

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



国联证券股份有限公司
GUOLIAN SECURITIES CO., LTD.

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

(Stock Code: 01456)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

The board of directors (the “**Board**”) of Guolian Securities Co., Ltd. (the “**Company**”) hereby announces the audited annual results of the Company and its subsidiaries for the year ended 31 December 2017. This announcement, containing the full text of the 2017 annual report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to preliminary announcements of annual results. The printed version of the Company’s 2017 annual report will be dispatched to the shareholders of the Company and available for viewing on the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the website of the Company at www.glsc.com.cn.

By order of the Board
Guolian Securities Co., Ltd.
Yao Zhiyong
Chairman

Wuxi, Jiangsu Province, the PRC
12 March 2018

As at the date of this announcement, the executive Director of the Company is Mr. Peng Yanbao; the non-executive Directors of the Company are Mr. Yao Zhiyong, Mr. Hua Weirong, Mr. Zhou Weiping, Mr. Liu Hailin and Mr. Zhang Weigang; and the independent non-executive Directors of the Company are Ms. Chen Qingyuan, Mr. Lee Pak Hay and Mr. Lu Yuanzhu.

Table of Contents

Important Notice	2
Chairman's Statement	3
Section 1 Definitions	4
Section 2 Major Risks Warnings	10
Section 3 Company Profile	11
Section 4 Summary of Accounting and Business Data	23
Section 5 Report of the Directors	28
Section 6 Other Significant Events	90
Section 7 Information of Changes of Equity (Capital) and Substantial Shareholders	104
Section 8 Information of Directors, Supervisors, Senior Management and Staff	107
Section 9 Corporate Governance Report	123
Section 10 Environmental, Social and Governance Report	151
Independent Auditor's Report	166

Important Notice

The Board of Directors, Supervisory Committee, Directors, Supervisors and senior management of the Company undertake that there is no misrepresentation, misleading statement or material omission in this annual report and they are jointly and severally liable for the authenticity, accuracy and completeness for the information contained in this annual report.

This report has been approved at the nineteenth meeting of the 3rd session of the Board of the Company and the eighth meeting of the 3rd session of the Supervisory Committee. All Directors had presented at the Board meeting. All Supervisors had presented at the Supervisory Committee meeting. No Directors, Supervisors or senior management had any objections on the authenticity, accuracy or completeness of the content of this annual report or not able to guarantee thereon.

The 2017 financial report of the Company was prepared in accordance with IFRS and Accounting Standards for Business Enterprises of the PRC, and was audited by Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP respectively, and they have issued auditors' reports with unqualified opinions. Unless otherwise stated, the figures stated in this report are presented in RMB.

The chairman of the Board, namely Mr. Yao Zhiyong, the President and the Officer in charge of accounting, namely Mr. Peng Yanbao, and the chief financial officer, namely Ms. Chen Zhiying, have declared that the financial report in this annual report is authentic, accurate and complete.

The forward-looking statements including future plans and development strategies contained in this annual report do not represent the actual undertaking of the Company to its investors. Therefore, investors are reminded to exercise caution in the investment risks.

Chairman's Statement

Dear Shareholders:

In 2017, the domestic securities market underwent narrow fluctuations and continued its soft recovery layout. Under the macroeconomic environment of intensified financial regulation, de-leveraging and risk prevention, both the brokerage business compliance and risk management requirements are becoming more stringent and business expansion is increasingly difficult. Meanwhile, the homogeneous competition is intensifying in traditional channel business and brokerage margins continued to decline. Affected by the abovementioned factors, income from other businesses declined in different degrees except the Company's credit transactions and proprietary trading business.

In 2017, the Company tackled the market challenges proactively, and facilitated vigorously the implementation of various strategies. For capital operation, the Company continued to promote the returning back to A Shares and concluded the prospectus pre-disclosure updates. For business expansion, the Company strengthened its comprehensive business development by focusing on investment banking business. We also interacted actively with external resources and carried out the "go into listed companies" activities to promote steady growth of customer number and total assets. For branch network layout, the Company improved the regional development planning, formed the branch network layout more scientifically with better connective effects. For risk control, we strictly complied with the regulatory requirements as well as pushing strongly the overall implementation of risk management system at the same time. Our business operated steadily during the whole year.



Mr. Yao Zhiyong
Chairman

Looking ahead into 2018, it is the principal focus for securities industry to control risk and conduct business transformation and development. Under the premise of stringent risk control and proactively facilitating the listing of A Shares, the Company will strengthen its capital through various channels, consolidate the long-term development foundation, persist in improving customers' experience, carry out strategic guidelines of regional development, fintech and strong enterprise with talented teams, drive the transformation and development of various businesses and achieve new breakthrough for the Company to repay our shareholders vigorously.

Chairman: Yao Zhiyong
12 March 2018

Section 1 Definitions

General Terms

Company, the Company or Guolian Securities	Guolian Securities Co., Ltd.
The Group	Guolian Securities Co., Ltd. and its subsidiaries
CSRC	The China Securities Regulatory Commission
Jiangsu Bureau	The CSRC Jiangsu Bureau
SFC	The Securities and Futures Commission of Hong Kong
HK Stock Exchange or Stock Exchange	The Stock Exchange of Hong Kong Limited
Director(s) and Board or Board of Directors	The Director(s) and the board of Directors of the Company
Supervisor(s) and Supervisory Committee	The Supervisor(s) and Supervisory Committee of the Company
General Meeting(s)	the general meetings of the Company
Guolian Group	Wuxi Guolian Development (Group) Co., Ltd.* (無錫市國聯發展(集團)有限公司), which directly and indirectly holds 72.35% of the shares of the Company, the Controlling Shareholder of the Company
Guolian Trust	Guolian Trust Co., Ltd.* (國聯信託股份有限公司), 91.87% of the shares of which is held by Guolian Group directly and indirectly and it holds 20.51% of the shares of the Company
Guolian Industrial	Wuxi Guolian Industrial Investment Group Co., Ltd.* (無錫國聯實業投資集團有限公司), a wholly-owned subsidiary of Guolian Group

Section 1 Definitions

Guolian Futures	Guolian Futures Co., Ltd.* (國聯期貨股份有限公司), 54.72% of the shares of which is held by Guolian Group
Cotton Textile	Wuxi Cotton Textile Group Co., Ltd.* (無錫一棉紡織集團有限公司), a wholly-owned subsidiary of Guolian Group, which holds 3.83% of the shares of the Company, formerly known as “Wuxi Guolian Textile Group Co., Ltd.* (無錫國聯紡織集團有限公司)”
Huaguang Boiler	Wuxi Huaguang Boiler Co., Ltd.* (無錫華光鍋爐股份有限公司), 72.11% of the equity interest of which is held by Guolian Group, which holds 1.53% of the shares of the Company
Wuxi Electric	Wuxi Municipal Electric Power Company* (無錫市地方電力公司), a wholly-owned subsidiary of Guolian Industrial, which holds 14.03% of the shares of the Company
Minsheng Investment	Wuxi Minsheng Investment Co., Ltd.* (無錫民生投資有限公司), a wholly-owned subsidiary of Wuxi Guolian Financial Investment Group Co., Ltd.* (無錫國聯金融投資集團有限公司), which holds 3.86% of the shares of the Company
Jiangsu Xinfang	Jiangsu Xinfang Industrial Co., Ltd.* (江蘇新紡實業股份有限公司), which holds 1.18% of the shares of the Company
Guolian Investment Management	Wuxi Guolian Investment Management Consultancy Co., Ltd.* (無錫市國聯投資管理諮詢有限公司), a directly and indirectly wholly-owned subsidiary of Guolian Group
Guolian Financial Investment	Wuxi Guolian Financial Investment Group Co., Ltd.* (無錫國聯金融投資集團有限公司), a wholly-owned subsidiary of Guolian Group
Guolian Property	Wuxi Guolian Property Management Co., Ltd.* (無錫國聯物業管理有限責任公司), an indirectly wholly-owned subsidiary of Guolian Group
Guolian Industrial Investment	Wuxi Guolian Industrial Investment Co., Ltd.* (無錫國聯產業投資有限公司), a directly and indirectly wholly-owned subsidiary of Guolian Group
Guolian Capital	Guolian Capital Co., Ltd.* (國聯通寶資本投資有限責任公司), a wholly-owned subsidiary of the Company
Hua Ying Securities	Hua Ying Securities Co., Ltd.* (華英證券有限責任公司), 100% of the equity interest of which is held by the Company

Section 1 Definitions

Zhonghai Fund	Zhonghai Fund Management Co., Ltd.* (中海基金管理有限公司), 33.409% of the equity interest of which is held by the Company
Surrich International	Surrich International Company Limited (錫洲國際有限公司), a wholly-owned subsidiary of Guolian Group
RBS	The Royal Bank of Scotland plc (蘇格蘭皇家銀行公眾有限公司), a public limited company established in Scotland
Company Law	the Company Law of the PRC
Securities Law	the Securities Law of the PRC
Listing Rules	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
CG Code	the Corporate Governance Code and Corporate Governance Report in Appendix 14 of the Listing Rules
Model Code	the Model Code for Securities Transactions by Directors of Listed Issuer in Appendix 10 of the Listing Rules
Securities and Futures Ordinance or SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
Articles of Association	the articles of association of the Company
Connected Transactions	has the meaning ascribed to it under the Listing Rules
Continuing Connected Transaction(s)	has the meaning ascribed to it under the Listing Rules
Connected Persons	has the meaning ascribed to it under the Listing Rules
Associates	has the meaning ascribed to it under the Listing Rules
Substantial Shareholder(s)	has the meaning ascribed to it under the Listing Rules
Controlling Shareholders	has the meaning ascribed to it under the Listing Rules and unless the context requires otherwise, refers to the controlling shareholders of the Company, namely, Guolian Group, Guolian Trust, Wuxi Electric, Minsheng Investment, Cotton Textile, HuaGuang Boiler, Guolian Industrial and Guolian Financial Investment

Section 1 Definitions

H Shares	the overseas listed foreign shares issued by the Company of RMB1.00 each, which are listed and traded on The Stock Exchange of Hong Kong Limited (stock code: 01456)
Domestic Shares	ordinary shares issued by the Company of RMB1.00 each, which are subscribed or credited in full in Renminbi
A Shares	domestic listed domestic shares, which are issued domestically and conducted listed trading in domestic stock exchanges, and are ordinary shares that are denominated, subscribed and traded in Renminbi
IFRS	include the standards, amendments and interpretations promulgated by International Accounting Standards Board and the International Accounting Standards and Interpretation issued by International Accounting Standards Committee
Wind	Wind Information, an internet big data financial terminal which is intended for use by various institutional users including all kinds of financial investment institutions, research institutions and academic institutions
Choice	An internet big data financial terminal which is intended for use by various institutional users including all kinds of financial investment institutions, research institutions and academic institutions
Reporting Period	the period from 1 January 2017 to 31 December 2017
SAT	State Administration of Taxation of the PRC
GDP	Gross Domestic Products
SAC	the Securities Association of China
Hong Kong or HK	the Hong Kong Special Administrative Region of the PRC
SME	small and medium-sized enterprise(s)
Shanghai Stock Exchange	the Shanghai Stock Exchange
PRC	the People's Republic of China

Section 1 Definitions

Technical Terms

Margin Financing and Securities Lending	a collateral-backed operating activity in which securities firms provide clients with monies to buy listed securities or with listed securities for sale
NEEQ	National Equities Exchange and Quotations
Stock Pledged Repurchase Transaction	a transaction in which eligible funds receivers obtain financing from eligible funds givers by pledging the stocks or other securities they hold and agree to return the funds and discharge the pledge some day in the future
Securities Repurchase	a transaction pursuant to the securities repurchase agreement in which a qualified investor sells its securities to a securities firm and agrees to repurchase such securities at an agreed price on a future date
Futures IB	the business activities in which securities firms, as commissioned by futures companies, introduce clients to participate in futures transactions for the futures companies and provide other related services
Xiaorongbao (小融寶)	the small securities-backed financing service provided to the customers by the Company
Margin and Securities Refinancing	an operating activity in which China Securities Finance Corporation Limited provide their own or legally raised funds and securities for securities firms to handle margin financing and securities lending. Margin financing includes capital refinancing and securities refinancing
Direct Investment Business	a business in which the subsidiary for private equity business set up by the securities firm leverages on its own professional advantage to search for and find quality investment projects and make equity or debt investment with their own or raised funds, so as to obtain income from equity interest or debts
Shanghai-Hong Kong Stock Connect	a mechanism of inter-connection and inter-working between transactions of Shanghai and Hong Kong stock markets under which the Shanghai Stock Exchange and the Hong Kong Stock Exchange allow investors of the two sides to buy or sell the shares (within a specified limit) listed on the stock exchange of the other side via local securities companies (or brokers)

Section 1 Definitions

Shenzhen-Hong Kong Stock Connect	a mechanism of inter-connection and inter-working between transactions of Shenzhen and Hong Kong stock markets under which the Shenzhen Stock Exchange and the Hong Kong Stock Exchange allow investors of the two sides to buy or sell the shares (within a specified limit) listed on the stock exchange of the other side via local securities companies (or brokers)
Collective Asset Management Scheme	an asset management contract entered into with multiple clients by a securities firm, pursuant to which the clients' assets are placed in the custody of commercial banks or in other institutions approved by the CSRC which are qualified to hold client transaction settlement funds for entrustment, and the securities firm provides asset management services to the clients through designated accounts
Special Asset Management Scheme	an asset management contract entered into by a securities firm with client to specify the investment objectives that specifically cater for the special requirements and asset structure of each individual client and provides asset management service to client through a designated account
Specialized Asset Management Scheme	an asset management contract entered into by a securities firm with a single client, pursuant to which the securities firm provides asset management services to the client through the accounts under the client's name
FOF	funds of funds
IPO	the abbreviation for "Initial Public Offering"
PB Business	the main broker business, the securities company provides one-stop integrated financial services, such as centralized custody, backstage operation, research support, and fund raising to professional institutional investors and high net value clients

This report is prepared both in Chinese and English. In the event of any discrepancy between the two versions, the Chinese version shall prevail.

Section 2 Major Risks Warnings

In this annual report, the Company has described in details the risks that the Company may be exposed to in the ordinary course of its business activities, which primarily include market risk, credit risk, liquidity risk, operational risk, compliance risk, concentration risk and reputation risk, etc. The information is set out in “II. Discussion and Analysis of the Board on the Future Development of the Company” in Section 5 of this report.

I. Basic Information about the Company

1. Company Name

Registered Chinese Name: 國聯證券股份有限公司

Registered English Name: Guolian Securities Co., Ltd.

Short Name in Chinese: 國聯證券

Short Name in English: Guolian Sec

2. Stock Code

01456

3. Legal Representative

Mr. Yao Zhiyong (姚志勇)

4. Registered Capital and Net Capital

Registered Capital: RMB1,902,400,000

Net Capital: RMB8,196 million

5. Qualifications for Businesses in China

Qualification for securities business, qualification for securities business of branches, qualification for foreign stock business, qualification for online trading entrustment business, qualification for entrusted investment management business, member of national inter-bank lending market, qualification for open-end securities investment fund consignment business, qualification for Shanghai Stock Exchange fund expert business, Class-A clearing participant of China Securities Depository and Clearing Corporation Limited, qualification for innovative securities company, book-building participant, qualification for specialized asset management, qualification for collective asset management business, qualification for provision of intermediary introduction business for futures companies, qualification for investment through block trading system as a qualified investor, pilot qualification for direct investment business, qualification as chief agency broker for NEEQ agency share transfer system, qualification for third party escrow services for customer fund in the mode of "one single customer and multiple banks", qualification for membership of the Shanghai Stock Exchange, qualification for membership of the Shenzhen Stock Exchange, qualification for Margin Financing and Securities Lending business, pilot qualification for Margin and Securities Refinancing business, qualification for agency distribution of financial products, qualification for Securities Repurchase trading, qualification as chief agency broker on the NEEQ, qualification for Stock Pledged Repurchase Transaction business, pilot qualification for refinancing business, qualification for marketing making on the NEEQ, authorization for the Hong Kong Stock Connect business on the Shanghai Stock Exchange, qualification for stock options brokerage business and qualification for proprietary trading business on the Shanghai Stock Exchange, pilot qualification for Internet securities business, qualification for comprehensive custody business of private fund, qualification for investment manager entrusted insurance funds, authorization for Hong Kong Stock Connect business under Shenzhen-Hong Kong Stock Connect, qualification of qualified offline investor for IPO.

