, it has successfully obtained the support of 2019 natural rubber "insurance + futures" targeted poverty alleviation pilot and the unlisted options industry poverty alleviation pilot project by SHFE, and cooperated with governments and enterprises in underprivileged areas such as Jinping County of Yunnan Province, Baisha County and Qiongzong County of Hainan Province to carry out benefiting farmers projects with an estimated capital investment of RMB3.56 million. Meanwhile, under the strong support of the Company, Haitong Futures participated in the joint poverty alleviation activities of CFA, entered into an agreement for pair-up poverty relief with Makit County of Xinjiang, and donated RMB700,000 for local agricultural economic infrastructure. The China-Belgium Direct Equity Investment Fund (中國－比利時直接股權投資基金) under the management of Haitong-Fortis PE entered into a memorandum of strategic cooperation with the People's Government of Pingjiang County of Hunan Province to provide equity investment services for local listed companies, aiming to further accelerate the transformation and upgrading of industrial structure of Pingjiang and help Pingjiang win the fight against poverty on schedule.

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(3) Actively carrying out a new round of village comprehensive poverty relief as well as urban and rural Party organizations' pair-up to provide fund and intellectual support for building beautiful villages in Shanghai

From 2018 to 2022, the Shanghai municipal party committee and municipal government will launch a new round of village comprehensive poverty relief actions. The Company has entered into a new round of village comprehensive poverty relief framework agreement with Chongming district of Shanghai, and allocated poverty alleviation funds of RMB10 million for building the beautiful villages to further enhance the local "self-sufficiency" function, and make the villages in Shanghai become the highlights of international metropolises and the background of beautiful Shanghai through actively exploring the new path for village comprehensive poverty relief. The Company will support the "self-sufficiency" project by enhancing the development momentum in areas of Chongming district with weak economy. It will support industrial development by commencement of financial professional services in the form of financial poverty alleviation to develop local new economic growth points. It will also focus on comprehensive poverty relief by raise farmers' income and public service standard through poverty relief by employment and social cause.

The Company implemented the poverty alleviation by pairing up between urban and rural areas' party organizations ("pairing up with hundred towns and thousand villages"), made achievements in the poverty alleviation for three economically disadvantaged villages in Chongming district, Jinshan district and Pudong new area, and entered into framework agreements for poverty relief with the three companies. It also carried out pairing up poverty alleviation activities by organizing joint construction, joint education of Party members, joint organization of activities, joint use of resources and joint services to effectively integrate the resource advantages of the paring up parties in terms of talent, intelligence, education, culture, information, position and funding, hence building a new model of Party construction at grassroots with a poverty alleviation model of "mutual benefit, dual benefit, common improvement, cooperation and win-win".

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(4) *Striving to carry out poverty alleviation and social charity by actively fulfilling corporate social responsibilities*

On the basis that various charity activities have been integrated into the enterprise culture in the past, the Company continued to focus on the “Love in Haitong” series of charity activities and actively leverage the role of the Company’s youth volunteer team to further enhance the Company’s brand advantage in charitable activities. “Love in Haitong”, the poverty alleviation public welfare brand of the Company, has been selected as the “Shanghai State-owned Party Building Brand” in 2019.

The Company established the “Haitong Public Welfare Special Fund” and launched the “Love in Haitong, Charitable Student Aid” public welfare project. On the basis of continuous support for poor college students in Shigatse, Tibet, the Company also increased support for primary and secondary school students and Uyghur – Chinese bilingual teachers in Kashgar, Xinjiang. On the one hand, the project of “Love in Haitong, Beautiful Xinjiang” provided scholarships for primary and secondary school students who are deprived of education due to the loss of main labour force of their families or whose living conditions are extremely difficult. On the other hand, the project continued to provide subsidies for teachers who promoted Chinese language education in the three villages, namely, Yingyeer (1) Village, Xiyitidun Township, Makit County, Xinjiang, Zhagunairike (28) Village and Langan (29) Village, Tagaerqi Town, Shache County, and it has provided subsidies for six Uyghur – Chinese bilingual teachers previously.

The Youth League Committee of the Company further played the role of the youth volunteer team, and successively launched the “Love in Haitong, Youth Volunteering” series of volunteer services to enter the community, parks and buildings for carrying out public welfare investor education. Through opening the “Little Starfish, Future Financial Masters” public welfare class, it carried out financial knowledge popularization education in the Pudong New Area of Shanghai, Jinshan District of Shanghai and Shijiazhuang of Hebei Province to help primary and secondary school students develop risk awareness and establish scientific wealth management concepts from an early age. It carried out “Greetings for the New Semester” activities and organised the grassroots groups paired up with the Tibetan college students who were sponsored from “Love in Haitong, Beautiful Tibet” to provide continuous care and support. It also carried out the “Little Starfish, Collection of Children’s Books” charity activity, which collected 30 boxes of children’s books for primary and secondary school students in Makit County, Xinjiang.

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The bond financing headquarters of the Company actively advocated the staffs to carry out donations to education activities for pair-up counties, and the donations of RMB61,200 by 273 staffs were used for the living, tuition fees and purchase of school supplies such as stationeries and books of students in Lixin No.1 Middle School of Anhui and Ningdu Middle School of Jiangxi. Haitong UT actively undertook poverty alleviation project launched by Huangpu District through party building for supporting impoverished areas, and donated school supplies of RMB50,000 such as desks, chairs and e-learning equipment to Dandi Primary School in Gongxin Township, Menglian District, Puer, Yunnan Province. Beijing branch carried out the charitable project of “Thousand Talents Plan for Targeted Funding for College Students”, which will support 50 poor college students for four consecutive years, and the first phase of the donation plan of RMB250,000 has been completed. Xinjiang branch carried out “Sunshine Spring Bud” activity plan in Shache County, Kashgar, Xinjiang, continuously conducted research on poverty alleviation and donated 120 sets of desks, chairs and school suppliers, opening a new situation for local maintaining stability. Heilongjiang branch organised Harbin Yiman Street, Shuangcheng, Hulan Business Department to carry out the charitable activity of “Pickup Services to Support the College Entrance Examination” with Party branch, putting up “Charitable Shade-shed” for five consecutive years during the college and secondary school entrance examination. Yunnan branch donated school supplies of RMB35,700 such as desks, chairs and schoolbags for Xinfazhai Primary School in Liujing Township, Wenshan City. Jiangsu branch has paired up with 3 poor students in mountainous area of Bijie for a long time, and donated RMB34,200 for education. Jilin branch went to Mengyi Village, Maolin Town, Shuangliao City to carry out poverty alleviation activities, visited local people in difficulty and distributed emergency daily supplies. Jiangxi branch donated 100 summer quilts for flood disaster relief in Luofang Town, Xinyu City. The Business Department in Qilian Avenue, Wuwei of Gansu branch organised the Children’s Day donation for education and visited the elderly activities, with RMB7,200 donated. Sichuan branch organised the public welfare tree planting activity of “Love in Haitong, Beautiful China”.

Section V SIGNIFICANT EVENTS

(III) Performance of targeted poverty alleviation

Unit: 0'000 Currency: RMB

| Indicators | Quantity and status |
|---|--|
| I. Summary | |
| Including: 1. Capital input | 1,223.372 |
| 2. In-kind input | / |
| 3. Number of reduction in registered underprivileged population through help and support (unit: person(s)) | / |
| II. Itemized Input | |
| 1. Poverty alleviation through industrial development | |
| Including: 1.1 Type of industrial poverty alleviation projects | <ul style="list-style-type: none"> <input checked="" type="checkbox"/> Agriculture and forestry development poverty alleviation <input type="checkbox"/> Tourism poverty alleviation <input type="checkbox"/> E-commerce poverty alleviation <input type="checkbox"/> Asset income poverty alleviation <input type="checkbox"/> Technology poverty alleviation <input type="checkbox"/> Others |
| 1.2 Number of industrial poverty alleviation projects (unit: project(s)) | 1 |
| 1.3 Amount invested in industrial poverty alleviation projects | 1,000 |
| 1.4 Number of reduction in registered underprivileged population through help and support (unit: person(s)) | / |
| 2. Poverty alleviation through education | |
| Including: 2.1 Amount of subsidies granted to underprivileged student | 15 |
| 2.2 Number of subsidized students (unit: person(s)) | 30 |
| 2.3 Amount contributed to improve educational resources in underprivileged areas | / |

Section V SIGNIFICANT EVENTS

| Indicators | Quantity and status |
|--|---------------------|
| 3. Social poverty alleviation | |
| Including: 3.1 Contributions to poverty alleviation cooperation between the east and west | / |
| 3.2 Contributions to fixed-point poverty alleviation work | 200 |
| 3.3 Poverty alleviation charity fund | 8 |
| 4. Other projects | |
| Including: 4.1. Number of projects (unit: project(s)) | 2 |
| 4.2. Contributed amount | 0.372 |
| 4.3. Number of reduction in registered underprivileged population through help and support (unit: person(s)) | / |
| 4.4. Explanations on other projects | / |

(IV) Staged progress in fulfilling the social responsibility of targeted poverty alleviation

In fulfilling the social responsibility of targeted poverty alleviation, the Company actively exerted the resource advantages and professional advantages of the securities institutions in the capital market, and strived to carry out the poverty relief through “one company to one county” pair-up action. Through continuously providing financial professional services to the underprivileged areas, and actively focusing on the poverty alleviation in underprivileged counties and the consolidation and upgrading of regional economy, the Company gave play to the advantages of capital accumulation and integrate the Group’s resources to provide financial services in an all-round way, which played a positive role in promoting the endogenous development momentum for underprivileged areas, especially for underprivileged counties, and the completion of poverty alleviation tasks of the paired up county. In 2019, Lixin County of Anhui Province, Shucheng County of Anhui Province and Xichou County of Yunnan Province, with whom the Company pairs up, have shaken off their poverty. The poverty relief work in Ningdu County of Jiangxi Province is also in the process of declaration, the work on targeted poverty alleviation achieved clear victory, and the paired-up counties realized the transformation from the people’s living to a moderately prosperous standard. The target of “No Worry about Food and Clothing with Compulsory Education, Basic Medical Care, and Housing Guaranteed” has been successfully completed, and the target of completely shaking off poverty of the poor by 2020 has been completed ahead of schedule. Subsequently, the Company will focus on the consolidation and improvement of self-development capabilities after the shaking off poverty in the paired-up counties, and step up exploring local industrial advantages and economic transformation opportunities to make contribution to the implementation of the rural revitalization strategy.

Section V SIGNIFICANT EVENTS

(V) Further plans for targeted poverty alleviation

In the second half of 2019, the Company will closely integrate the task of poverty alleviation with the theme education of “bearing in mind the initial objective at the very beginning and being mindful of the mission”, thoroughly study and implement the important statement on poverty alleviation work of Xi Jinping, General Secretary of the Communist Party of China Central Committee, earnestly implement the essence of the national poverty alleviation and development work conference, and continue to exert the professional advantages and resource advantages of the securities institutions in the capital market, work hard in the poverty relief through “one company to one county” pair-up, capital market industries supporting, a new round of village comprehensive poverty relief and poverty alleviation through social charity, and make effort to complete the following works: Firstly, the Company will closely integrate the task of poverty alleviation with the theme education of “bearing in mind the initial objective at the very beginning and being mindful of the mission”, and win the fight against poverty is the clearest manifestation of the initial objective of Party members of China at the very beginning and the mission in the new era. The Company shall resolutely implement the requirements of the central government on shaking off poverty without rescinding policy, cancelling support, dodging responsibility and loosening supervision to improve the quality of poverty alleviation, consolidate the results of poverty alleviation, so as to effectively help the paired-up counties to consolidate and improve the effectiveness of poverty alleviation. Secondly, the Company will take the advantage of the talents advantage of the capital market to provide professional financial services. It will also continue to consolidate the Group’s advantages to promote financial synergies, and to provide rural areas with multi-channel, multi-type, and all-round financial services through various services such as investment banking, merger & acquisition, NEEQ, bond financing, futures, leasing and investment. So that a situation of capital market promoting the industrial poverty alleviation will be developed to play an inclusive financial function to continuously enhance the self-development capabilities of rural areas. Thirdly, the Company shall promote the national rural revitalization strategy to help local poverty alleviation in a stable manner, assist the paired-up counties to strengthen rural planning and coordination, and prepare “countywide planning” to promote comprehensive revitalization by helping the paired-up counties to vigorously develop new industries and new operational types, such as rural tourism, agricultural product processing, rural e-commerce and leisure agriculture. By means of capital market financing, it will support various market entities to innovate and develop new type of internet-based agricultural industry model, enabling the new industries and new operational types to become an important model for rural revitalization.

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XIII. CONVERTIBLE CORPORATE BONDS

During the Reporting Period, the Company and its subsidiaries did not issue any convertible corporate bonds.

XIV. ENVIRONMENTAL INFORMATION

(I) Description of environmental protection of the companies and their key subsidiaries listed by which are the key pollutant discharging units identified by the Environmental Protection Department

✓ Not applicable

(II) Description of the environmental protection of companies other than the key pollutant discharging units

✓ Not applicable

(III) Description of reasons for non-disclosure of environmental information by companies other than key pollutant discharging units

After inspection, the Company and its subsidiaries are not listed as key pollutant discharging units by environmental protection authorities.

The Company is in strictly compliance with the environmental protection laws and regulations such as the Environmental Protection Law of the PRC, the Law of Water Pollution Prevention and Control of the PRC, and the Law of Prevention and Control of Air Pollution of the PRC. During the Reporting Period, the Company was not imposed any penalties due to violations of environmental protection laws.

(IV) Description of the follow-up progress or changes in the environmental information disclosed during the Reporting Period

✓ Not applicable



Section V SIGNIFICANT EVENTS

XV. CORPORATE GOVERNANCE

During the Reporting Period, the Company's operations and management are standardised and in compliance with the Code of Corporate Governance for Listed Companies, the Rules for Governance of Securities Companies, the Regulatory Rules for Securities Companies, and laws and regulations of the CSRC. In the meantime, during the Reporting Period and as of the date of this Report, the Company has complied with the Code, fully complied with all code provisions under the Code (if applicable), and followed most of the requirements of recommended best practises set out therein.

During the Reporting Period, the Company convened a total of 18 meetings, including one annual general meeting, four Board meetings, three Supervisory Committee meetings, three meetings of the Audit Committee, two meetings of independent Directors on annual report, two meeting of the Nomination, Remuneration and Assessment Committee, two meetings of the Development Strategy and Investment Management Committee, and one meeting of the Compliance and Risk Management Committee.

During the Reporting Period, according to the Company Law (as amended in 2018), Guidelines for the Articles of Association of Listed Companies, the Corporate Governance Guidelines of Listed Companies (as amended in 2018) (CSRC Announcement [2018] No. 29) issued by the CSRC and the actual conditions of the Company, the Company has amended the Articles of Association and its appendix, and relevant amendments were considered and approved at 2018 Annual General Meeting held on 18 June 2019. For details, please refer to the circular of the Company dated 28 May 2019. According to Regulations on the Supervision and Administration of Securities Companies, amendments to important provisions in Article of Association are subject to the approval from securities regulatory authorities to become effective.

(I) Shareholders and general meetings

The Company convenes general meetings in accordance with the requirements under the Articles of Association and the Company's Rules of Procedure for Shareholders' General Meetings to ensure that all Shareholders are treated equally and are able to fully exercise their rights.

Section V SIGNIFICANT EVENTS

(II) Directors and the Board

The Company adheres to the Articles of Association in engaging or changing Directors, while the constitution of the Board and the qualifications of Directors are in line with relevant provisions of laws and regulations. As at 30 June 2019, the Board comprised 11 Directors, including three executive Directors, four non-executive Directors, and four independent non-executive Directors. All Directors are able to perform their duties in due diligence and protect the interests of the Company and all shareholders. The Board has established the Development Strategy and Investment Management Committee, the Audit Committee, the Compliance and Risk Management Committee as well as the Nomination, Remuneration and Assessment Committee. Each committee has specific work allocations and clear accountabilities and operates in high efficiency. Among the four committees, the Development Strategy and Investment Management Committee is chaired by the Chairman of the Board, Mr. Zhou Jie, the Compliance and Risk Management Committee is chaired by the executive Director, Mr. Qu Qiuping, and the other two committees are chaired by an independent non-executive Director.

The Audit Committee was established under the Board, which is in line with provisions of the CSRC, the SSE and those in Chapter 3 of Hong Kong Listing Rules. The audit committee comprises five members, including Mr. Zhang Ming (chairman of committee), Ms. Yu Liping, Mr. Xu Jianguo, Mr. Lam Lee G. and Mr. Zhou Yu. The Audit Committee is mainly responsible for the communication, supervision and reviewing for the Company's internal and external audit, and for providing specialist advices to the Board. The Audit Committee has reviewed and confirmed the Group's interim results and interim report for the six months ended 30 June 2019 without objection on accounting policies and practises adopted by the Company.

(III) Supervisors and the Supervisory Committee

As at 30 June 2019, the Supervisory Committee comprised eight Supervisors, including three employee representative Supervisors and five non-employee representative Supervisors. The qualification of Supervisors and composition of Supervisory Committee are in compliance with applicable laws and regulations. All Supervisors, holding themselves accountable to the shareholders, perform their obligations in due diligence, monitor the legality and compliance of performance of duties by the Company's finance department, Board members and senior management, and provide recommendations and suggestions to the Board and the senior management regarding relevant matters.

(IV) Senior management

Procedures for the appointment of the Company's senior management are in compliance with the Company Law and the Articles of Association. The Company's senior management can operate the business in compliance with laws and regulations and authorisations from the Board, with a view towards maximising shareholders' value and social benefits.

(V) Stakeholders

The Company fully respects and defends the legal rights of stakeholders, and engages them in the common goal for promoting the Company's sustainable and healthy development.

Section V SIGNIFICANT EVENTS

(VI) Information disclosure and investor relationship management

During the Reporting Period, the Company was able to disclose relevant information in a manner that is true, accurate, complete, timely and fair and in strict compliance with the applicable laws, regulations and regulatory documents in the PRC and Hong Kong where its shares are listed. The Company can strictly comply with relevant provisions of Corporate Insider Registration System, strengthen the management of the Company's inside information and well organise the insider registration. The Company managed its investor relations in a manner of integrity and professionalism. The Company's senior management participate in investors services in person and the Company has designated a dedicated investor relations service team. In addition, the Company utilised various forms of communication, including setting up a hotline for investors, holding online interactions, e-mails, telephone conferences, on-site receptions, holding results briefing sessions, participating in group reception day for listed companies, road shows, E-interactive platform launched by SSE etc., to strengthen its communication with its domestic and foreign investors, thereby further enhancing the Company's transparency. During the Reporting Period, the Company convened 2018 annual result announcement sessions and conducted global performance roadshows. The Company was invited and attended investor forums held by six domestic and foreign investment banks, received domestic and foreign investors for a total of 19 survey visits and received approximately 140 visits by investors.

(VII) Building of Compliance System

During the Reporting Period, the Company strictly complied with the requirements of the CSRC often taking into account its actual situation, continuously improved its compliance management system. The Company's Chief Compliance Officer strictly performed compliance management duties according to applicable laws. None of the shareholders, Directors nor senior management of the Company had violated the stipulated duties and procedures, nor given direct instructions to the Chief Compliance Officer or interfered with his work. The Company provided human resource, material resource, financial resource and technical support to its general compliance officer for him to fully carry out his duties to ensure effective compliance management. During the Reporting Period, the Company strived to enhance the execution of various systems, mechanisms and processes via strengthening prior review, in-process monitoring, post-event examination, assessment and measures on assessment and accountability. Meanwhile, the Company further explored the Group's compliance management mechanism, promoted the building of compliance management teams, and improved the information wall and conflict of interest management systems and mechanisms. By adhering to the compliance concept that "everyone is responsible for compliance, compliance shall start from the management, compliance creates value, and compliance is the foundation for the survival of the company", the Company actively fostered the frontline environment of "everyone being responsible and active for compliance".

Section V SIGNIFICANT EVENTS

XVI. DESCRIPTION OF OTHER SIGNIFICANT EVENTS

(I) Descriptions, reasons and impact of changes to accounting policies, accounting estimates and accounting methods as compared with the last accounting period

The Ministry of Finance amended the Accounting Standards for Business Enterprises No. 21 – Lease (the “New Lease Standards”) in 2018. The New Lease Standards completed the definition of leases and added contents regarding the identification, split and merger of leases; cancelled the lessees’ classification of operating leasing and financial leasing, and required to recognise the right-of-use asset and lease liability for all leases (except for eligible short-term leases and low value asset leases) at the initial date of the lease period; and improved the lessees’ subsequent measurement of the leases, and added the accounting treatment under the revaluation of the option and the change of the leases.

The Group implemented the New Lease Standards since 1 January 2019. The Group adjusted the retained earnings at the beginning of the period and other related items in the financial statements based on the cumulative impact of the implementation of the New Lease Standards, and the Group did not adjust the comparable period information. Due to the change of these accounting policies and at the first day of the implementation, the Group’s total assets increased by RMB814 million, the total liabilities increased by RMB852 million, and the equity of owners decreased by RMB38 million.

(II) Material accounting errors requiring retrospection and restatement, amount corrected, reasons and impact during the Reporting Period

✓ Not applicable

(III) Others

1. Matters regarding the non-public issuance of A Shares by the Company

References are made to the announcement of the Company dated 26 April 2018, the circular of 2017 annual general meeting dated 31 May 2018 and the announcement on poll results of 2017 annual general meeting dated 21 June 2018, in relation to (among other things) proposed non-public issuance of A Shares under the general mandate; and the announcement dated 25 April 2019, the circular of 2018 annual general meeting dated 28 May 2019 and the announcement on poll results of 2018 annual general meeting dated 18 June 2019, in relation to (among other things) proposed adjustments to the non-public issuance of A Shares under the general mandate and proposed subscription of A Shares by existing shareholders.

On 25 April 2019 and 18 June 2019, the Company held the 37th meeting of the sixth session of the Board and 2018 Annual General Meeting, respectively, at which, the Proposal Regarding the Adjustment of Plan of the Non-Public Issuance of A shares by the Company (among other things) were considered and approved.

Section V SIGNIFICANT EVENTS

According to such resolutions, the Company will issue no more than 1,618,426,236 (inclusive) A Shares to no more than 10 (inclusive) specific target subscribers (including Shanghai Guosheng Group Co., Ltd., Shanghai Haiyan Investment Management Company Limited, Bright Food (Group) Co., Ltd. and Shanghai Electric (Group) Corporation), which is expected to raise gross proceeds of up to RMB20.0 billion (inclusive). In particular, Shanghai Guosheng Group Co., Ltd. intends to subscribe for A Shares in cash for an amount of RMB10 billion. Shanghai Haiyan Investment Management Company Limited intends to subscribe for A Shares in cash for an amount of not more than RMB3 billion (inclusive). Bright Food (Group) Co., Ltd. intends to subscribe for A Shares in cash for an amount of not less than RMB0.8 billion (inclusive) and not more than RMB1 billion (inclusive). Shanghai Electric (Group) Corporation intends to subscribe for A Shares in cash for an amount of not less than RMB1 billion (inclusive). The class of shares under the Proposed Non-public Issuance of A Shares is domestic listed ordinary Shares denominated in Renminbi (A Shares) with a nominal value of RMB1.00 each. Except for above target subscribers, the other final target subscribers will be determined, upon obtaining the approval from the CSRC for the Proposed Non-public Issuance of A Shares, and in accordance with relevant laws and regulations, by the Board and its authorised person(s) under the authorisation granted at the 2018 Annual General Meeting, based on the prices offered by the target subscribers in the price inquiry process and the principle of price priority. The issuance price shall not be lower than 90% of the average trading price of A Shares for the 20 consecutive trading days preceding the pricing benchmark date (exclusive), or the latest audited net assets per share attributable to owners of the Company before the issuance, whichever is higher. The amount of proceeds to be raised from the Adjusted Non-public Issuance of A Shares is expected to be no more than RMB20.0 billion (inclusive). After deducting the issuance expenses, it will be fully utilized to increase the Company's capital, replenish working capital, optimize the structure of assets and liabilities, improve the Company's financial services industry chain and serve the real economy. The use of proceeds of the Adjusted Non-public Issuance of A Shares are as follows:

| No. | Projects to be invested with the proceeds | Proposed amounts of proceeds to be applied |
|-----|---|--|
| 1 | To develop capital-based intermediary business and further enhance financial services capabilities | No more than RMB6.0 billion |
| 2 | To increase FICC investment and optimize the structure of assets and liabilities | No more than RMB10.0 billion |
| 3 | To increase investment in information system construction and enhance the overall informatization level of the Company | No more than RMB1.5 billion |
| 4 | To increase capital injection to investment banking business and further promote development of investment banking business | No more than RMB2.0 billion |
| 5 | To replenish working capital | No more than RMB0.5 billion |
| | Total | No more than RMB20.0 billion |

Section V SIGNIFICANT EVENTS

In July 2019, the CSRC has reviewed the application materials of the “Application for Approval of Listed Company Non-public Issuance of New Shares of Haitong Securities Co., Ltd. (《海通證券股份有限公司上市公司非公開發行新股核准》)” for the administrative permission submitted by the Company according to laws. The CSRC considered that the application materials were complete and in compliance with the statutory form, decided to accept the application for the administrative permission, and issued the “Acceptance Notice of the Application for Administrative Permission from the CSRC (《中國證監會行政許可申請受理通知單》)” (Acceptance No.: 191960). At present, the Non-public Issuance of A Shares is in progress.

2. *Matters concerning the approval for establishing two branches and 15 business departments by the Company*

According to the Approval for Establishment of two Branches and 15 Securities Business Departments by Haitong Securities Co., Ltd. (Hu Zheng Jian Xu Ke [2019] No. 42) received from Shanghai Securities Regulatory Bureau of the CSRC in July 2019, the Company was approved to establish one branch in Tianjin and one branch in Chongqing respectively, two securities business departments in Guangzhou, Guangdong Province, two securities business departments in Shenzhen, Guangdong Province, one securities business department in Foshan, Guangdong Province, one securities business department in Dongguan, Guangdong Province, two securities business departments in Hangzhou, Zhejiang Province, one securities business department in Chengdu, Sichuan Province, one securities business department in Nanchong, Sichuan Province, one securities business department in Zhangzhou, Fujian Province, one securities business department in Jinjiang, Fujian Province, one securities business department in Beijing, one securities business department in Tianjin and one securities business department in Tangshan, Hebei Province. For details, please refer to the announcement published by the Company on 18 July 2019.

Section V SIGNIFICANT EVENTS

3. *Acquisition of, new incorporation of and Changes in Subsidiaries*

Haitong Futures changed its registered capital

In February 2019, the registered capital of Haitong Futures, a subsidiary of the Company, was changed from RMB1.3 billion to RMB1,301.5 million. After the change of registered capital, its shareholders are Haitong Securities Co., Ltd., which contributed RMB867.67 million, accounting for 66.6669%, and Shanghai Shengyuan Real Estate (Group) Co., Ltd., which contributed RMB433.77 million, accounting for 33.3285% of the total capital of Haitong Futures, respectively.

4. *Other matters of subsidiaries*

Successful issuance and listing of H shares of Haitong UniTrust

Haitong UniTrust's H shares were officially listed on the main board of Hong Kong Stock Exchange on 3 June 2019 with a stock code of 1905. Haitong UniTrust issued a total of 1,235,300,000 H shares, accounting for 15% of the total enlarged share capital after the issuance. The offer price was HK\$1.88 per H share and the total proceeds was approximately HK\$2,322 million. Guosheng Overseas Holdings (Hong Kong) Limited, Shanghai Qiangsheng Holding Co., Ltd. and SBI Hong Kong Holdings Co., Limited participated in the offering as the Cornerstone Investors, which subscribed for 241,552,000, 179,356,000 and 41,748,000 offer shares respectively, accounting for 2.93%, 2.18% and 0.51% respectively of the total enlarged share capital after the issuance. The issuance and listing of H shares of Haitong UniTrust has injected a new capital momentum into its own development, enabling implementation of the development strategy and enhancing the brand image and talent attraction, which are conducive to the long-term, sustainable and stable development of Haitong UniTrust.

Section VI CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS

I. CHANGES IN SHARE CAPITAL

(I) Table of changes in shares

1. *Table of changes in shares*

There were no changes in total shares or share capital structure of the Company during the Reporting Period.

2. *Particulars about changes in shares*

Nil

3. *Effect of changes in shares on financial indicators such as earnings per share and net assets per share during the period from the end of the Reporting Period to the date of disclosure of the interim report (if any)*

During the period from the end of the Reporting Period to the date of disclosure of the interim report, there was no change in shares of the Company.

4. *Other disclosure deemed necessary by the Company or required by securities regulatory authorities*

Nil

(II) Changes in restricted shares

All shares of the Company are circulating shares not subject to trading moratorium.

II. PARTICULARS ABOUT SHAREHOLDERS

(I) Total number of shareholders:

| | |
|---|--|
| Total number of holders of ordinary shares as at the end of the Reporting Period (accounts) | 289,950 (of which 289,788 were holders of A Shares and 162 were holders of H Shares) |
|---|--|

Section VI CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS

(II) The table below sets out the shareholdings of the top ten shareholders, the top ten shareholders of circulating shares (or shareholders not subject to trading moratorium) as at the end of the Reporting Period

Unit: Share

| Name of shareholders (Full name) | Changes in the number of shares during the Reporting Period | Shareholdings of the top ten shareholders | | | Particulars of shares pledged or frozen | | Nature of shareholders |
|---|--|--|------------|---|--|---------------------|---------------------------|
| | | Number of shares held as at the end of the Reporting Period | Percentage | Number of shares held subject to trading moratorium | Particulars of shares | Number of shares | |
| HKSCC Nominees Limited | -56,001 | 3,408,786,295 | 29.64% | 0 | Unknown | - | Foreign legal person |
| Bright Food (Group) Co., Ltd. | 0 | 402,150,000 | 3.50% | 0 | Nil | 0 | State-owned legal person |
| Shanghai Haiyan Investment Management Company Limited | 0 | 400,709,623 | 3.48% | 0 | Nil | 0 | State-owned legal person |
| China Securities Finance Corporation Limited | 0 | 343,901,259 | 2.99% | 0 | Nil | 0 | Others |
| Shenergy Group Company Limited | 0 | 322,162,086 | 2.80% | 0 | Nil | 0 | State-owned legal person |
| Shanghai Electric (Group) Corporation | -6,037,600 | 260,305,693 | 2.26% | 0 | Nil | 0 | State |
| Shanghai Guosheng Group Assets Co., Ltd. | 0 | 238,382,008 | 2.07% | 0 | Nil | 0 | State-owned legal person |
| Shanghai Jiushi (Group) Co., Ltd. | 0 | 235,247,280 | 2.05% | 0 | Nil | 0 | State-owned legal person |
| Shanghai Bailian Group Co., Ltd. | 0 | 214,471,652 | 1.86% | 0 | Nil | 0 | State-owned legal person |
| Shanghai United Media Group | 160,900 | 150,829,453 | 1.31% | 0 | Nil | 0 | State-owned legal person |

Section VI CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS

Unit: Share

Shareholdings of the top ten shareholders not subject to trading moratorium

| Name of shareholders | Number of circulating shares held not subject to trading moratorium | Type and number of share | |
|---|---|---------------------------------|---------------|
| | | Type | Number |
| HKSCC Nominees Limited | 3,408,786,295 | Foreign shares listed overseas | 3,408,786,295 |
| Bright Food (Group) Co., Ltd. | 402,150,000 | RMB denominated ordinary shares | 402,150,000 |
| Shanghai Haiyan Investment Management Company Limited | 400,709,623 | RMB denominated ordinary shares | 400,709,623 |
| China Securities Finance Corporation Limited | 343,901,259 | RMB denominated ordinary shares | 343,901,259 |
| Shenergy Group Company Limited | 322,162,086 | RMB denominated ordinary shares | 322,162,086 |
| Shanghai Electric (Group) Corporation | 260,305,693 | RMB denominated ordinary shares | 260,305,693 |
| Shanghai Guosheng Group Assets Co., Ltd. | 238,382,008 | RMB denominated ordinary shares | 238,382,008 |
| Shanghai Jiushi (Group) Co., Ltd. | 235,247,280 | RMB denominated ordinary shares | 235,247,280 |
| Shanghai Bailian Group Co., Ltd. | 214,471,652 | RMB denominated ordinary shares | 214,471,652 |
| Shanghai United Media Group | 150,829,453 | RMB denominated ordinary shares | 150,829,453 |

- Notes:
1. Among the H Shareholders of the Company, HKSCC Nominees Limited held the H Shares on behalf of the non-registered shareholders.
 2. In the table above, the shares held by HKSCC Nominees Limited are foreign shares listed overseas (H Shares) and the shares held by other shareholders are RMB denominated ordinary A Shares.
 3. The nature of shareholders of A Shares represents that of accounts registered by such shareholders in Shanghai Branch of China Securities Depository and Clearing Corporation Limited.
 4. As the shares of the Company are subject of margin financing and securities lending, the number of shares held by a shareholder is calculated based on the aggregated number of shares and interests held by such shareholder through ordinary securities accounts and credit securities accounts.

Number of shares held by the top ten shareholders subject to trading moratorium and trading moratorium

√ Not applicable

Section VI CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS

(III) Substantial shareholders and other persons' interests and short positions in the shares and underlying shares

As at the end of the Reporting Period, to the best knowledge of the Directors, having made all reasonable enquiries, the following parties (other than the Directors, Supervisors and chief executive of the Company) had an interest or short position in the shares or underlying shares, which is required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and has been recorded in the register kept by the Company according to Section 336 of the SFO:

| No. | Name of substantial shareholders | Type of share | Nature of interests | Number of shares held (shares) | Percentage | Percentage | Long position (Note 2)/short position (Note 3)/ interests in lending pool |
|-----|--|---------------|--|--------------------------------|---|---|---|
| | | | | | of total issued shares of the Company (%) | of total issued A Shares/ H Shares of the Company (%) | |
| 1. | Maunakai Capital Partners (Hong Kong) Limited | H Share | Investment manager | 272,590,000 | 2.36 | 7.99 | Long position |
| 2. | BSA Strategic Fund I | H Share | Beneficial owners | 272,590,000 | 2.36 | 7.99 | Long position |
| 3. | Insight Capital Management (Hong Kong) Limited | H Share | Investment manager | 223,415,200 | 1.94 | 6.55 | Long position |
| 4. | Insight Phoenix Fund | H Share | Investment manager | 223,415,200 | 1.94 | 6.55 | Long position |
| 5. | Shi Jing | H Share | Founder of discretionary trust | 228,000,000 | 1.98 | 6.69 | Long position |
| 6. | Wickhams Cay Trust Company Limited | H Share | Trustee (Note 1) | 228,000,000 | 1.98 | 6.69 | Long position |
| 7. | Abhaya Limited | H Share | Interests in controlled corporation (Note 1) | 228,000,000 | 1.98 | 6.69 | Long position |
| 8. | Heyday Trend Limited | H Share | Beneficial owners (Note 1) | 228,000,000 | 1.98 | 6.69 | Long position |
| 9. | BlackRock, Inc. | H Share | Interests in controlled corporation | 173,475,559 | 1.51 | 5.09 | Long position |
| | | H Share | Interests in controlled corporation | 74,000 | 0.00 | 0.00 | Short position |
| 10. | Shanghai Guosheng Group Co., Ltd. | H Share | Beneficial owners | 241,206,000 | 2.10 | 7.07 | Long position |
| | | A Share | Beneficial owners | 1,128,834,226 (Note 4) | 8.60 (Note 4) | 11.62 (Note 4) | Long position |

Section VI CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS

- Note 1: Heyday Trend Limited holds 228,000,000 H Shares of the Company. Abhaya Limited holds 228,000,000 H shares of the Company through its wholly-owned Heyday Trend Limited. Abhaya Limited is wholly owned by Wickhams Cay Trust Company Limited. Shi Yuzhu is a director of Abhaya Limited and other directors in Abhaya Limited are used to taking orders from Shi Yuzhu. Therefore, Both Wickhams Cay Trust Company Limited and Shi Yuzhu are deemed to have interests in the 228,000,000 H Shares held by Abhaya Limited.
- Note 2: A shareholder has a “long position” if such shareholder has an interest in shares, including interests through holding, selling or issuing financial instruments (including derivatives) under which: (i) such shareholder has a right to purchase the underlying shares; (ii) such shareholder is under an obligation to purchase the underlying shares; (iii) such shareholder has a right to receive money if the price of the underlying shares increases; or (iv) such shareholder has a right to avoid or reduce loss if the price of the underlying shares increases.
- Note 3: A shareholder has a “short position” if such shareholder borrows shares under a securities borrowing and lending agreement, or holds, sells or issues financial instruments (including derivatives) under which: (i) such shareholder has a right to require another person to subscribe for the underlying shares; (ii) such shareholder is under an obligation to deliver the underlying shares; (iii) such shareholder has a right to receive money if the price of the underlying shares declines; or (iv) such shareholder has a right to avoid or reduce loss if the price of the underlying shares declines.
- Note 4: According to the disclosures set out in “Section V SIGNIFICANT EVENTS – XVI. DESCRIPTION OF OTHER SIGNIFICANT EVENTS – (III) Others – 1. Matters regarding the non-public issuance of A Shares by the Company” of this report, the total number of proposed non-public issuance of A Shares by the Company under general mandate will be no more than 1,618,426,236 (inclusive) and the total proceeds to be raised is expected to be no more than RMB20.0 billion (inclusive). Pursuant to the subscription agreement dated 25 April 2019 between the Company and Shanghai Guosheng Group Co., Ltd., Shanghai Guosheng Group Co., Ltd. will subscribe for A Shares non-publicly issued by the Company with an amount of RMB10.0 billion in cash. Upon the completion of non-public issuance of A Shares by the Company, it is expected that Shanghai Guosheng Group Co., Ltd. will directly and indirectly hold in aggregate 1,128,834,226 A Shares of the Company, representing approximately 8.60% and 11.62% of enlarged total Shares and total A Shares of the Company, respectively. As at the end of the Reporting Period, to the best knowledge of the Company, having made reasonable enquiries, Shanghai Guosheng Group Co., Ltd. directly or indirectly held a total of 319,621,067 A Shares and 255,456,441 H shares of the Company.

Save as disclosed above, as at 30 June 2019, the Company was not aware of any other person (other than the Directors, Supervisors and chief executive of the Company) having any interests or short positions in the shares or underlying shares of the Company which are required to be recorded in the register pursuant to Section 336 of the SFO.

Section VI CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS

(IV) Directors, Supervisors and chief executive's interests and short positions in the shares, underlying shares or debentures of the Company and its associated corporations

As at 30 June 2019, according to the information obtained by the Company and so far as the Directors are aware, the following Director(s), Supervisor(s) and chief executive of the Company had the interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporation (within the meaning as defined under the Part XV of the SFO), which shall be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which are taken or deemed to have under such provisions of the SFO) or which would be required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein, or would be required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange:

| No. | Name of directors | Type of share | Nature of interests | Number of shares held (share) | Percentage | | Long position (Note 1)/ short position (Note 2)/ interests in lending pool |
|-----|--|---------------|---------------------|-------------------------------|--|--|--|
| | | | | | Percentage of total issued shares of the Company (%) | Percentage of total issued A Shares/ H Shares of the Company (%) | |
| 1. | Liu Cheeming (resigned on 18 June 2019) | H Shares | Beneficial owner | 1,000,000 | 0.01 | 0.03 | Long position |

Note 1: A shareholder has a "long position" if such shareholder has an interest in shares, including interests through holding, selling or issuing financial instruments (including derivatives) under which: (i) such shareholder has a right to purchase the underlying shares; (ii) such shareholder is under an obligation to purchase the underlying shares; (iii) such shareholder has a right to receive money if the price of the underlying shares increases; or (iv) such shareholder has a right to avoid or reduce loss if the price of the underlying shares increases.

Note 2: A shareholder has a "short position" if such shareholder borrows shares under a securities borrowing and lending agreement, or holds, sells or issues financial instruments (including derivatives) under which: (i) such shareholder has a right to require another person to subscribe the underlying shares; (ii) such shareholder is under an obligation to deliver the underlying shares; (iii) such shareholder has a right to receive money if the price of the underlying shares declines; or (iv) such shareholder has a right to avoid or reduce loss if the price of the underlying shares declines.

(V) Strategic investors or general legal person having become one of the top ten shareholders as a result of placing of new shares

During the Reporting Period, no strategic investor or general legal person became one of the top ten shareholders as a result of placing of new shares.

Section VI CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS

III. CHANGES OF CONTROLLING SHAREHOLDERS OR DE FACTO CONTROLLERS

Due to the diverse shareholding of the Company, no shareholder directly held more than 5% of the equity interest of the Company (excluding HKSCC Nominees Limited). HKSCC Nominees Limited held shares on behalf of the non-registered H shareholders.

IV. REPURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY AND ITS SUBSIDIARIES

As disclosed in “Section IX CORPORATE BONDS – X. PAYMENT OF INTEREST AND REPAYMENT OF PRINCIPAL OF OTHER BONDS AND DEBT FINANCING INSTRUMENTS OF THE COMPANY”, the Company issued the corporate bonds “16 Haitong 01” with an aggregated amount of RMB15.0 billion on 18 May 2016, the term of which was four years with an issuer’s redemption right at the end of the third year. 16 Haitong 01 was fully redeemed by the Company on 20 May 2019 and the total principal and interest of the 16 Haitong 01 of RMB15,540,000,000 were fully repaid by the Company. 16 Haitong 01 was delisted from the Shanghai Stock Exchange on 20 May 2019. Please refer to the announcement of the Company dated 9 May 2019 for details.

Save as disclosed in this Report, during the Reporting Period, neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any listed securities of the Company or its subsidiaries (other than trading of the securities by the Company or its subsidiaries on behalf of the clients).

Section VII PREFERENCE SHARES

During the Reporting Period, the Company did not have any matters relating to preference shares.



Section VIII PARTICULARS ABOUT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

I. CHANGES IN SHAREHOLDING

(I) Changes in shareholding of current and resigned Directors, Supervisors and senior management during the Reporting Period

✓ Not applicable

(II) Share incentives granted to Directors, Supervisors and senior management during the Reporting Period

During the Reporting Period, no share incentives were granted to the Directors, Supervisors and senior management.

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

| Name | Position | Particulars of changes |
|---------------|--|------------------------|
| REN Peng | Executive Director | Election |
| TU Xuanxuan | Non-executive Director | Election |
| ZHU Hongchao | Independent non-executive Director | Election |
| ZHOU Yu | Independent non-executive Director | Election |
| WU Yuezhou | Non-executive Director | Resignation |
| ZHANG Xinmei | Non-executive Director | Resignation |
| SHEN Tiedong | Non-executive Director | Resignation |
| LIU Cheeming | Independent non-executive Director | Resignation |
| XIAO Suining | Independent non-executive Director | Resignation |
| FENG Lun | Independent non-executive Director | Resignation |
| SHI Xu | Employee representative Supervisor | Election |
| WU Xiangyang | Employee representative Supervisor | Election |
| XU Renzhong | Non-employee representative Supervisor | Election |
| CAO Yijian | Non-employee representative Supervisor | Election |
| DAI Li | Non-employee representative Supervisor | Election |
| WANG Meijuan | Employee representative Supervisor | Resignation |
| HU Hairong | Employee representative Supervisor | Resignation |
| SONG Shihao | Employee representative Supervisor | Resignation |
| RUI Zhengxian | Employee representative Supervisor | Resignation |
| LI Lin | Non-employee representative Supervisor | Resignation |
| CHENG Feng | Non-employee representative Supervisor | Resignation |
| CHEN Huifeng | Non-employee representative Supervisor | Resignation |
| SONG Chunfeng | Non-employee representative Supervisor | Resignation |
| MAO Yuxing | Deputy General Manager | Appointment |

Section VIII PARTICULARS ABOUT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Description of changes in Directors, Supervisors and senior management of the Company

1. Changes in Directors

The Resolution regarding the Election of New Session of the Board of the Company has been considered and approved at the 36th meeting of the sixth session of the Board of the Company on 27 March 2019. After such resolution has been considered and approved at the 2018 annual general meeting of the Company held on 18 June 2019, the election of new session of the Board has been completed.

The sixth session of the Board of the Company consists of 13 Directors, including two executive Directors, being Mr. ZHOU Jie and Mr. QU Qiuping; six non-executive Directors, being Ms. YU Liping, Mr. CHEN Bin, Mr. WU Yuezhou, Mr. XU Jianguo, Ms. ZHANG Xinmei and Mr. SHEN Tiedong; and five independent non-executive Directors, being Mr. LIU Cheeming, Mr. XIAO Suining, Mr. FENG Lun, Mr. ZHANG Ming and Mr. LAM Lee G. Upon the completion of the election of new session of the Board, the seventh session of the Board of the Company consists of 11 Directors, including three executive Directors, being Mr. ZHOU Jie (re-election), Mr. QU Qiuping (re-election) and Mr. REN Peng (new appointed); four non-executive Directors, being Mr. TU Xuanxuan (new appointed), Mr. CHEN Bin (re-election), Ms. YU Liping (re-election) and Mr. XU Jianguo (re-election); and five independent non-executive Directors, being Mr. ZHANG Ming (re-election), Mr. LAM Lee G. (re-election), Mr. ZHU Hongchao (new appointed) and Mr. ZHOU Yu (new appointed). In addition to the re-elected Directors of the sixth session of the Board, non-executive Directors, Mr. WU Yuezhou, Ms. ZHANG Xinmei, Mr. SHEN Tiedong and independent non-executive Directors, Mr. LIU Cheeming, Mr. XIAO Suining and Mr. FENG Lun were resigned on 18 June 2019.

Please refer to the circular of the annual general meeting of the Company dated 28 May 2019 for biographical details of members of the seventh session of the Board.

Section VIII PARTICULARS ABOUT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

2. *Changes in Supervisors*

The Resolution regarding the Election of New Session of the Supervisory Committee of the Company has been considered and approved at the 21st meeting of the sixth session of the Supervisory Committee of the Company on 27 March 2019. After such resolution has been considered and approved at the 2018 annual general meeting of the Company held on 18 June 2019, the election of new session of the Supervisory Committee has been completed.

The sixth session of the Supervisory Committee of the Company consists of 11 Supervisors, including five employee representative Supervisors, being Mr. WU Hongwei, Ms. WANG Meijuan, Ms. HU Hairong, Mr. SONG Shihao and Mr. RUI Zhengxian; and six non-employee representative Supervisors, being Mr. LI Lin, Ms. ZHENG Xiaoyun, Mr. CHENG Feng, Mr. FENG Huang, Mr. CHEN Huifeng and Mr. SONG Chunfeng. Upon the completion of the election of new session of Supervisory Committee, the seventh session of the Supervisory Committee of the Company consists of eight Supervisors, including three employee representative Supervisors, being Mr. WU Hongwei (re-election), Mr. SHI Xu (new appointed) and Mr. WU Xiangyang (new appointed); and five non-employee representative Supervisors, being Mr. XU Renzhong (new appointed), Mr. CAO Yijian (new appointed), Ms. DAI Li (new appointed), Ms. ZHENG Xiaoyun (re-election) and Mr. FENG Huang (re-election). In addition to the re-elected Supervisors of the sixth session of the Supervisory Committee, employee representative Supervisors, Ms. WANG Meijuan, Ms. HU Hairong, Mr. SONG Shihao and Mr. RUI Zhengxian and non-employee representative Supervisors, Mr. LI Lin, Mr. CHENG Feng, Mr. CHEN Huifeng and Mr. SONG Chunfeng were resigned on 18 June 2019.

Please refer to the circular of the annual general meeting of the Company dated 28 May 2019 for biographical details of members of the seventh session of the Supervisory Committee.

3. *Changes in Senior Management*

The Resolution regarding the Appointment of Mr. MAO Yuxing as Deputy General Manager of the Company has been considered and approved at the 35th meeting of the sixth session of the Board of the Company on 25 February 2019, pursuant to which, based on its needs from business development and leadership composition, Mr. MAO Yuxing, Chief Information Officer was appointed as Deputy General Manager of the Company to manage the information technology and infrastructure work of the Company. Please refer to the announcement of the Company dated 25 February 2019 for biographical details of Mr. MAO Yuxing.

III. OTHER INFORMATION

(I) *Dealings in securities by Directors, Supervisors and relevant employees*

The Company has adopted the standards as set out in the Model Code as the code of conduct of the Company regarding securities transactions by the Directors, Supervisors and relevant employees. The Company, having made enquiries to all Directors and Supervisors, confirmed that they had been in compliance with the requirements of the abovementioned Model Code, during the period from 1 January 2019 to 30 June 2019. The Company has not found any relevant employee violating the said guidelines.

Section VIII PARTICULARS ABOUT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(II) Material changes in relevant information of Directors and Supervisors

Mr. CHEN Bin, our non-executive Director, ceased to be the deputy general manager of Shanghai Haiyan Investment Management Company Limited (上海海煙投資管理有限公司) from June 2019, and became the deputy general manager of Pudong Tobacco, Sugar and Wine Co., Ltd. of Shanghai Tobacco Group (上海煙草集團浦東煙草糖酒有限公司) from June 2019.

Mr. XU Jianguo, our non-executive Director, became the chairman of Shanghai Haiya Industry Company Limited (上海亥雅實業有限公司) from March 2019, and the chairman of Shanghai Kaihai Industry Company Limited (上海開亥實業有限公司) from June 2019.

Mr. ZHANG Ming, our independent non-executive Director, ceased to be an independent director of Shanghai Jinqiao Export Processing Zone Development Co., Ltd. (上海金橋出口加工區開發股份有限公司) since June 2019.

Mr. LAM Lee G., our independent non-executive Director, became an independent non-executive director of Aurum Pacific (China) Group Limited (listed on the Hong Kong Stock Exchange under the stock code of 8148) since January 2019, an independent non-executive director of TMC Life Sciences Berhad (listed on the London Securities Exchange under the stock code of 0101) since January 2019, and an independent non-executive director of Thomson Medical Group Limited (listed on the Singapore Exchange under the stock code of A50) since May 2019. Mr. LAM Lee G. ceased to be an attorney of P.C. Woo & Co. (胡百全律師事務所) since April 2019.

Mr. WU Hongwei, our Supervisor, ceased to be the secretary of the disciplinary committee of the Company since July 2019.