Section 3 Company Profile

6. Headquarters in China

Registered Address of the Company: No. 8, Jinrong One Street, Wuxi, Jiangsu Province, the PRC; Zip Code: 214000

Office Address of the Company: No. 8, Jinrong One Street, Wuxi, Jiangsu Province, the PRC; Zip Code: 214000

Company Website: www.glsc.com.cn

E-mail: glsc-ir@glsc.com.cn

7. Principal Place of Business in Hong Kong

18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong

8 General Manager (the President)

Mr. Peng Yanbao (彭焰寶)

9. Secretary to the Board

Mr. Li Zhengquan (李正全)

Address: 8th Floor, No. 8, Jinrong One Street, Wuxi, Jiangsu Province, the PRC

Telephone: 86 (510) 82833209

Fax: 86 (510) 82833124

E-mail: glsc-ir@glsc.com.cn

10. Company Secretary

Ms. Lin Fanyu (林凡鈺)

11. Authorized Representatives

Mr. Yao Zhiyong (姚志勇), Mr. Peng Yanbao (彭焰寶)

12. Auditors

Domestic: Deloitte Touche Tohmatsu Certified Public Accountants LLP

International: Deloitte Touche Tohmatsu

13. Legal Advisor (as to Hong Kong Laws)

Clifford Chance

14. Share Registrars

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

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

II. Development History

The Company was established by way of overall alteration of Guolian Securities Co., Ltd.* (國聯證券有限責任公司). The predecessor of Guolian Securities Co., Ltd.* (國聯證券有限責任公司) was Wuxi Securities Co., Ltd.* (無錫證券有限責任公司), which was converted from Wuxi Securities Company* (無錫市證券公司), an enterprise owned by the whole people (全民所有制企業).

On 8 January 1999, upon the approval from CSRC and upon registration with Wuxi Industrial and Commercial Bureau, Wuxi Securities Company* (無錫市證券公司) was converted into a limited liability company, and renamed as Wuxi Securities Co., Ltd.* (無錫證券有限責任公司), the registered capital of which was RMB50 million.

On 29 January 2002, upon the approval from CSRC and upon registration with Wuxi Industrial and Commercial Bureau, the Company was renamed as Guolian Securities Co., Ltd.* (國聯證券有限責任公司) and the registered capital of the Company was increased from RMB50 million to RMB1 billion.

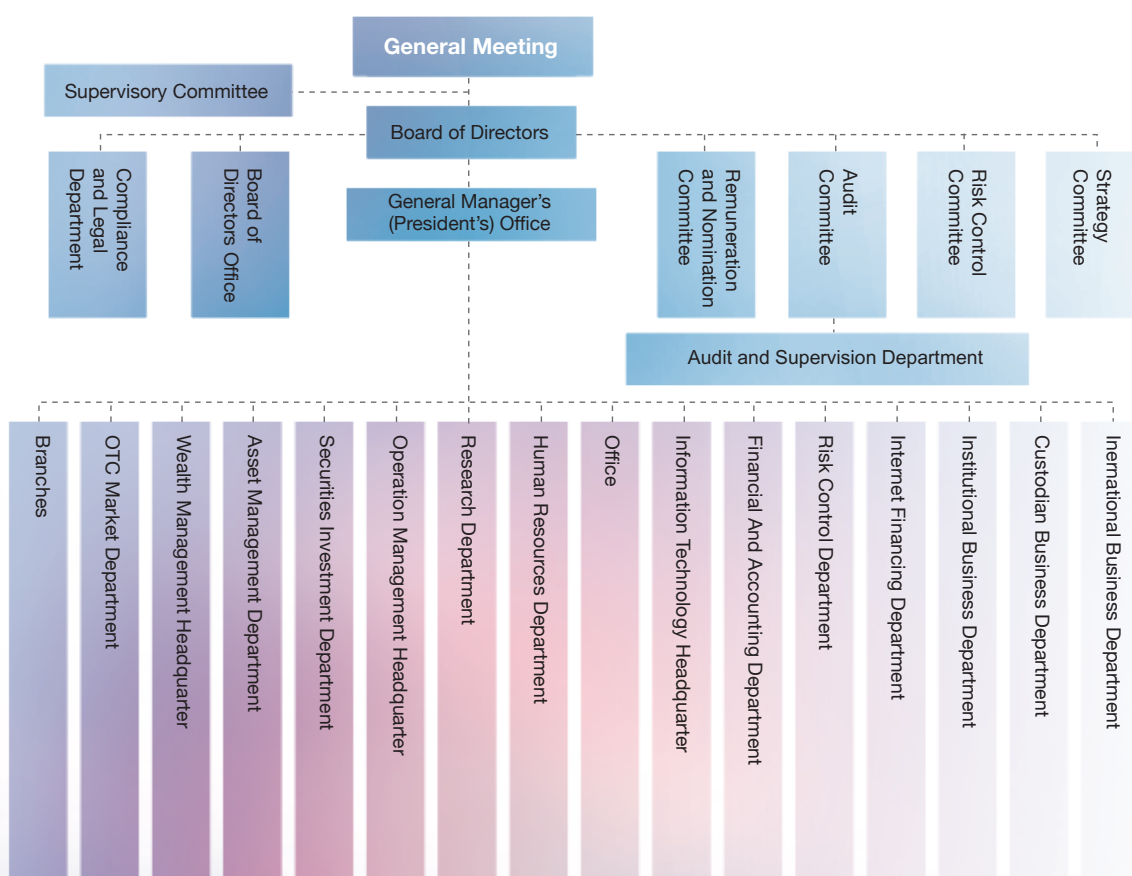
On 26 May 2008, upon the approval from CSRC and upon registration with Wuxi Industrial and Commercial Bureau, Guolian Securities Co., Ltd.* (國聯證券有限責任公司) was wholly converted into a joint stock company with limited liability, and was renamed as Guolian Securities Co., Ltd.* (國聯證券股份有限公司). The registered capital of the Company was accordingly increased from RMB1 billion to RMB1.5 billion.

Section 3 Company Profile

On 6 July 2015, upon the approval from CSRC, the Company completed the initial public offering of its foreign shares (H Shares) and commenced the trading on the Main Board of the HK Stock Exchange on the same date. Upon the completion of the offering, the total share capital of the Company was increased from 1,500,000,000 shares to 1,902,400,000 shares, the registered capital of the Company was increased from RMB1.5 billion to RMB1.9024 billion.

III. Organizational Structure

The Company has established a sound corporate governance system and internal control system in accordance with the Company Law, the Securities Law, the Listing Rules, other laws and regulations and the Articles of Association of the Company, which consistently regulate the operation of General Meeting, Board of Directors, Supervisory Committee and management to meet the development needs of the Company through the gradual optimization of the organizational structure of the Company. The organizational structure of the Company is as follows:



IV. Information of Subsidiaries

As at the end of the Reporting Period, the Company has 2 subsidiaries, namely Hua Ying Securities and Guolian Capital, respectively, the details of which are as follows:

1. Hua Ying Securities

Type	Limited liability company (Legal person wholly-owned)
Address	Units 01-11, 15th Floor, No.19, Gaolang East Road, New District, Wuxi
Legal Representative	Yao Zhiyong
Registered Capital	RMB800 million
Date of Establishment	20 April 2011
Scope of Business	1. Underwriting and sponsorship of shares (including RMB ordinary shares and foreign invested shares) and bonds (including government bonds and corporate bonds); 2. other activities approved by CSRC. (For any project that is required to be approved under laws, the commencement of business activities are subject to the approval from relevant authorities)
Proportion of Shareholding	100%
Contact No.	0510-85201212

2. Guolian Capital

Type	Limited liability company (Legal person wholly-owned)
Address	700, 7th Floor, No. 8, Jinrong One Street, Wuxi
Legal Representative	Li Zhengquan
Registered Capital	RMB200 million
Date of Establishment	18 January 2010
Scope of Business	Applying its own funds for equity investment in domestic enterprises. (For any project that is required to be approved under laws, the commencement of business activities are subject to the approval from relevant authorities)
Proportion of Shareholding	100%
Contact No.	0510-82725172

Section 3 Company Profile

V. Branch Offices

As at the end of the Reporting Period, the Company had a total of 13 branch offices, 76 securities branches. The branches of the Company carried on their operation and management activities within their scope of responsibilities.

1. Information of branch offices

Item No.	Branch office name	Address	Date of establishment	Working capital (in RMB ten thousands)	Person in charge	Contact No.
1	Yixing Branch Office	No. 168, Renmin South Road, Yicheng Street, Yixing (宜興市宜城街道人民南路168號)	8 February 2013	2,000	Wu Xinfeng (吳新風)	0510-87911776
2	Beijing Branch Office	1203, 12th Floor, 4th Building, No. 9, Shouti South Road, Haidian District, Beijing (北京市海澱區首體南路9號4樓 12層1203)	13 March 2014	2,000	Zheng Hong (鄭紅)	010-68798616
3	Shanghai Branch Office	22nd Floor, No. 1088, Yuanshen Road, China (Shanghai) Pilot Free Trade Zone (中國(上海)自由貿易試驗區 源深路1088號22層)	11 March 2014	2,000	Mao Jiangqiang (毛江強)	021-38991500
4	Jiangyin Branch Office	No. 18-20, Daqiao North Road, Jiangyin (江陰市大橋北路18-20號)	9 May 2014	2,000	Chang Chengli (常呈黎)	0510-80626007
5	Wuxi Branch Office	No. 153, Zhongshan Road, Wuxi (無錫市中山路153號)	27 May 2015	2,000	Liang Yuelei (梁粵雷)	0510-80501580
6	Nanjing Branch Office	8th Floor, No. 342, Zhongshan South Road, Qinhuai District, Nanjing (南京市秦淮區中山南路342號第8層)	18 June 2015	2,000	Cheng Yue (程越)	025-52857988
7	Suzhou Branch Office	Rm. 1805, Building 1, Xingzuo Commercial Plaza, No. 269, Wangdun Road, Industrial Park District, Suzhou (蘇州工 業園區旺墩路269號星座商務廣場1幢1805室)	3 November 2015	2,000	Zhang Xin (張鑫)	0512-65031456
8	Shenzhen Branch Office	Rm. 4504, 4403-A (duplex 2 floors) and 4501-A, New World Commercial Centre, No. 6009, Yitian Road, Lianhua Street, Futian District, Shenzhen (深圳市福田區蓮花街道 益田路6009號新世界商務中心大廈4504、4403-A (複式2 層)和4501-A)	1 March 2016	2,000	Huang Yuying (黃昱穎)	0755-82520168
9	Southwest Branch Office	Rooms 1810 and 1811, 18th Floor, Block 1, No. 365, Jiaozi Avenue, Hi-tech Zone, Chengdu (成都高新區交子大道 365號1棟18層1810、1811號)	20 September 2016	-	Zhao Shougang (趙守剛)	028-80592358
10	Hunan Branch Office	Rm. 801-810, Block 11&12, Dangdai Binjiang Yuan, No. 125, Hanguang Road, Yuelu District, Changsha, Hunan Province (湖南省長沙市岳麓區含光路125號 當代瀟江苑第11棟、12棟801-810)	1 September 2016	-	Ren Fan (任帆)	0731-88570825
11	Changzhou Branch Office	Rm. 503-506, Block 8, Yulong Garden, North Main Street, Zhonglou District, Changzhou, Jiangsu Province (江蘇省 常州市鐘樓區北大街玉隆花園8幢503-506室)	29 March 2017	-	Li Yingjie (李穎杰)	0519-86600196
12	Northern Jiangsu Branch Office	Rm. 2407 and 2408, Block 1, Financial City, Xindu Street, Chengnan New District, Yancheng, Jiangsu Province (江 蘇省鹽城市城南新區新都街道金融城1幢2407、2408室)	17 May 2017	-	Xue Yunlong (薛雲龍)	0515-88512888
13	Hubei Branch Office	Unit R3, 35th Floor, Block T1, Office Building and Commercial Podium Chang chenghui, Office No. 9, Zhongbei Road, Wuchang District, Wuhan (武漢市武昌區 中北路9號辦公樓商業裙房長城匯T1棟35層R3單元)	29 December 2017	-	Liu Zhen (劉臻)	027-87319678

2. Information of business branches

As at the end of the Reporting Period, the Company owned a total of 76 securities branches located in 13 provinces, autonomous regions and municipalities nationwide, the details of which are as follows:–

Item No.	Region	Branch name	Address	Person in charge
1	Jiangsu Province	Wuxi Xianqian East Street Securities Branch (無錫縣前東街證券營業部)	No. 168, Xianqian East Street, Wuxi (無錫市縣前東街168號)	Zhang Jin (張進)
2	Jiangsu Province	Wuxi Renmin East Road Securities Branch (無錫人民東路證券營業部)	1st Floor, No. 29, Renmin East Road, Wuxi (無錫市人民東路29號一樓)	Gu Li (顧勵)
3	Jiangsu Province	Wuxi Hubin Road Securities Branch (無錫湖濱路證券營業部)	No. 153, Hubin Road, Wuxi (無錫市湖濱路153號)	Wang Longjin (王龍金)
4	Jiangsu Province	Wuxi Liangxi Road Securities Branch (無錫梁溪路證券營業部)	No. 28, Liangxi Road, Binhu District, Wuxi (無錫市濱湖區梁溪路28號)	Shan Tao (單濤)
5	Jiangsu Province	Wuxi Zhongshan Road Securities Branch (無錫中山路證券營業部)	No. 153, Zhongshan Road, Wuxi (無錫市中山路153號)	Li Xin (李昕)
6	Jiangsu Province	Wuxi New District Changjiang North Road Securities Branch (無錫新區長江北路證券營業部)	No. 97, Changjiang North Road, New District, Wuxi (無錫市新區長江北路97號)	Xie Junyan (謝軍燕)
7	Jiangsu Province	Wuxi Luoshe Town Renmin South Road Securities Branch (無錫洛社鎮人民南路證券營業部)	3rd Floor, No. 47, Tianqicheng, Renmin South Road, Luoshe Town, Huishan District, Wuxi (無錫市惠山區洛社鎮人民南路天奇城47號三樓)	Huang Yuyang (黃宇陽)
8	Jiangsu Province	Wuxi Wuai North Road Securities Branch (無錫五愛北路證券營業部)	No. 60, Wuai North Road, Wuxi (無錫市五愛北路60號)	Meng Qingting (孟慶庭)
9	Jiangsu Province	Wuxi Huaxia South Road Securities Branch (無錫華夏南路證券營業部)	11-2500, Huaxia South Road, Xishan District, Wuxi (無錫市錫山區華夏南路11-2500)	Xi Xiaojun (奚孝軍)
10	Jiangsu Province	Wuxi Yuqi Town Huxi Road Securities Branch (無錫玉祁鎮湖西路證券營業部)	No. 170, 172, Huxi Road, Yuqi Town, Wuxi (無錫市玉祁鎮湖西路170、172號)	Chen Hong (陳洪)
11	Jiangsu Province	Wuxi Anzhen Xidong Avenue Securities Branch (無錫安鎮錫東大道證券營業部)	(Shop on 1st Floor), No. 3054, Xidong Avenue, Anzhen, Wuxi (無錫市安鎮錫東大道3054一樓商鋪)	Xi Tingting (席婷婷)
12	Jiangsu Province	Wuxi Meicun Town Xiyi Road Securities Branch (無錫梅村鎮錫義路證券營業部)	1st Floor, Civic Center Building, No. 388, Xiyi Road, Meicun Street, Wuxi (無錫市梅村街道錫義路388號市民中心大樓一層)	Ji Xiaowen (基曉雯)
13	Jiangsu Province	Wuxi Mashan Meiliang Road Securities Branch (無錫馬山梅梁路證券營業部)	No. 212-1, Shengyuan Commercial Street, Meiliang Road South, Mashan, Wuxi (無錫市馬山梅梁路南側聖園商業街212-1號)	Qian Pengcheng (錢鵬丞)
14	Jiangsu Province	Wuxi Donggang Town Jiankang Road Securities Branch (無錫東港鎮健康路證券營業部)	(Shop on 1st Floor) Shop No. 251, Jiankang Road, Donggang Town, Xishan District, Wuxi (無錫錫山區東港鎮健康路251號商鋪一樓商鋪)	Zhang Yu (張瑜)
15	Jiangsu Province	Wuxi Qianqiao Jin'an Road Securities Branch (無錫錢橋金岸路證券營業部)	No. 108, Jin'an Road, Huishan District, Wuxi (無錫惠山區金岸路108號)	Ni Gongyi (倪公一)