Mr. XU Renzhong, our Supervisor, ceased to be the manager of the finance department of Shenergy (Group) Company Limited, and became the chief financial officer of Shanghai Huahong (Group) Co., Ltd. (上海華虹(集團)有限公司) since June 2019.

Mr. WU Xiangyang, our Supervisor, was appointed as the chairman of the supervisory committee of Haitong Futures Co., Ltd. since July 2019.

Mr. Shi Xu, our Supervisor, became the director of Haitong Capital since July 2019.

According to Rule 13.51B of the Hong Kong Listing Rules, save as disclosed above, no other material changes in relevant information of the Directors and Supervisors occurred during the Reporting Period.

Section VIII PARTICULARS ABOUT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(III) Particulars about service contracts with Directors and Supervisors

Pursuant to Rules 19A.54 and 19A.55 of the Hong Kong Listing Rules, the Company has entered into a contract with each of the Directors and Supervisors in respect of, among other things, compliance with the relevant laws and regulations and the Articles of Association and provisions on arbitration. Save as disclosed above, the Company has not entered into, and does not propose to enter into any service contract with any of the Directors or Supervisors in their respective capacity as a Director or Supervisor (other than contracts expiring or terminable by the employer within one year without the payment of compensation (other than statutory compensation)).

(IV) Employees and remuneration policy

As at the end of the Reporting Period, the Group had 10,464 employees, of whom 5,649 were from the Company, and 4,815 were from subsidiaries.

The Company emphasises talent attraction, motivation, training and retention, and focuses on the external competitiveness of its remuneration level and the internal fairness of its remuneration system. The Company implements a remuneration system under which remunerations are determined based on the market levels and the individual performance appraisal results. The remuneration package of the Company comprises basic salary, performance bonus and benefits. Under the applicable laws and regulations in the PRC, the Company enters into a labour contract and establishes employment relationship with each of its employees. A labour contract contains the provisions relating to contract term, working hours, rest and vacation, labour remuneration and insurance benefits, labour protection and conditions, as well as modification and termination of the contract.

Under the applicable laws and regulations of the PRC, the Company purchased various social insurance (pension insurance, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance) and established housing funds for its employees, making abovementioned social insurance and housing fund contributions in full in accordance with applicable regulations. Meanwhile, the Company also established a corporate annuity system, providing supplemental pension protection with its employees in accordance with applicable regulations. The Company also purchased supplementary commercial insurance for employees to provide employees with supplementary guarantee for medical and accident.

Section VIII PARTICULARS ABOUT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(V) Employee training

In the first half of 2019, the Company further improved and optimized the construction of training system. In respect of the implementation of training programs, the Company innovated the mode of training organization, carried out middle and young cadres training, branch management training, new employees training, Dandelion Plan lecturer and course development training and branch professional trainings. As to the building of the lecturer and curriculum system, the Company has launched a series of new courses in connection with STAR Market and wealth management, and conducted assessment and certification for the first batch of junior product lecturers. In respect of the training activities, the Company explored its internal resources, organized and held the Haitong Wealth Lecture Hall Open Class in an orderly manner, and provided a diversified learning platform for the development of employees of the Company at all levels through a series of activities such as Reading Sharing Meeting and Management Book List, so as to effectively support the Company's talent development strategy.



Section IX CORPORATE BONDS

I. BASIC INFORMATION OF CORPORATE BONDS

According to the Proposal regarding the General Mandate to Issue Onshore Debt Financing Instruments considered and approved at the 15th meeting of the sixth session of the Board on 30 March 2016 and the 2015 annual general meeting on 26 May 2016, the Company applied for and obtained the Letter of Approval for Haitong Securities Co., Ltd. to Publicly Issue Corporate Bonds to Qualified Investors (Zheng Jian Xu Ke [2017] No.2388) from the Shanghai Stock Exchange and the CSRC. The Letter approved the Company to publicly issue corporate bonds with an aggregate nominal amount not exceeding RMB20.0 billion to qualified investors. Based on the aforesaid proposal and regulatory approvals, during the Reporting Period, the Company issued one tranche of corporate bonds.

Unit: 100 million Currency: RMB

| Name of Bonds | Abbreviation | Code | Date of issuance | Maturity date | Balance of bonds | Interest rate (%) | Method to repay | Venue of trading |
|--|---------------|--------|-------------------|-------------------|------------------|-------------------|---------------------------------|-------------------------|
| | | | | | | | principal and pay interest | |
| 2013 Corporate Bonds (Tranche 1) of Haitong Securities Co., Ltd. | 13 Haitong 03 | 122282 | 25 November 2013 | 25 November 2023 | 23.9 | 6.18% | Simple annualised interest rate | Shanghai Stock Exchange |
| 2013 Corporate Bonds (Tranche 2) of Haitong Securities Co., Ltd. | 13 Haitong 05 | 122312 | 14 July 2014 | 14 July 2019 | 45.5 | 5.45 | Simple annualised interest rate | Shanghai Stock Exchange |
| 2013 Corporate Bonds (Tranche 2) of Haitong Securities Co., Ltd. | 13 Haitong 06 | 122313 | 14 July 2014 | 14 July 2024 | 8 | 5.85 | Simple annualised interest rate | Shanghai Stock Exchange |
| 2017 Corporate Bonds (Tranche 1) of Haitong Securities Co., Ltd. | 17 Haitong 01 | 143231 | 11 August 2017 | 11 August 2020 | 50 | 4.63 | Simple annualised interest rate | Shanghai Stock Exchange |
| 2017 Corporate Bonds (Tranche 1) of Haitong Securities Co., Ltd. | 17 Haitong 02 | 143232 | 11 August 2017 | 11 August 2022 | 10 | 4.80 | Simple annualised interest rate | Shanghai Stock Exchange |
| 2017 Corporate Bonds (Tranche 2) of Haitong Securities Co., Ltd. | 17 Haitong 03 | 143301 | 22 September 2017 | 22 September 2027 | 55 | 4.99 | Simple annualised interest rate | Shanghai Stock Exchange |
| 2017 Corporate Bonds (Tranche 3) of Haitong Securities Co., Ltd. | 17 Haitong 04 | 143336 | 25 October 2017 | 25 October 2020 | 5 | 4.77 | Simple annualised interest rate | Shanghai Stock Exchange |
| 2018 Corporate Bonds (Tranche 1) of Haitong Securities Co., Ltd. | 18 Haitong 01 | 143480 | 8 March 2018 | 8 March 2021 | 30 | 5.15 | Simple annualised interest rate | Shanghai Stock Exchange |
| 2018 Corporate Bonds (Tranche 2) of Haitong Securities Co., Ltd. | 18 Haitong 02 | 143529 | 22 March 2018 | 22 March 2021 | 30 | 5.14 | Simple annualised interest rate | Shanghai Stock Exchange |
| 2018 Corporate Bonds (Tranche 3) of Haitong Securities Co., Ltd. | 18 Haitong 03 | 143632 | 10 May 2018 | 10 May 2021 | 30 | 4.70 | Simple annualised interest rate | Shanghai Stock Exchange |
| 2018 Corporate Bonds (Tranche 4) of Haitong Securities Co., Ltd. | 18 Haitong 04 | 143464 | 6 August 2018 | 6 August 2021 | 30 | 3.98 | Simple annualised interest rate | Shanghai Stock Exchange |
| 2018 Corporate Bonds (Tranche 5) of Haitong Securities Co., Ltd. | 18 Haitong 05 | 155038 | 22 November 2018 | 22 November 2021 | 30 | 3.88 | Simple annualised interest rate | Shanghai Stock Exchange |
| 2019 Corporate Bonds (Tranche 1) of Haitong Securities Co., Ltd. | 19 Haitong 01 | 155316 | 11 April 2019 | 11 April 2022 | 50 | 3.75 | Simple annualised interest rate | Shanghai Stock Exchange |

Section IX CORPORATE BONDS

As at 30 June 2019, the outstanding balance of the publicly issued corporate bonds totaled RMB39.74 billion.

Payment of Interest and Repayment of Principal of Corporate Bonds

The 2013, 2017 and 2018 corporate bonds issued publicly carry interest payable annually in arrears, and the interest payable for the last period will be paid in arrears together with principal upon maturity; no additional interest will be accrued upon payment date of interest for each period and upon repayment date of principal. The repayment of principal and payment of interest of the bonds shall be duly handled via the registration institutions and relevant institutions.

Further Description of Corporate Bonds

The Company has no other existing bonds as at the end of the Reporting Period.

II. LIAISON PERSONS AND CONTACT DETAILS OF THE CORPORATE BOND TRUSTEE AND CONTACT DETAILS OF THE CREDIT-RATING AGENCY

| | | |
|----------------------|-----------------|--|
| Bond trustee | Name | CITIC Securities Company Limited |
| | Office address | 22nd Floor, CITIC Securities Tower, No.48 Liangmaqiao Road, Chaoyang District, Beijing |
| | Contact persons | Song Yilan, Chang Wei |
| | Tel | 010-60836030 |
| Credit-rating agency | Name | China Chengxin Securities Ratings Co., Ltd. (中誠信證券評估有限公司) |
| | Office address | 8th Floor, No.760 Xizang South Road, Shanghai |

III. USE OF PROCEEDS FROM ISSUANCE OF CORPORATE BONDS

As at 30 June 2019, the said proceeds from issuance of bonds of the Company were fully used to pay its debts due or replenish the working capital of the Company to meet the Company's needs for business operations, which were consistent with the committed use, the usage plan and other agreements as described in the prospectus. The Company has raised RMB5,000 million in aggregate from the Tranche 1 of corporate bonds issued in 2019, and such proceeds were fully used to pay debts due. The Company made available various special accounts for the proceeds from each tranche of corporate bonds according to the relevant requirements. As at the end of the Reporting Period, proceeds in the above special accounts have been used up with zero balances.

According to notice issued by the CSRC requiring bonds issuer to conduct self-inspection, in February 2019, the Company engaged BDO China Shu Lun Pan Certificated Public Accountants LLP ("BDO") to conduct special inspection on the deposit and usage of proceeds raised from bonds issued by the Company as of 31 December 2018. BDO prepared an Inspection Report (XIN KUAI JI BAO ZI [2019] No. ZA10166) in this respect. The Company deposits and uses the raised proceeds, and releases relevant information in a timely, accurate and complete manner strictly subject to applicable regulations, and does not violate any such proceeds management regulations.

Section IX CORPORATE BONDS

IV. INFORMATION ON THE RATING OF CORPORATE BONDS

The credit-rating agency of corporate bonds is China Chengxin Securities Ratings Co., Ltd. (中誠信證券評估有限公司) (hereinafter referred to as “CCXR”) which is a wholly-owned subsidiary of China Chengxin Credit Management Co., Ltd., established in August 1997 with its place of incorporation in Shanghai. CCXR was licenced by the CSRC and the People’s Bank of China to principally carry out stock market credit rating and lending market credit rating businesses.

In April 2019, CCXR issued a rating report on 2019 Corporate Bonds (Tranche 1) issued by the Company on public market to qualified investors and gave an AAA corporate credit rating to the Company with stable outlook. The credit rating of this tranche of bonds is AAA (Xin Ping Wei Han Zi [2019] No.G245-F6).

On 27 April 2019, the Company announced CCXR’s follow-up ratings reports on various bonds issued by the Company on the website of the Shanghai Stock Exchange. According to the reports, credit ratings of publicly issued corporate bonds (Tranches 1 and 2) in 2013 remained at AAA (Xin Ping Wei Han Zi [2019] Gen Zong No. 076); credit ratings of publicly issued corporate bonds (Tranches 1, 2 and 3) in 2017 remained at AAA (Xin Ping Wei Han Zi [2019] Gen Zong No. 080); credit ratings of publicly issued corporate bonds (Tranches 1, 2, 3, 4 and 5) in 2018 remained at AAA (Xin Ping Wei Han Zi [2019] Gen Zong No. 081), and the corporate rating of relevant debt issuers remained at AAA.

Section IX CORPORATE BONDS

V. CREDIT ENHANCEMENT MECHANISMS FOR CORPORATE BONDS, REPAYMENT PLAN AND OTHER RELEVANT INFORMATION DURING THE REPORTING PERIOD

(I) Repayment plan

The Company will perform the obligation of annual payment of interest and repayment of principal and payment of interest upon maturity for each tranche of corporate bonds in a timely manner. The Company has high solvency, and funds for debt servicing will be mainly derived from earnings accumulated from daily business, cash flow from operation activities, debts roll-over and share capital financing activities. Revenue streams and accumulation of profits of the Company assured to a large extent the ability to repay debts due.

(II) Other relevant information

The Resolution on the General Mandate to Issue Onshore and Offshore Debt Financing Instruments was considered and approved at the General Meeting on 18 June 2019, which stipulated repayment supporting measures, i.e., "authorising the Board and permitting the Board to delegate its power to authorised persons, jointly or separately, in respect of the issuances of the Corporate Onshore Debt Financing Instruments to adopt at least the following measures when there is an anticipated failure to repay the principal and interest of the onshore debt financing instrument or an actual failure to repay the principal and interest of the onshore debt financing instrument on due dates: ①ceasing to distribute dividends to the Shareholders; ②suspending the implementation of capital expenditure projects such as material external investments, acquisitions and mergers; ③reducing or ceasing to pay the wages and bonus of the Directors and senior management of the Company; ④freezing the job transfer of the key responsible personnel."

As for the implementation of other repayment supporting measures, the Company, in strict compliance with the relevant rules of procedure for the bondholders' meeting, procured bondholders to exercise their powers through bondholders' meetings, engaged CITIC Securities as the bond trustee for corresponding bonds, to safeguard bondholders' interests in accordance with the Bond Trustee Agreement entered into with it, and strictly complied with relevant fund management plans and information disclosure requirements. The above measures were consistent with the descriptions in the prospectus.

Section IX CORPORATE BONDS

VI. MEETINGS CONVENED FOR HOLDERS OF CORPORATE BONDS

During the Reporting Period, no bondholders' meetings were convened by the Company.

VII. DUTY PERFORMANCE OF THE BOND TRUSTEE OF THE CORPORATE BONDS

As the Bond Trustee of the Company, CITIC Securities Company Limited had no conflict of interest in the course of performing its duties, conducted an ongoing monitoring and supervision of the performance of the obligations agreed in the prospectus and agreements by the Company and checked the credit status, internal and external credit enhancement mechanisms as well as implementation of repayment supporting measures of the Company from time to time.

In April 2019, CITIC Securities issued the report of entrusted management affairs for 2018 in respect of two tranches of 2013 Corporate Bonds, three tranches of 2017 Corporate Bonds and five tranches of 2018 Corporate Bonds of the Company.

The abovementioned reports were all disclosed on the website of Shanghai Stock Exchange.

VIII. ACCOUNTING DATA AND FINANCIAL INDICATORS AT THE END OF THE REPORTING PERIOD AND AT THE END OF LAST YEAR (OR DURING THE REPORTING PERIOD AND LAST CORRESPONDING PERIOD)

Unit: 100 million Currency: RMB

| Key indicators | As at the end of this Reporting Period | As at the end of last year | Movement at the end of the Reporting Period as compared with the end of the last year (%) | Reasons for changes |
|--------------------------|---|-----------------------------------|--|----------------------------|
| Liquidity ratio | 1.99 | 2.04 | -2.45 | / |
| Quick ratio | 1.99 | 2.04 | -2.45 | / |
| | | | Increased by 0.15 percentage point | |
| Gearing ratio (%) | 74.25 | 74.10 | 0 | / |
| Loan repayment ratio (%) | 100 | 100 | 0 | / |

Section IX CORPORATE BONDS

| | For the Reporting Period (January to June) | For the last corresponding period | Movement for the Reporting Period compared with last corresponding period (%) | Reasons for changes |
|-----------------------------------|---|--|--|--------------------------------|
| EBITDA interest coverage multiple | 2.31 | 1.76 | 31.25 | / |
| Interest payment ratio (%) | 100 | 100 | 0 | / |

1. Liquidity ratio = (Bank and cash balance + Clearing settlement funds + Placement to banks and other financial institutions + Margin loan + Financial assets held for trading + Derivative financial assets + Financial assets held under resale agreements + Accounts receivables + Interest receivable – Account payable to brokerage clients – Funds payable to securities issuers + Other receivables + Dividend receivable + Underwriting fees to be transferred)/(Short-term borrowings + Short term financing bills payables + Deposit taken from other financial institutions + Financial liabilities held for trading + Derivative financial liabilities + Financial assets sold under repurchase agreements + Payroll payable + Taxes payable + Accounts payable + Interest payables)
2. Quick ratio = (Bank and cash balance + Clearing settlement funds + Placement to banks and other financial institutions + Margin loan + Financial assets held for trading + Derivative financial assets + Financial assets held under resale agreements + Accounts receivables + Interest receivable – Account payable to brokerage clients – Funds payable to securities issuers + Other receivables + Dividend receivable + Underwriting fees to be transferred)/(Short-term borrowings + Short term financing bills payables + Deposit taken from other financial institutions + Financial liabilities held for trading + Derivative financial liabilities + Financial assets sold under repurchase agreements + Payroll payable + Taxes payable + Accounts payable + Interest payables)

Section IX CORPORATE BONDS

IX. OVERDUE DEBTS

✓ Not applicable

X. PAYMENT OF INTEREST AND REPAYMENT OF PRINCIPAL OF OTHER BONDS AND DEBT FINANCING INSTRUMENTS OF THE COMPANY

Unit: 100 million Currency: RMB (Foreign currencies in special remarks)

| Name of Bonds | Abbreviation | Code | Term | Date of issuance | Maturity date | Balance of bonds | Interest rate | Method to repay principal and pay interest | Venue of trading |
|---|-------------------------------|--------|---------------|------------------|------------------|------------------|----------------------|--|--------------------------|
| 2016 subordinated bonds (Tranche 1) | 16 Haitong C1 | 145179 | 3 years | 17 November 2016 | 17 November 2019 | 40 | 3.30% | Simple annualised interest rate | SSE |
| 2016 subordinated bonds (Tranche 1) | 16 Haitong C2 | 145180 | 5 years | 17 November 2016 | 17 November 2021 | 20 | 3.40% | Simple annualised interest rate | SSE |
| 2017 subordinated bonds (Tranche 1) | 17 Haitong C1 | 145411 | 3 years | 16 March 2017 | 16 March 2020 | 45 | 4.80% | Simple annualised interest rate | SSE |
| 2019 subordinated bonds (Tranche 1) | 19 Haitong C1 | 151202 | 3 years | 28 February 2019 | 28 February 2022 | 33 | 4.09% | Simple annualised interest rate | SSE |
| 2016 non-public issuance of corporate bonds (Tranche 1) | 16 Haitong 01 | 135484 | 4 years (3+1) | 18 May 2016 | 18 May 2019 | - | 3.60% | Simple annualised interest rate | SSE |
| 2016 non-public issuance of corporate bonds (Tranche 1) | 16 Haitong 02 | 135485 | 5 years | 18 May 2016 | 18 May 2021 | 50 | 3.80% | Simple annualised interest rate | SSE |
| Offshore bonds | Haitong Securities 4.5% B2023 | 5482 | 5 years | 13 December 2018 | 13 December 2023 | US\$300 million | 4.5% | Simple semiannualised interest rate | Hong Kong Stock Exchange |
| Offshore bonds | Haitong Securities FRN B2023 | 5483 | 5 years | 13 December 2018 | 13 December 2023 | EUR230 million | 3M EURIBOR EUR+1.65% | Simple quarterly interest rate | Hong Kong Stock Exchange |

- Information on payment of interest and repayment of principal. All debts were repaid with interest payable in full on time. If the date of payment of interest and repayment of principal is not a trading day, it will be postponed to the first subsequent trading day.

Section IX CORPORATE BONDS

2. Issuance. In accordance with the No Objection Letter to Haitong Securities Co., Ltd. on the Listing and Transfer of Non-public Issuance of Subordinated Bonds (Shang Zheng Han [2018] No. 348), the Company issued 2019 subordinated bonds (Tranche 1). For the issuance results, please refer to the announcement on the website of the SSE.
3. Redemption. “16 Haitong 01” under 2016 Non-public Issuance of Corporate Bonds (Tranche 1) was fully redeemed in May 2019 and the notes to the exercise of right of redemption and the results of the redemption were published on the website of the SSE.

XI. BANKING FACILITIES OF THE COMPANY DURING THE REPORTING PERIOD

During the Reporting Period, the Company obtained an aggregate of over RMB500 billion in credit facilities various types from a total of nearly hundreds of banks. The utilised credit facilities was about RMB200 billion, with over RMB300 billion remained unused.

XII. IMPLEMENTATION OF AGREEMENTS OR COMMITMENTS AS DESCRIBED IN THE PROSPECTUS IN CONNECTION WITH ISSUANCE OF CORPORATE BONDS DURING THE REPORTING PERIOD

There were no agreements or commitments described in the prospectus in connection with the issuance of corporate bonds.

XIII. MATERIAL EVENTS AND IMPACT THEREOF ON THE OPERATIONS AND SOLVENCY OF THE COMPANY

There were no material events that would affect the operations and solvency of the Company during the Reporting Period.



Section X FINANCIAL REPORT

- I. The 2019 Interim Financial Report has been reviewed by Deloitte Touche Tohmatsu with the auditor's review report attached hereto.
- II. The Interim Financial Report (attached).



Section XI DOCUMENTS AVAILABLE FOR INSPECTION

- I. The text of this Report with signature of the legal representative of the Company.
- II. The text of the interim financial report with signatures and seals of the legal representative of the Company and the chief financial officer and the person responsible for the accounting affairs.
- III. The text of the auditor's review report from Deloitte Touche Tohmatsu.
- IV. Original of all documents and announcement of the Company publicly disclosed on newspapers designated by the CSRC during the Reporting Period.
- V. Other relevant materials.

Section XII INFORMATION DISCLOSURE OF SECURITIES COMPANY

I. RELEVANT INFORMATION ABOUT MAJOR ADMINISTRATIVE LICENSING MATTERS OF THE COMPANY

(I) Administrative licensing of business departments

| | | |
|--------------------------|------------------------|------------------------------------|
| New business departments | Relocation of branches | Relocation of business departments |
| 0 | 1 | 2 |

1. Administrative licensing of relocation of branches

| No. | Name of branch before relocation | Name of branch after relocation | New address | License obtained on |
|-----|---|---|--|---------------------|
| 1 | Haitong Securities Co., Ltd., Zhejiang Branch | Haitong Securities Co., Ltd., Zhejiang Branch | Units 801, 803, 804, Dikai Ginza Tower, Jianggan District, Hangzhou, Zhejiang, China | 3 January 2019 |

2. Administrative licensing of relocation of business departments

| No. | Name of business department before relocation | Name of business department after relocation | New address | License obtained on |
|-----|---|--|---|---------------------|
| 1 | Business Department of Haitong Securities Co., Ltd. in Stadium Road, Luoyang | Business Department of Haitong Securities Co., Ltd. in Changxing Street, Luoyang | No. 66, Changxing Street, Luolong District, Luoyang | 7 March 2019 |
| 2 | Business Department of Haitong Securities Co., Ltd. in Rushan Road, Shanghai | Business Department of Haitong Securities Co., Ltd. in Pudong South Road, Shanghai | 1/F and units J, K, L, M, N, O of 25/F, No. 379 Pudong South Road, China (Shanghai) Pilot Free Trade Zone | 4 June 2019 |
| 3 | Business Department of Haitong Securities Co., Ltd. in Shaoxi West Road, Huzhou | Business Department of Haitong Securities Co., Ltd. in Shaoxi West Road, Huzhou | Nos. 277-281 (odd), Shaoxi West Road, Shaoxi Commercial & Residential Building 2, Wuxing District, Huzhou, Zhejiang | 25 July 2019 |

Section XII INFORMATION DISCLOSURE OF SECURITIES COMPANY

(II) Inaugural administrative licencing matters of Directors, Supervisors and senior management

| No. | Date | Contents |
|-----|-----------|--|
| 1 | May 2019 | Shanghai Securities Regulatory Bureau of the CSRC issued the Reply of Approval on Qualification of Dai Li as Supervisor of Securities Company (Hu Zheng Jian Xu Ke [2019] No. 24) to the Company, approving the qualification of Dai Li as supervisor of securities company. |
| 2 | May 2019 | Shanghai Securities Regulatory Bureau of the CSRC issued the Reply of Approval on Qualification of Wu Xiangyang as Supervisor of Securities Company (Hu Zheng Jian Xu Ke [2019] No. 28) to the Company, approving the qualification of Wu Xiangyang as supervisor of securities company. |
| 3 | May 2019 | Shanghai Securities Regulatory Bureau of the CSRC issued the Reply of Approval on Qualification of Tu Xuanxuan as Director of Securities Company (Hu Zheng Jian Xu Ke [2019] No. 27) to the Company, approving the qualification of Tu Xuanxuan as director of securities company. |
| 4 | June 2019 | Shanghai Securities Regulatory Bureau of the CSRC issued the Reply of Approval on Qualification of Xu Renzhong as Supervisor of Securities Company (Hu Zheng Jian Xu Ke [2019] No. 30) to the Company, approving the qualification of Xu Renzhong as supervisor of securities company. |
| 5 | June 2019 | Shanghai Securities Regulatory Bureau of the CSRC issued the Reply of Approval on Qualification of Cao Yijian as Supervisor of Securities Company (Hu Zheng Jian Xu Ke [2019] No. 31) to the Company, approving the qualification of Cao Yijian as supervisor of securities company. |
| 6 | June 2019 | Shanghai Securities Regulatory Bureau of the CSRC issued the Reply of Approval on Qualification of Shi Xu as Supervisor of Securities Company (Hu Zheng Jian Xu Ke [2019] No. 40) to the Company, approving the qualification of Shi Xu as supervisor of securities company. |

Section XII INFORMATION DISCLOSURE OF SECURITIES COMPANY

| No. | Date | Contents |
|-----|-----------|--|
| 7 | June 2019 | Shanghai Securities Regulatory Bureau of the CSRC issued the Reply of Approval on Qualification of Zhu Hongchao as Independent Director of Securities Company (Hu Zheng Jian Xu Ke [2019] No. 32) to the Company, approving the qualification of Zhu Hongchao as independent director of securities company. |
| 8 | June 2019 | Shanghai Securities Regulatory Bureau of the CSRC issued the Reply of Approval on Qualification of Zhou Yu as Independent Director of Securities Company (Hu Zheng Jian Xu Ke [2019] No. 37) to the Company, approving the qualification of Zhou Yu as independent director of securities company. |

(III) Other administrative licencing matters

| Date | Business qualification | Approval authority | Approval document | Approval document no. |
|----------------|---|---------------------------------------|--|-----------------------|
| 1 January 2019 | Internal information publication permit | Shanghai Press and Publication Bureau | Publication permit no. (K) 0772 (valid for one year) | Nil |

II. RESULT OF CLASSIFICATION OF THE COMPANY BY REGULATORY AUTHORITY

In 2019, the Company was rated as Grade AA under Category A company in classification and evaluation of securities firms.

Shanghai, the PRC
30 August 2019

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF HAITONG SECURITIES CO., LTD.

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

Introduction

We have reviewed the condensed consolidated financial statements of Haitong Securities Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 127 to 208, which comprise the condensed consolidated statement of financial position as of 30 June 2019 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-months period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

30 August 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

| | NOTES | Six months ended 30 June | |
|--|-------|--------------------------------|--------------------------------|
| | | 2019 RMB'000 (unaudited) | 2018 RMB'000 (unaudited) |
| Commission and fee income | 6 | 6,209,922 | 5,347,240 |
| Interest income | 7 | 6,654,733 | 7,405,059 |
| Finance lease income | | 2,359,689 | 1,689,926 |
| Investment income and gains (net) | 8 | 5,846,516 | 1,636,571 |
| | | 21,070,860 | 16,078,796 |
| Other income and gains | 9 | 5,002,600 | 2,910,777 |
| Total revenue, gains and other income | | 26,073,460 | 18,989,573 |
| Depreciation and amortisation | 10 | (524,164) | (283,673) |
| Staff costs | | (3,442,950) | (2,554,605) |
| Commission to account executives | | (238,502) | (289,468) |
| Brokerage transaction fees and other services expenses | 11 | (1,108,832) | (874,917) |
| Interest expenses | 12 | (6,761,366) | (6,443,120) |
| Impairment losses under expected credit loss model | 13 | (1,059,233) | (682,526) |
| Impairment losses on other assets | | (12,260) | (15,303) |
| Other expenses | 14 | (5,073,822) | (3,308,268) |
| Total expenses | | (18,221,129) | (14,451,880) |
| Share of results of associates and joint ventures | | 151,426 | (36,307) |
| Profit before income tax | | 8,003,757 | 4,501,386 |
| Income tax expense | 15 | (1,935,608) | (1,042,017) |
| Profit for the period | | 6,068,149 | 3,459,369 |
| Attributable to: | | | |
| Owners of the Company | | 5,526,505 | 3,030,926 |
| Non-controlling interests | | 541,644 | 428,443 |
| Including: Perpetual notes | | 24,851 | 24,707 |
| | | 6,068,149 | 3,459,369 |
| Earnings per share (Expressed in RMB per share) | | | |
| – Basic | 16 | 0.48 | 0.26 |
| – Diluted | 16 | 0.48 | 0.26 |

The accompanying notes form part of these unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

| | Six months ended 30 June | |
|--|--------------------------------|--------------------------------|
| | 2019 RMB'000 (unaudited) | 2018 RMB'000 (unaudited) |
| Profit for the period | 6,068,149 | 3,459,369 |
| Other comprehensive income/(expenses): | | |
| Items that will not be reclassified subsequently to profit or loss: | | |
| Actuarial (losses)/gains on defined benefit obligations | (63,879) | 4,299 |
| Fair value gains/(losses) on equity instruments measured at fair value through other comprehensive income | 1,086,063 | (689,252) |
| Income tax impact | (264,795) | 172,313 |
| Subtotal | 757,389 | (512,640) |
| Items that may be subsequently reclassified to profit or loss: | | |
| Exchange differences arising on translation of foreign operations | 62,069 | (195,160) |
| Fair value (losses)/gains on hedges of net investments in foreign operations | (3,457) | 101,392 |
| Fair value gains/(losses) on: | | |
| Debt instruments measured at fair value through other comprehensive income | | |
| Net fair value changes during the period | 79,076 | (133,429) |
| Reclassification adjustment to profit or loss on disposal | (28,201) | 5,311 |
| Reclassification adjustment to profit or loss for expected credit losses | (4,052) | 29,352 |
| Income tax relating to components of other comprehensive income | (13,556) | 43,997 |
| Share of other comprehensive income/(expenses) of associates and joint ventures, net of related income tax | 66,557 | (41,175) |
| Others | 1,002 | - |
| Subtotal | 159,438 | (189,712) |
| Other comprehensive income/(expenses) for the period (net of tax) | 916,827 | (702,352) |
| Total comprehensive income for the period | 6,984,976 | 2,757,017 |
| Attributable to: | | |
| Owners of the Company | 6,389,628 | 2,281,030 |
| Non-controlling interests | 595,348 | 475,987 |
| Including: Perpetual notes | 24,738 | 24,145 |
| | 6,984,976 | 2,757,017 |

The accompanying notes form part of these unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

| | NOTES | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 RMB'000 (audited) |
|--|-------|--------------------------------------|------------------------------------|
| Non-current assets | | | |
| Property and equipment | 17 | 6,496,853 | 6,044,423 |
| Right-of-use assets | 18 | 1,754,718 | – |
| Investment properties | | 177,283 | 213,429 |
| Goodwill | 19 | 4,061,541 | 4,046,190 |
| Other intangible assets | | 511,344 | 517,795 |
| Deferred tax assets | 20 | 3,313,900 | 3,241,202 |
| Investments accounted for using equity method | 21 | 5,293,083 | 5,312,881 |
| Finance lease receivables | 22 | 26,794,282 | 30,824,664 |
| Receivables arising from sale-and-leaseback arrangements | 23 | 7,387,410 | – |
| Equity instruments at fair value through other comprehensive income | 24 | 15,932,967 | 15,228,291 |
| Debt instruments at fair value through other comprehensive income | 25 | 6,564,282 | 5,768,988 |
| Debt instruments measured at amortised cost | 26 | 1,736,542 | 679,214 |
| Financial assets at fair value through profit or loss | 27 | 26,460,990 | 18,368,406 |
| Financial assets held under resale agreements | 28 | 6,272,577 | 11,002,055 |
| Other loans and receivables | 29 | 3,439,034 | 5,647,819 |
| Loans and advances | 30 | 3,581,220 | 3,744,563 |
| Deposits with exchanges | 31 | 1,205,014 | 1,381,539 |
| Restricted bank balances and cash | 32 | 850,664 | 739,260 |
| Other non-current assets | 34 | 524,265 | 1,179,204 |
| Total non-current assets | | 122,357,969 | 113,939,923 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

| | NOTES | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 <i>RMB'000</i> (audited) |
|--|-------|---|---|
| Current assets | | | |
| Advances to customers on margin financing | 35 | 52,096,466 | 48,861,009 |
| Accounts receivable | 36 | 13,167,368 | 8,257,214 |
| Finance lease receivables | 22 | 29,575,235 | 30,828,048 |
| Receivables arising from sale-and-leaseback arrangements | 23 | 4,083,497 | – |
| Debt instruments at fair value through other comprehensive income | 25 | 6,586,108 | 9,362,242 |
| Debt instruments measured at amortised cost | 26 | 1,411,410 | 4,082 |
| Financial assets at fair value through profit or loss | 27 | 170,270,376 | 158,837,008 |
| Derivative financial assets | 37 | 1,367,102 | 1,780,757 |
| Financial assets held under resale agreements | 28 | 59,558,212 | 71,676,737 |
| Other loans and receivables | 29 | 17,873,162 | 14,043,711 |
| Loans and advances | 30 | 469,900 | 618,924 |
| Other current assets | 38 | 3,336,458 | 3,031,728 |
| Placements to banks and other financial institutions | | 110,378 | 31,144 |
| Deposits with exchanges | 31 | 8,060,179 | 5,601,350 |
| Clearing settlement funds | 39 | 8,217,968 | 7,646,561 |
| Deposits with central banks | 40 | 1,937,889 | 2,426,236 |
| Deposits with other banks | 40 | 231,262 | 253,908 |
| Bank balances and cash | 32 | 122,196,330 | 97,423,052 |
| Total current assets | | 500,549,300 | 460,683,711 |
| Total assets | | 622,907,269 | 574,623,634 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

| | NOTES | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 RMB'000 (audited) |
|--|-------|--------------------------------------|------------------------------------|
| Current liabilities | | | |
| Borrowings | 41 | 58,204,250 | 52,489,162 |
| Short-term financing bills payables | 42 | 35,381,594 | 26,537,968 |
| Bonds payable | 43 | 57,220,798 | 41,923,410 |
| Accounts payable to brokerage clients | 44 | 90,371,199 | 71,893,535 |
| Customer accounts | 45 | 2,490,178 | 2,160,326 |
| Contract liabilities | | 352,167 | 284,005 |
| Other payables and accruals | 46 | 15,930,742 | 13,455,014 |
| Lease liabilities | 18 | 332,264 | – |
| Provisions | 47 | 152,929 | 145,107 |
| Tax liabilities | | 1,215,422 | 1,535,337 |
| Financial liabilities at fair value through profit or loss | 48 | 22,746,698 | 23,862,827 |
| Derivative financial liabilities | 37 | 2,002,562 | 2,218,774 |
| Financial assets sold under repurchase agreements | 49 | 65,712,895 | 56,372,903 |
| Placements from banks and other financial institutions | 50 | 3,101,419 | 8,482,577 |
| Deposits from central banks | | 469,020 | 470,838 |
| Deposits from other banks | | 21,140 | 19,950 |
| Total current liabilities | | 355,705,277 | 301,851,733 |
| Net current assets | | 144,844,023 | 158,831,978 |
| Total assets less current liabilities | | 267,201,992 | 272,771,901 |
| Equity | | | |
| Share capital | 51 | 11,501,700 | 11,501,700 |
| Capital reserve | | 56,301,332 | 56,405,921 |
| Revaluation reserve | 52 | 429,452 | (400,148) |
| Translation reserve | | (797,445) | (803,870) |
| General reserves | | 19,911,451 | 19,819,343 |
| Retained profits | | 35,048,844 | 31,335,629 |
| Equity attributable to owners of the Company | | 122,395,334 | 117,858,575 |
| Non-controlling interests | | 14,732,212 | 12,327,344 |
| Including: Perpetual notes | | 1,241,080 | 1,266,286 |
| Total equity | | 137,127,546 | 130,185,919 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

| | NOTES | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 RMB'000 (audited) |
|--|-------|---|------------------------------------|
| Non-current liabilities | | | |
| Long-term payables | 53 | 7,121,977 | 6,664,935 |
| Deferred tax liabilities | 20 | 811,765 | 206,710 |
| Long-term borrowings | 41 | 28,511,034 | 27,714,158 |
| Bonds payable | 43 | 84,218,934 | 98,223,447 |
| Other payables and accruals | 46 | 875,844 | 1,197,086 |
| Financial liabilities at fair value through profit or loss | 48 | 1,695,469 | 2,338,127 |
| Lease liabilities | 18 | 616,918 | – |
| Placements from banks and other financial institutions | 50 | 6,222,505 | 6,241,519 |
| Total non-current liabilities | | 130,074,446 | 142,585,982 |
| Total equity and non-current liabilities | | 267,201,992 | 272,771,901 |

The accompanying notes form part of these unaudited condensed consolidated financial statements.

The unaudited condensed consolidated financial statements were approved by the Board of Directors on 30 August 2019 and signed on its behalf by:

周杰
Chairman of Board

瞿秋平
*Executive Director and
General Manager*

張信軍
Chief Financial Officer

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

| | Attributable to owners of the Company | | | | | | Non-controlling interests | | | | |
|---|---------------------------------------|-----------------|---------------------|---------------------|------------------|------------------|---------------------------------------|-----------------|-----------|--------------|-------------|
| | Share capital | Capital reserve | Revaluation reserve | Translation reserve | General reserves | Retained profits | ordinary shareholders of subsidiaries | Perpetual Notes | Total | Total equity | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | (Note a) | | | | | | | | | |
| Unaudited | | | | | | | | | | | |
| At 31 December 2018 | 11,501,700 | 56,405,921 | (400,148) | (803,870) | 19,819,343 | 31,335,629 | 117,858,575 | 11,061,058 | 1,266,286 | 12,327,344 | 130,185,919 |
| Adjustment (Note 3) | - | - | - | - | - | (35,423) | (35,423) | (2,876) | - | (2,876) | (38,299) |
| At 1 January 2019 (restated) | 11,501,700 | 56,405,921 | (400,148) | (803,870) | 19,819,343 | 31,300,206 | 117,823,152 | 11,058,182 | 1,266,286 | 12,324,468 | 130,147,620 |
| Profit for the period | - | - | - | - | - | 5,526,505 | 5,526,505 | 516,793 | 24,851 | 541,644 | 6,068,149 |
| Other comprehensive income/ (expense) for the period | - | - | 856,698 | 6,425 | - | - | 863,123 | 53,817 | (113) | 53,704 | 916,827 |
| Total comprehensive income/ (expense) for the period | - | - | 856,698 | 6,425 | - | 5,526,505 | 6,389,628 | 570,610 | 24,738 | 595,348 | 6,984,976 |
| H shares issued by a subsidiary | - | (88,758) | - | - | - | - | (88,758) | 2,058,655 | - | 2,058,655 | 1,969,897 |
| Shares issued under convertible bond and share option schemes of a subsidiary | - | 4,131 | - | - | - | - | 4,131 | 2,119 | - | 2,119 | 6,250 |
| Appropriation to general reserve | - | - | - | - | 92,108 | (92,108) | - | - | - | - | - |
| Cash dividend recognised as distribution (Note 57) | - | - | - | - | - | (1,725,255) | (1,725,255) | - | - | - | (1,725,255) |
| Distribution to non-controlling interests and perpetual notes holders | - | - | - | - | - | 12,516 | 12,516 | (213,254) | (50,062) | (263,316) | (250,800) |
| Share-based payments of a subsidiary | - | - | - | - | - | - | - | 21,811 | - | 21,811 | 21,811 |
| Purchase of shares held under the share award scheme of a subsidiary | - | (19,662) | - | - | - | - | (19,662) | (11,272) | - | (11,272) | (30,934) |
| Disposal of equity instruments at fair value through other comprehensive income | - | - | (27,098) | - | - | 27,098 | - | - | - | - | - |
| Changes in non-controlling interests | - | (300) | - | - | - | - | (300) | 4,281 | - | 4,281 | 3,981 |
| Others | - | - | - | - | - | (118) | (118) | - | 118 | 118 | - |
| At 30 June 2019 | 11,501,700 | 56,301,332 | 429,452 | (797,445) | 19,911,451 | 35,048,844 | 122,395,334 | 13,491,132 | 1,241,080 | 14,732,212 | 137,127,546 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

| | Attributable to owners of the Company | | | | | | Non-controlling interests | | | | |
|---|---------------------------------------|----------------------------|--------------------------------|--------------------------------|-----------------------------|-----------------------------|----------------------------------|-------------------------|----------------------------|-------------------------|-------------|
| | Share capital RMB'000 | Capital reserve RMB'000 | Revaluation reserve RMB'000 | Translation reserve RMB'000 | General reserves RMB'000 | Retained profits RMB'000 | Ordinary | | | Total equity RMB'000 | |
| | | | | | | | Total of subsidiaries RMB'000 | Shareholders RMB'000 | Perpetual Notes RMB'000 | | |
| | (Note a) | | | | | | | | | | |
| Unaudited | | | | | | | | | | | |
| At 1 January 2018 | 11,501,700 | 56,357,980 | 1,359,762 | (445,275) | 18,018,053 | 30,560,381 | 117,352,601 | 10,647,409 | 1,264,427 | 11,911,836 | 129,264,437 |
| Profit for the period | - | - | - | - | - | 3,030,926 | 3,030,926 | 403,736 | 24,707 | 428,443 | 3,459,369 |
| Other comprehensive (expense)/ income for the period | - | - | (607,725) | (142,171) | - | - | (749,896) | 48,106 | (562) | 47,544 | (702,352) |
| Total comprehensive (expense)/ income for the period | - | - | (607,725) | (142,171) | - | 3,030,926 | 2,281,030 | 451,842 | 24,145 | 475,987 | 2,757,017 |
| Shares issued under convertible bond and share option schemes of a subsidiary | - | - | - | - | - | - | - | 11,416 | - | 11,416 | 11,416 |
| Appropriation to general reserve | - | - | - | - | 28,162 | (28,162) | - | - | - | - | - |
| Cash dividend recognised as distribution (Note 57) | - | - | - | - | - | (2,645,391) | (2,645,391) | - | - | - | (2,645,391) |
| Distribution to non-controlling interests and perpetual notes holders | - | - | - | - | - | 12,456 | 12,456 | (375,733) | (49,826) | (425,559) | (413,103) |
| Share-based payments of a subsidiary | - | - | - | - | - | - | - | 17,380 | - | 17,380 | 17,380 |
| Purchase of shares held under the share award scheme of a subsidiary | - | - | - | - | - | - | - | (18,966) | - | (18,966) | (18,966) |
| Others | - | - | - | - | - | (1,620) | (1,620) | - | 1,620 | 1,620 | - |
| At 30 June 2018 | 11,501,700 | 56,357,980 | 752,037 | (587,446) | 18,046,215 | 30,928,590 | 116,999,076 | 10,733,348 | 1,240,366 | 11,973,714 | 128,972,790 |

Note a:

Capital reserve of the Group represents primarily (i) the share premium arisen from the issuance of the Company's shares; (ii) the difference between the considerations paid or received over the proportionate share of net assets attributable to the changes of the Group's equity interest in subsidiaries without loss of control; and (iii) the impact of share-based payments and share award scheme.

The accompanying notes form part of these unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

| | Six months ended 30 June | |
|---|---------------------------------------|---------------------------------------|
| | 2019 <i>RMB'000</i> (unaudited) | 2018 <i>RMB'000</i> (unaudited) |
| OPERATING ACTIVITIES | | |
| Profit before income tax | 8,003,757 | 4,501,386 |
| Adjustments for Interest expenses | 5,298,856 | 5,160,107 |
| Share of results of associates and joint ventures | (151,426) | 36,307 |
| Depreciation and amortisation | 524,164 | 283,673 |
| Impairment losses under expected credit loss model | 1,059,233 | 682,526 |
| Impairment losses of other assets | 12,260 | 15,303 |
| Share-based payment of a subsidiary | 21,811 | 17,380 |
| Losses on disposal of property and equipment and other intangible assets | 1,653 | 4,134 |
| Foreign exchange losses, net | 23,437 | 926 |
| Losses on partial disposal of an associate | – | 5,398 |
| Interest income from debt instruments at fair value through other comprehensive income | (302,351) | (232,104) |
| Interest income from debt instruments measured at amortised cost | (16,657) | – |
| Dividend income arising from equity instruments at fair value through other comprehensive income | (2,494) | (2,000) |
| Net gains arising from debt instruments at fair value through other comprehensive income | (25,707) | (27,657) |
| Net realised gains and income arising from FVTPL | (236,351) | (205,012) |
| Fair value change of financial instruments at fair value through profit or loss | (1,301,650) | 511,861 |
| Others | (21,761) | 41,735 |
| Operating cash flows before movements in working capital | 12,886,774 | 10,793,963 |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

| | Six months ended 30 June | |
|--|---------------------------------------|---------------------------------------|
| | 2019 <i>RMB'000</i> (unaudited) | 2018 <i>RMB'000</i> (unaudited) |
| Increase in finance lease receivables and receivables arising from sale-and-leaseback arrangements | (6,605,764) | (9,078,113) |
| Increase in financial assets at fair value through profit or loss and derivative financial assets | (17,606,309) | (28,520,716) |
| Decrease/(increase) in financial assets held under resale agreements | 16,580,908 | (1,744,001) |
| (Increase)/decrease in other loans and receivables | (1,763,169) | 1,386,978 |
| Decrease in loans and advances | 342,016 | 768,529 |
| (Increase)/decrease in advances to customers on margin financing | (3,463,765) | 2,633,877 |
| Increase in accounts receivables and other current assets | (5,115,260) | (6,487,872) |
| (Increase)/decrease in placements to banks and other financial institutions | (79,307) | 638,117 |
| Increase in deposits with exchanges | (2,255,341) | (419,029) |
| (Increase)/decrease in deposit with central banks | (9,988) | 6,410 |
| Decrease in restricted bank deposits | 193,643 | 1,045,296 |
| (Increase)/decrease in cash held on behalf of clients | (14,331,432) | 1,004,562 |
| Increase in accounts payable to brokerage clients and other payables and accruals | 19,868,206 | 545,230 |
| Increase/(decrease) in customer accounts | 329,852 | (1,403,338) |
| Increase in contract liabilities | 68,162 | 457,461 |
| Increase/(decrease) in provisions | 11,762 | (106,172) |
| (Decrease)/increase in financial liabilities at fair value through profit or loss and derivative financial liabilities | (1,974,999) | 3,574,873 |
| Increase in financial assets sold under repurchase agreements | 10,096,848 | 7,701,816 |
| (Decrease)/increase in placements from banks and other financial institutions | (5,278,193) | 10,138,437 |
| Decrease in deposit from central banks | (1,818) | (9,048) |
| Increase/(decrease) in deposit from other banks | 1,190 | (86,979) |
| Cash from/(used in) operations | 1,894,016 | (7,159,719) |
| Income taxes paid | (2,019,701) | (2,064,057) |
| Interest paid | (1,351,476) | (1,208,956) |
| NET CASH USED IN OPERATING ACTIVITIES | (1,477,161) | (10,432,732) |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

| | Six months ended 30 June | |
|---|--|---------------------------------------|
| | 2019 <i>RMB'000</i> (unaudited) | 2018 <i>RMB'000</i> (unaudited) |
| NOTES | | |
| INVESTING ACTIVITIES | | |
| Dividends received from associates and other investments | 544,548 | 101,693 |
| Dividends received from equity instruments at fair value through other comprehensive income | 2,494 | 2,000 |
| Purchases of property and equipment and other intangible assets | (906,898) | (404,650) |
| Purchases of investment properties | – | (240,620) |
| Payments for rental deposits | (364) | – |
| Proceeds on disposal of property and equipment | 2,119 | 9,526 |
| Purchase of investments accounted for using equity method | (176,400) | (30,000) |
| Proceeds from partial disposal of an associate | – | 1,607,596 |
| Purchases of | | |
| equity instruments at fair value through other comprehensive income | (1,676) | – |
| debt instruments at fair value through other comprehensive income | (6,285,836) | (16,031,087) |
| debt instruments measured at amortised cost | (2,467,232) | – |
| financial assets at fair value through profit or loss | (779,849) | (2,228,640) |
| Proceeds from disposal of or interest received from | | |
| equity instruments at fair value through other comprehensive income | 383,064 | – |
| debt instruments at fair value through other comprehensive income | 8,213,457 | 12,814,730 |
| debt instruments at amortised cost | 16,657 | – |
| financial assets at fair value through profit or loss | 684,093 | 2,401,173 |
| NET CASH USED IN INVESTING ACTIVITIES | (771,823) | (1,998,279) |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

| | NOTES | Six months ended 30 June | |
|---|-------|--------------------------------|--------------------------------|
| | | 2019 RMB'000 (unaudited) | 2018 RMB'000 (unaudited) |
| FINANCING ACTIVITIES | | | |
| Dividends paid | | (189,673) | (326,670) |
| Proceeds from issuance of subsidiaries' shares | | 2,401 | – |
| Proceeds from H share issuance of a subsidiary | | 2,039,249 | – |
| Payments on capital returned to non-controlling shareholders | | (1,470) | – |
| Borrowings raised | | 12,611,794 | 43,640,927 |
| Interest paid for borrowings and bonds | | (4,972,557) | (5,170,144) |
| Interest paid for perpetual notes | | (50,062) | (49,826) |
| Issuance cost paid for short-term financing bills payables, non-convertible bonds and others | | (221,749) | (35,202) |
| Repayment of borrowings, short-term financing bills payables, non-convertible bonds and others | | (69,901,553) | (88,117,989) |
| Repayments of leases liabilities | | (219,139) | – |
| Proceeds from short term bonds, non-convertible bonds and others | | 73,988,269 | 63,190,478 |
| Proceeds from share issued upon exercise of share options of a subsidiary | | 6,250 | 9,525 |
| Purchase of shares held under the share award scheme | | (30,934) | (18,966) |
| NET CASH FROM FINANCING ACTIVITIES | | 13,060,826 | 13,122,133 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 10,811,842 | 691,122 |
| CASH AND CASH EQUIVALENTS | | | |
| AT BEGINNING OF THE PERIOD | | 38,110,682 | 31,820,863 |
| Effect of foreign exchange rate changes | | 12,530 | (21,766) |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD | 33 | 48,935,054 | 32,490,219 |
| Total interest paid | | (6,374,095) | (6,428,926) |

The accompanying notes form part of these unaudited condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. GENERAL INFORMATION

Haitong Securities Co., Ltd. (the “Company”) was transformed from Shanghai Haitong Securities Company (上海海通證券公司), which was established in 1988, to a limited liability company upon the authorisation by the People’s Bank of China in September 1994 and changed its name to 海通證券有限公司. In December 2001, the Company was further transformed to a joint-stock company upon the approval from China Securities Regulatory Commission (the “CSRC”). In January 2002, the Company changed its name from 海通證券有限公司 to Haitong Securities Co., Ltd. (海通證券股份有限公司). In June 2007, the Company’s merger with former Shanghai Urban Agro-Business Co., Ltd. (上海市都市農商社股份有限公司) was approved by the CSRC, and was listed on the Shanghai Stock Exchange in July in the same year. After its listing, its name was changed to “Haitong Securities”. On 27 April 2012, the Company issued H shares which were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”).