Section 3 Company Profile

Item No.	Region	Branch name	Address	Person in charge
16	Jiangsu Province	Wuxi Shuofang Town Zhengtong Road Securities Branch (無錫碩放鎮政通路證券營業部)	No. 5, Zhengtong Road, Shuofang Street, New District, Wuxi (無錫市新區碩放街道政通路5號)	Wang Lei (王磊)
17	Jiangsu Province	Wuxi Jinrong One Street Securities Branch (無錫金融一街證券營業部)	No. 6, Jinrong One Street, Wuxi (無錫市金融一街6號)	Wang Qian (王倩)
18	Jiangsu Province	Wuxi Wanshun Road Securities Branch (無錫萬順路證券營業部)	82-12, Fourth Block, Wanke City Garden, Binhu District, Wuxi (無錫市濱湖區萬科城市花園四區82-12)	Qin Fengyi (秦烽毅)
19	Jiangsu Province	Yixing Renmin South Road Securities Branch (宜興人民南路證券營業部)	No. 168, Renmin South Road, Yicheng Town, Yixing (宜興市宜城鎮人民南路168號)	Wang Xiaochun (王曉春)
20	Jiangsu Province	Yixing Yangxian East Road Securities Branch (宜興陽羨東路證券營業部)	No. 193, 195, Yangxian East Road, Yicheng Street, Yixing (宜興市宜城街道陽羨東路193、195號)	Su Jinghui (蘇靜暉)
21	Jiangsu Province	Yixing Dingshu Town Jiefang Road Securities Branch (宜興丁蜀鎮解放路證券營業部)	No. 21, Block 1, Yuehe Garden, Jiefang Road, Dingshu Town, Yixing (宜興市丁蜀鎮解放路悅和花園1幢21號)	He Qiang (何強)
22	Jiangsu Province	Yixing Zhangzhu Town Taoxi Road Securities Branch (宜興張渚鎮桃溪路證券營業部)	No. 35, 37, Taoxi Road, Zhangzhu Town, Yixing (宜興市張渚鎮桃溪路35、37號)	Wu Di (吳笛)
23	Jiangsu Province	Yixing Guanlin Town Guanxin Street Securities Branch (宜興官林鎮官新街證券營業部)	Rm. 101, 102, Guanxin Street, Guanlin Town, Yixing (宜興市官林鎮官新街101, 102室)	Li Guojun (李國君)
24	Jiangsu Province	Yixing Guangming West Road Securities Branch (宜興光明西路證券營業部)	No. 6 Block, Shenma Community, Yicheng Street, Yixing (宜興市宜城街道神馬小區6號樓)	Yi Bin (夷斌)
25	Jiangsu Province	Yixing Heqiao Town Xiheng Street Securities Branch (宜興和橋鎮西橫街證券營業部)	No. 241, Xiheng Street, Heqiao Town, Yixing (宜興市和橋鎮西橫街241號)	Ou Xiaoping (歐小平)
26	Jiangsu Province	Yixing Jiefang East Road Securities Branch (宜興解放東路證券營業部)	No. 280-17, Jiefang East Road, Yicheng Street, Yixing (宜興市宜城街道解放東路280-17號)	Chen Yimin (陳毅敏)
27	Jiangsu Province	Jiangyin Daqiao North Road Securities Branch (江陰大橋北路證券營業部)	No. 18-20, Daqiao North Road, Jiangyin (江陰市大橋北路18-20號)	Zhang Dongmei (張冬梅)
28	Jiangsu Province	Jiangyin Shengang Road Securities Branch (江陰申港路證券營業部)	No. 349, Shengang Road, Lingang Street, Jiangyin (江陰市臨港街道申港路349號)	Ren Li (任立)
29	Jiangsu Province	Jiangyin Huashi Town Xinsheng Road Securities Branch (江陰華士鎮新生路證券營業部)	No. 168, Xinsheng Road, Huashi Town, Jiangyin (江陰市華士鎮新生路168號)	Yang Jun (楊軍)
30	Jiangsu Province	Jiangyin Zhouzhuang West Main Street Securities Branch (江陰周莊西大街證券營業部)	No. 616, Zhouzhuang West Main Street, Zhouzhuang Town, Jiangyin (江陰市周莊鎮周莊西大街616號)	Yao Yulong (姚玉龍)
31	Jiangsu Province	Nanjing Taiping South Road Securities Branch (南京太平南路證券營業部)	No. 333, Taiping South Road, Qinhuai District, Nanjing (南京市秦淮區太平南路333號)	Geng Chao (耿超)
32	Jiangsu Province	Nanjing Zhanjiang Road Securities Branch (南京湛江路證券營業部)	No. 59-12, Zhanjiang Road, Gulou District, Nanjing (南京市鼓樓區湛江路59-12號)	Liu Yu (劉羽)

Section 3 Company Profile

Item No.	Region	Branch name	Address	Person in charge
33	Jiangsu Province	Suzhou Jiefang West Road Securities Branch (蘇州解放西路證券營業部)	No. 114, 116, Jiefang West Road, Suzhou (蘇州市解放西路114、116號)	Zheng Minzhong (鄭民中)
34	Jiangsu Province	Changzhou Tongjiang Avenue Securities Branch (常州通江大道證券營業部)	No. 555, Tongjiang Avenue, Changzhou (常州市通江大道555號)	Zhong Qi (鍾奇)
35	Jiangsu Province	Changzhou Wuyi Middle Road Securities Branch (常州武宜中路證券營業部)	No. 301, Block 305-1, Xincheng Nandu, Hutang Town, Wujin District, Changzhou (常州市武進區湖塘鎮新城南都305-1幢301號)	Zha Xiaoming (查曉明)
36	Jiangsu Province	Nantong Gongnong Road Securities Branch (南通工農路證券營業部)	No. 486 Gongnong Road, Nantong (南通市工農路486號)	Xu Yongping (徐永平)
37	Jiangsu Province	Xuzhou Huancheng Road Securities Branch (徐州環城路證券營業部)	2nd Floor, Beijiang Building, No. 167 Huancheng Road, Gulou District, Xuzhou, Jiangsu Province (江蘇省徐州市鼓樓區環城路167號北江大廈2層)	Fan Jiongwei (范炯璋)
38	Jiangsu Province	Taizhou Jichuan East Road Securities Branch (泰州濟川東路證券營業部)	Rm. 106, No. 99, Jichuan East Road, Hailing District, Taizhou (泰州市海陵區濟川東路99號106室)	Chen Hanyan (陳韓巖)
39	Jiangsu Province	Yancheng Jiefang South Road Securities Branch (鹽城解放南路證券營業部)	Rm. 133, 224-226, 319-321 (3) Yongji Plaza, Jiefang South Road, Yancheng (鹽城市解放南路永基廣場133、224-226、319-321室(3))	Lu Guoping (陸國平)
40	Jiangsu Province	Yangzhou Wenhui West Road Securities Branch (揚州文匯西路證券營業部)	No. 183, Wenhui West Road, Hanjiang District, Yangzhou (揚州市邗江區文匯西路183號)	Liang Hongfei (梁宏飛)
41	Jiangsu Province	Lianyungang Cangwu Road Securities Branch (連雲港蒼梧路證券營業部)	No. A1, 1st Floor, Longhe Building, No. 6, Cangwu Road, Lianyungang (連雲港市蒼梧路6號龍河大廈1層A1號)	Ji Wei (季威)
42	Jiangsu Province	Huai'an Beijing North Road Securities Branch (淮安北京北路證券營業部)	Rm. 701, Heyun Building, No. 100, Beijing North Road, Huai'an (淮安市北京北路100號河韻大廈701室)	Xie Xianlin (謝賢林)
43	Jiangsu Province	Zhenjiang Tanshan Road Securities Branch (鎮江檀山路證券營業部)	Rm. 206, 207, 2nd Floor, Building No. 60, Shenhua International Crown Castle, No. 8, Tanshan Road, Zhenjiang (鎮江市檀山路8號中華國際冠城60幢第2層206、207室)	Zhu Xiangming (朱向明)
44	Jiangsu Province	Danyang Jinling West Road Securities Branch (丹陽金陵西路證券營業部)	No. 188, Jinling West Road, Development District, Danyang (丹陽市開發區金陵西路188號)	Zhang Jianhua (張建華)
45	Jiangsu Province	Haimen Changjiang South Road Securities Branch (海門長江南路證券營業部)	No. 32, Yunjie Longxin Homeland Shop, Haimen (海門市運傑龍馨家園商鋪32號)	Wang Xiaolei (王曉磊)
46	Jiangsu Province	Kunshan Xiaolin Road Securities Branch (昆山蕭林路證券營業部)	34, No. 699, Xiaolin Road, Kunshan (昆山市蕭林路699號34)	Xu Xiaoqiang (徐小強)
47	Jiangsu Province	Changshu Haiyu North Road Securities Branch (常熟海虞北路證券營業部)	101, 127, Zhonghui Plaza, No. 11, Jinshajiang Road, Changshu (常熟市金沙江路11號中匯廣場101、127)	Li Chenjie (李辰傑)

Section 3 Company Profile

Item No.	Region	Branch name	Address	Person in charge
48	Jiangsu Province	Jiangyin Qingyang Fuqian Road Securities Branch (江陰青陽府前路證券營業部)	No. 101, Fuqian Road, Qingyang Town, Jiangyin (江陰市青陽鎮府前路101號)	Lu Xiaodong (陸曉東)
49	Jiangsu Province	Nanjing Tuanjie Road Securities Branch (南京團結路證券營業部)	Rm. 02, 03, Block 25, Zhonghai Wanjin Garden, No. 8, Tuanjie Road, Pukou District, Nanjing (南京市浦口區團結路8號中海萬錦花園25幢02、03室)	Lin Xin (林鑫)
50	Jiangsu Province	Changzhou North Main Street Securities Branch (常州北大街證券營業部)	Rm. 503-506, Block 8, Yulong Garden, North Main Street, Zhonglou District, Changzhou (常州市鐘樓區北大街玉隆花園8幢503-506室)	Tian Yan (田燕)
51	Beijing	Beijing Shouti South Road Securities Branch (北京首體南路證券營業部)	Rm. 1202, 12th Floor, 4th Building, No. 9, Shouti South Road, Haidian District, Beijing (北京市海澱區首體南路9號4樓12層1202室)	Jia Li (賈莉)
52	Beijing	Beijing Jiancaicheng West Road Securities Branch (北京建材城西路證券營業部)	No. 2 Building, No. 87, Jiancaicheng West Road, Changping District, Beijing (北京市昌平區建材城西路87號2號樓)	Chen Shouxi (陳首熹)
53	Beijing	Beijing Shijingshan Road Securities Branch (北京石景山路證券營業部)	Rm. 1505, 1506, 1507, 1508, 1509, 12th Floor, No. 2 Building, No. 18 Yard, Shijingshan Road B Section, Shijingshan District, Beijing (北京市石景山區石景山路乙18號院2號樓12層1505、1506、1507、1508、1509)	Zhang Chao (張超)
54	Beijing	Beijing Chaoyangmen South Street Securities Branch (北京朝陽門南大街證券營業部)	50105, 1st Floor, Galaxy SOHO Centre, No. 2, Nanzhugan Alley, Dongcheng District, Beijing (北京市東城區南竹竿胡同2號銀河搜侯中心1層50105)	Ma Yunxia (馬雲霞)
55	Shanghai	Shanghai Caobao Road Securities Branch (上海漕寶路證券營業部)	No. 38, Caobao Road, Xuhui District, Shanghai (上海市徐匯區漕寶路38號)	Wu Sheng (吳晟)
56	Shanghai	Shanghai Handan Road Securities Branch (上海邯鄲路證券營業部)	No. 98, Handan Road, Shanghai (上海市邯鄲路98號)	Wang Jun (王琚)
57	Shanghai	Shanghai Gangyu Road Securities Branch (上海港俞路證券營業部)	No. 865, Gangyu Road, Qingpu District, Shanghai (上海市青浦區港俞路865號)	Dai Ming (代明)
58	Shandong Province	Yantai Yingchun Street Securities Branch (煙台迎春大街證券營業部)	No. 163, Yingchun Street, Laishan District, Yantai (煙台市萊山區迎春大街163號)	Li Chao (李超)
59	Shandong Province	Zibo Zicheng Road Securities Branch (淄博淄城路證券營業部)	No. 573, Zicheng Road, Zichuan District, Zibo, Shandong Province (山東省淄博市淄川區淄城路573號)	Wu Junhe (吳俊河)
60	Guangdong Province	Guangzhou Binjiang East Road Securities Branch (廣州濱江東路證券營業部)	One of Unit 07 of 3rd Floor, No. 207 and Unit 01-05 of 3rd Floor, No. 213, Binjiang East Road, Haizhu District, Guangzhou (廣州市海珠區濱江東路207號三層07之一、213號三層01-05單元)	Wang Jiawen (汪嘉文)

Section 3 Company Profile

Item No.	Region	Branch name	Address	Person in charge
61	Guangdong Province	Shenzhen Haixiu Road Securities Branch (深圳海秀路證券營業部)	1701-1703, 1710-1711, Commercial Building, Xilongwan Garden (N23 Zone), the junction of Jia'an Road and Haixiu Road, Xinan Street, Bao'an District, Shenzhen (深圳市寶安區新安街道甲岸路及海秀路交匯處熙龍灣花園(N23區)商業辦公樓1701-1703·1710-1711)	Yu Lei (于磊)
62	Guangxi Zhuang Autonomous Region	Nanning Minzu Avenue Securities Branch (南寧民族大道證券營業部)	4th Floor, Derui Complex Building, No. 143, Minzu Avenue, Qingxiu District, Nanning (南寧市青秀區民族大道143號德瑞大廈綜合樓4樓)	Lu Yong (陸泳)
63	Guangxi Zhuang Autonomous Region	Guilin Binjiang Road Securities Branch (桂林濱江路證券營業部)	1-10, 1#3rd Floor, Kegao Lijiang 21st Commercial Mansion, No. 16, Binjiang Road, Xiufeng District, Guilin (桂林市秀峰區濱江路16號可高·灘江21號商務辦公樓1#3樓1-10)	Jiang Daihua (蔣代華)
64	Zhejiang Province	Hangzhou Zhongshan North Road Securities Branch (杭州中山北路證券營業部)	No. 290, Zhongshan North Road, Xiacheng District, Hangzhou (杭州市下城區中山北路290號)	Ye Ruqi (葉汝騏)
65	Liaoning Province	Dalian Renmin Road Securities Branch (大連人民路證券營業部)	No. E2, 8th Floor, International Finance Tower, No. 15, Renmin Road, Zhongshan District, Dalian, Liaoning Province (遼寧省大連市中山區人民路15號國際金融大廈8層E2號)	Zhu Gang (祝剛)
66	Jiangxi Province	Nanchang Beijing East Road Securities Branch (南昌北京東路證券營業部)	1st-3rd Floor, No. 98, Beijing East Road, Qingshanhu District, Nanchang, Jiangxi Province (江西省南昌市青山湖區北京東路98號第1-3層)	Liu Wei (劉維)
67	Hunan Province	Changsha Furong Middle Road Securities Branch (長沙芙蓉中路證券營業部)	4th Floor, Zhongcai Building, No. 426, Furong Middle Road Third Section, Tianxin District, Changsha (長沙市天心區芙蓉中路三段426號中財大廈四層)	Yang Jieqiong (陽潔琼)
68	Chongqing	Chongqing Wuhong Road Securities Branch (重慶五紅路證券營業部)	3-1, Building No. 7, Chang'an Huadu, No. 60-3, Wuhong Road, Longta Street, Yubei District, Chongqing (重慶市渝北區龍塔街道五紅路60號附3長安華都7幢3-1)	Meng Shuyong (孟書勇)