The address of the Company’s registered office and the principal place of business is Haitong Securities Building, No. 689 Guangdong Road, Shanghai, the People’s Republic of China (the “PRC”).

The Company and its subsidiaries (the “Group”) are principally engaged in securities and futures contracts dealing and broking, proprietary trading, margin and other financing, underwriting, assets management, direct equity investments, finance lease business, banking services, corporate finance business, individual finance business, fund management business and provision of investment advisory and consultancy services.

The condensed consolidated financial statements are presented in Renminbi (“RMB”), which is also the functional currency of the Company.

Significant events and transactions in the current interim period

On 3 June 2019, Haitong UniTrust International Leasing Co., Ltd., a subsidiary of the Group, was listed on the Main Board of Hong Kong Stock Exchange and issued 1,235,300,000 H shares with par value of RMB1. The gross proceeds amounted to HK\$2,322,364 thousand.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (“IASB”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the “Listing Rules”).

The condensed consolidated financial statements of the Group should be read in conjunction with its 2018 annual financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards (“IFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2018.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the IASB, which are mandatorily effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group’s condensed consolidated financial statements.

| | |
|----------------------|--|
| IFRS 16 | Leases |
| IFRIC 23 | Uncertainty over Income Tax Treatments |
| Amendments to IAS 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to IAS 28 | Long-term Interests in Associates and Joint Ventures |
| Amendments to IFRSs | Annual Improvements to IFRSs 2015-2017 Cycle |

Except as described below, the application of the new and amendments to IFRSs in the current period has had no material impact on the Group’s financial performance and positions for the current and prior periods and on the disclosures set out in these condensed consolidated financial statements.

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current interim period. IFRS 16 superseded IAS 17 *Leases* (“IAS 17”), and related interpretations.

3.1.1 Key change in accounting policies resulting from application of IFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of IFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (continued)

3.1.1 Key change in accounting policies resulting from application of IFRS 16 (continued)

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (continued)

3.1.1 Key change in accounting policies resulting from application of IFRS 16 (continued)

As a lessee (continued)

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (continued)

3.1.1 Key change in accounting policies resulting from application of IFRS 16 (continued)

As a lessee (continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Company recognises the right-of-use assets and the related lease liabilities, the Company first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Company applies IAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

As a lessor

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (continued)

3.1.1 Key change in accounting policies resulting from application of IFRS 16 (continued)

As a lessor (continued)

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Sale and leaseback transactions

The Group acts as a buyer-lessor

For a transfer of asset that does not satisfy the requirements of IFRS 15 to be accounted for as a sale of asset, the Group as a buyer-lessor does not recognise the transferred asset and recognises receivables arising from sales and leaseback arrangements equal to the transfer proceeds within the scope IFRS 9.

3.1.2 Transition and summary of effects arising from initial application of IFRS 16

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (continued)

3.1.2 Transition and summary of effects arising from initial application of IFRS 16 (continued)

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- Relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;
- Applied a single discount rate to a portfolio of leases with similar characteristics;
- Elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- Excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of IFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and measured right-of-use assets at the carrying amounts as if IFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying IFRS 16.C8(b) (i) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied by the relevant group entities ranges from 3.03% to 5.26%.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (continued)

3.1.2 Transition and summary of effects arising from initial application of IFRS 16 (continued)

As a lessee (continued)

The reconciliation of the operating lease commitments and the opening balance of lease liabilities as at 1 January 2019 comprises the following:

| | 2019/1/1 |
|--|-----------------|
| | <i>RMB'000</i> |
| Operating lease commitments disclosed as at 31 December 2018 | 1,008,160 |
| Lease liabilities discounted at relevant incremental borrowing rates | 930,358 |
| Less: Recognition exemption – short-term leases | (78,352) |
| Recognition exemption – low value assets | (20) |
| Lease liabilities as at 1 January 2019 | 851,986 |
| Analysed for reporting purpose as | |
| Current liabilities | 310,494 |
| Non-current liabilities | 541,492 |
| | 851,986 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (continued)

3.1.2 Transition and summary of effects arising from initial application of IFRS 16 (continued)

As a lessee (continued)

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

| | 2019/1/1 RMB'000 |
|---|---------------------|
| Right-of-use assets relating to operating leases recognised upon application of IFRS 16 | 813,687 |
| Reclassified from prepaid lease payments (Note) | |
| Non-current | 808,713 |
| Current | 503 |
| Reclassified from prepaid rental expense (Note) | |
| Current | 1,661 |
| | 1,624,564 |
| By class: | |
| Buildings | 818,201 |
| Leasehold land | 795,218 |
| Others | 11,145 |
| | 1,624,564 |

Note :

As at 31 December 2018, upfront payments for leasehold land and buildings in the PRC were classified as prepaid lease payments, and prepaid rental expenses were classified as other receivables and prepayments. Upon application of IFRS 16, the prepaid lease payments and prepaid rental expenses were reclassified to right-of-use assets.

As a lessor

In accordance with the transitional provisions in IFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated.

Upon application of IFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group's condensed consolidated statement of financial position at 1 January 2019. However, effective 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (continued)

3.1.2 Transition and summary of effects arising from initial application of IFRS 16 (continued)

As a lessor (continued)

Before application of IFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which IAS 17 applied. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect at transition.

Effective on 1 January 2019, the Group has applied IFRS 15 to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the condensed consolidated financial statements of the Group for the current period.

Sales and leaseback transactions - the Group acts as a buyer-lessor

In accordance with the transition provisions of IFRS 16, sale and leaseback transactions entered into before the date of initial application were not reassessed. Upon application of IFRS 16, the Group as a buyer-lessor does not recognise the transferred asset if such transfer does not satisfy the requirements of IFRS 15 as a sale. During the period, several sales and leaseback transactions in which the relevant seller-lessees have an obligation or a right to repurchase the relevant assets were accounted as financing arrangements under IFRS 9.

The following table summarises the impact of transition to IFRS 16 on retained profits at 1 January 2019.

| | Impact of adopting IFRS 16 at 1 January 2019 <i>RMB'000</i> |
|--------------------------|---|
| Retained profits | (35,423) |
| Impact at 1 January 2019 | (35,423) |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (continued)

3.1.2 Transition and summary of effects arising from initial application of IFRS 16 (continued)

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

| | 2018/12/31 | IFRS 16 | 2019/1/1 |
|-----------------------------------|-------------------|----------------|-----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| | (audited) | (unaudited) | (unaudited) |
| Non- current assets | | | |
| Right-of-use assets | – | 1,624,564 | 1,624,564 |
| Other assets | 1,179,204 | (808,713) | 370,491 |
| Current assets | | | |
| Other receivables and prepayments | 3,031,728 | (2,164) | 3,029,564 |
| Equity | | | |
| Retained profits | 31,335,629 | (35,423) | 31,300,206 |
| Non-controlling interests | 12,327,344 | (2,876) | 12,324,468 |
| Current liabilities | | | |
| Lease liabilities | – | 310,494 | 310,494 |
| Non-current liabilities | | | |
| Lease liabilities | – | 541,492 | 541,492 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (continued)

3.1.2 Transition and summary of effects arising from initial application of IFRS 16 (continued)

The following tables summarise the impacts of applying IFRS 16 as a lessor on the Group's condensed consolidated statement of financial position as at June 30, 2019 and its condensed consolidated statement profit or loss for the current interim period for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the condensed consolidated statement of financial position

| | As reported RMB'000 (Unaudited) | Adjustments RMB'000 (Unaudited) | Amounts without application of IFRS 16, as a lessor RMB'000 (Unaudited) |
|--|---------------------------------------|---------------------------------------|---|
| Non-current assets | | | |
| Finance lease receivables | 26,794,282 | 7,387,410 | 34,181,692 |
| Receivables arising from sale and leaseback arrangements | 7,387,410 | (7,387,410) | – |
| Current assets | | | |
| Finance lease receivables | 29,575,235 | 4,083,497 | 33,658,732 |
| receivables arising from sale and leaseback arrangements | 4,083,497 | (4,083,497) | – |

Impact on the condensed consolidated statement of profit and loss

| | As reported RMB'000 (Unaudited) | Adjustments RMB'000 (Unaudited) | Amounts without application of IFRS 16, as a lessor RMB'000 (Unaudited) |
|----------------------|---------------------------------------|---------------------------------------|---|
| Finance lease income | 2,359,689 | 156,122 | 2,515,811 |
| Interest income | 6,654,733 | (156,122) | 6,498,611 |

4. KEY SOURCES AND CRITICAL ACCOUNTING JUDGEMENT

The preparation of the condensed consolidated financial statements requires management to make judgment, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results in the future may differ from those reported as a result of the use of estimation and assumptions about future conditions.

The key sources of estimation uncertainty used in the condensed consolidated financial statement for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

5. SEGMENT REPORTING

Information reported to the chief operating decision maker (the “CODM”), being the board of directors of the Company, for the purposes of resource allocation and assessment of segment performance focuses on the nature of products sold and services provided by the Group, which is also consistent with the Group’s basis of organisation, whereby the businesses are organised and managed separately as individual strategic business units that offers different products and serves different markets. With changes in environment of security market and constant development of various business activities, the Group will make adjustments to business segments in order to facilitate implementation of the Group’s strategic planning and satisfy internal management in the meantime. The Group’s business segments are classified in accordance with the requirements of International Financial Reporting Standards, and are based on the internal organisation structure, management requirements and internal reporting system. The reporting segments are determined based on business segments. A business segment is a component of the Group with all the following conditions satisfied: (1) such component is able to generate revenue and expenses in the ordinary course of the Group, (2) CODM periodically evaluates the operating results of these reporting segments to make decisions about resources to be allocated to the segments and assess their performance; (3) the Group has access to such component’s accounting information including financial position, operating results and cash flows. If two or more business segments have similar economic characteristics or a similar business model, they may be combined as one business segment. Based on its strategic planning and internal management requirements, the Group determines six business segments: wealth management, investment banking, asset management, trading and institution, finance lease and others. Classification of reporting segments is consistent with that of business segments.

Segment information is measured in accordance with the accounting policies and measurement criteria adopted by each segment when reporting to CODM, which are consistent with the accounting and measurement criteria in the preparation of the condensed consolidated financial statements.

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

- (1) Wealth Management Segment engages in provision of a full range of financial services and investment solutions to retail and high net-worth clients. Services provided include brokering and dealing in securities and futures, investment consulting, wealth management as well as financial services such as margin financing, security lending, stock pledge, etc.;
- (2) Investment Banking Segment engages in provision of sponsoring and underwriting services to enterprises and government clients for their fund raising activities in equity and debt capital markets, and also engages in provision financial consulting services for enterprises for their corporate actions such as merger and assets restructuring services as well as provision of services related to the National Equities Exchange and Quotations;

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

5. SEGMENT REPORTING (continued)

- (3) Asset Management Segment engages in provision of investment management services on diversified and comprehensive investment products including asset management, fund management, and private equity management to individual, corporate and institutional clients;
- (4) Trading and Institution Segment engages in provision of stock sales and trading, prime brokerage, stock lending, and stock research in financial markets across the world to global institutional clients, and also engages in provision of market-making services for fixed income, currency and commodity products, futures and options, and derivatives on major exchanges around the world. At the same time, through investment funds and private equity projects, we enhance the synergistic advantages of all business divisions of the group, and focus on exploring investment opportunities with reasonable capital returns, so as to expand customer relations and promote the overall growth of the group's business;
- (5) Finance Lease Segment engages in provision of innovative financial solutions, including finance lease, operating lease, factoring, entrustment loans and relevant consulting to individuals, enterprises and government clients;
- (6) Others Segment engages in provision of other comprehensive financial and information services to institutions clients, including warehouse receipts pledge service, pricing service, market-making service and services related to risk management.

Segment profit/loss represents the profit earned by/loss measured by each segment without allocation of income tax expenses. This is the measure reported to CODM for the purposes of resource allocation and performance assessment.

Share of result of associates and joint ventures are allocated to segment profit/loss while the corresponding investments in associates and joint ventures are not allocated to each segment.

During the six-months ended 30 June 2019, there has been no material changes in segment assets and liabilities. Accordingly, the condensed consolidated financial statements do not disclose such information.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

5. SEGMENT REPORTING (continued)

Operating and Reportable segment

For the six months ended 30 June 2019 (unaudited)

| | Wealth management RMB'000 | Investment banking RMB'000 | Asset management RMB'000 | Trading and institution RMB'000 | Finance lease RMB'000 | Others RMB'000 | Consolidated total RMB'000 |
|---|---------------------------------|----------------------------------|--------------------------------|---------------------------------------|-----------------------------|-------------------|----------------------------------|
| Segment revenue and results | | | | | | | |
| Revenue and net investment gains | 7,624,227 | 1,881,772 | 1,439,706 | 7,385,728 | 2,753,952 | (14,525) | 21,070,860 |
| Other income and gains | 130,631 | 51,966 | 19,400 | 114,702 | 952,035 | 3,733,866 | 5,002,600 |
| Segment revenue | 7,754,858 | 1,933,738 | 1,459,106 | 7,500,430 | 3,705,987 | 3,719,341 | 26,073,460 |
| Segment expenses | 4,976,628 | 1,124,210 | 722,221 | 4,683,724 | 2,961,051 | 3,753,295 | 18,221,129 |
| Segment results | 2,778,230 | 809,528 | 736,885 | 2,816,706 | 744,936 | (33,954) | 7,852,331 |
| Share of results of associates and joint ventures | - | - | 104,585 | 39,684 | 7,157 | - | 151,426 |
| Profit before income tax | 2,778,230 | 809,528 | 841,470 | 2,856,390 | 752,093 | (33,954) | 8,003,757 |

For the six months ended 30 June 2018 (unaudited)

| | Wealth management RMB'000 | Investment banking RMB'000 | Asset management RMB'000 | Trading and institution RMB'000 | Finance lease RMB'000 | Others RMB'000 | Consolidated total RMB'000 |
|---|---------------------------------|----------------------------------|--------------------------------|---------------------------------------|-----------------------------|-------------------|----------------------------------|
| Segment revenue and results | | | | | | | |
| Revenue and net investment gains | 7,675,843 | 1,598,308 | 981,523 | 3,651,251 | 2,111,400 | 60,471 | 16,078,796 |
| Other income and gains | 120,191 | 65,603 | 18,580 | 224,037 | 513,712 | 1,968,654 | 2,910,777 |
| Segment revenue | 7,796,034 | 1,663,911 | 1,000,103 | 3,875,288 | 2,625,112 | 2,029,125 | 18,989,573 |
| Segment expenses | 5,043,785 | 1,214,747 | 545,818 | 3,659,684 | 1,984,707 | 2,003,139 | 14,451,880 |
| Segment results | 2,752,249 | 449,164 | 454,285 | 215,604 | 640,405 | 25,986 | 4,537,693 |
| Share of results of associates and joint ventures | - | - | 96,451 | (152,416) | 19,658 | - | (36,307) |
| Profit before income tax | 2,752,249 | 449,164 | 550,736 | 63,188 | 660,063 | 25,986 | 4,501,386 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

6. COMMISSION AND FEE INCOME

| | Six months ended 30 June | |
|--|--------------------------------|--------------------------------|
| | 2019 RMB'000 (unaudited) | 2018 RMB'000 (unaudited) |
| Commission and fee income of securities brokerage business | 2,494,218 | 2,171,290 |
| Commission and fee income of futures brokerage business | 715,965 | 605,347 |
| Financial advisory and consultancy fee income | 600,218 | 610,382 |
| Underwriting and sponsors fees | 1,194,102 | 1,022,195 |
| Asset management fee income (including fund management fee income) | 1,143,944 | 897,721 |
| Others | 61,475 | 40,305 |
| | 6,209,922 | 5,347,240 |

The major business types of commission and fee income from customers are as follows:

(1) Brokerage

The Group provides broking, dealing and handling services for securities, futures and options contracts. Commission income is recognised at a point in time on the execution date of the trades at a certain percentage of the transaction value of the trades executed.

(2) Investment Banking

The Group provides placing, underwriting or sub-underwriting services to customers for their fund raising activities in equity and debt capital markets, and also structured products arrangement services. Revenue is recognised at a point in time when the relevant placing, underwriting, sub-underwriting or structured products arrangement activities are completed. The Group also provides sponsoring services to clients for their fund raising activities and corporate advisory services to corporate clients for their corporate actions. The Group considers that all the services promised in a particular contract of being a sponsor or corporate advisor are interdependent and interrelated and should therefore be accounted for as a single performance obligation.

(3) Asset management

The Group provides asset management and investment advisory services on diversified and comprehensive investment products to customers. The customers simultaneously receives and consumes the benefit provided by the Group, hence the revenue is recognised as a performance obligation satisfied over time. Asset management fee income is charged at a fixed percentage per month of the net asset value of the managed accounts under management of the Group. The Group is also entitled to a performance fee when there is a positive performance for the relevant performance period and it is recognised at the end of the relevant performance period, when it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur and when the uncertainty associated with the variable consideration is subsequently resolved.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

7. INTEREST INCOME

| | Six months ended 30 June | |
|--|--------------------------------|--------------------------------|
| | 2019 RMB'000 (unaudited) | 2018 RMB'000 (unaudited) |
| Bank interest income | 1,321,976 | 1,520,141 |
| Interest income from advances to customers on margin financing | 1,850,169 | 2,021,665 |
| Interest income from loans and advances Interest income from financial assets held under resale agreements | 2,103,725 | 2,682,483 |
| Interest income from debt instruments at fair value through other comprehensive income and amortised cost | 319,008 | 232,104 |
| Interest income from receivables arising from sale-and-leaseback arrangements | 156,122 | – |
| Other interest income | 268,108 | 404,114 |
| | 6,654,733 | 7,405,059 |

8. INVESTMENT INCOME AND GAINS (NET)

| | Six months ended 30 June | |
|--|--------------------------------|--------------------------------|
| | 2019 RMB'000 (unaudited) | 2018 RMB'000 (unaudited) |
| Net realised gains arising from financial assets/liabilities at fair value through profit or loss | 4,516,665 | 2,118,775 |
| Fair value change of financial instruments at fair value through profit or loss | 1,301,650 | (511,861) |
| Dividend income from equity instruments at fair value through other comprehensive income | 2,494 | 2,000 |
| Net gains arising from debt instruments at fair value through other comprehensive income | 25,707 | 27,657 |
| | 5,846,516 | 1,636,571 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

9. OTHER INCOME AND GAINS

| | Six months ended 30 June | |
|--|--------------------------------|--------------------------------|
| | 2019 RMB'000 (unaudited) | 2018 RMB'000 (unaudited) |
| Government grants | 338,769 | 380,807 |
| Rental income from investment properties | 6,378 | 6,883 |
| Rental income from operating lease | 212,320 | 73,872 |
| Foreign exchange losses | (23,437) | (926) |
| Sales income | 3,729,827 | 1,962,314 |
| Others | 738,743 | 487,827 |
| | 5,002,600 | 2,910,777 |

10. DEPRECIATION AND AMORTISATION

| | Six months ended 30 June | |
|---|--------------------------------|--------------------------------|
| | 2019 RMB'000 (unaudited) | 2018 RMB'000 (unaudited) |
| Depreciation for property and equipment | 238,656 | 193,566 |
| Depreciation for right-of-use assets | 201,018 | – |
| Depreciation for investment properties | 3,636 | 597 |
| Amortisation of other intangible assets | 80,854 | 79,107 |
| Amortisation of prepaid lease payments | – | 10,403 |
| | 524,164 | 283,673 |

11. BROKERAGE TRANSACTION FEES AND OTHER SERVICES EXPENSES

| | Six months ended 30 June | |
|---|--------------------------------|--------------------------------|
| | 2019 RMB'000 (unaudited) | 2018 RMB'000 (unaudited) |
| Securities and futures dealing and broking expenses | 1,076,140 | 830,130 |
| Services expenses for underwriting, financial advisory and others | 32,692 | 44,787 |
| | 1,108,832 | 874,917 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

12. INTEREST EXPENSES

| | Six months ended 30 June | |
|---|--------------------------------|--------------------------------|
| | 2019 RMB'000 (unaudited) | 2018 RMB'000 (unaudited) |
| Interest expense for: | | |
| – Bank loans and overdrafts | 1,620,793 | 1,171,358 |
| – Placements from banks and other financial institutions | 100,333 | 79,085 |
| – Financial assets sold under repurchase agreements | 866,358 | 751,319 |
| – Accounts payable to brokerage clients | 270,326 | 163,436 |
| – Advances from China Securities Finance Corporation Ltd. | 22,098 | 223,028 |
| – Bond payables and short-term financing bills payable | 3,660,899 | 3,988,749 |
| – Lease liabilities | 17,164 | – |
| – Others | 203,395 | 66,145 |
| | 6,761,366 | 6,443,120 |

13. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL

| | Six months ended 30 June | |
|---|--------------------------------|--------------------------------|
| | 2019 RMB'000 (unaudited) | 2018 RMB'000 (unaudited) |
| Expected credit losses in respect of: | | |
| – Finance lease receivables | 271,823 | 412,544 |
| – Receivables arising from sale-and-leaseback arrangements | 146,229 | – |
| – Advances to customers on margin financing | 226,179 | 51,108 |
| – Financial assets held under resale agreements | 267,091 | 109,195 |
| – Other loans and receivables | 142,503 | (107,953) |
| – Debt instruments at amortised cost | 2,589 | – |
| – Debt instruments at fair value through other comprehensive income | (4,052) | 29,352 |
| – Loans and advances | (5,646) | 143,673 |
| – Other financial assets and other items | 12,517 | 44,607 |
| | 1,059,233 | 682,526 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

14. OTHER EXPENSES

| | Six months ended 30 June | |
|----------------------|--------------------------------|--------------------------------|
| | 2019 RMB'000 (unaudited) | 2018 RMB'000 (unaudited) |
| Cost of sales | 3,707,918 | 1,964,458 |
| Taxes and surcharges | 93,236 | 85,792 |
| Others | 1,272,668 | 1,258,018 |
| | 5,073,822 | 3,308,268 |

15. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|---|--------------------------------|--------------------------------|
| | 2019 RMB'000 (unaudited) | 2018 RMB'000 (unaudited) |
| Current tax: | | |
| PRC Enterprise Income Tax and other jurisdictions | 1,433,011 | 913,771 |
| Hong Kong Profits Tax | 201,189 | 167,596 |
| | 1,634,200 | 1,081,367 |
| Adjustments to current income tax in relation to prior years: | | |
| PRC Enterprise Income Tax and other jurisdictions | 65,626 | 14,936 |
| | 65,626 | 14,936 |
| Deferred tax (Note 20) | 235,782 | (54,286) |
| | 1,935,608 | 1,042,017 |

Under the Law of the People's Republic of China Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate is 25% from 1 January 2008.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment)(No.7) Bill 2017, which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

16. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to owners of the Company is as follows:

| | Six months ended 30 June | |
|--|---|---------------------------------------|
| | 2019 <i>RMB'000</i> (unaudited) | 2018 <i>RMB'000</i> (unaudited) |
| Earning for the purpose of basic earnings per share | | |
| Profit for the period attributable to owners of the Company | 5,526,505 | 3,030,926 |
| Effect of dilutive potential ordinary shares: | | |
| Adjustment to the share of profit of subsidiaries based on dilution of their earnings per share (Notes i, ii, iii) | (46,260) | (22,197) |
| Earnings for the purpose of diluted earnings per share | 5,480,245 | 3,008,729 |
| Number of shares for basic and diluted earnings per share (in thousand) | 11,501,700 | 11,501,700 |
| Basic earnings per share (expressed in RMB per share) | 0.48 | 0.26 |
| Diluted earnings per share (expressed in RMB per share) | 0.48 | 0.26 |

Notes:

- (i) A subsidiary of the Company issued convertible bonds. Diluted earnings per share takes into account the potential impacts to the Group's share of profits of the subsidiary, assuming outstanding convertible bonds were fully converted to ordinary shares of that subsidiary on the first day of the period.
- (ii) Subsidiaries of the Company operated various share option or share awards schemes. Diluted earnings per share takes into account the potential impacts to the Group's share of profits of these subsidiaries when additional shares have to be issued to relevant employees.
- (iii) The calculation of diluted earnings per share for the six months ended 30 June 2019 has not taken into the over-allotment share option of Haitong UniTrust International Leasing Co., Ltd., a subsidiary of the Group, since the exercise price was higher than the average market price of shares of Haitong UniTrust International Leasing Co., Ltd. during the exercisable option period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

17. PROPERTY AND EQUIPMENT

| | Leasehold land and buildings RMB'000 | Leasehold improvements RMB'000 | Electronic equipment RMB'000 | Transportation equipment RMB'000 | Furniture, fixtures and equipment RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|--------------------------------------|------------------------------------|--|--|--|------------------|
| Unaudited | | | | | | | |
| COST | | | | | | | |
| As at 1 January 2019 | 1,885,031 | 966,503 | 1,197,111 | 4,287,539 | 196,022 | 37,522 | 8,569,728 |
| Additions during the period | 699 | 13,785 | 68,458 | 488,796 | 5,302 | 65,053 | 642,093 |
| Disposals during the period | - | (19,600) | (40,762) | (4,792) | (19,357) | - | (84,511) |
| Transfer in from investment property during the period | 34,367 | - | - | - | - | - | 34,367 |
| Transfer during the period | - | 9,475 | - | - | - | (9,475) | - |
| Exchange difference | 1,094 | 1,366 | 389 | 19,413 | 899 | - | 23,161 |
| As at 30 June 2019 | 1,921,191 | 971,529 | 1,225,196 | 4,790,956 | 182,866 | 93,100 | 9,184,838 |
| ACCUMULATED DEPRECIATION | | | | | | | |
| As at 1 January 2019 | 472,163 | 811,235 | 863,994 | 209,445 | 138,086 | - | 2,494,923 |
| Provided for the period | 28,830 | 38,079 | 73,860 | 89,430 | 8,457 | - | 238,656 |
| Eliminated on disposals | - | (19,600) | (38,146) | (4,184) | (18,674) | - | (80,604) |
| Transfer in from investment property during the period | 1,056 | - | - | - | - | - | 1,056 |
| Exchange difference | 17 | 1,117 | 226 | 1,377 | 835 | - | 3,572 |
| As at 30 June 2019 | 502,066 | 830,831 | 899,934 | 296,068 | 128,704 | - | 2,657,603 |
| ALLOWANCE FOR IMPAIRMENT LOSSES | | | | | | | |
| As at 31 December 2018 and 30 June 2019 | 30,382 | - | - | - | - | - | 30,382 |
| CARRYING VALUES | | | | | | | |
| As at 30 June 2019 | 1,388,743 | 140,698 | 325,262 | 4,494,888 | 54,162 | 93,100 | 6,496,853 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

17. PROPERTY AND EQUIPMENT (continued)

| | Leasehold land and buildings RMB'000 | Leasehold improvements RMB'000 | Electronic equipment RMB'000 | Transportation equipment RMB'000 | Furniture, fixtures and equipment RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|--------------------------------------|------------------------------------|--|--|--|------------------|
| COST | | | | | | | |
| As at 1 January 2018 | 1,246,460 | 906,216 | 1,166,343 | 1,603,132 | 192,224 | 40,512 | 5,154,887 |
| Additions during the year | 591,273 | 30,765 | 153,259 | 2,623,343 | 38,333 | 21,470 | 3,458,443 |
| Disposals during the year | - | - | (129,297) | (7,361) | (37,420) | (331) | (174,409) |
| Transfer in from investment property during the year | 47,192 | - | - | - | - | - | 47,192 |
| Transfer during the year | - | 23,660 | 332 | - | 738 | (24,730) | - |
| Exchange difference | 106 | 5,862 | 6,474 | 68,425 | 2,147 | 601 | 83,615 |
| As at 31 December 2018 | 1,885,031 | 966,503 | 1,197,111 | 4,287,539 | 196,022 | 37,522 | 8,569,728 |
| ACCUMULATED DEPRECIATION | | | | | | | |
| As at 1 January 2018 | 426,150 | 741,634 | 818,887 | 144,748 | 130,716 | - | 2,262,135 |
| Provided for the year | 45,212 | 65,113 | 154,465 | 71,161 | 22,619 | - | 358,570 |
| Eliminated on disposals | - | - | (114,159) | (6,939) | (17,030) | - | (138,128) |
| Transfer in from investment property during the year | 793 | - | - | - | - | - | 793 |
| Exchange difference | 8 | 4,488 | 4,801 | 475 | 1,781 | - | 11,553 |
| As at 31 December 2018 | 472,163 | 811,235 | 863,994 | 209,445 | 138,086 | - | 2,494,923 |
| ALLOWANCE FOR IMPAIRMENT LOSSES | | | | | | | |
| As at 1 January 2018 and 31 December 2018 | 30,382 | - | - | - | - | - | 30,382 |
| CARRYING VALUES | | | | | | | |
| As at 31 December 2018 | 1,382,486 | 155,268 | 333,117 | 4,078,094 | 57,936 | 37,522 | 6,044,423 |

Transportation equipment of the Group includes aircraft held for operating lease businesses. As at 30 June 2019, the cost of aircraft amounted to RMB4,622,186 thousand (31 December 2018: RMB4,115,892 thousand), accumulated depreciation amounted to RMB165,097 thousand (31 December 2018: RMB81,162 thousand), and the carrying values of aircraft amounted to RMB4,457,089 thousand (31 December 2018: RMB4,034,730 thousand).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

18. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Right-of-use assets (unaudited)

| | Buildings RMB'000 | Leasehold land RMB'000 | Other assets RMB'000 | Total RMB'000 |
|--------------------|----------------------|------------------------------|-------------------------|------------------|
| As at 30 June 2019 | | | | |
| Cost | 1,146,918 | 795,218 | 13,600 | 1,955,736 |
| Less: depreciation | 188,032 | 10,152 | 2,834 | 201,018 |
| | 958,886 | 785,066 | 10,766 | 1,754,718 |

During the six months ended 30 June 2019, the Group entered into new lease agreements for the use of buildings and others. On lease commencement, the Group recognised right-of-use assets of RMB340,381 thousand.

Lease liabilities (unaudited)

As at 30 June 2019, the current and non-current lease liabilities were RMB332,264 thousand and RMB616,918 thousand, respectively.

19. GOODWILL

Cost and carrying values

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 RMB'000 (audited) |
|---------------------------------|--------------------------------------|------------------------------------|
| At beginning of the period/year | 4,046,190 | 3,863,520 |
| Exchange adjustments | 15,351 | 182,670 |
| At end of the period/year | 4,061,541 | 4,046,190 |

20. DEFERRED TAXATION

For the purpose of presentation in the Group's condensed consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 RMB'000 (audited) |
|--------------------------|--------------------------------------|------------------------------------|
| Deferred tax assets | 3,313,900 | 3,241,202 |
| Deferred tax liabilities | (811,765) | (206,710) |
| | 2,502,135 | 3,034,492 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

20. DEFERRED TAXATION (continued)

The following are the major deferred tax assets (liabilities) recognised and movements thereon:

| | Financial assets/ liabilities at fair value through profit or loss RMB'000 | Accelerated depreciation RMB'000 | Derivative assets RMB'000 | Accrued but not paid expenses RMB'000 | Debt instrument at fair value through other comprehensive income RMB'000 | Equity instrument at fair value through other comprehensive income RMB'000 | Derivative liabilities RMB'000 | Impairment losses RMB'000 | Tax losses and others RMB'000 | Total RMB'000 |
|---|--|--|---------------------------------|---|---|--|--------------------------------------|---------------------------------|-------------------------------------|------------------|
| At 1 January 2018 | (257,088) | (18,109) | (180) | 945,851 | (17,524) | (399,798) | 33,314 | 1,477,462 | 335,771 | 2,099,699 |
| Transfer in/transferred out | (2,405) | - | - | - | 9 | - | - | 9,840 | (7,444) | - |
| (Charge) credit to profit or loss | 232,473 | (31,819) | 43,820 | (68,570) | 37,453 | - | (18,546) | 69,844 | 268,018 | 532,673 |
| Charge to other comprehensive income | - | - | - | - | (31,274) | 509,893 | - | - | - | 478,619 |
| Effects of exchange rate | 1,703 | (1,027) | 77 | 164 | (877) | - | - | 4,304 | (80,843) | (76,499) |
| At 31 December 2018 | (25,317) | (50,955) | 43,717 | 877,445 | (12,213) | 110,095 | 14,768 | 1,561,450 | 515,502 | 3,034,492 |
| Credit (charge) to profit or loss (Note 15) | (377,442) | (39,715) | (21,522) | 24,021 | (1,470) | - | 7,735 | 193,849 | (21,238) | (235,782) |
| Credit to other comprehensive income | - | - | - | - | (13,556) | (264,795) | - | - | - | (278,351) |
| Effects of exchange rate | (18,437) | 183 | (235) | (110) | 5,573 | - | (5) | (4,652) | (541) | (18,224) |
| At 30 June 2019 | (421,196) | (90,487) | 21,960 | 901,356 | (21,666) | (154,700) | 22,498 | 1,750,647 | 493,723 | 2,502,135 |

At the end of the reporting period, no deferred tax liabilities have been recognised in respect of the temporary differences associated with undistributed earnings of subsidiaries because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

21. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 RMB'000 (audited) |
|--|--------------------------------------|------------------------------------|
| Cost of unlisted investments in associates and joint ventures | 4,651,686 | 4,611,140 |
| Share of post-acquisition profits and other comprehensive income, net of dividends received | 641,397 | 701,741 |
| Total | 5,293,083 | 5,312,881 |

Details of material investments accounted for using equity method:

| Name of entity | Place of establishment | Principal activities | Proportion of ownership interest | |
|--|------------------------|---|----------------------------------|------------|
| | | | 2019/06/30 | 2018/12/31 |
| 上海彤關投資管理合夥企業(有限合夥) Shanghai Tong Guan Investment Management Limited Partnership* | PRC | Investing in equity; Investment management services | 50.00% | 50.00% |
| 貴安恒信融資租賃(上海)有限公司 Gui'an UT Financial Leasing (Shanghai) Co., Ltd* | PRC | Finance leasing | 40.00% | 40.00% |
| 遼寧中德產業股權投資基金 合夥企業(有限合夥) Liaoning China-Germany Industrial Equity Investment Fund (Limited Partnership)* | PRC | Investing in equity | 20.00% | N/A |
| 富國基金管理有限公司 Fullgoal Fund Management Co. Ltd.* | PRC | Provision of fund trading distribution services | 27.775% | 27.775% |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

21. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (continued)

| Name of entity | Place of establishment | Principal activities | Proportion of ownership interest | |
|--|------------------------|---|----------------------------------|------------|
| | | | 2019/06/30 | 2018/12/31 |
| 吉林省現代農業和新興產業 投資基金有限公司 Jilin Modern Agricultural and Emerging Markets Investment Fund Limited* | PRC | Investing in securities | 35.71% | 35.71% |
| 西安航天新能源產業基金投資有限公司 Xi'an Aerospace and New Energy Industry Fund* | PRC | Investing in securities | 37.06% | 37.06% |
| 上海文化產業股權投資基金 合夥企業(有限合夥) Shanghai Cultural Industries Investment Fund (Limited Partnership)* | PRC | Investing in securities | 42.83% | 42.83% |
| 上海併購股權投資基金合夥企業(有限合夥) Shanghai Equity Investment Fund Limited Partnership* | PRC | Investing in securities | 33.68% | 33.68% |
| 海通(吉林)現代服務業創業 投資基金合夥企業(有限合夥) Haitong (Jilin) Modern Service Industry Investment Fund Limited Partnership* | PRC | Investing in securities | 34.71% | 34.71% |
| 海通興泰(安徽)新興產業 投資基金(有限合夥) Haitong Xingtai (Anhui) Emerging Industry Investment Fund Limited Partnership* | PRC | Investing in equity; Investment management services | 27.58% | 27.58% |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

21. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (continued)

| Name of entity | Place of establishment | Principal activities | Proportion of ownership interest | |
|---|------------------------|---|----------------------------------|------------|
| | | | 2019/06/30 | 2018/12/31 |
| 海通齊東(威海)股權投資基金合夥企業(有限合夥) Haitong Qidong (Weihai) Equity Investment Fund Limited Partnership* | PRC | Investing in equity; Investment management services | 34.38% | 34.38% |
| 廣東南方媒體融合發展投資基金(有限合夥) Guangdong South Media Integration Fund Limited Partnership* | PRC | Investing in equity; Investment management services | 27.76% | 27.76% |
| 海通(吉林)股權投資基金合夥企業(有限合夥) Haitong (Jilin) Equity Investment Fund Limited Partnership* | PRC | Private equity funds investment | 27.02% | 27.02% |
| 西安軍融電子衛星基金投資有限公司 Xi'an Civil-Military Integration Satellite Investment Fund Co., Ltd* | PRC | Investment management services | 35.71% | 35.71% |
| 嘉興海通旭初股權投資基金合夥企業(有限合夥) Jiaxing Haitong Xuchu Equity Investment Fund Limited Partnership* | PRC | Investing in equity; Investment management services | 20.00% | 19.39% |
| 上海併購股權投資基金二期合夥企業(有限合夥) Shanghai Equity Investment Fund II Limited Partnership* | PRC | Investing in securities | 19.67% | 19.67% |

* The English translated name is for identification only.

All of these associates and joint ventures are unlisted entities without quoted market price available.

All of these associates and joint ventures are accounted for using the equity method in these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

22. FINANCE LEASE RECEIVABLES

| | 2019/06/30 <i>RMB'000</i> (unaudited) | 2018/12/31 <i>RMB'000</i> (audited) |
|---|---|---|
| Minimum finance lease receivables | | |
| – Not later than one year | 33,345,359 | 34,796,245 |
| – Later than one year and not later than five years | 29,773,952 | 34,344,977 |
| – Later than five years | 233,436 | 284,646 |
| Gross amount of finance lease receivables | 63,352,747 | 69,425,868 |
| Less: unrealised finance income | (5,291,417) | (6,068,188) |
| Present value of minimum finance lease receivables | 58,061,330 | 63,357,680 |
| Less: Allowance for credit losses | (1,691,813) | (1,704,968) |
| Carrying amount of finance lease receivables | 56,369,517 | 61,652,712 |
| Present value of minimum finance lease receivables | | |
| – Not later than one year | 30,513,134 | 31,754,869 |
| – Later than one year and not later than five years | 27,343,247 | 31,343,044 |
| – Later than five years | 204,949 | 259,767 |
| Total | 58,061,330 | 63,357,680 |
| Analysed for reporting purpose as: | | |
| Current assets | 29,575,235 | 30,828,048 |
| Non-current assets | 26,794,282 | 30,824,664 |
| | 56,369,517 | 61,652,712 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

22. FINANCE LEASE RECEIVABLES (continued)

Movement of allowance for credit losses:

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 RMB'000 (audited) |
|--|--------------------------------------|------------------------------------|
| At beginning of the period/year | 1,704,968 | 1,496,208 |
| Credit losses recognised | 271,823 | 722,061 |
| Derecognition upon repossession | (39,572) | (145,304) |
| Recoveries of amount written off in previous years | 23,983 | 20,261 |
| Written-off | (269,389) | (388,258) |
| At end of the period/year | 1,691,813 | 1,704,968 |

Stage analysis on allowance for credit losses

| | 12m ECL RMB'000 | Lifetime ECL not credit- impaired RMB'000 | Lifetime ECL credit- impaired RMB'000 | Total RMB'000 |
|----------------------------------|--------------------|--|--|------------------|
| As at 30 June 2019 (unaudited) | 824,897 | 470,679 | 396,237 | 1,691,813 |
| As at 31 December 2018 (audited) | 995,408 | 365,352 | 344,208 | 1,704,968 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

23. RECEIVABLES ARISING FROM SALE-AND-LEASEBACK ARRANGEMENTS

| | 2019/06/30 RMB'000 (unaudited) |
|---|--------------------------------------|
| Not later than one year | 4,684,720 |
| Later than one year and not later than five years | 8,475,075 |
| Gross amount of receivables arising from sale-and-leaseback arrangements | 13,159,795 |
| Less: Interest adjustment | (1,542,659) |
| Present value of receivables arising from sale-and-leaseback arrangements | 11,617,136 |
| Less: allowance for credit losses | (146,229) |
| Carrying amount of receivables arising from sale-and-leaseback arrangements | 11,470,907 |
| Present value of receivables arising from sale-and-leaseback arrangements: | |
| – Not later than one year | 4,135,553 |
| – Later than one year and not later than five years | 7,481,583 |
| Total | 11,617,136 |
| Analysed for reporting purpose as: | |
| Current assets | 4,083,497 |
| Non-current assets | 7,387,410 |
| Total | 11,470,907 |

Movement of allowance for credit losses:

| | 2019/06/30 RMB'000 (unaudited) |
|----------------------------|--------------------------------------|
| At beginning of the period | – |
| Credit losses recognised | 146,229 |
| At end of the period | 146,229 |

Stage analysis on allowance for credit losses

| | 12m ECL RMB'000 | Lifetime ECL not credit- impaired RMB'000 | Lifetime ECL credit- impaired RMB'000 | Total RMB'000 |
|--------------------------------|--------------------|--|--|------------------|
| As at 30 June 2019 (unaudited) | 141,908 | 3,900 | 421 | 146,229 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

24. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 <i>RMB'000</i> (audited) |
|---|---|---|
| China Securities Finance Corporation Limited ("CSFCL") (Note i) | 15,665,826 | 14,651,458 |
| Other equity investments (Note ii) | 267,141 | 576,833 |
| | 15,932,967 | 15,228,291 |
| Analysed as: | | |
| – Listed | 56,120 | 366,853 |
| – Unlisted | 15,876,847 | 14,861,438 |
| | 15,932,967 | 15,228,291 |

Note:

As the above equity instruments are not held for trading purpose, the Group has designated these investments as equity instruments at fair value through other comprehensive income.

- (i) This is the investment into a fund managed by CSFCL. As of 30 June 2019 and 31 December 2018, the cost of the investment was RMB15 billion, and the Company determined the fair value on the basis of the report provided by CSFCL. CSFCL executes unified operation and investment management, while all the investors including the Company share investment risks as well as potential income in proportion to their contributions.
- (ii) As of 30 June 2019, the cost of the other equity investments was RMB 314,274 thousand (31 December 2018: RMB 668,673 thousand), the accumulated gains of investments disposed from these investments during the six months ended 30 June 2019 accounted to RMB 27,098 thousand was reclassified from revaluation reserve to retained profits and there was no dividend income from these investments, the main reason for the disposal is the change of the Company's investment strategies.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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25. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 <i>RMB'000</i> (audited) |
|------------------------------------|---|---|
| Unlisted bond investments | 7,432,542 | 10,650,869 |
| Listed bond investments | 5,717,848 | 4,480,361 |
| | 13,150,390 | 15,131,230 |
| Analysed for reporting purpose as: | | |
| Current assets | 6,586,108 | 9,362,242 |
| Non-current assets | 6,564,282 | 5,768,988 |
| | 13,150,390 | 15,131,230 |
| Loss allowance | 14,870 | 20,379 |

As at 30 June 2019 and 31 December 2018, a substantial proportion of debt instruments at fair value through other comprehensive income is at stage 1 of which the loss allowance is measured at 12 month ECL.

26. DEBT INSTRUMENTS MEASURED AT AMORTISED COST

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 <i>RMB'000</i> (audited) |
|------------------------------------|---|---|
| Debt securities | 3,154,040 | 686,808 |
| Less: impairment allowance | (6,088) | (3,512) |
| | 3,147,952 | 683,296 |
| Analysed for reporting purpose as: | | |
| Current assets | 1,411,410 | 4,082 |
| Non-current assets | 1,736,542 | 679,214 |
| | 3,147,952 | 683,296 |

As at 30 June 2019 and 31 December 2018, a substantial proportion of debt instruments measured at amortised cost is at stage 1 of which the loss allowance is measured at 12 month ECL.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 <i>RMB'000</i> (audited) |
|------------------------------------|---|---|
| Debt securities | 113,236,074 | 103,204,443 |
| Equity securities (Note i, ii) | 20,306,345 | 17,652,596 |
| Funds (Note i) | 38,621,514 | 28,143,504 |
| Others | 24,567,433 | 28,204,871 |
| | 196,731,366 | 177,205,414 |
| Analysed for reporting purpose as: | | |
| Current assets | 170,270,376 | 158,837,008 |
| Non-current assets | 26,460,990 | 18,368,406 |
| | 196,731,366 | 177,205,414 |

Notes:

- (i) As at 30 June 2019, the Group has entered into securities lending arrangement with clients that resulted in the transfer of financial assets at fair value through profit or loss with a total fair value of RMB307,227 thousand (31 December 2018: RMB1,832 thousand) to external clients. Since the arrangement will be settled by the securities with the same quantity lent, the economic risks and benefits of those securities are not transferred and it does not result in derecognition of the financial assets.
- (ii) Included in the Group's listed equity securities are amounts of approximately RMB443,503 thousand as at 30 June 2019 (31 December 2018: RMB3,282 thousand), which are restricted shares with a legally enforceable restriction on these securities that prevents the Group to dispose of within the specified period. The fair values of these securities have taken into account the relevant features including the restrictions.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

28. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 RMB'000 (audited) |
|--|--------------------------------------|------------------------------------|
| Analysed by collateral type: | | |
| Stock (Note) | 50,828,605 | 56,406,877 |
| Bonds | 14,944,945 | 25,643,247 |
| Structured products | 121,971 | 372,030 |
| Finance lease receivables | 936,715 | 990,990 |
| Less: allowance for credit losses | (1,001,447) | (734,352) |
| | 65,830,789 | 82,678,792 |
| Analysed by market: | | |
| Stock Exchange | 55,615,090 | 67,936,433 |
| Inter-bank | 10,158,461 | 8,448,313 |
| Over the counter ("OTC") | 1,058,685 | 7,028,398 |
| Less: allowance for credit losses | (1,001,447) | (734,352) |
| | 65,830,789 | 82,678,792 |
| Analysed for reporting purpose as: | | |
| Current assets | 59,558,212 | 71,676,737 |
| Non-current assets | 6,272,577 | 11,002,055 |
| | 65,830,789 | 82,678,792 |
| Movement of allowance for credit losses: | | |
| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 RMB'000 (audited) |
| At beginning of the period/year | 734,352 | 478,459 |
| Credit losses recognised | 267,091 | 255,804 |
| Exchange difference | 4 | 89 |
| At end of the period/year | 1,001,447 | 734,352 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

28. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (continued)

Stage analysis on allowance for credit losses

| | 12m ECL RMB'000 | Lifetime ECL not credit- impaired RMB'000 | Lifetime ECL credit- impaired RMB'000 | Total RMB'000 |
|----------------------------------|--------------------|--|--|------------------|
| As at 30 June 2019 (unaudited) | 50,894 | 54,744 | 895,809 | 1,001,447 |
| As at 31 December 2018 (audited) | 46,530 | 108,902 | 578,920 | 734,352 |

Note: The financial assets (pledged by stock) held under resale agreements are those resale agreements which qualified investors entered into with the Group with a commitment to purchasing the specified securities at a future date with an agreed price.

As of 30 June 2019, the fair value of the collateral received was RMB150,524,727 thousand (31 December 2018: RMB142,590,350 thousand).