Section 3 Company Profile

Item No.	Region	Branch name	Address	Person in charge
69	Sichuan Province	Chengdu Jincheng Avenue Securities Branch (成都錦城大道證券營業部)	No. 7, 14th Floor, Block 3, No. 666, Jincheng Avenue, Hi-Tech District, Chengdu (成都市高新區錦城大道666號3幢14層7號)	Huang Jianbin (黃建斌)
70	Beijing	Beijing Majiapu East Road Securities Branch (北京馬家堡東路證券營業部)	Commercial Zone, No. 21, 1st Floor, No. 6 Building, No. 168 Yard, Majiapu East Road, Fengtai District, Beijing (北京市豐台區馬家堡東路168號院6號樓1層21號底商)	Song Hongtao (宋洪濤)
71	Guangdong Province	Shenzhen Yitian Road Securities Branch (深圳益田路證券營業部)	Rm. 4504, 4403-A and 4501-A, New World Commercial Centre, No. 6009, Yitian Road, Futian District, Shenzhen (深圳市福田區益田路6009號新世界商務中心大廈4504、4403-A和4501-A)	Shen Liming (沈黎明)
72	Hunan Province	Changsha Songgui Garden Securities Branch (長沙松桂園證券營業部)	Units C1, C2 and C3, 15th Floor, Hunan Xinwen Building, No. 469, One Section, Furong Middle Road, Kaifu District, Changsha, Hunan Province (湖南省長沙市開福區芙蓉中路一段469號湖南新聞大廈15層C1、C2、C3區寫字間)	Wang Qin (王琴)
73	Jiangsu Province	Wuxi Xibei Town Quanshan Road Securities Branch (無錫錫北鎮泉山路證券營業部)	No. 15, Jinghe Yuan, Xibei Town, Wuxi (無錫市錫北鎮涇和苑15號)	Sun Jindong (孫金東)
74	Jiangsu Province	Wuxi Hudai Town Antai Road Securities Branch (無錫胡埭鎮安泰路證券營業部)	No. 13-9, Fuan Commercial Plaza A, Hudai Town, Wuxi (無錫市胡埭鎮富安商業廣場A區13-9)	Shen Gang (沈剛)
75	Jiangsu Province	Wuxi Huishan New Town Zhenghe Avenue Securities Branch (無錫惠山新城政和大道證券營業部)	Rm. 104, 106-2 and 204, No. 182, Zhenghe Avenue, Huishan District, Wuxi (無錫市惠山區政和大道182號104、106-2、204)	Wang Yuhong (王玉紅)
76	Anhui Province	Susong Fuyu West Road Securities Branch (宿松孚玉西路證券營業部)	No. 366, Fuyu West Road, Fuyu Town, Susong County, Anqing, Anhui (安徽省安慶市宿松縣孚玉鎮孚玉西路366號)	Qin Jun (秦軍)

Section 4 Summary of Accounting and Business Data

I. Principal Accounting Data and Financial Indexes

(I) Principal accounting data and financial indexes for the recent three years

Item	2017	2016	Year-on-Year Growth	2015
Operating results (RMB'000)				
Revenue and other income	1,792,803	2,335,667	-23.24%	3,833,186
Profit before income tax	516,678	859,871	-39.91%	1,990,334
Profit for the year attributable to shareholders of the Company	361,492	610,068	-40.75%	1,471,438
Net cash inflow/outflow from operating activities	-3,933,409	2,434,180	-261.59%	-1,361,726
Earnings per share (RMB/share)				
Basic earnings per share	0.19	0.32	-40.63%	0.88
Diluted earnings per share	0.19	0.32	-40.63%	0.88
Profitability index				
Weighted average returns on net assets (%)	4.82%	8.08%	Decreased by 3.26 percentage points	24.21%
Item	31 December 2017	31 December 2016	Year-on-Year Growth	31 December 2015
Scale merit (RMB'000)				
Total assets	24,065,998	23,992,481	0.31%	31,173,636
Total liabilities	16,473,426	16,096,311	2.34%	23,144,867
Accounts payable to brokerage clients	6,879,052	9,626,064	-28.54%	13,557,301
Equity attributable to shareholders of the Company	7,592,572	7,569,143	0.31%	7,735,283
Total share capital ('000 shares)	1,902,400	1,902,400	0.00%	1,902,400
Net asset value per share attributable to shareholders of the Company (RMB/share)				
	3.99	3.98	0.25%	4.07
Gearing ratio (%) ¹	55.82%	45.04%	Increased by 10.78 percentage points	54.42%

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

Section 4 Summary of Accounting and Business Data



(II) Principal accounting data and financial indexes for the recent five years

Earnings (RMB'000)

Item	2017	2016	2015	2014	2013
Revenue and other income	1,792,803	2,335,667	3,833,186	2,131,656	1,079,418
Total expenses	1,178,884	1,562,467	1,991,276	1,184,789	739,874
Profit before income tax	516,678	859,871	1,990,334	963,125	350,710
Profit for the year – attributable to shareholders of the Company	361,492	610,068	1,471,438	714,955	269,763

Section 4 Summary of Accounting and Business Data

Assets (RMB'000)

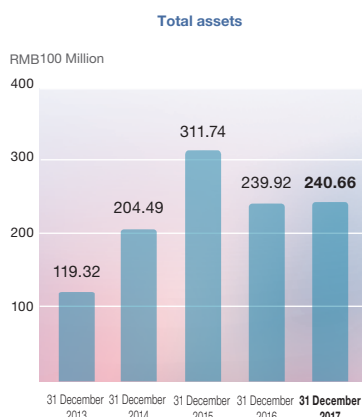
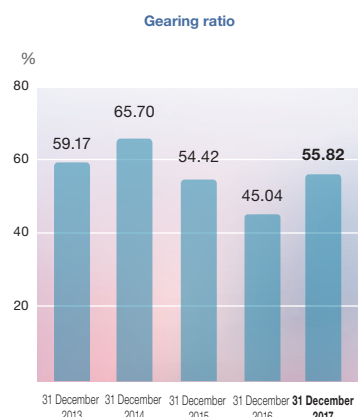
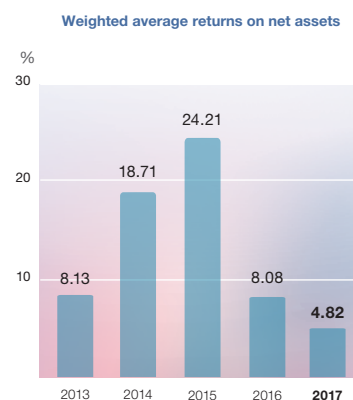
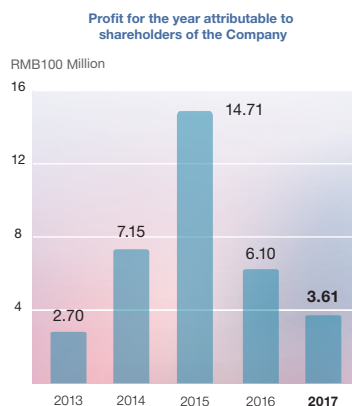
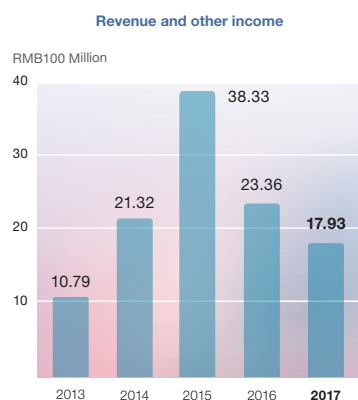
Item	31 December 2017	31 December 2016	31 December 2015	31 December 2014	31 December 2013
Total assets	24,065,998	23,992,481	31,173,636	20,448,835	11,932,291
Total liabilities	16,473,426	16,096,311	23,144,867	16,100,188	8,471,772
Accounts payable to brokerage clients	6,879,052	9,626,064	13,557,301	7,768,782	3,455,869
Equity attributable to shareholders of the Company	7,592,572	7,569,143	7,735,283	4,082,010	3,209,305
Total share capital ('000 shares)	1,902,400	1,902,400	1,902,400	1,500,000	1,500,000

Key financial indexes

Item	2017	2016	2015	2014	2013
Basic earnings per share	0.19	0.32	0.88	0.48	0.18
Diluted earnings per share	0.19	0.32	0.88	0.48	0.18
Weighted average returns on net assets (%)	4.82%	8.08%	24.21%	18.71%	8.13%

	31 December 2017	31 December 2016	31 December 2015	31 December 2014	31 December 2013
Gearing ratio (%)	55.82%	45.04%	54.42%	65.70%	59.17%
Net asset value per share attributable to shareholders of the Company (RMB/share)	3.99	3.98	4.07	2.72	2.14

Section 4 Summary of Accounting and Business Data



Section 4 Summary of Accounting and Business Data

II. Differences of Accounting Data under Domestic and Overseas Accounting Standards

The consolidated financial statement prepared by the Company in accordance with the IFRS and the Accounting Standards for Business Enterprises of the PRC show no difference in the net profit in 2017 and 2016 and the net assets as at 31 December 2017 and 31 December 2016.

III. The Company's Net Capital and Related Risk Control Index

As at 31 December 2017, the net capital of the Company was RMB8,196 million, representing an decrease of 2.30% as compared to the net capital of RMB8,389 million as at the end of 2016. During the Reporting Period, the related risk control indexes of the Company's net capital had complied with the regulatory requirements.

Unit: in RMB'000

Item	31 December 2017	31 December 2016	Regulatory standard
Net capital	8,195,809	8,388,624	—
Net assets	7,515,896	7,780,447	—
Risk coverage ratio (%)	399.77	762.27	≥100%
Capital leverage ratio (%)	43.66	56.65	≥8%
Liquidity coverage ratio (%)	385.54	1,436.32	≥100%
Net steady fund rate (%)	168.81	200.03	≥100%
Net capital/net assets (%)	109.05	107.82	≥20%
Net capital/liabilities (%)	104.98	193.69	≥8%
Net assets/liabilities (%)	96.27	179.64	≥10%
Proprietary equity securities and securities derivatives/net capital (%)	8.97	14.52	≤100%
Proprietary non-equity securities and securities derivatives/net capital (%)	9.64	10.56	≤500%

Section 5 Report of the Directors

I. Board's Discussion and Analysis on the Operation of the Company During the Reporting Period

(I) Operation Environment and Market Conditions During the Reporting Period

In 2017, with the global economic recovering, several institutions including the World Bank, International Monetary Fund (IMF) and Organization for Economic Cooperation and Development (OECD) adjusted their expectations for global economic growth upwards. However, those factors such as U.S. foreign policy, Brexit negotiation and geopolitical instability posed uncertainties for the future development. The developed economies demonstrated a sound growth momentum. The U.S. labour market was close to full employment with its quarterly adjusted unemployment rate down to 4.1%¹, the lowest in recent 17 years. Interest rate went up thrice this year, and the balance sheet normalization program was initiated in October. The PMI for manufacturing sector in Euro zone went all-time high to 60.6 in December while the unemployment rate went down month by month. The year-on-year growth rate of GDP of Japan in the first three quarters continued to go up, which was mainly driven by international trade that helped its economic growth, whilst the foreign trade growth rate rebounded from its negative value in 2016 to double-digit growth. Although the economy of the emerging markets and developing economies continued to recover, however, some of them still faced the adjustment pressure. By benefiting from the price rebound of bulk commodity such as crude oil, the economies in Russia and Brazil gradually stabilized, and the GDP year-on-year growth rate returned to positive growth range. Affected by the factors like the cancellation of currency notes and tax reform, the economic growth of India slowed down, which was still a high growth rate when compared to global performance. In 2017, the Chinese economy continued its recovery progress since the second half of 2016, showing improvements in industrial enterprise income and profit, and the GDP actual growth for the year was 6.9%, higher than in 2016, still at a relatively high level among major economies.

¹ The relevant data in this section (the operation environment and market conditions during the Reporting Period) all come from Wind, and the observation interval was from the year end of 2016 to the year end of 2017, and the time of extracting data was on 20 January 2018 (if the statisticians revise the data subsequently, then there may be a minor deviation with the extracted value).

In 2017, the PRC financial market performed stably. Although the stock market demonstrated a volatile trend overall and experienced a fluctuation during the facilitation of financial regulation, the macro-economy recovery and micro profitability improvement laid a foundation for a promising market. During the year, SSE Composite Index increased by 6.56% to 3,307.17 points, SZSE Component Index increased by 8.48% to 11,040.45 points and Growth Enterprise Index dropped by 10.67% to 1,752.65 points. The main board market continued the slow bull situation while SME and Growth Enterprise were relatively weak. During the Reporting period, the balance for margin financing and securities lending picked up, with a balance of RMB1,026.1 billion at the end of the year, representing an increase of 9.26% over last year. A total of 438 companies were initially listed and issued their A shares and actual proceeds raised amounted to RMB230.109 billion. A total of 540 companies had conducted private placements and actual proceeds raised were RMB1,270.531 billion. The development of NEEQ has been slowed down due to the impacts of accelerated approval for IPOs. the number of companies listed on the NEEQ was 11,630 as at the end of the year, representing a year-on-year growth of 14.43%. As affected by the financial deleveraging and domestic and overseas monetary policy, the bond market continued its adjustment and the yield of 10-year treasury bonds increased by 87 bps to 3.88% for the year. The bond issuing size in the year rose by 12.17% as compared to the same period of last year and has a total value of RMB40,786.287 billion. For the foreign exchange market, Renminbi strengthened by 4,028 bps to 6.53 against US Dollar in 2017. The Chinese economy presented a stable and promising trend and its support to Renminbi exchange rate had strengthened. The introduction of the countercyclical factor to the exchange rate central parity fixing mechanism by the monetary authority had also moderately hedged against the pro-cyclicality movement of market sentiment.

(II) Overall Operation of the Company

For the whole year of 2017, the Group achieved total of revenue and other income amounting to RMB1,793 million, representing a year-on-year decrease of 23.24%. Total net profit attributable to shareholders of the Company of RMB361 million was achieved, representing a year-on-year decrease of 40.75%. As at 31 December 2017, total assets of the Group was RMB24.066 billion; and net assets attributable to shareholders of the Company was RMB7.593 billion and the weighted average returns on net assets was 4.82%.

Section 5 Report of the Directors

(III) Analysis of Principal Business

The businesses of the Group can be categorized into five segments, including brokerage business, investment banking business, asset management and investment business, credit transactions business and proprietary trading.

1. Brokerage Business

During the Reporting Period, revenue and other income generated from brokerage business was RMB728 million, representing a decrease of 28.03% as compared to 2016.

(1) *Securities Brokerage*

In 2017, under the situation of continuous profitability shrinkage of traditional securities brokerage business and increasingly intensified homogeneous competition, targeting at “broadening customer base and expanding asset size” and adhering to the objective of improving customers’ experience, the Company was committed to providing professional and highly efficient integrated wealth management services to customers. In terms of work, firstly, by focusing on customer needs, the Company adhered to the principle of the investor suitability management requirements and embarked on marketing competitive activities to continuously increase and enhance product sales. Secondly, on the basis of controlling risks and standardizing development, the Company pushed forward the credit transaction business including margin financing and securities lending, small lending and the option business and leveraging on the corresponding value-added service strategic development to drive the co-development of the Company’s spot and option business. Thirdly, efforts were made to launch the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect innovative businesses. At the same time, under the guidance of “fully promoting our comprehensive capability and enlarging business base”, the Company conducted active adjustments to the strategic deployment, insisted on compliance and risk control bottom line and intensified its efforts on preparation work, thus accomplishing some achievement.

Section 5 Report of the Directors

The net income of securities trading agency business of the Company amounted to RMB395 million in 2017, representing a year-on-year decrease of 28.28%, maintaining the 50th ranking in the industry. During the Reporting Period, the trading volume of shares and funds of the Company amounted to RMB1,352.79 billion and attained a market share of 0.56%, representing a decrease of 8.20% as compared to 2016. As at the end of the Reporting Period, our total number of customers was 1,024,000, representing an increase of 16.23% as compared to the end of 2016.

Item	2017/ 31 December 2017	2016/ 31 December 2016	Year-on-year increase/decrease
Trading volume of shares and funds (in RMB100 million)	13,527.9	17,010.8	-20.47%
Number of securities brokerage clients (in '0,000)	102.4	88.1	16.23%

(2) Other Services

During the Reporting Period, the Company vigorously developed the financial products distribution business to address the diversified products needs of customers. For the Reporting Period, sales volume of financial products amounted to RMB32.404 billion, representing a year-on-year increase of 19.62%, among which, sales volume of self-developed asset management products amounted to RMB30.394 billion, representing a year-on-year increase of 19.75%; sales volume of third-party fund products amounted to RMB1.473 billion, representing a year-on-year increase of 11.34%; and sales volume of third-party trust products amounted to RMB267 million, representing a year-on-year decrease of 30.65%; and sales volume of other financial products amounted to RMB270 million.

In order to satisfy the diversified wealth management needs of its customers, the Company continued to provide futures IB business. As at the end of the Reporting Period, the Company had 38 securities branches in total with futures IB business qualifications to conduct futures IB business, and had 1,597 existing accounts of commodity futures of the futures IB business and 325 existing accounts of financial futures. During the Reporting Period, commodity futures had 156 newly-opened accounts and 13 newly-opened accounts for financial futures. The IB business generated an income of RMB671,800.

Section 5 Report of the Directors

The Company obtained the Shanghai-Hong Kong Stock Connect business qualification in October 2014. As at the end of the Reporting Period, the Shanghai-Hong Kong Stock Connect Trading Business of the Company had 8,147 customers. During the Reporting Period, the trading volume of Shanghai-Hong Kong Stock Connect Trading Business was HKD1,866 million, generating a commission income of RMB892,600. The Company obtained its Shenzhen-Hong Kong Stock Connect trading business qualification in November 2016. As at the end of Reporting Period, the Company had 3,070 customers for its Shenzhen-Hong Kong Stock Connect Trading Business. During the Reporting Period, the trading volume of Shenzhen-Hong Kong Stock Connect Trading Business was HKD1,098 million, generating a commission income of RMB494,500.

SSE 50ETF options market transactions were active for the whole year, the options brokerage business of the Company improved steadily. During the Reporting Period, the commission income generated from the options business was RMB2.2842 million, representing a year-on-year growth of 43.81%. As at the end of the Reporting Period, the Company's number of contracted accounts opened for options brokerage business on the Shanghai Stock Exchange was 1,102; during the Reporting Period, the Company's accumulated total number of contracts for options brokerage business on the Shanghai Stock Exchange was 1,048,500, the annual cumulative share turnover volume accounted for 0.49% of market shares, ranked 31st in the industry, representing a growth as compared to 32nd in 2016.

In 2017, the Company innovated patterns of the investment advisory business, establishing the on-line investment advisory business platform and breaking regional restrictions, we concentrated resources to promote the investment advisory business, the contracted amount and income from investment advisory business had achieved growth. During the Reporting Period, a total of 372 customers had signed the investment advisory service agreements with the Company, representing a year-on-year increase of 190.63%, generated an income of RMB1,018,500, representing a year-on-year increase of 14.83%.

2. Investment Banking Business

The investment banking business of the Company is conducted by its subsidiary, Hua Ying Securities. Meanwhile, the Company provides referral, listing, market-making, private placing services on the NEEQ as chief agency broker. During the Reporting Period, revenue and other income generated from our investment banking business was RMB252 million, representing a decrease of 54.04% as compared to 2016.

During the Reporting Period, in responding to the dual challenges of external policies and market competition, and new changes including change of internal shareholders and adjustment on organizational structure, Hua Ying Securities planned and implemented the "three main strategies", namely enlarging base business, intensifying base businesses and integrating financial collaboration, took proactive measures to make improvement against industry slowdown. In 2017, Hua Ying Securities achieved a net operating income of RMB195 million in total and total profit of RMB39,693,700.

1. *Equity Financing*

During the Reporting Period, Hua Ying Securities completed 2 equity projects in total, one of which was an IPO underwriting and sponsorship project, and the other one was the share joint underwriting-cum financing project, underwriting a total amount of RMB427 million. As at the end of the Reporting Period, Hua Ying Securities still had 2 equity project applications under review by CSRC.

2. *Debt Financing*

During the Reporting Period, Hua Ying Securities completed 12 bonds lead-underwriting projects and 7 bonds distribution projects, underwriting a total amount of RMB9.760 billion. As at the end of the Reporting Period, Hua Ying Securities obtained approvals and pending issuance of 6 bonds projects, with a pending issuance amount of RMB6.1 billion, and 14 bond project applications are under review.

3. *Financial Advisory*

During the Reporting Period, Hua Ying Securities completed 24 financial advisory projects in total, generating a net financial advisory income of RMB14.8641 million.

(4) *NEEQ*

During the Reporting Period, the NEEQ business recorded a moderate growth. The Company completed a total of 19 referral and listing projects. The number of new referral and listing in 2017 ranked 36th (sources: Wind), generating an income from listing and referral business of RMB17.2923 million.

For market-making business, as at the end of the Reporting Period, the Company provided market-making services for a total of 81 NEEQ-listed companies (including 18 that have been changed to contract transfer enterprises), and invested a total of RMB70.317 million in market-making services. During the Reporting Period, the Company achieved investment revenue of RMB2.692 million.

For capital market service, during the Reporting Period, the Company assisted 25 enterprises to complete the private offering of shares, with an issuing amount of RMB991 million. In addition, during the Reporting Period, the Company completed 2 merger and acquisition reorganization business projects. The revenue generated from the capital market service was RMB2.8792 million.

For on-going supervision services, as at the end of the Reporting Period, the Company continued to supervise a total of 122 enterprises, generating an income of RMB9.7469 million.

Section 5 Report of the Directors

3. Asset Management and Investment Business

During the Reporting Period, revenue and other income generated from asset management and investment business was RMB75.15 million, representing a decrease of 45.55% over 2016.

(1) Asset Management

In 2017, under the general keynote of risk protection and trimming excessive capacity, the Chinese economy upgraded its financial supervision comprehensively, further standardized shadow banking, broke rigid repayment and unified big capital management business, and brought great changes and challenges to the asset management industry. As of the end of 2017, the total scale of asset management business of securities and futures operating institutions was approximately RMB53.6 trillion, representing an increase of 3.49% as compared to the corresponding period of last year.

During the Reporting Period, the Company further intensified its development in active management segment, constantly improved active investment management capabilities, established elite teams and focused more on risk control. The Company achieved a significant breakthrough and good performance in fixed income business, quantified business, private FOF fund and financing business, and managed to meet diversified customer needs, bringing market competitive investment returns to them.

As at the end of the Reporting Period, the total size of entrusted asset management business of the Company amounted to RMB26.086 billion, representing a year-on-year growth of 12.24%, among which, the total size of collective asset management scheme amounted to RMB8.421 billion, representing a year-on-year growth of 7.41%. The total size of targeted asset management scheme amounted to RMB16.915 billion, representing a year-on-year growth of 17.04%, and the total size of specialized asset management scheme amounted to RMB750 million. The Company managed a total of 94 asset management products, among which, 37 are collective asset management schemes, 56 are targeted asset management schemes and one is specialized asset management scheme.

Project Name	As at the end of 2017			As at the end of 2016		
	Portion	Net Value	Quantity	Portion	Net Value	Quantity
Collective Asset Management Scheme	79.89	84.21	37	79.09	78.40	36
Targeted Asset Management Scheme	–	169.15	56	–	144.52	59
Specialized Asset Management Scheme	7.5	7.5	1	9.5	9.5	1

(2) Direct Investment

During the Reporting Period, in accordance with the relevant documentation issued by SAC including “Notice on Issuance of ‘Management Rules for Private Investment Fund Subsidiary under Securities Company’ and ‘Management Rules for Alternative Investment Subsidiary under Securities Company’”, Guolian Capital is going to change and become a private investment fund subsidiary, Guolian Capital will not plan to carry out any direct equity investment business through its own capital any longer. Guolian Capital has implemented the standard rectification according to relevant requirements. As at 31 December 2017, Guolian Capital has been included in the List for Standard Platforms Such as Securities Companies and Their Private Funds Subsidiaries (《證券公司及其私募基金子公司等規範平台名單》) in the fourth batch of rectification program approved by the joint mechanism published on the website of SAC, pursuant to which Guolian Capital can conduct the registration of private fund managers and product filing. Now it is undergoing the business registration change procedures.

Before the rectification was approved, the direct investment business of the Group was conducted by Guolian Capital, our wholly-owned subsidiary. During the Reporting Period, due to rectification period, the original fund investment period of Guolian Capital has expired, and Guolian Capital could not invest in new projects, 2 projects had realized the profit and pulled out.

4. Credit Transaction Business

During the Reporting Period, revenue and other income from credit transactions business was RMB483 million, representing an increase of 11.60% as compared to 2016.

(1) Margin Financing and Securities Lending

In 2017, as A-share market style turned to value investment, the structural market conditions led to significant differentiation of clustering to individual stocks, and fiercer competition among securities brokers, which had affected the credit transactions business of the Company to a certain extent, however, the overall development was relatively stable. At the same time of business development, the Company responded proactively to the requirements of new rules in relation to the suitability management of regulatory authority, strictly complied with compliance requirements, and strengthened business risk management to improve the risk control standard. As at the end of the Reporting Period, the Company had no large-scale close position incident, nor material complaint and dispute issue.

Section 5 Report of the Directors

During the Reporting Period, through focusing on user needs and experience, the Company actively expanded customer value-added service to satisfy customer needs at different levels. In addition, the development of margin financing and securities lending business was effectively promoted as the Company actively streamlined the structure of margin financing and securities lending business, including promoting and optimizing employee incentive measures, developing pricing model for interest rate of margin financing and securities lending. Moreover, the optimization of the margin financing and securities lending business at technical level has provided customers with a more convenient and user-friendly operating experience, and enhanced the overall efficiency of margin financing and securities lending business.

As at the end of the Reporting Period, the total number of credit accounts of clients was 18,968, representing an increase of 18.44% as compared to 16,015 as at the end of 2016. The total credit amount of margin financing and securities lending was RMB45.409 billion, representing an increase of 13.66% as compared to RMB39.952 billion as at the end of 2016. The balance of margin financing and securities lending was RMB4.639 billion, representing an increase of 5.94% as compared to RMB4.379 billion as at the end of 2016. As at the end of the Reporting Period, our margin financing and securities lending business market share was 0.45%, representing a slight drop as compared to 0.47% as at the end of 2016.

(2) *Securities Repurchase and Security-backed Lending*

In 2017, the Company endeavored to serve the listed companies in Wuxi and its surrounding areas. Through matured business approach, efficient project review process and flexible business detail processing, the Company continued to expand the co-operation with listed companies and achieved leapfrog development in the security-backed lending business. As at the end of the Reporting Period, the Company's initial transaction amount to be repurchased on the exchanges of securities-backed lending from its own fund increased RMB4.088 billion to RMB5.082 billion from RMB994 million as at the end of 2016, representing a net increase of 411.27%. Apart from the bulk securities-backed lending business, in responding actively to the needs of retail customers, the Company kept on pushing forward the small securities-backed lending business (being "Xiaorongbao" (小融寶) business) and improved the transaction methods, and achieved convenient mobile terminal transaction business. As at the end of the Reporting Period, the number of "Xiaorongbao" (小融寶) accounts opened were 9,488, representing an increase of 30.74% as compared to 7,257 as at the end of 2016. The size of the financing balance of "Xiaorongbao" (小融寶) had exceeded RMB105.13 million, representing an increase of 43.68% as compared to RMB73.17 million as at the end of 2016.

5. Proprietary trading

As at the end of Reporting Period, revenue and other income generated from the proprietary trading business amounted to RMB218 million, representing an increase of 47.98% as compared with the same period of 2016.

During the Reporting Period, for equity proprietary trading business, the Company has all along been adhering to its principle of value investment, mainly focused on exploring investment portfolios with low valuation and certainty of performance growth, closely kept up with the key market segments, and enhanced value analysis. During the Reporting Period, the domestic A share market experienced an upswing vibration, while Heng Seng Index also continued its rising trend. The Company's equity trading business placed great emphasis on the deployment size for blue-chip stocks and Hong Kong Stock Connect portfolios and sound results were achieved. In 2017, the return on equity outperformed that of the CSI 300 index.

For fixed-income proprietary trading business, the Company adopted held-to-maturity measure as its main investment strategy and implemented a flexible operation strategy of mid-to-long term, moderately leveraged and risk controllable approach, mainly focusing on bonds with mid-to-high credit ratings. During the Reporting Period, based on the judgment of an overall increase of market interest rate in 2017, the Company insisted on its stable operation strategy of low position and low leveraging.

(IV) Financial Statements Analysis

1. Analysis on the Profitability of the Company During the Reporting Period

During the Reporting Period, the Company faced various market challenges and vigorously adjusted our strategic deployment in accordance with the guidelines of "comprehensively improving the overall competence and expanding our business basis" under the premise of stringent risk control to improve its overall strength steadily. It outperformed the CSI 300 index in the proprietary trading business due to proper risk control and the capital intermediary business maintained a good growing momentum by using the securities-backed as a breakthrough point.

During the Reporting Period, the Group generated revenue and other income of RMB1,792.80 million in total, representing a year-on-year decrease of 23.24%. Net profit attributable to Shareholders of the Company amounted to RMB361.49 million, representing a year-on-year decrease of 40.75%. Earnings per share amounted to RMB0.19, representing a year-on-year decrease of 40.63%. The weighted average return on net assets amounted to 4.82%, representing a year-on-year decrease of 3.26 percentage points.

Section 5 Report of the Directors

2. Asset Structure and Asset Quality

As at the end of the Reporting Period, total assets of the Group amounted to RMB24,066.00 million, representing a increase of 0.31% as compared to RMB23,992.48 million as at the end of 2016. Total liabilities amounted to RMB16,473.43 million, representing a increase of 2.34% as compared to RMB16,096.31 million as at the end of 2016. Equity attributable to shareholders of the Company amounted to RMB7,592.57 million, representing a increase of 0.31% as compared to RMB7,569.14 million as at the end of 2016.

During the Reporting Period, the asset structure remained stable with sound asset quality and liquidity. As at the end of the Reporting Period, total assets of the Group comprised of: cash assets, which amounted to RMB9,370.27 million, representing 38.94% of the total assets, and primarily included cash and bank balances (including cash held for brokerage clients), clearing settlement funds and refundable deposits; margin financing assets, which amounted to RMB10,662.51 million, representing 44.31% of the total assets, and primarily included margin accounts receivable and financial assets held under resale agreements; financial investment assets, which amounted to RMB3,547.80 million, representing 14.74% of the total assets, and primarily included investment in associates and investment in financial assets; and operating assets (such as other property, equipment) amounted to RMB485.42 million, representing 2.01% of the total assets, and primarily included property and equipment, intangible assets. During the Reporting Period, the Group made corresponding impairment provision for loans to customers, financial assets held under resale agreements, available-for-sale financial assets and other receivables. There was no evidence showing that other assets may be subject to significant impairment.

The scale of the capital intermediary business expanded substantially. The Company strengthened its liquidity management and constantly improved its financing channels to finance for supporting its businesses development. As at the end of the Reporting Period, liabilities after deducting accounts payable to brokerage clients amounted to RMB9,594.37 million, representing a year-on-year increase of RMB3,124.13 million or 48.28%. The liability-asset ratio of the Group was 55.82%, representing a increase of 10.78 percentage points from 45.04% as at the end of 2016 (Note: Liability-asset ratio = (total liabilities – accounts payable to brokerage clients)/(total assets – accounts payable to brokerage clients)). Operating leverage ratio was 2.26 times, representing a increase of 18.95% from 1.90 times as at the end of 2016 (Note: operating leverage ratio = (total assets – accounts payable to brokerage clients)/equity attributable to shareholders of the Company).

3. Financing Channels and Financing Capability

The Company has met its operating capital requirements through debt financing, kept its liquidity and supplemented net capital. Debt financing of the Company included the issuance of short-term financing bonds, subordinated bonds, income certificates and refinancing, interbank borrowings as well as transfer of equity rights in margin financing and securities lending.

In 2017, the newly added accumulated debt financing of the Company amounted to RMB6.021 billion, among which proceeds raised from the private placement of securities and the issuance of short-term corporate securities amounted to RMB0.5 billion, accumulated proceeds raised from the public issuance of corporate bonds to qualified investors amounted to RMB2.3 billion, accumulated proceeds raised from the issuance of income certificates amounted to RMB2.321 billion, accumulated borrowings from refinancing amounted to RMB0.9 billion, financing principal amounts from repayment of due debts amounted to RMB2.101 billion.

The balance of debt financing not due as of the end of 2017 amounted to RMB7.220 billion, representing a net increase of RMB3.920 billion as compared with that of RMB3.300 billion as of the end of 2016.

Meanwhile, the Company properly arranged financing channels through many ways such as bank credit management, which can meet needs of the Company's funds efficiently with strong security on funds.