29. OTHER LOANS AND RECEIVABLES

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 RMB'000 (audited) |
|---|--------------------------------------|------------------------------------|
| Factoring receivables | 7,474,268 | 6,346,945 |
| Debt investments classified as receivables, entrusted loans and other loans | 14,546,804 | 13,999,739 |
| Less: allowance for credit losses | (708,876) | (655,154) |
| | 21,312,196 | 19,691,530 |
| Analysed for reporting purpose as: | | |
| Current assets | 17,873,162 | 14,043,711 |
| Non-current assets | 3,439,034 | 5,647,819 |
| | 21,312,196 | 19,691,530 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

29. OTHER LOANS AND RECEIVABLES (continued)

Movement of allowance for credit losses:

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 <i>RMB'000</i> (audited) |
|-------------------------------------|---|---|
| At beginning of the period/year | 655,154 | 781,031 |
| Credit losses recognised/(reversed) | 142,503 | (68,165) |
| Written-off | (89,292) | (68,033) |
| Exchange difference | 511 | 10,321 |
| At end of the period/year | 708,876 | 655,154 |

Stage analysis on allowance for credit losses

| | 12m ECL RMB'000 | Lifetime ECL not credit- impaired RMB'000 | Lifetime ECL credit- impaired RMB'000 | Total RMB'000 |
|----------------------------------|----------------------------------|--|--|--------------------------------|
| As at 30 June 2019 (unaudited) | 152,176 | 519,013 | 37,687 | 708,876 |
| As at 31 December 2018 (audited) | 228,025 | 334,523 | 92,606 | 655,154 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

30. LOANS AND ADVANCES

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 RMB'000 (audited) |
|------------------------------------|--------------------------------------|------------------------------------|
| Customer loans and advances | 4,630,239 | 4,972,255 |
| Less: allowance for credit losses | (579,119) | (608,768) |
| | 4,051,120 | 4,363,487 |
| Analysed for reporting purpose as: | | |
| Current assets | 469,900 | 618,924 |
| Non-current assets | 3,581,220 | 3,744,563 |
| | 4,051,120 | 4,363,487 |

Movement of allowance for credit losses:

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 RMB'000 (audited) |
|-------------------------------------|--------------------------------------|------------------------------------|
| At beginning of the period/year | 608,768 | 939,409 |
| Credit losses (reversed)/recognised | (5,646) | 181,479 |
| Written-off | (22,408) | (519,785) |
| Exchange difference | (1,595) | 7,665 |
| At end of the period/year | 579,119 | 608,768 |

Stage analysis on allowance for credit losses

| | 12m ECL RMB'000 | Lifetime ECL not credit- impaired RMB'000 | Lifetime ECL credit- impaired RMB'000 | Total RMB'000 |
|----------------------------------|--------------------|--|--|------------------|
| As at 30 June 2019 (unaudited) | 23,355 | 27,425 | 528,339 | 579,119 |
| As at 31 December 2018 (audited) | 21,923 | 34,407 | 552,438 | 608,768 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

31. DEPOSITS WITH EXCHANGES

| | 2019/06/30 <i>RMB'000</i> (unaudited) | 2018/12/31 <i>RMB'000</i> (audited) |
|---|---|---|
| Deposits with stock exchanges | | |
| – Shanghai Stock Exchange | 619,172 | 394,362 |
| – Shenzhen Stock Exchange | 88,933 | 83,606 |
| – National Equities Exchange and Quotations | 1,052 | 1,089 |
| – Stock Exchange of Hong Kong Limited | 1,319 | 1,314 |
| – Others | – | 372 |
| Subtotal | 710,476 | 480,743 |
| Deposits with futures and commodity exchanges | | |
| – Shanghai Futures Exchange | 2,256,100 | 1,928,026 |
| – Dalian Commodity Exchange | 956,603 | 612,824 |
| – Zhengzhou Commodity Exchange | 564,565 | 517,536 |
| – China Financial Futures Exchange | 2,931,284 | 1,670,105 |
| – Shanghai Gold Exchange | 2,595 | 1,874 |
| – HKFE Clearing Corporation Limited | 6,638 | 4,200 |
| – The Chinese Gold & Silver Exchange Society | 603 | 601 |
| – Collateral deposits placed with overseas stock exchange and brokers | 1,341,741 | 1,478,443 |
| Subtotal | 8,060,129 | 6,213,609 |
| Trading rights and other deposits | | |
| – Guarantee fund paid to Shanghai Stock Exchange | 21,965 | 19,227 |
| – Guarantee fund paid to Shenzhen Stock Exchange | 25,757 | 19,461 |
| – Deposit with China Securities Finance Corporation Ltd. | 255,622 | 74,742 |
| – Deposit with Shanghai Clearing House | 76,100 | 48,589 |
| – Guarantee fund paid to the SEHK Options Clearing House Ltd. | 6,072 | 6,555 |
| – Guarantee fund paid to Hong Kong Securities Clearing Company Ltd. | 53,768 | 49,043 |
| – Guarantee fund paid to Securities and Futures Commission | 308 | 307 |
| – Others | 54,996 | 70,613 |
| Subtotal | 494,588 | 288,537 |
| Total | 9,265,193 | 6,982,889 |
| Analysed for reporting purpose as: | | |
| Current assets | 8,060,179 | 5,601,350 |
| Non-current assets | 1,205,014 | 1,381,539 |
| | 9,265,193 | 6,982,889 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

32. BANK BALANCES AND CASH

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 RMB'000 (audited) |
|--|--------------------------------------|------------------------------------|
| General accounts | 47,051,592 | 35,648,527 |
| Cash held on behalf of clients (Note i) | 75,997,241 | 62,515,537 |
| Less: allowance for credit losses | (1,839) | (1,752) |
| | 123,046,994 | 98,162,312 |
| Less: non-current restricted bank deposits (Note ii) | (850,664) | (739,260) |
| | 122,196,330 | 97,423,052 |

Bank balances and cash comprise of cash on hand and demand deposits which bear interest at the prevailing market rates.

Notes:

- (i) The Group received and held money deposited by clients in the course of the conduct of the regulated activities. The Group has recognised the corresponding amount in accounts payable to brokerage clients (Note 44). The Group currently does not have a legally enforceable right to offset these payables with deposit placed.
- (ii) The non-current restricted bank deposits are restricted for fund management risk reserve purpose, pledged bank deposit and margin deposits over one year.

33. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of the following:

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 RMB'000 (audited) |
|---|--------------------------------------|------------------------------------|
| Bank balances and cash – general account (excluding accrued interest) | 46,975,966 | 35,574,425 |
| Less: Restricted bank deposits (Note) | (1,440,464) | (1,634,107) |
| Deposits with other banks (excluding accrued interest) | 231,240 | 253,915 |
| Deposits with central banks other than legal reserve | 1,886,226 | 2,384,561 |
| Clearing settlement funds – House accounts | 1,282,086 | 1,531,888 |
| | 48,935,054 | 38,110,682 |

Note:

The current restricted bank deposits are margin deposits for notes receivable, margin deposits for borrowings and other pledge of bank deposits within one year.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

34. OTHER NON-CURRENT ASSETS

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 RMB'000 (audited) |
|------------------------|--------------------------------------|------------------------------------|
| Foreclosed assets | 147,226 | 148,584 |
| Prepaid lease payments | – | 808,713 |
| Others | 377,039 | 221,907 |
| | 524,265 | 1,179,204 |

35. ADVANCES TO CUSTOMERS ON MARGIN FINANCING

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 RMB'000 (audited) |
|--|--------------------------------------|------------------------------------|
| Loans to margin clients (Note) | 53,120,014 | 49,656,249 |
| Less: allowance for credit losses (Note) | (1,023,548) | (795,240) |
| | 52,096,466 | 48,861,009 |
| Analysed for reporting purpose as: | | |
| Current assets | 52,096,466 | 48,861,009 |

Movement of allowance for credit losses:

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 RMB'000 (audited) |
|---------------------------------|--------------------------------------|------------------------------------|
| At beginning of the period/year | 795,240 | 334,384 |
| Credit losses recognised | 226,179 | 456,508 |
| Written-off | – | (6,492) |
| Effect of exchange difference | 2,129 | 10,840 |
| At end of the period/year | 1,023,548 | 795,240 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

35. ADVANCES TO CUSTOMERS ON MARGIN FINANCING (continued)

Stage analysis on allowance for credit losses

| | 12m ECL RMB'000 | Lifetime ECL not credit- impaired RMB'000 | Lifetime ECL credit- impaired RMB'000 | Total RMB'000 |
|----------------------------------|--------------------|--|--|------------------|
| As at 30 June 2019 (unaudited) | 32,912 | 59,148 | 931,488 | 1,023,548 |
| As at 31 December 2018 (audited) | 30,270 | 48,962 | 716,008 | 795,240 |

Note:

The credit facility limits to margin clients are determined by the discounted market value of the collateral securities accepted by the Group.

The majority of the loans to margin clients which are secured by the underlying pledged securities are interest bearing. The Group maintains a list of approved stocks for margin lending at a specified loan to collateral ratio. Any excess in the lending ratio will trigger a margin call which the customers have to make up the shortfall.

Loans to margin clients as at 30 June 2019 were secured by the customers' securities to the Group as collateral with undiscounted market value of approximately RMB167,484,318 thousand (31 December 2018: RMB155,961,015 thousand).

As at 30 June 2019, included in the Group's accounts payable to brokerage clients were approximately RMB7,003,486 thousand (31 December 2018: RMB3,934,801 thousand) cash collateral received from clients for securities lending and margin financing arrangement.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

36. ACCOUNTS RECEIVABLE

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 <i>RMB'000</i> (audited) |
|--|---|---|
| Accounts receivable from: | | |
| – Cash clients | 395,099 | 1,074,065 |
| – Brokers, dealers and clearing house | 11,695,080 | 6,434,981 |
| – Advisory and financial planning | 25,430 | 19,558 |
| – Asset and fund management | 839,814 | 589,570 |
| – Others | 339,945 | 262,246 |
| | 13,295,368 | 8,380,420 |
| Less: allowance for credit losses on accounts receivable | (128,000) | (123,206) |
| | 13,167,368 | 8,257,214 |
| Aging analysis: | | |
| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 <i>RMB'000</i> (audited) |
| Between 0 and 3 months | 12,609,577 | 7,563,111 |
| Between 4 and 6 months | 146,968 | 32,677 |
| Between 7 and 12 months | 246,076 | 490,998 |
| Over 1 year | 164,747 | 170,428 |
| | 13,167,368 | 8,257,214 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

37. DERIVATIVE INSTRUMENTS

| | 2019/06/30 (unaudited) | | 2018/12/31 (audited) | |
|--|------------------------|------------------------|----------------------|------------------------|
| | Assets RMB'000 | Liabilities RMB'000 | Assets RMB'000 | Liabilities RMB'000 |
| Stock index futures contracts (Note i) | – | – | – | – |
| Treasury futures contracts (Note ii) | – | – | – | – |
| Commodity futures contracts (Note iii) | – | – | 5,956 | – |
| Interest rate swap contracts (Note iv) | 1,107,256 | 1,256,201 | 1,165,165 | 1,350,329 |
| Equity swap (Note v) | 63,672 | 214,044 | 153,309 | 176,291 |
| Forward contracts | 59,285 | 467 | 56,126 | 118,753 |
| Options (Note vi) | 121,327 | 425,318 | 386,392 | 507,744 |
| Embedded equity instruments | – | 2,230 | 421 | 29,543 |
| Foreign exchange swap | 5,599 | 71,643 | 2,671 | 24,943 |
| Credit default swap | 9,963 | 32,659 | 10,717 | 11,171 |
| Total | 1,367,102 | 2,002,562 | 1,780,757 | 2,218,774 |

Notes:

(i) Stock index futures

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in stock index futures ("SIF") were settled daily and the corresponding payments or receipts were included in "clearing settlement funds" as at 30 June 2019 and 31 December 2018. Accordingly, the net position of the SIF contracts in derivative instruments was nil at the end of reporting period. As at 30 June 2019 the contract value of the outstanding stock index futures contracts that the Group held for the market risk of the securities lent or to be lent to clients is RMB1,197,306 thousand (31 December 2018: RMB2,230,590 thousand), recognising net derivative liabilities of RMB20,855 thousand (31 December 2018: net derivative assets of RMB46,050 thousand) before settlement.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

37. DERIVATIVE INSTRUMENTS (continued)

Notes: (continued)

(ii) Treasury futures contracts

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in treasury futures ("TF") were settled daily and the corresponding payments or receipts were included in "clearing settlement funds" as at 30 June 2019 and 31 December 2018. Accordingly, the net position of the TF contracts in derivative instruments was nil at the end of reporting period.

| Contract | 2019/06/30 (unaudited) | |
|------------------------------|---------------------------|-----------------------|
| | Contract value RMB'000 | Fair value RMB'000 |
| T1909 | 3,704,810 | (31,504) |
| T1909 | 1,267,435 | 11,030 |
| TF1909 | 2,504,628 | (10,876) |
| TS1909 | 10,013 | (2) |
| Total | 7,486,886 | (31,352) |
| Plus: settlement | | 31,352 |
| Net position of TF contracts | | — |

| Contract | 2018/12/31 (audited) | |
|------------------------------|---------------------------|-----------------------|
| | Contract value RMB'000 | Fair value RMB'000 |
| T1903 | 3,908,400 | (56,747) |
| T1903 | 1,954,200 | 10,967 |
| TF1903 | 1,590,080 | (5,191) |
| Total | 7,452,680 | (50,971) |
| Plus: settlement | | 50,971 |
| Net position of TF contracts | | — |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

37. DERIVATIVE INSTRUMENTS (continued)

Notes: (continued)

(iii) Commodity futures contracts

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in commodity futures were settled daily and the corresponding payments or receipts were included in "clearing settlement funds". As at 30 June 2019, the net position of the commodity futures contracts under the daily mark-to-market and settlement arrangement was nil (31 December 2018: nil).

As at 30 June 2019, the fair value gains of commodity future contract that the Group holds not under the daily mark-to-market and settlement arrangement was nil (31 December 2018: RMB5,956 thousand).

| Contract | 2019/06/30 (unaudited) | | 2018/12/31 (audited) | |
|-----------|---------------------------|-----------------------|---------------------------|-----------------------|
| | Contract value RMB'000 | Fair value RMB'000 | Contract value RMB'000 | Fair value RMB'000 |
| Commodity | – | – | 283,351 | 5,956 |
| Total | – | – | 283,351 | 5,956 |

(iv) Interest rate swap contracts

Under the daily mark-to-market and settlement arrangements, any gains or losses of the Group's position in interest rate swap ("IRS") were settled daily in Shanghai Clearing House and the corresponding payments or receipts were included in "clearing settlement funds" as at 30 June 2019. Accordingly, the net position of the IRS contracts in derivative instruments was nil at the end of reporting period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

37. DERIVATIVE INSTRUMENTS (continued)

Notes: (continued)

(iv) Interest rate swap contracts (continued)

For IRS contracts in mainland China and Hong Kong market not under the daily mark-to-market and settlement arrangement are presented gross at the end of reporting period.

| | 2019/06/30 (unaudited) | | |
|--|---------------------------|-------------------|------------------------|
| | Contract value RMB'000 | Assets RMB'000 | Liabilities RMB'000 |
| IRS – settled in Shanghai Clearing House | 20,880,000 | 115,082 | (122,845) |
| IRS – non-centralised settlement | 26,020,497 | 1,107,256 | (1,256,201) |
| Total | 46,900,497 | 1,222,338 | (1,379,046) |
| Plus: settlements | | (115,082) | 122,845 |
| Net position of IRS contracts | | 1,107,256 | (1,256,201) |

| | 2018/12/31 (audited) | | |
|--|---------------------------|-------------------|------------------------|
| | Contract value RMB'000 | Assets RMB'000 | Liabilities RMB'000 |
| IRS – settled in Shanghai Clearing House | 16,280,000 | 20,566 | – |
| IRS – non-centralised settlement | 34,208,897 | 1,165,165 | (1,350,329) |
| Total | 50,488,897 | 1,185,731 | (1,350,329) |
| Plus: settlements | | (20,566) | – |
| Net position of IRS contracts | | 1,165,165 | (1,350,329) |

(v) Equity swap

At 30 June 2019, the notional amount of the equity swap held by the Group was approximately RMB1,695,422 thousand (31 December 2018: RMB1,248,278 thousand).

(vi) Options

As at 30 June 2019, the notional principal amounts of the Group's options purchased or written in Mainland China were approximately RMB13,180,918 thousand (31 December 2018: RMB16,866,539 thousand). The notional principal amounts of the Group's listed options purchased or written outside Mainland China were approximately RMB17,108,962 thousand (31 December 2018: RMB20,949,114 thousand).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

38. OTHER CURRENT ASSETS

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 <i>RMB'000</i> (audited) |
|--|---|---|
| Dividend receivable | 72,270 | 387 |
| Inventory | 829,644 | 789,039 |
| Other receivables and prepayments | 2,918,942 | 2,711,405 |
| Less: allowance for credit losses (Note) | 3,820,856 (484,398) | 3,500,831 (469,103) |
| | 3,336,458 | 3,031,728 |

Note:

Included in the allowance for credit losses of the Group mainly represents a gross receivable of RMB440,894 thousand from an independent third party. In the opinion of the directors of the Company, the balance was fully impaired in prior year.

39. CLEARING SETTLEMENT FUNDS

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 <i>RMB'000</i> (audited) |
|--|---|---|
| Clearing settlement funds held with clearing houses for: | | |
| House accounts | 1,282,086 | 1,531,888 |
| Customers | 6,935,882 | 6,114,673 |
| | 8,217,968 | 7,646,561 |

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

40. DEPOSITS WITH CENTRAL BANKS AND OTHER BANKS

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 <i>RMB'000</i> (audited) |
|--|---|---|
| Deposits with central banks other than legal reserve | 1,886,226 | 2,384,561 |
| Legal reserve | 51,663 | 41,675 |
| | 1,937,889 | 2,426,236 |
| Deposits with other banks | 231,272 | 253,915 |
| Less: allowance for credit losses | (10) | (7) |
| | 231,262 | 253,908 |
| Total | 2,169,151 | 2,680,144 |

Deposits with central banks other than legal reserve is repayable on demand. Legal reserve deposits are non-interesting bearing.

41. BORROWINGS

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 <i>RMB'000</i> (audited) |
|---------------------------|---|---|
| Short-term borrowings: | | |
| Secured borrowings (Note) | 625,933 | 2,515,041 |
| Unsecured borrowings | 39,977,796 | 34,401,597 |
| | 40,603,729 | 36,916,638 |
| Long-term borrowing: | | |
| Secured borrowings (Note) | 22,734,485 | 23,643,301 |
| Unsecured borrowings | 23,377,070 | 19,643,381 |
| | 46,111,555 | 43,286,682 |
| Total | 86,715,284 | 80,203,320 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

41. BORROWINGS (continued)

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 <i>RMB'000</i> <i>(audited)</i> |
|--|---|--|
| Current liabilities: | | |
| Short-term borrowings | 40,603,729 | 36,916,638 |
| Long-term borrowings due within one year | 17,600,521 | 15,572,524 |
| | 58,204,250 | 52,489,162 |
| Non-current liabilities: | | |
| Long-term borrowings | 28,511,034 | 27,714,158 |
| | 86,715,284 | 80,203,320 |
| Analysis by maturity: | | |
| Less than 1 year | 58,204,250 | 52,489,162 |
| 1-2 year | 10,091,273 | 13,489,297 |
| 2-5 year | 15,963,238 | 12,692,442 |
| Over 5 years | 2,456,523 | 1,532,419 |
| | 86,715,284 | 80,203,320 |

Note:

As at 30 June 2019, borrowings of RMB51 million (31 December 2018: RMB57 million) are secured by the 33th floor of No.689 Guangdong Road, Haitong Securities Tower, Shanghai, the PRC.

As at 30 June 2019, borrowings of RMB386 million (31 December 2018: RMB489 million) are secured by the land of 4/2, No.169, Bund Street, Shanghai, the PRC, and 100% shares of Shanghai Weitai Property Management Co., Ltd. held by the Group.

As at 30 June 2019, borrowings of RMB2,639 million (31 December 2018: RMB2,629 million) are secured by investment funds at fair value amounting to RMB3,590 million (31 December 2018: RMB3,430 million). The fair value of the collateral is the net asset value of the fund, which was based on the observable quoted price of underlying investment portfolio in active markets.

As at 30 June 2019, borrowings of RMB2,176 million (31 December 2018: RMB2,155 million) is secured by debt securities held by the company at fair value of RMB2,106 million (31 December 2018: RMB2,102 million).

As at 30 June 2019, borrowings of RMB12,224 million (31 December 2018: RMB14,490 million) are secured by finance lease receivables of RMB17,235 million (31 December 2018: RMB21,192 million) and receivables arising from sale-and-leaseback arrangements of RMB1,677 million (31 December 2018: Nil). Certain secured borrowings were also pledged by the shares of Haitong UniTrust International Leasing Co., Ltd held by the Group.

As at 30 June 2019, borrowings of RMB5,859 million (31 December 2018: RMB5,857 million) are secured by the shares of Haitong UT Capital Group Co., Limited and Haitong Bank.S.A held by the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

42. SHORT-TERM FINANCING BILLS PAYABLES

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 RMB'000 (audited) |
|---------------------|---|------------------------------------|
| Analysed as: | | |
| Inter-bank (Note i) | 5,647,277 | 5,358,876 |
| Other (Note ii) | 29,734,317 | 21,179,092 |
| | 35,381,594 | 26,537,968 |

Note i:

During the six months ended 30 June 2019, the Group newly issued inter-bank short-term financing bills with an aggregate principal amount of RMB2,998 million, and repaid matured short-term financing bills amounting to RMB2,352 million. The balance as at 30 June 2019 carried interest rates ranging from 3.10% to 4.30% per annum, with terms ranging from 7 months to 1 year.

Note ii:

During the six months ended 30 June 2019, the Group newly issued other short-term financing bills (excluding short term income certificate) with an aggregate principal amount of RMB6,554 million, and repaid matured short-term financing bills amounting to RMB8,078 million. The balance as at 30 June 2019 carried interest rates ranging from 2.60% to 4.30% per annum, with terms of 1 year.

The balance of short-term income certificate as at 30 June 2019 carried interest rates ranging from 2.50% to 5.6% per annum, with terms ranging from 6 days to 1 year.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

43. BONDS PAYABLE

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 <i>RMB'000</i> (audited) |
|--|---|---|
| Liabilities component of convertible bonds | 3,495,347 | 3,451,821 |
| Non-convertible bonds (Note i) | 80,445,603 | 90,403,444 |
| Subordinated notes (Note ii) | 16,963,318 | 13,451,167 |
| Asset backed securities (Note iii) | 30,292,404 | 21,712,467 |
| Others (Note iv) | 10,243,060 | 11,127,958 |
| | 141,439,732 | 140,146,857 |
| Analysed for reporting purpose as: | | |
| Current liabilities | 57,220,798 | 41,923,410 |
| Non-current liabilities | 84,218,934 | 98,223,447 |
| | 141,439,732 | 140,146,857 |

Note i:

During the six months ended 30 June 2019, the Group newly issued non-convertible bonds with an aggregate principal amount of RMB 6,800 million, and repaid matured non-convertible bonds amounting to RMB 18,850 million. The balance as at 30 June 2019 carried interest rates ranging from 1.34% to 9.7% per annum, with terms ranging from 3 years to 10 years.

Note ii:

During the six months ended 30 June 2019, the Group newly issued subordinated notes with an aggregate principal amount of RMB 3,300 million, and repaid matured subordinated notes amounting to RMB 276 million. The balance as at 30 June 2019 carried interest rates ranging from 3.30% to 6.05% per annum, with terms ranging from 3 years to 5 years.

Note iii:

During the six months ended 30 June 2019, the Group newly issued asset backed securities with an aggregate principal amount of RMB 15,022 million, and repaid matured asset backed securities amounting to RMB 6,170 million. The balance as at 30 June 2019 carried interest rates ranging from 3.4% to 6.2% per annum, with terms ranging from 1 year to 6 years.

Note iv:

The balance of long-term income certificate as at 30 June 2019 carried interest rates ranging from 3.7% to 5.5% per annum, with terms ranging from 1 year to 2 years.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

44. ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

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

No ageing analysis is disclosed as in the opinion of the directors of the Company, the ageing analysis does not give additional value in view of the nature of these businesses.

Accounts payable mainly include money held on behalf of clients at the banks and at the clearing houses by the Group.

As at 30 June 2019, included in the Group's accounts payable to brokerage clients were approximately RMB7,003,486 thousand (31 December 2018: RMB3,934,801 thousand) cash collateral received from clients for securities lending and margin financing arrangement.

Accounts payable to brokerage clients is interest bearing at the prevailing interest rate.

45. CUSTOMER ACCOUNTS

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 <i>RMB'000</i> (audited) |
|------------------------------------|---|---|
| Demand deposits – corporate | 127,502 | 87,618 |
| Time deposits – corporate | 851,684 | 1,292,921 |
| Demand deposits – individual | 1,552 | 1,503 |
| Time deposits – individual | 1,509,440 | 778,284 |
| | 2,490,178 | 2,160,326 |
| Analysed for reporting purpose as: | | |
| Current liabilities | 2,490,178 | 2,160,326 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

46. OTHER PAYABLES AND ACCRUALS

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 RMB'000 (audited) |
|------------------------------------|--------------------------------------|------------------------------------|
| Payable to employees (Note i) | 4,438,688 | 4,588,200 |
| Other tax payable | 503,188 | 537,677 |
| Dividends payable | 1,795,889 | 47,052 |
| Risk reserve | 416,546 | 390,878 |
| Client settlement payables | 1,778,971 | 2,247,856 |
| Pending payable to clearing house | 134,842 | 326,484 |
| Commission and fee payables | 28,464 | 32,832 |
| Finance lease guarantee deposits | 2,629,608 | 2,043,319 |
| Amounts due to brokers | 1,144,678 | 1,010,567 |
| Notes payable | 1,042,663 | 755,726 |
| Others (Note ii) | 2,893,049 | 2,671,509 |
| | 16,806,586 | 14,652,100 |
| Analysed for reporting purpose as: | | |
| Current liabilities | 15,930,742 | 13,455,014 |
| Non-current liabilities (Note i) | 875,844 | 1,197,086 |
| | 16,806,586 | 14,652,100 |

Notes:

- (i) The Group set up a detailed plan for the payment of employees' bonus accrued based on the performance of preceding year. A balance of RMB400,924 thousand (31 December 2018: RMB394,336 thousand) of the Group is planned to be settled after one year and classified as non-current liabilities.
- (ii) Others mainly represent liabilities arising from transfer of loans and receivables not qualifying for derecognition, and other payables and accruals.