4. Liquidity Management Information

The Company paid great attention on liquidity management by adhering to the principles of "comprehensiveness, prudence and foreseeability" and focusing on the organic combination of the security, liquidity and profitability of capital. As requested by the CSRC, the Company established sound management system and contingency measure for liquidity risk. The Company will prepare monthly liquidity monitoring statement. Currently, the management system for liquidity indicators is scientific and reasonable, and meets the requirements of liquidity management. The liquidity monitoring index of the Company in each term throughout 2017 had complied with the regulatory requirements. During the Reporting Period, the overall liquidity of the Company was sufficient.

5. Cash Flows

As the Group's cash inflow generated from the financing activities and investing activities in the current year is less than the cash outflow from operating activities, the net increase in cash and cash equivalents was RMB-720.39 million.

Section 5 Report of the Directors

Net cash flows from operating activities in 2017 was RMB-3,933.41 million, representing a year-on-year decrease of RMB6,367.59 million as compared with RMB2,434.18 million for the corresponding period in 2016. Net cash flows from investing activities in 2017 was RMB703.95 million, representing a year-on-year increase of RMB825.46 million as compared with RMB-121.51 million for the corresponding period in 2016. Net cash flows from financing activities in 2017 was RMB2,509.07 million, representing a year-on-year increase of RMB5,956.98 million as compared with RMB-3,447.91 million for the corresponding period in 2016. Net increase in cash and cash equivalents in 2017 was RMB-720.39 million, representing a year-on-year increase of RMB414.84 million as compared with RMB-1,135.23 million for the corresponding period of 2016.

6. Analysis of Financial Data

(1) Items under income statement

Summary of financial results

During the Reporting Period, the Group's profit before income tax amounted to RMB516.68 million, representing a year-on-year decrease of 39.91%. The key financial results are as follows:

Unit: in RMB million

Items	2017	2016	Increase/ decrease	Growth rate year-on-year
Revenue				
Commission and fee income	793.81	1,316.95	-523.14	-39.72%
Interest income	757.87	768.00	-10.13	-1.32%
Net investment gains	235.47	240.61	-5.14	-2.14%
Other income	5.65	10.11	-4.46	-44.11%
Total revenue and other income	1,792.80	2,335.67	-542.87	-23.24%
Total expenses	1,178.88	1,562.47	-383.59	-24.55%
Profit before income tax	516.68	859.87	-343.19	-39.91%
Income tax expense	143.03	216.26	-73.23	-33.86%
Profit for the year	373.65	643.61	-269.96	-41.94%
Net profit attributable to shareholders of the Company	361.49	610.07	-248.58	-40.75%

Section 5 Report of the Directors

Revenue structure

During the Reporting Period, total revenue and other income of the Group amounted to RMB1,792.80 million, representing a year-on-year decrease of 23.24%, among which, 44.28% was generated from commission and fee income, representing a year-on-year decrease of 12.10 percentage point; 42.27% was generated from interest income, representing a year-on-year increase of 9.39 percentage point and 13.13% was generated from net investment gains, representing a year-on-year increase of 2.83 percentage point. The revenue structure of the Group in the past four years was as follows:

Percentage	2017	2016	2015	2014
Commission and fee income	44.28%	56.38%	58.32%	50.66%
Interest income	42.27%	32.88%	24.13%	17.58%
Net investment gains	13.13%	10.30%	17.37%	31.24%
Other income	0.32%	0.44%	0.18%	0.52%
Total	100.00%	100.00%	100.00%	100.00%

The bar chart below shows the structure comparison:



Section 5 Report of the Directors

From the changes in revenue structure, the Company speeded up the pace of internet transformation, continued to enhance its profitability, improved revenue structure and profit potential to vigorously promote the comprehensive business transformation and innovative development. The brokerage business of the Company which derives its income mainly from commission and fee income contributed 44.28% of the profit, representing a downward trend. The Company used the securities-backed as a breakthrough point and the capital intermediary business which derives its income mainly from interest income contributed 42.27% of the profit, increasing year by year. At the same time, by adhering to the consistent principles of value investment, the profit contributed by net investment income for the year was 13.13%, representing a slight increase as compared with the year of 2016.

Commission and fee income

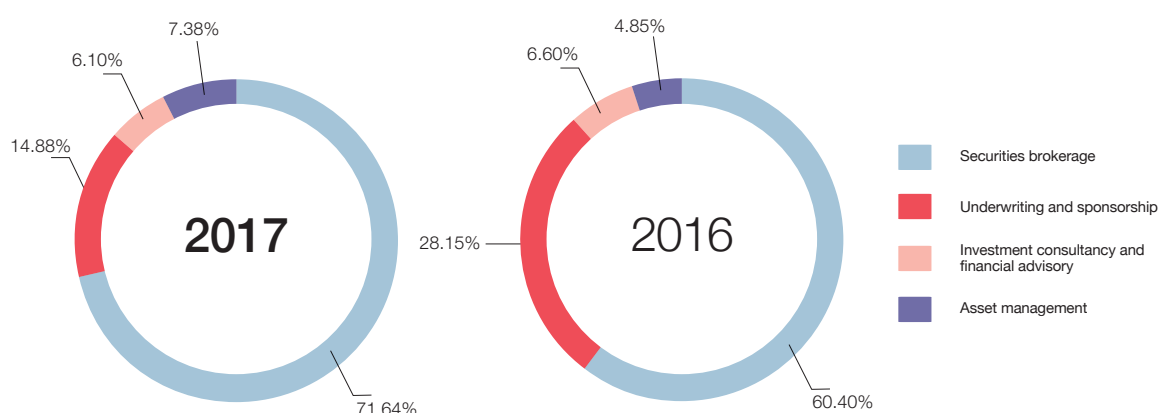
During the Reporting Period, the Group's commission and fee income consists of the followings:

Unit: in RMB million

Items	2017	2016	Increase/ decrease	Growth rate year-on-year
Commission and fee income				
Securities brokerage	568.73	795.43	-226.70	-28.50%
Underwriting and sponsorship	118.10	370.67	-252.57	-68.14%
Investment consultancy and financial advisory	48.39	86.94	-38.55	-44.34%
Asset management	58.59	63.91	-5.32	-8.32%
Total commission and fee income	793.81	1,316.95	-523.14	-39.72%
Commission and fee expenses	154.64	281.59	-126.95	-45.08%
Net commission and fee income	639.17	1,035.36	-396.19	-38.27%

Section 5 Report of the Directors

The Group's commission and fee income consists of:



During the Reporting Period, net commission and fee income of the Group amounted to RMB639.17 million, representing a year-on-year decrease of 38.27%. The decrease was primarily attributable to the decrease in commission and fee income generated from underwriting and sponsorship from investment banks and securities brokerage business.

The securities market went up amidst fluctuations in 2017 · the differentiation among the up and down in index was obvious, as a result, the daily transaction volume of securities and funds in broad market decreased by 12% year-on-year. At the same time, with the development of internet finance, industry commission rate further declined. The commission and fee income generated from securities brokerage business decreased by RMB226.70 million, representing a decrease of 28.50%.

The investment banking business declined slightly and the underwriting and sponsorship income decreased by RMB252.57 million, representing a year-on-year decrease of 68.14%. Investment advisory and financial consultant income decreased by RMB38.55 million, representing a year-on-year decrease of 44.34%, primarily attributable to the impacts of the securities market fluctuation and tightening regulation policy.

As a result of the Company's active brand building effects through close integration of market conditions and customers' needs, total entrusted assets under management amounted to RMB26.086 billion, representing a year-on-year increase of 12.24%. Affected by multiple factors, such as tightening regulatory standards, new taxation policies and weak bond market condition, asset management income decreased by RMB5.32 million, representing a year-on-year decrease of 8.32%.

Section 5 Report of the Directors

Interest income

During the Reporting Period, net interest income of the Group amounted to RMB483.52 million, representing a year-on-year increase of 3.65%. The Group's net interest income for 2017 consists of the following:

Unit: in RMB million

Items	2017	2016	Increase/ decrease	Growth rate year-on-year
Interest income				
Bank deposits interest income	255.97	315.25	-59.28	-18.80%
Financial assets held under resale agreements interest income	179.23	91.31	87.92	96.29%
Margin financing and securities lending interest income	322.67	361.44	-38.77	-10.73%
Total interest income	757.87	768.00	-10.13	-1.32%
Interest expenses	274.35	301.49	-27.14	-9.00%
Net interest income	483.52	466.51	17.01	3.65%

Interest income from bank deposits decreased by RMB59.28 million, representing a year-on-year decrease of 18.80%, which was primarily attributable to the decline in transaction volume and the size of client margin deposit due to the market fluctuation.

Interest income from financial assets held under resale agreements increased by RMB87.92 million, representing a year-on-year increase of 96.29%, primarily attributable to benefit from the significant increase in size of securities backed.

Interest income from margin financing and securities lending decreased by RMB38.77 million, representing a year-on-year decrease of 10.73%, primarily attributable to the slight decrease in size of average daily margin financing and securities lending business.

Interest expenses decreased by RMB27.14 million, representing a year-on-year decrease of 9.00%, primarily attributable to the impacts of the decline in the client margin deposit and financial interest rate in 2017.

Section 5 Report of the Directors

Net investment gains

During the Reporting Period, the Company adhered to principles of value investment and effective risk control. The net investment gains of the Group amounted to RMB235.47 million, representing a year-on-year decrease of 2.14%. The Group's net investment gains for 2017 consist of the following:

Unit: in RMB million

Items	2017	2016	Increase/ decrease	Growth rate year-on-year
Net gains from disposal of				
available-for-sale financial assets	192.08	125.61	66.47	52.92%
Dividends and interest income from				
available-for-sale financial assets	23.97	16.85	7.12	42.26%
Realised gains from disposal of				
financial assets at fair value				
through profit or loss	88.19	52.51	35.68	67.95%
Distribution to interest holders of				
the consolidated SEs	-139.21	-123.72	-15.49	-12.52%
Dividends and interest income				
from financial assets at fair value				
through profit or loss	133.22	148.08	-14.86	-10.04%
Net realised gains from				
derivative financial instruments	1.23	9.26	-8.03	-86.72%
Unrealised fair value change of				
financial instruments at fair value				
through profit or loss				
- Financial assets at fair value				
through profit or loss	-11.03	-68.48	57.45	83.89%
- Derivative financial instruments	-0.09	0.08	-0.17	-212.50%
- Financial liabilities at fair value				
through profit or loss	-52.89	80.42	-133.31	-165.77%
Total	235.47	240.61	-5.14	-2.14%

Section 5 Report of the Directors

Operating Expenses

During the Reporting Period, operating expenses of the Group (excluding fee and commission expenses and interest expenses) amounted to RMB749.89 million, representing a year-on-year decrease of 23.43%. The Group's operating expenses primarily consist of the following:

Unit: in RMB million

Items	2017	2016	Increase/ decrease	Growth rate year-on-year
Operating Expenses				
Staff costs	466.66	567.79	-101.13	-17.81%
Depreciation and amortization	57.15	53.77	3.38	6.29%
Other operating expenses	218.71	257.05	-38.34	-14.92%
Impairment losses	7.37	100.77	-93.40	-92.69%
Total	749.89	979.38	-229.49	-23.43%

Staff costs decreased by RMB101.13 million, representing a year-on-year decrease of 17.81%;

The newly add property, equipment and intangible assets, depreciation and amortization of the Company increased by RMB3.38 million, representing a year-on-year increase of 6.29%;

Under the impact of "B2V Reform" in the securities industry, other operating expenses decreased by RMB38.34 million, representing a year-on-year decrease of 14.92%;

Section 5 Report of the Directors

The Company invested steadily, avoided risks and downsized its scale, impairment losses amounted to RMB7.37 million, representing a year-on-year decrease of RMB93.40 million, details of which are as follows:

Unit: in RMB million

Items	2017	2016	Increase/ decrease	Growth rate year-on-year
Impairment losses				
Margin accounts receivable	0.80	-5.21	6.01	115.36%
Available-for-sale financial assets	-5.92	109.13	-115.05	-105.42%
Financial assets held under resale agreements	12.36	0.48	11.88	2,475.00%
Accounts receivables	0.13	-3.63	3.76	103.58%
Total	7.37	100.77	-93.40	-92.69%

Impairment losses on assets primarily included provision for impairment of financial assets held under resale agreements. Under the impact of the conditions of the securities market, the impairment provision was made for assets where signs of impairment were detected pursuant to the requirements of the accounting policies.

Section 5 Report of the Directors

(2) Assets Information

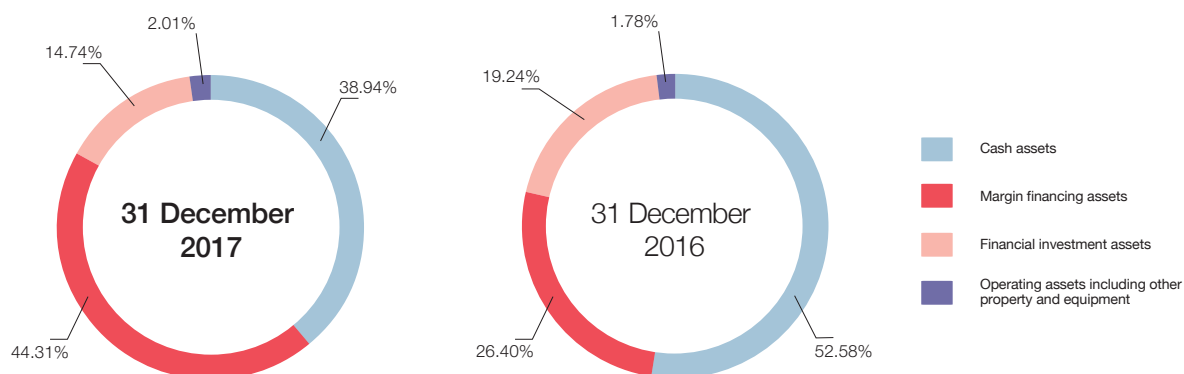
As at the end of the Reporting Period, total assets of the Group amounted to RMB24,066.00 million, representing a year-on-year increase of 0.31%, among which, cash assets amounted to RMB9,370.27 million, representing a year-on-year decrease of 25.72%, margin financing assets amounted to RMB10,662.51 million, representing a year-on-year increase of 68.32%, financial investment assets amounted to RMB3,547.80 million, representing a year-on-year decrease of 23.14%, and operating assets (including other property and equipment) amounted to RMB485.42 million, representing a year-on-year increase of 13.68%. Changes in the total major assets of the Group are as follows:

Unit: in RMB million

Items	31 December 2017	31 December 2016	Increase/ decrease	Growth rate year-on-year
Total assets				
Cash assets	9,370.27	12,615.09	-3,244.82	-25.72%
Margin financing assets	10,662.51	6,334.61	4,327.90	68.32%
Financial investment assets	3,547.80	4,615.77	-1,067.97	-23.14%
Operating assets including other property and equipment	485.42	427.01	58.41	13.68%
Total	24,066.00	23,992.48	73.52	0.31%

Section 5 Report of the Directors

Total assets of the Group consist of:



Cash assets

As at the end of Reporting Period, cash assets of the Group decreased by RMB3,244.82 million or 25.72%, representing 38.94% of the Group's total assets. The Group's cash assets consist of the following:

Unit: in RMB million

Items	31 December 2017	31 December 2016	Increase/decrease	Growth rate year-on-year
Cash assets				
Cash and bank balances (including cash held for brokerage clients)	6,607.15	9,238.60	-2,631.45	-28.48%
Clearing settlement funds	2,656.83	3,296.27	-639.44	-19.40%
Refundable deposits	106.29	80.22	26.07	32.50%
Total	9,370.27	12,615.09	-3,244.82	-25.72%

Section 5 Report of the Directors

Changes in cash assets primarily reflected in cash and bank balances (including cash held for brokerage clients). Cash and bank balances (including cash held for brokerage clients) amounted to RMB6,607.15 million, representing a year-on-year decrease of 28.48%. The decrease was primarily attributable to the decrease in client deposits due to the market fluctuation in 2017, the decrease of 12% in market stock and fund trading volume.

Margin financing assets

As at the end of the Reporting Period, margin financing assets of the Group increased by RMB4,327.90 million year on year or 68.32%, representing 44.31% of the Group's total assets. The Group's margin financing assets consist of the followings:

Unit: in RMB million

Items	31 December 2017	31 December 2016	Increase/ decrease	Growth rate year-on-year
Margin financing assets				
Margin accounts receivable	4,609.34	4,353.21	256.13	5.88%
Financial assets held under resale agreements	6,053.17	1,981.40	4,071.77	205.50%
Total	10,662.51	6,334.61	4,327.90	68.32%

Primarily attributable to the slight increase of scale of time-point margin financing and securities lending business of the Company, margin accounts receivable amounted to RMB4,609.34 million, representing a year-on-year increase of 5.88%;

Primarily attributable to the significant increasing scale of securities backed business of the Company, financial assets held under resale agreements amounted to RMB6,053.17 million, representing a year-on-year increase of 205.50%.

Section 5 Report of the Directors

Financial investment assets

As at the end of Reporting Period, financial investment assets of the Group decreased by RMB1,067.97 million year-on-year or 23.14%, representing 14.74% of the Group's total assets. The following table set forth the composition of the Group's financial investment assets:

Unit: in RMB million

Items	31 December 2017	31 December 2016	Increase/ decrease	Growth rate year-on-year
Financial investment assets				
Investment in associates	125.45	219.26	-93.81	-42.78%
Available-for-sale financial assets	1,060.32	1,664.02	-603.70	-36.28%
Financial assets at fair value				
through profit or loss	2,362.03	2,732.49	-370.46	-13.56%
Derivative financial assets	0.00	0.00	0.00	0.00%
Total	3,547.80	4,615.77	-1,067.97	-23.14%

As at the end of the Reporting Period, the available-for-sale financial assets of the Group decreased by RMB603.70 million year-on-year or 36.28%, representing 4.41% of the Group's total assets. The following table set forth the composition of the Group's available-for-sale financial assets:

Unit: in RMB million

Items	31 December 2017	31 December 2016	Increase/ decrease	Growth rate year-on-year
Available-for-sale financial assets				
Equity securities	637.44	549.95	87.49	15.91%
Collective asset management				
schemes	161.06	267.12	-106.06	-39.71%
Investment funds	142.66	98.53	44.13	44.79%
Debt Instrument	15.92	72.31	-56.39	-77.98%
Other investments	103.24	676.11	-572.87	-84.73%
Total	1,060.32	1,664.02	-603.70	-36.28%

Section 5 Report of the Directors

As at the end of the Reporting Period, financial assets at fair value through profit or loss of the Group decreased by RMB370.46 million year-on-year or 13.56%, representing 9.81% of the Group's total assets. The following table sets forth the composition of the Group's financial assets held for trading:

Unit: in RMB million

Items	31 December 2017	31 December 2016	Increase/ decrease	Growth rate year-on-year
Financial assets at fair value through profit or loss				
Debt securities	2,120.48	2,386.48	-266.00	-11.15%
Equity securities	69.69	166.63	-96.94	-58.18%
Investment funds	121.86	129.19	-7.33	-5.67%
Asset-backed securities	50.00	50.19	-0.19	-0.38%
Total	2,362.03	2,732.49	-370.46	-13.56%

Operating assets including other property and equipment

As at the end of the Reporting Period, operating assets including other property and equipment of the Group amounted to RMB485.42 million, representing a year-on-year increase of RMB58.41 million or 13.68%, which accounted for 2.01% of the Group's total assets. The following table sets forth the composition of the Group's operating assets including other property and equipment as at the date indicated:

Unit: in RMB million

Items	31 December 2017	31 December 2016	Increase/ decrease	Growth rate year-on-year
Operating assets including other property and equipment				
Property, plant and equipment	98.60	105.57	-6.97	-6.60%
Goodwill	0.00	0.00	0.00	0.00%
Intangible assets	26.58	27.63	-1.05	-3.80%
Deferred income tax assets	21.48	8.61	12.87	149.48%
Other current assets and other non-current assets	338.76	285.20	53.56	18.78%
Total	485.42	427.01	58.41	13.68%

Section 5 Report of the Directors

(3) Liabilities

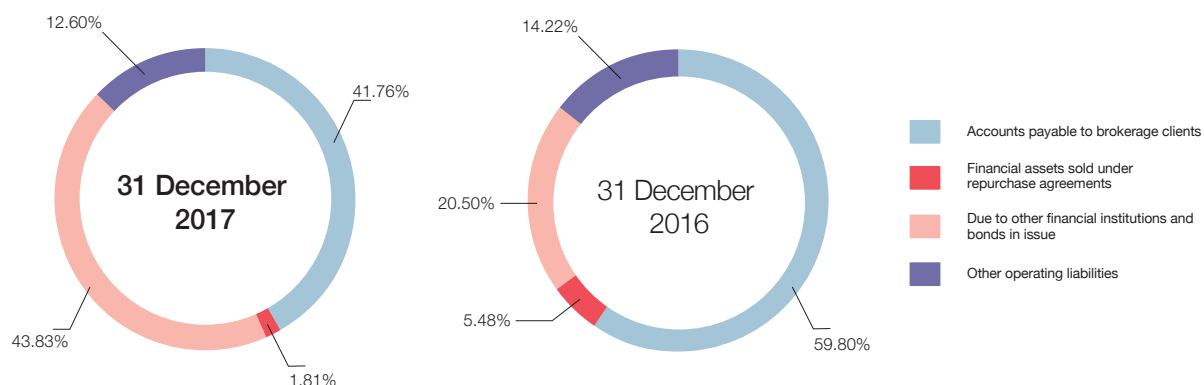
As at the end of the Reporting Period, total liabilities of the Group amounted to RMB16,473.43 million, representing a year-on-year increase of RMB377.12 million or 2.34%, of which accounts payable to brokerage clients amounted to RMB6,879.05 million, representing a year-on-year decrease of 28.54%; financial assets sold under repurchase agreements amounted to RMB297.91 million, representing a year-on-year decrease of 66.23%; due to other financial institutions and bonds in issue amounted to RMB7,220.00 million, representing a year-on-year increase of 118.79%; other operating liabilities amounted to RMB2,076.47 million, representing a year-on-year decrease of 9.24%. Major changes in the Group's total liabilities are as follows:

Unit: in RMB million

Items	31 December 2017	31 December 2016	Increase/ decrease	Growth rate year-on-year
Liabilities				
Accounts payable to brokerage clients	6,879.05	9,626.06	-2,747.01	-28.54%
Financial assets sold under repurchase agreements	297.91	882.24	-584.33	-66.23%
Due to other financial institutions and bonds in issue	7,220.00	3,300.00	3,920.00	118.79%
Derivative financial liabilities	0.00	0.24	-0.24	-100.00%
Other operating liabilities	2,076.47	2,287.77	-211.30	-9.24%
Total	16,473.43	16,096.31	377.12	2.34%

Section 5 Report of the Directors

The composition of the Group's total liabilities:



Due to other financial institutions and bonds in issue

Unit: in RMB million

Items	31 December 2017	31 December 2016	Increase/decrease	Growth rate year-on-year
Due to other financial institutions and bonds in issue				
Due to other financial institutions	600.00	0.00	600.00	100.00%
Bonds in issue	6,620.00	3,300.00	3,320.00	100.61%
Total	7,220.00	3,300.00	3,920.00	118.79%

Due to other financial institutions and bonds in issue increased by RMB3,920.00 million year-on-year, attributable to that the Company strongly supported the development of the intermediary businesses by raising fund from various sources.

Section 5 Report of the Directors

Other operating liabilities

Unit: in RMB million

Items	31 December 2017	31 December 2016	Increase/ decrease	Growth rate year-on-year
Other operating liabilities				
Salaries, bonuses, allowances and benefits payable	157.88	255.26	-97.38	-38.15%
Other current liabilities	211.47	245.03	-33.56	-13.70%
Financial liabilities at fair value through profit or loss	1,707.12	1,787.48	-80.36	-4.50%
Total	2,076.47	2,287.77	-211.30	-9.24%

Salaries, bonuses, allowances and benefits payable decreased by RMB97.38 million or 38.15% year-on-year;

Other current liabilities decreased by RMB33.56 million or 13.70% year-on-year;

Financial liabilities at fair value through profit or loss decreased by RMB80.36 million or 4.50% year-on-year.

Section 5 Report of the Directors

(4) Equity

As affected by the acquisition of the foreign equity in Hua Ying Securities, as at the end of the Reporting Period, total equity of the Group amounted to RMB7,592.57 million, representing a year-on-year decrease of 3.84%. The following table sets forth the composition of the Group's equity as at the date indicated:

Unit: in RMB million

Items	31 December 2017	31 December 2016	Increase/ decrease	Growth rate year-on-year
Share capital	1,902.40	1,902.40	0.00	0.00%
Share premium	2,178.48	2,178.48	0.00	0.00%
Reserves	1,719.07	1,672.23	46.84	2.80%
Retained earnings	1,792.62	1,816.03	-23.41	-1.29%
Non-controlling interests	0.00	327.03	-327.03	-100.00%
Total	7,592.57	7,896.17	-303.60	-3.84%

(5) Segment results

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

We have five principal business lines: (i) brokerage, (ii) investment banking, (iii) assets management and investment, (iv) credit transaction, and (v) proprietary trading. We also report financial results for these five business lines and divide these primary business lines into six business segments: (i) securities brokerage, (ii) credit transaction, (iii) investment banking, (iv) proprietary trading, (v) assets management and investment; and (vi) others. We report financial results in terms of these six business segments.

Section 5 Report of the Directors

The following table sets forth our segment's revenue and other income (including inter-segment revenue) for the years indicated:

	2017	Percentage	2016	Percentage
	(in RMB million)	(%)	(in RMB million)	(%)
Securities brokerage	727.59	42.91	1,011.02	41.74
Credit transactions	482.64	28.46	432.48	17.85
Investment banking	251.81	14.85	547.87	22.62
Securities investment	217.75	12.84	147.15	6.07
Asset management and investment	75.15	4.43	138.00	5.70
Others	-44.94	-2.65	157.65	6.51
Inter-segment eliminations	-14.44	-0.84	-11.83	-0.49
Total	1,695.56	100.00	2,422.34	100.00

The following table sets forth our segment's expenses (including inter-segment expenses) for the years indicated:

	2017	Percentage	2016	Percentage
	(in RMB million)	(%)	(in RMB million)	(%)
Securities brokerage	-513.88	43.59	-589.09	37.70
Credit transactions	-248.58	21.09	-256.49	16.42
Investment banking	-192.78	16.35	-395.31	25.30
Securities investment	10.36	-0.88	-75.36	4.82
Asset management and investment	-34.09	2.89	-37.53	2.40
Others	-202.81	17.20	-220.52	14.12
Inter-segment eliminations	2.90	-0.24	11.83	-0.76
Total	-1,178.88	100.00	-1,562.47	100.00

Section 5 Report of the Directors

The following table sets forth our segment's results (profit/(loss) before income tax) for the years indicated, which is calculated as segment revenue and other income (including inter-segment revenue) minus segment expenses (including inter-segment expenses).

	2017	Percentage	2016	Percentage
	(in RMB million)	(%)	(in RMB million)	(%)
Securities brokerage	213.71	41.36	421.93	49.07
Credit transactions	234.06	45.30	175.99	20.47
Investment banking	59.03	11.42	152.56	17.74
Securities investment	228.12	44.15	71.79	8.35
Asset management and investment	41.05	7.95	100.47	11.68
Others	-247.75	-47.95	-62.87	-7.31
Inter-segment eliminations	-11.54	-2.23	0.00	0.00
Total	516.68	100.00	859.87	100.00

7. Contingent Liabilities, Capital Commitments and Pledge of Capital

There was no contingent liabilities, capital commitments or pledge of capital during the Reporting Period.

(V) Changes in Branches and Subsidiaries of the Company and Their Impact on Results

1. Branches

(1) Establishment and Changes of Branches

1 Newly-established Securities Branches

During the Reporting Period, the Company proposed to set up 2 new securities branches pursuant to the “Reply Concerning Approval of the Establishment of Four Branches in Jiangsu and Other Places by Guolian Securities Co., Ltd.” (Su Zheng Jian Xu Ke Zi [2017] No. 8) (《關於核准國聯證券股份有限公司在江蘇等地設立4家分支機構的批覆》(蘇證監許可字[2017]8號)) issued by Jiangsu Bureau. The Company proposed to set up 7 new securities branches pursuant to the “Reply Concerning Approval of the Establishment of Eight Branches in Wuhan and Other Places by Guolian Securities Co., Ltd.” (Su Zheng Jian Xu Ke Zi [2017] No. 34) (《關於核准國聯證券股份有限公司在武漢等地設立8家證券分支機構的批覆》(蘇證監許可字[2017]34號)) issued by Jiangsu Bureau. During the Reporting Period, the Company completed the establishment of 7 securities branches, and the establishments of Shanghai Zhangyang Road Securities Branch and Nanjing Qinhuai Road Securities Branch are still under progressing, the details of which are set out as follows:

No.	Province/city	Name of Branch	Address
1	Shenzhen, Guangdong Province	Shenzhen Yitian Road Securities Branch Guolian Securities Co., Ltd. (國聯證券股份有限公司深圳益田路證券營業部)	4504, 4403-A and 4501-A, New World Commercial Center, No. 6009, Yitian Road, Futian District, Shenzhen (深圳市福田區益田路6009號新世界商務中心大廈4504、4403-A和4501-A)
2	Beijing	Beijing Majiapu East Road Securities Branch Guolian Securities Co., Ltd. (國聯證券股份有限公司北京馬家堡東路證券營業部)	Commercial Zone, No. 21 1st Floor, No. 6 Building, No.168 Yard, Majiapu East Road, Fengtai District, Beijing (北京市豐台區馬家堡東路168號院6號樓1層21號底商)
3	Changsha, Hunan Province	Changsha Songgui Garden Securities Branch Guolian Securities Co., Ltd. (國聯證券股份有限公司長沙松桂園證券營業部)	Units C1, C2 and C3, 15th Floor, Hunan Xinwen Building, Songgui Garden, No. 469, One Section, Furong Middle Road, Kaifu District, Changsha (長沙市開福區芙蓉中路一段469號松桂園湖南新聞大廈15層C1、C2、C3區寫字間)
4	Shanghai	Shanghai Zhangyang Road Securities Branch Guolian Securities Co., Ltd. (Preparing) (國聯證券股份有限公司上海張揚路證券營業部(籌))	Rm. 03, 8th Floor, Block 1, No. 538, Gushan Road & No. 2399, Zhangyang Road, Pudong New District, Shanghai (上海市浦東新區崑山路538號張揚路2399號1幢8樓03室)

Section 5 Report of the Directors

No.	Province/city	Name of Branch	Address
5	Nanjing, Jiangsu Province	Nanjing Qinhuai Road Securities Branch Guolian Securities Co., Ltd. (Preparing) (國聯證券股份有限公司南京秦淮路證券營業部(籌))	No. 103, Block 2, Qingchun Shui'an, No. 4 Qinhuai Road, Moling Street, Jiangning District, Nanjing (南京市江寧區秣陵街道秦淮路4號青春水岸2棟103號)
6	Anqing, Anhui Province	Susong Fuyu West Road Securities Branch Guolian Securities Co., Ltd. (國聯證券股份有限公司宿松孚玉西路證券營業部)	No. 366, Fuyu West Road, Fuyu Town, Susong County, Anqing (安慶市宿松縣孚玉鎮孚玉西路366號)
7	Wuxi, Jiangsu Province	Wuxi Xibei Town Quanshan Road Securities Branch Guolian Securities Co., Ltd. (國聯證券股份有限公司無錫錫北鎮泉山路證券營業部)	No. 15, Jinghe Yuan, Xibei Town, Wuxi (無錫市錫北鎮涇和苑15號)
8	Wuxi, Jiangsu Province	Wuxi Hudai Town Antai Road Securities Branch Guolian Securities Co., Ltd. (國聯證券股份有限公司無錫胡埭鎮安泰路證券營業部)	No. 13-9, Fu'an Commercial Plaza A, Hudai Town, Wuxi (無錫市胡埭鎮富安商業廣場A區13-9)
9	Wuxi, Jiangsu Province	Wuxi Huishan New Town Zhenghe Avenue Securities Branch Guolian Securities Co., Ltd. (國聯證券股份有限公司無錫惠山新城政和大道證券營業部)	1st, 2nd Floor, No. 182, Zhenghe Avenue, Huishan District, Wuxi (無錫市惠山區政和大道182號1、2層)

2 Relocation of Securities Branches

The Company constantly adjusted and optimized its branch network. During the Reporting Period, the relocation of securities branches within the same city in Jiangyin Daqiao North Road Securities Branch, Xuzhou Huancheng Road Securities Branch, Huai'an Beijing North Road Securities Branch was completed.