47. PROVISIONS

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 RMB'000 (audited) |
|---|--------------------------------------|------------------------------------|
| Contingencies | 141,855 | 130,763 |
| ECL impairment for loan commitments, financial guarantee and letters of credit | 11,074 | 14,344 |
| | 152,929 | 145,107 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

48. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 RMB'000 (audited) |
|--|--------------------------------------|------------------------------------|
| Financial liabilities held for trading | 1,559,333 | 4,804,747 |
| Liabilities arising from consolidation of structured entities | 3,398,290 | 3,585,089 |
| Designated as financial liabilities at fair value through profit or loss | | |
| – Structured products (Note i) | 13,884,538 | 12,350,482 |
| – Gold option (Note ii) | 5,426,673 | 5,460,636 |
| – Others | 173,333 | – |
| | 24,442,167 | 26,200,954 |
| Analysed for reporting purpose as: | | |
| Current liabilities | 22,746,698 | 23,862,827 |
| Non-current liabilities | 1,695,469 | 2,338,127 |
| | 24,442,167 | 26,200,954 |

Notes:

- (i) As at 30 June 2019 and 31 December 2018, included in the Group's financial liabilities designated at fair value through profit or loss are financial products generally issued in the form of notes of which payouts are linked to the values/returns of certain underlying investments related to listed equity investments, listed/unlisted debt investments, listed/unlisted investment funds, unlisted financial products and unlisted equity or partnership investments.

The risk of economic exposure on these structured products is primarily hedged using financial assets at fair value through profit or loss. These structured products are designated as fair value through profit or loss as the risks to which the Group is a contractual party are managed on a fair value basis as part of the Group's trading portfolio and the risk is reported to key management personnel on this basis.

- (ii) The Group entered into a number of option contracts in relation to fair value of gold bullions. These contracts as a combination intend to enable the Group to pay a fixed cash flow despite the volatilities of fair value of gold bullions. These contracts were designated at fair value through profit or loss.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

49. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 <i>RMB'000</i> (audited) |
|---|---|---|
| Analysed as collateral type: | | |
| Stock | 1,368,418 | 1,866,306 |
| Bonds | 57,139,386 | 52,075,760 |
| Loans and advances to customers on margin financing | 100,076 | 500,636 |
| Others | 7,105,015 | 1,930,201 |
| | 65,712,895 | 56,372,903 |
| Analysed by market: | | |
| Stock exchanges | 10,915,250 | 7,289,147 |
| Inter-bank market | 46,224,136 | 44,786,613 |
| OTC | 8,573,509 | 4,297,143 |
| | 65,712,895 | 56,372,903 |
| Analysed for reporting purpose as: | | |
| Current liabilities | 65,712,895 | 56,372,903 |

Sales and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Group is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities are not derecognised from the financial statements but regarded as "collateral" for the liabilities because the Group retains substantially all the risks and rewards of these securities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

49. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS (continued)

The following tables provide a summary of carrying amounts and fair values related to transferred financial assets of the Group that are not derecognised in their entirety and the associated liabilities:

As at 30 June 2019 (unaudited)

| | Financial assets at fair value through profit or loss RMB'000 | Debt instrument at fair value through other comprehensive income RMB'000 | Advances to customers on margin financing RMB'000 | Financial assets held under resale agreements RMB'000 | Others RMB'000 | Total RMB'000 |
|---|--|---|--|--|-------------------|------------------|
| Carrying amount of transferred assets | 53,318,023 | 1,230,552 | 104,309 | 2,054,144 | 19,669,505 | 76,376,534 |
| Carrying amount of associated liabilities | 45,150,511 | 1,145,600 | 100,076 | 1,949,438 | 17,367,270 | 65,712,895 |
| Net position | 8,167,512 | 84,952 | 4,233 | 104,706 | 2,302,235 | 10,663,639 |

As at 31 December 2018 (audited)

| | Financial assets at fair value through profit or loss RMB'000 | Debt instruments at fair value through other comprehensive income RMB'000 | Advances to customers on margin financing RMB'000 | Financial assets held under resale agreements RMB'000 | Others RMB'000 | Total RMB'000 |
|---|--|--|--|--|-------------------|------------------|
| Carrying amount of transferred assets | 49,794,272 | 2,837,179 | 536,109 | 768,726 | 10,792,131 | 64,728,417 |
| Carrying amount of associated liabilities | 42,647,263 | 2,717,641 | 500,636 | 669,589 | 9,837,774 | 56,372,903 |
| Net position | 7,147,009 | 119,538 | 35,473 | 99,137 | 954,357 | 8,355,514 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

50. PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 <i>RMB'000</i> (audited) |
|---|---|---|
| Placements from banks | 8,323,327 | 13,723,467 |
| Placements from China Securities Finance Corporation Ltd. | 1,000,597 | 1,000,629 |
| | 9,323,924 | 14,724,096 |
| Analysed for reporting purpose as: | | |
| Current liabilities | 3,101,419 | 8,482,577 |
| Non-current liabilities | 6,222,505 | 6,241,519 |
| | 9,323,924 | 14,724,096 |

51. SHARE CAPITAL

| | Listed A shares | | Listed H shares | | Total | |
|---|-----------------------------|-------------------|-----------------------------|-------------------|-----------------------------|-------------------|
| | Number of shares '000 | Amount RMB'000 | Number of shares '000 | Amount RMB'000 | Number of shares '000 | Amount RMB'000 |
| Registered, issued and fully paid at RMB1.0 per share: | | | | | | |
| At 31 December 2018(audited) | | | | | | |
| and at 1 January 2019, | | | | | | |
| and at 30 June 2019 (unaudited) | 8,092,131 | 8,092,131 | 3,409,569 | 3,409,569 | 11,501,700 | 11,501,700 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

52. REVALUATION RESERVE

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 <i>RMB'000</i> (audited) |
|---|---|---|
| At beginning of the period/year | (400,148) | 1,359,762 |
| Debt instrument measured at fair value through other comprehensive income | 31,297 | 21,921 |
| Equity instrument measured at fair value through other comprehensive income | | |
| Net fair value changes during the period | 1,086,295 | (2,039,573) |
| Transfer to retained earnings | (27,098) | – |
| Income tax impact | (264,834) | 509,893 |
| Share of other comprehensive income/(expenses) of associates and joint ventures | 66,557 | (231,985) |
| Actuarial losses on defined benefit obligations | (63,879) | (20,166) |
| Others | 1,262 | – |
| At end of the period/year | 429,452 | (400,148) |

53. LONG-TERM PAYABLES

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 <i>RMB'000</i> (audited) |
|----------------------------------|---|---|
| Finance lease guarantee deposits | 6,501,721 | 5,667,627 |
| Deferred income | 383,883 | 497,799 |
| Others | 236,373 | 499,509 |
| | 7,121,977 | 6,664,935 |

Long-term payables are mainly due to guaranteed funds received by the Group through finance leasing business. These amounts will expire beyond one year upon contract agreement and are classified as non-current liabilities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

54. CREDIT COMMITMENT

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 <i>RMB'000</i> (audited) |
|--|---|---|
| Contingent liabilities | | |
| Guarantees and standby letters of credit | 997,387 | 1,172,904 |
| | 997,387 | 1,172,904 |
| Commitments | | |
| Irrevocable credit commitments | 141,433 | 129,183 |
| | 141,433 | 129,183 |

Guarantees and standby letters of credits are banking operations that may imply out-flow by the Group only at default condition.

Irrevocable credit commitments represent contractual agreements to extend credit to the Haitong Bank.S.A's customers (e.g. unused credit lines). These agreements are, generally, contracted for fixed periods of time or with other expiration requisites, and usually require the payment of a commission. Substantially, all credit commitments require that clients maintain certain conditions verified at the time when the credit was granted.

Notwithstanding the particular characteristics of these guarantees and commitments, the analysis of these operations follows the same basic principles of any other commercial operation, namely the solvency of the underlying client and business, being that the Haitong Bank.S.A requires these operations to be adequately covered by collaterals when needed.

As it is expected that the majority of these guarantees and commitment will expire without being used, the amounts disclosed above are not representative of the future cash outflows.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

55. OPERATING LEASE ARRANGEMENTS

The Group as lessor

The Group had contracted with tenants for the following future minimum lease payments:

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 <i>RMB'000</i> (audited) |
|--|---|---|
| Within one year | 455,222 | 430,199 |
| In the second to fifth year, inclusive | 1,850,362 | 1,626,758 |
| Over five years | 960,664 | 1,073,703 |
| | 3,266,248 | 3,130,660 |

56. CAPITAL COMMITMENT

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 <i>RMB'000</i> (audited) |
|--|---|---|
| Capital expenditure in respect of acquisition of property and equipment: | | |
| – Contracted but not provided | 1,381,645 | 2,045,388 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

57. DIVIDENDS

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 RMB'000 (audited) |
|--------------------------------------|---|------------------------------------|
| Dividends recognised as distribution | 1,725,255 | 2,645,391 |

Pursuant to the resolution of annual general meeting 2019 and 2018, the Company declared 2018 and 2017 final dividend of RMB0.15 (taxes inclusive) and RMB0.23 (taxes inclusive) per share respectively, amounting to RMB1,725,255 thousand (taxes inclusive) and RMB2,645,391 thousand (taxes inclusive) in total respectively, satisfied by cash.

The directors of the Company have determined that no dividend will be paid in respect of the interim period by the Company.

58. RELATED PARTY TRANSACTIONS

In addition to the joint ventures and associates of the Group set out in Note 21 above, the name and the relationship of other related parties are set out as below:

| Name of the related party | Relationship of the related party |
|--|--|
| BNP Paribas Investment Partners BE Holding SA | Holds more than 10% shares of the Group's subsidiary |
| BNP Paribas (China) Limited | Note A |
| BNP Paribas Investment Partners Japan Ltd | Note A |
| BNP Paribas Investment Partners Singapore Ltd | Note A |
| BNP Paribas Wealth Management Bank | Note A |
| BNP Paribas Investment Partners Switzerland Ltd | Note A |
| BNP Paribas SA | Note A |
| BNP Paribas Investment Partners Hong Kong Ltd | Note A |
| Shinhan BNP Paribas Asset Management (Hong Kong) Co., Ltd | Note A |
| BNP Paribas Investment Ltd (Asia) | Note A |
| Liaoning Energy Investment (Group) Co., Ltd. | Holds more than 10% shares of the Group's subsidiary |
| Shanghai Shengyuan Real-Estate (Group) Co., Ltd | Holds more than 10% shares of the Group's subsidiary |
| China-Belgium Direct Equity Investment Fund | A fund managed by the subsidiary |

Note A: Subsidiaries of BNP Paribas Investment Partners BE Holding SA. The entities listed above are also known as "Entities related to BNP Paribas".

The Group's major transactions with related parties are as follows.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

58. RELATED PARTY TRANSACTIONS (continued)

| | Six months ended 30 June | |
|---|--------------------------------|--------------------------------|
| | 2019 RMB'000 (unaudited) | 2018 RMB'000 (unaudited) |
| Commission and fee income: | | |
| – Shanghai Equity Investment Fund Limited Partnership | 30,152 | 30,730 |
| – Xi'an Aerospace and New Energy Industry Fund | 9,396 | 9,790 |
| – Jilin Modern Agricultural and Emerging Markets Investment Fund Limited | 6,990 | 24,365 |
| – Shanghai Cultural Industries Investment Fund (Limited Partnership) | 12,968 | 9,315 |
| – Fullgoal Fund Management Co. Ltd. | 20,396 | 35,354 |
| – Haitong (Jilin) Modern Service Industry Investment Fund Limited Partnership | 2,774 | 2,774 |
| – Haitong Xingtai (Anhui) Emerging Industry Investment Fund (Limited Partnership) | 9,457 | 9,456 |
| – China-Belgium Direct Equity Investment Fund | 32,217 | 25,077 |
| – Haitong (Jilin) Equity Investment Fund Limited Partnership | 1,132 | 1,132 |
| – Guangdong South Media Integration Fund Limited Partnership | 3,944 | 3,944 |
| – Xi'an Civil-Military Integration Satellite Investment Fund Co., Ltd | 2,014 | 2,014 |
| – Entities related to BNP Paribas | 1,265 | 2,281 |
| – Others | 12 | 71 |
| Administration expense: | | |
| – Shanghai Shengyuan Real-Estate (Group) Co., Ltd. | – | 41 |
| – Entities related to BNP Paribas | 62 | – |
| Investment income: | | |
| – Shanghai Equity Investment Fund Limited Partnership | 1,213 | – |
| Interest expense: | | |
| – Entities related to BNP Paribas | 10,540 | – |
| Interest income: | | |
| – Gui'an UT Financial Leasing (Shanghai) Co., Ltd | 38,196 | 855 |
| – Others | 148 | 338 |
| Interest rate swap: | | |
| – Entities related to BNP Paribas | – | 460,000 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

58. RELATED PARTY TRANSACTIONS (continued)

The Group had the following material balances with the related parties as at 30 June 2019 and 31 December 2018:

| | 2019/06/30 RMB'000 (unaudited) | 2018/12/31 RMB'000 (audited) |
|---|--------------------------------------|------------------------------------|
| Other receivables and prepayments from | | |
| – Fullgoal Fund Management Co. Ltd. | – | 5 |
| – Entities related to BNP Paribas | 509 | 529 |
| – China-Belgium Direct Equity Investment Fund | 13,821 | – |
| – Shanghai Equity Investment Fund Limited Partnership | 31,560 | – |
| Other payables and accruals to: | | |
| – Haitong (Jilin) Modern Service Industry Investment Fund Limited Partnership | (2,391) | – |
| – Jilin Modern Agricultural and Emerging Markets Investment Fund Limited | (7,390) | – |
| – Entities related to BNP Paribas | (31) | (32) |
| Accounts payable to brokerage clients: | | |
| – Shanghai Equity Investment Fund Limited Partnership | (55) | (38,244) |
| – Haitong Qidong (Weihai) Equity Investment Fund Limited Partnership | (1,407) | (489) |
| – Jilin Modern Agricultural and Emerging Markets Investment Fund Limited | (4,093) | (20) |
| – Haitong (Jilin) Modern Service Industry Investment Fund Limited Partnership | (123) | (123) |
| – Haitong Xingtai (Anhui) Emerging Industry Investment Fund Limited Partnership | (2,432) | (10,000) |
| – Liaoning Energy Investment (Group) Co., Ltd. | (58,044) | (4,971) |
| – Shanghai Tong Guan Investment Management Limited Partnership | (3,615) | (1,447) |
| – Entities related to BNP Paribas | (255,397) | – |
| – Others | (70) | (77) |
| Dividends payable to | | |
| – Entities related to BNP Paribas | (47,258) | (39,276) |
| Long-term borrowings and interests | | |
| – Entities related to BNP Paribas | (514,152) | (443,958) |
| Bank balance and cash | | |
| – Entities related to BNP Paribas | 176,288 | 133,819 |
| Financial assets held under resale agreements and interests | | |
| – Gui'an UT Financial Leasing (Shanghai) Co., Ltd | 936,961 | 984,323 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

58. RELATED PARTY TRANSACTIONS (continued)

The remuneration of the key management personnel of the Group was as follows:

| | Six months ended 30 June | |
|--|--------------------------------|--------------------------------|
| | 2019 RMB'000 (unaudited) | 2018 RMB'000 (unaudited) |
| Short-term benefits: | | |
| – Fees, salaries, commission and bonuses | 30,407 | 29,750 |
| Post-employment benefits: | | |
| – Employer's contribution to pension schemes/annuity plans | 407 | 2,429 |
| Total | 30,814 | 32,179 |

59. FINANCIAL RISK MANAGEMENT

The Group's major financial instruments include debt instruments at fair value through other comprehensive income, financial instruments at fair value through profit or loss, derivative instruments, financial assets held under resale agreements, other loans and receivables, loans and advances, advances to customers on margin financing, accounts receivable, other receivables, placements to banks and other financial institutions, deposits with exchanges, clearing settlement funds, restricted bank deposits, bank balances and cash, receivables arising from sale-and-leaseback arrangements, borrowings, financial assets sold under repurchase agreements, accounts payable to brokerage clients and other payables and accruals. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and finance lease receivables include market risk (price risk, currency risk and interest rate risk), credit risk and liquidity risk. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

During the six-months ended 30 June 2019, there has been no material changes in the risk management policies. The condensed consolidated financial statements do not include all financial risk management information and disclosure and should be read in conjunction with the consolidated financial statements for the year ended 31 December 2018.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

60. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Some of the Group's financial assets and liabilities are measured at fair value for financial reporting purposes. The board of directors of the Group has set up certain process to determine the appropriate valuation techniques and inputs for fair value measurements. The appropriateness of the process and the determination of fair value are reviewed by the board of directors periodically.

The fair value of financial assets and financial liabilities are determined as follows:

- Level 1 fair value measurements are quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial instruments not measured at fair value

The table below summarises the carrying amounts and expected fair values with obvious variances of those financial assets and liabilities not presented on the Group's consolidated statement of financial position at their fair values.

| | As at 30 June 2019 (unaudited) | | As at 31 December 2018 (audited) | |
|------------------------------------|-----------------------------------|-----------------------|-------------------------------------|-----------------------|
| | Carrying amount RMB'000 | Fair value RMB'000 | Carrying amount RMB'000 | Fair value RMB'000 |
| Financial assets | | | | |
| Debt instruments at amortised cost | 3,147,952 | 3,108,914 | 683,296 | 682,726 |
| Financial liabilities | | | | |
| Non-convertible bonds | 135,958,344 | 137,213,923 | 134,024,662 | 137,495,291 |

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

60. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Financial instruments measured at fair value on a recurring basis

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3.

| Financial assets/ Financial liabilities | Classified as | Fair value as at 30 June 2019 (unaudited) RMB'000 | Fair value as at 31 December 2018 (audited) RMB'000 | Fair value hierarchy | |
|--|------------------|---|---|-------------------------|---------|
| Derivative instruments | Listed options | – | 13,606 | Level 1 | |
| | | | (Assets) | | |
| | | 40,734 | 52,994 | Level 2 | |
| | | (Liabilities) | (Liabilities) | | |
| | | 52,517 | 148,522 | Level 2 | |
| | | (Assets) | (Assets) | | |
| | | 296,568 | 182,389 | Level 2 | |
| | | (Liabilities) | (Liabilities) | | |
| | Unlisted options | | 64,065 | 206,960 | Level 2 |
| | | | | (Assets) | |
| | | | 82,589 | 256,652 | Level 3 |
| | | | (Liabilities) | (Liabilities) | |
| | | | 4,745 | 17,304 | Level 3 |
| | | | (Assets) | (Assets) | |
| | | 5,427 | 15,709 | Level 2 | |
| | (Liabilities) | (Liabilities) | | | |
| Forward contracts | | 59,285 | 55,757 | Level 2 | |
| | | | (Assets) | | |
| | | 63 | 118,393 | Level 3 | |
| | | (Liabilities) | (Liabilities) | | |
| | – | 369 | Level 3 | | |
| | (Assets) | (Assets) | | | |
| | 404 | 360 | Level 2 | | |
| | (Liabilities) | (Liabilities) | | | |
| Interest rate, foreign exchange and credit default swap contracts | | 1,087,180 | 1,092,435 | Level 2 | |
| | | | (Assets) | | |
| | | 1,309,448 | 1,280,185 | Level 3 | |
| | | (Liabilities) | (Liabilities) | | |
| | 35,638 | 86,118 | Level 3 | | |
| | (Assets) | (Assets) | | | |
| | 51,055 | 106,258 | Level 3 | | |
| | (Liabilities) | (Liabilities) | | | |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

60. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Financial instruments measured at fair value on a recurring basis (continued)

| Financial assets/ Financial liabilities | Classified as | Fair value as at 30 June 2019 (unaudited) RMB'000 | Fair value as at 31 December 2018 (audited) RMB'000 | Fair value hierarchy |
|---|--|--|--|---------------------------------|
| Derivative instruments | Embedded equity instruments | – | 421 (Assets) | Level 2 |
| | | 2,230 | 29,543 | |
| | | (Liabilities) | (Liabilities) | |
| | Equity swap contracts | 62,153 | – | Level 2 |
| | | (Assets) | | |
| | | 209,791 | 877 | |
| | | (Liabilities) | (Liabilities) | |
| | | 1,519 | 153,309 | Level 3 |
| | | (Assets) | (Assets) | |
| | | 4,253 | 175,414 | |
| | | (Liabilities) | (Liabilities) | |
| | Commodity future | – | 5,956 (Assets) | Level 2 |
| Financial assets at fair value through profit or loss | Listed equity investments (non-restricted shares), funds investments and debt investments | 33,358,646 | 24,089,383 | Level 1 |
| | | 43,101,205 | 51,465,472 | Level 2 |
| | | 146,700 | 228,120 | Level 3 |
| | Unlisted equity investments | 2,219,413 | 2,491,334 | Level 2 |
| | | 5,912,590 | 6,109,148 | Level 3 |
| | Unlisted debt investments | 51,521,850 | 39,277,054 | Level 2 |
| | | 29,433 | 474,192 | Level 3 |
| | Unlisted fund investments | 35,127,776 | 24,565,065 | Level 2 |
| | | 302,817 | 83,670 | Level 3 |
| | Investments in wealth investment products, trust and other products (investing in equity or debt other than unlisted private equity) | 17,262,561 | 19,402,155 | Level 2 |
| | | – | 241,110 | Level 3 |
| | Restricted shares | – | 213,823 | Level 2 |
| | | 443,503 | 3,282 | Level 3 |
| | Investments in structure products | 7,302,997 | 8,516,228 | Level 2 |
| | | 1,875 | 45,378 | Level 3 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

60. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Financial instruments measured at fair value on a recurring basis (continued)

| Financial assets/ Financial liabilities | Classified as | Fair value as at 30 June 2019 (unaudited) RMB'000 | Fair value as at 31 December 2018 (audited) RMB'000 | Fair value hierarchy |
|---|---|---|---|-------------------------|
| Financial liabilities at fair value through profit or loss | Listed equity investments (non-restricted shares), funds investments and debt investments | 433,469 | 757,061 | Level 1 |
| | Unlisted debt investments | 1,279,510 | 3,239,462 | Level 2 |
| | | 15,232 | 1,044,240 | Level 2 |
| | | - | 1,499 | Level 3 |
| | Financial liabilities arising from consolidation of structured entities | 3,398,290 | 3,585,088 | Level 2 |
| | Structured notes issued | 13,326,518 | 11,813,581 | Level 2 |
| | | 389,142 | 299,387 | Level 3 |
| | Gold options | 5,426,673 | 5,460,636 | Level 2 |
| | Others | 173,333 | - | Level 2 |
| Financial assets at fair value through other comprehensive income | Listed equity investments (non-restricted shares), and debt investments | 5,994,793 | 7,221,765 | Level 1 |
| | Unlisted equity investments | 15,666,868 | 14,651,459 | Level 2 |
| | | 266,099 | 266,571 | Level 3 |
| | Unlisted debt investments | 6,334,948 | 7,439,937 | Level 2 |
| | | 820,649 | 779,789 | Level 3 |

Valuation methods for financial instruments

For Level 1 financial instruments, fair values are unadjusted quotes in active markets for identical assets.

For Level 2 financial instruments, valuations are generally calculated based on the fair value of the underlying investments which are debt securities or publicly traded equity instruments in each portfolio or obtained from third party pricing services agent such as China Central Depository & Clearing Co., Ltd. which are based on the discounted cash flow models, recent transaction prices or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

For Level 3 financial instruments, the management obtains valuation quotations from counterparties or uses valuation techniques to determine the fair value, including discounted cash flow analysis, net asset value, market comparison approach and option pricing model, etc. The fair value of these financial instruments may be based on unobservable inputs which may have significant impact on the valuation of these financial instruments, and therefore, these assets and liabilities have been classified by the Group as level 3. The unobservable inputs which may have impact on the valuation include weighted average cost of capital, liquidity discount, price to book ratio, etc.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

60. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Reconciliation of Level 3 fair value measurements of financial assets and financial liabilities

30 June 2019 (unaudited)

| | Financial assets at fair value through profit or loss RMB'000 | Equity instruments at FVTOCI RMB'000 | Debt instruments at FVTOCI RMB'000 | Financial liabilities at fair value through profit or loss RMB'000 | Derivative assets RMB'000 | Derivative liabilities RMB'000 |
|--|--|---|---------------------------------------|---|------------------------------|-----------------------------------|
| As at 31 December 2018 | 7,184,900 | 266,571 | 779,789 | 300,886 | 257,100 | 297,741 |
| Transfer in | 261,867 | – | – | 84,507 | 24,803 | – |
| Purchase/(disposal) | (452,319) | – | 24,452 | (1,499) | (73,251) | (81,152) |
| Transfer out (Note) | (232,304) | – | – | – | (164,845) | (167,275) |
| Total losses and gains – other losses and gains | 74,774 | (472) | 16,408 | 5,248 | (1,905) | 11,825 |
| As at 30 June 2019 | 6,836,918 | 266,099 | 820,649 | 389,142 | 41,902 | 61,139 |

31 December 2018 (audited)

| | | | | | | |
|--|-------------|---------|---------|----------|---------|---------|
| As at 1 January 2018 | 7,510,589 | 268,457 | 558,205 | 274,655 | – | – |
| Transfer in | 793,733 | – | – | 75,482 | 257,100 | 297,741 |
| Purchase/(disposal) | 513,324 | – | 198,182 | (58,647) | – | – |
| Transfer out | (1,949,253) | – | – | (42,518) | – | – |
| Total losses and gains – other losses and gains | 316,507 | (1,886) | 23,402 | 51,914 | – | – |
| As at 31 December 2018 | 7,184,900 | 266,571 | 779,789 | 300,886 | 257,100 | 297,741 |

Note: Transfers out from Level 3 occurred when financial instruments became unrestricted or their recent active transaction prices were obtained.

61. COMPARATIVE FIGURES

Certain comparative figures have been reclassified and restated to conform to the current period's presentation.