(2) Establishment of Branch Offices

The Company set up 2 new branch offices, being Changzhou Branch Office and Northern Jiangsu Branch Office, pursuant to the "Reply Concerning Approval of the Establishment of Four Branches in Jiangsu and Other Places by Guolian Securities Co., Ltd." (Su Zheng Jian Xu Ke Zi [2017] No. 8) (《關於核准國聯證券股份有限公司在江蘇等地設立4家分支機構的批覆》(蘇證監許可字[2017]8號)) issued by Jiangsu Bureau; the Company set up 1 new branch office, being Hubei Branch Office, pursuant to the "Reply Concerning Approval of the Establishment of Eight securities branches in Wuhan and Other Places by Guolian Securities Co., Ltd." (Su Zheng Jian Xu Ke Zi [2017] No. 23) (《關於核准國聯證券股份有限公司在武漢等地設立8家證券分支機構的批覆》(蘇證監許可字[2017]23號)) issued by Jiangsu Bureau.

2. Subsidiaries

During the Reporting Period, the Company acquired the remaining 33.3% equity interests in Hua Ying Securities and completed its relevant business change registration. Hua Ying Securities became a wholly-owned subsidiary of the Company. There was no significant change in Guolian Capital, the subsidiary of the Company.

3. Impact on Results

During the Reporting Period, the Company set up 3 new branch offices and 7 securities branches in China; completed the relocation of 3 securities branches within the same city, and completed the acquisition of remaining equity interests in Hua Ying Securities. The above changes will be helpful for optimizing the network layout of the Company and improving customer service capacity of the Company. Among which, the acquisition of equity interests in Hua Ying Securities will consolidate the Company's control on Hua Ying Securities, bring into full play of its investment banking capacity, strengthen business linkage, and enhance the comprehensive business developing capacity of the Group.

(VI) Major Investment and Financing Activities

1. Equity Financing

On 19 September 2016, the Company convened the third extraordinary General Meeting of 2016, the second Domestic Shares class meeting and the second H Shares class meeting, which considered and approved the A shares issue proposal and other related resolutions. Pursuant to the resolutions of the General Meeting, the Company planned the issuance of not more than 634,130,000 A Shares in Shanghai Stock Exchange, and the proceeds raised from the issue, net of issuing expenses, would be used for replenishing capital, increasing working capital and developing the principal business of the Company. In December 2016, the application materials, including the prospectus of A Shares, were submitted by the Company and accepted by CSRC for review and approval.

On 29 June 2017, the Company convened the 2016 annual General Meeting, the first Domestic Shares class meeting and the first H Shares class meeting of 2017, which considered and approved extension of the A Shares issuance proposal and related authorization resolutions. Pursuant to the resolutions of General Meeting, the period of validity of the A Shares issuance proposal and authorization of the Company has been extended by 12 months.

At present, the Company is actively preparing for the issuance of A Shares.

Section 5 Report of the Directors

2. Debt Financing

The cumulative additional debt financing volume of the Company was RMB6.021 billion for 2017, the cumulative principal repayment of debt financing matured amounted to RMB2.101 billion. The remaining amount of outstanding debt financing as at 31 December 2017 was RMB7.220 billion. The debt financing information of the Company in 2017 was as follows:

- (1) The refinancing facilities was RMB0.9 billion, with the refinancing facilities RMB0.3 billion being repaid, the remaining outstanding amount of refinancing facilities of RMB0.6 billion as at 31 December 2017, the particulars of which were as follows:

Financing Projects	Amount (RMB in ten thousands)	Financing Date	Maturity Date	Term (Days)	Rate
Refinancing	30,000	2017/4/20	2017/7/20	91	4.70%
	30,000	2017/7/21	2018/1/19	182	5.10%
	30,000	2017/11/16	2018/5/17	182	5.10%

- (2) The issuing amount of income certificates was RMB2.321 billion, with the principal of RMB0.301 billion being repaid. The remaining amount of outstanding income certificates of RMB2.320 billion as at 31 December 2017, the particulars were as follows:

Financing Projects	Amount (RMB in ten thousands)	Financing Date	Maturity Date	Term (Days)	Rate
Income Certificates	20,000	2015/4/24	2017/4/20	727	6.40%
	10,000	2015/4/30	2017/4/26	727	6.36%
	5,000	2017/6/27	2018/4/19	296	4.50%
	30,000	2017/7/11	2018/1/11	184	5.00%
	30,000	2017/7/13	2018/7/13	365	5.30%
	30,000	2017/9/28	2018/3/27	180	5.25%
	30,000	2017/11/7	2018/11/6	365	5.20%
	20	2017/11/14	2017/11/20	7	4.50%
	3,000	2017/11/28	2018/2/27	91	4.70%
	30,000	2017/11/28	2018/5/28	182	5.50%
	30,000	2017/12/22	2018/12/20	364	5.60%
	40	2017/12/19	2017/12/25	7	5.00%
	30,000	2017/12/20	2018/9/20	275	5.75%
	2,000	2017/12/20	2018/3/20	90	5.30%
	2,000	2017/12/25	2018/3/25	90	4.90%
	10,000	2017/12/27	2018/6/27	182	5.40%

Section 5 Report of the Directors

- (3) There was no new private issuance for subordinated bonds, with the principal of RMB1.5 billion being repaid. The outstanding subordinated bonds of RMB1.5 billion as at 31 December 2017, the particulars were as follows:

Financing Projects	Amount (RMB in ten thousands)	Financing Date	Maturity Date	Term (Days)	Rate
The private	150,000	2014/10/31	2017/10/31	1095	6.20%
issuance of	150,000	2016/7/29	2021/7/29	1825	3.89%
subordinated bonds					

- (4) Publicly issued bonds to qualified investors were RMB2.3 billion. The outstanding publicly issued bonds of RMB2.3 billion to qualified investors as at 31 December 2017, the particulars were as follows:

Financing Projects	Amount (RMB in ten thousands)	Financing Date	Maturity Date	Term (Days)	Rate
Publicly issued	100,000	2017/8/24	2020/8/24	1095	5.00%
bonds to	80,000	2017/9/14	2019/9/14	730	4.95%
qualified investors	50,000	2017/11/16	2019/11/16	730	5.30%

- (5) Privately issued short-term corporate bonds were RMB0.5 billion. The outstanding privately issued short-term corporate bonds of RMB0.5 billion as at 31 December 2017, the particulars were as follows:

Financing Projects	Amount (RMB in ten thousands)	Financing Date	Maturity Date	Term (Days)	Rate
Short-term corporate bonds	50,000	2017/7/11	2018/4/11	274	5.00%

3. Equity Investment

During the Reporting Period, the Company entered into the equity transfer agreement with RBS, pursuant to which, the Company acquired 33.3% of the equity interest in Hua Ying Securities held by RBS at a consideration of RMB354 million. Upon completion of the acquisition, Hua Ying Securities has become a wholly-owned subsidiary of the Company.

Section 5 Report of the Directors

(VII) Disposal of Material Assets, Acquisition, Replacement, Spin-off and Reorganization of Other Companies

During the Reporting Period, save for the acquisition of the equity interest in Hua Ying Securities, the Company did not carry out any disposal of material assets, acquisition, replacement, spin-off and reorganization of other companies.

(VIII) Others

1. Impact of Business Innovation on Performance Results and Relevant Risk Control

(1) *Business Innovation and Its Impact*

Along with the continuous facilitation of the multi-level capital market development and the rapid integration of mobile internet technology and the securities industry, the securities industry further deepened its reform, innovation and development. The securities companies continued to perfect its primary functions as a modern investment bank, accelerated the transformation and upgrade of its traditional business in conjunction with emerging new business and new products, and had vigorously expanded the operation scope and business opportunities of securities companies. The current form of single income structure is changing gradually, and the innovative segments such as internet securities business, PB business, Hong Kong Stock Connect, financial derivatives and NEEQ have become new income sources of securities companies. The number of stock options investor accounts in Shanghai Stock Exchange increased to 258,227 in 2017 from 202,013 in 2016, and the average contract trading nominal value and trading volume per day reached RMB19.894 billion and 754,000 contracts, respectively.

In 2017, the Company increased its investment in the mobile Internet reform segment of its traditional brokerage business, the capital intermediary business and the capital investment business focusing on capital intensive, and pushed forward aggressively the strategic transformation of its principal business. At the same time, it developed the innovative businesses such as internet securities, Hong Kong Stock Connect, Stock Option, NEEQ market-making, PB business vigorously, further promoted the diversification of its income source.

Section 5 Report of the Directors

- 1 Internet securities business: the Company obtained the pilot qualification of internet securities business approved by SAC on 2 March 2015, and conducted its flow cooperation with well-known channels such as Wind, Snowball and RoyalFlush. During the Reporting Period, the accumulated number of newly-increased clients of Internet accounts was close to 30,000, and assets of newly-increased clients was close to 200 million. The securities trading service software of the Company, Guolian Zunbao (國聯尊寶) mobile phone App, newly added over 30 functions such as Level-2 market information high-speed delivery, similar K line, bull and bear signal. Platform's accumulated registered users was over 400,000, representing a growth of 123% over that at the end of last year. The number of active users exceeded 260,000.
- 2 Stock options business: the Company formally obtained the qualification of stock options brokerage business, stock options proprietary trading and options settlement business from the Shanghai Stock Exchange on 16 January 2015 and formally started its stock options business on 9 February 2015. As of 31 December 2017, the accounts for stock options brokerage business contract opened on Shanghai Stock Exchange was 1,102, ranked 34th among the industry.
- 3 Shanghai-Hong Kong Stock Connect business: since the trading licences of Southbound Trading business under Shanghai-Hong Kong Stock Connect business was approved on 13 October 2014, the Company actively expanded the Shanghai-Hong Kong Stock Connect business based on adhering to the principles of investor eligibility management and investor education strengthening. As at the end of the Reporting Period, the number of customers that opened the trading access of the Company of Shanghai-Hong Kong Stock Connect was 8,147 and the cumulative trading size was HKD4.632 billion.
- 4 Shenzhen-Hong Kong Stock Connect business: as the trading licences of Southbound Trading business under Shenzhen-Hong Kong Stock Connect was approved on 3 November 2016, the Company became one of the 24 securities brokers, the first batch of securities brokers, to obtain such qualification in the industry. The Company actively expanded the Shenzhen-Hong Kong Stock Connect business based on adhering to the principles of investor eligibility management and investor education strengthening. As at the end of the Reporting Period, the number of customers that opened the trading access of the Company of Shenzhen-Hong Kong Stock Connect was 3,070 and the cumulative trading size was HKD1.105 billion.

Section 5 Report of the Directors

- 5 NEEQ market-making business: since obtaining the qualification for marketing-making on the NEEQ in August 2014, the Company carried out massively the market-making service for the companies listed on the NEEQ. During the Reporting Period, the Company provided market-making services for 81 enterprises in total with a daily average market value of positions of RMB80.3 million for NEEQ market-making.
- 6 PB business: the Company formally developed the business of private fund services and PB system leasing business in June 2015 to provide basic service and support for the development of institutional brokerage business of the Company. As at the end of Reporting Period, the Company provided services for 36 asset management products cumulatively with a total size of over RMB5 billion. During the Reporting Period, the PB business contributed cumulative revenue of RMB3.193 million for the Company.

(2) Business Innovation Risk Control

The Company has all along been adhering to the principle of dynamic balance of innovative development and risk control consistently and striving to maintain a stringent standard for its new businesses and new products, forming an effective innovation management mechanism, and making clear the work flow of businesses innovation of the Company. The Company adheres to the management vision of giving priority to system and business procedures, clarifies new business procedures and risk characteristics in advance, prepares corresponding business management systems, operating procedures and responsibilities. The Company sets up evaluation and decision-making mechanism covering development, research and review for new products, conducts the earlier stage demonstration, compliant and legal review as well as risk assessment for the businesses, and strengthens risk monitoring in the process of carrying out the businesses. Moreover, the Company sets up stringent risk control system for its new business, strictly complies with various regulatory indexes set up by regulatory departments.

(3) Innovative Business Prospects

In 2018, the Company will speed up the application of financial technology in its business development practice, put into full play the mutual facilitation of modern technology such as mobile internet and artificial intelligence for the development of the Company, accelerate the establishment of standard improvement for mobile internet platforms including data center, intelligent investment advisory, mobile phone market trading software, mobile phone wealth management software and Wechat official account and intelligent applications, enhance the marketing and employees training in using the aforesaid platforms and applications to provide technical support for precision marketing. At the same time, it will seek strategic partners proactively and explore new modes of cooperation in channel referral and capital investment layout in internet industry chain, so as to achieve more innovative cooperation in the capital and business aspects.

The Company will increase its investments in the development and services of private fund customers, strengthen the cooperation with other financial institutions through intensifying the efforts on business of PB system leasing to enlarge the size of institutional brokerage business. It will obtain the qualifications for fund custody business and outsourcing business as soon as possible to improve the basic services functions. It will also focus on the introduction of quantitative trading funds and expand diversified value-added services including seed funds, research support and strategic transactions to enhance the revenue generating capacity of business of private fund services comprehensively.

The Company will continue to improve the innovation, research and development capabilities on products, develop a product system with complete categories, rich product range and complete risk-return features to satisfy the diversified needs of investment and financing from customers at different periods of time, and expand its reputation effect with brand business lines and star products. It will focus on the overall re-engineering of hybrid equity and debt products, fixed income and investment products and related products lines based on the quantitative business, proactively explore business models integrating industry and finance such as green industries, vigorously develop innovative businesses such as asset-backed securitization business and convertible bond financing for substantial shareholders.

2. Special Explanation on Accounts Standardization and Customers Information Management

The Company implements the accounts management works in strict compliance with the relevant requirements of accounts management issued by CSRC and China Securities Depository and Clearing Corporation Limited. Pursuant to the Securities Account Business Guide (《證券賬戶業務指南》) issued by China Securities Depository and Clearing Corporation Limited in 2016, a single investor can apply to open up to 3 A-share accounts in the same market. The Company strengthened the daily management of accounts, set up stringent requirements on account opening, strengthened the verification of investor identities, continued to implement accounts management and improved the long-term account regulation and management mechanism. For those that have opened over 3 accounts and remained inactive for a long period of time, the Company will put them as dormant accounts according to the requirements.

It is required that in the aspect of customer's data preservation, the branches should separately set up hardcopy and electronic archives for every customer. The hardcopy archives should be placed in designated storeroom of the operating branches for custody purpose. The electronic archives should be uploaded to the server of the Company for custody purpose and back-up should be preserved in a disaster recovery server. The Company will further improve customer archives management system, strengthen the management of archives of customers opening accounts on the internet and make continuous efforts in the management of paper archives and electronic archives.

Section 5 Report of the Directors

According to the requirements of regulatory authority, small amount dormant accounts have already been separately reserved. Meanwhile, the Company also prepared the activation system and operational procedures of related accounts to strengthen the standardization management on such accounts. Consistency of key information of customers including name and ID number is ensured through regular comparison of capital account information and securities account information so as to avoid opening of any unqualified account.

As at 31 December 2017, the Company had 904,514 qualified capital accounts, 1,708,434 qualified securities accounts, 123,260 dormant capital accounts, 120,174 dormant securities accounts and 45 judicial frozen capital accounts. Standardized management for the above accounts was conducted in accordance with the requirements of China Securities Depository and Clearing Corporation Limited.

3. Management of Risk Control Index of the Company and Establishment of Net Capital Replenishment Mechanism

In accordance with the requirements of “Measures for the Risk Control Indexes of Securities Companies”, the Company established a dynamic monitoring mechanism for risk control index. The dynamic monitoring system for risk control index was operating in good conditions. The Risk Management Department conducted dynamic monitoring on risk index. During the Reporting Period, all risk control index, including net capital, and liquidity monitoring index are complied with the regulatory requirements. The Company reported promptly the risk control index data and its satisfaction in written report to the regulatory authority in strict accordance with the requirements of “Measures for the Risk Control Indexes of Securities Companies”. For any change of risk control index that reaches a certain extent, the Company shall report promptly to the local securities regulatory bureau. Sensibility analysis and stress test will be applied by the Company to ensure all risk control index, including net capital and liquidity could be complied with the regulatory requirements in all aspects.

The Company has established the net capital replenishment mechanism. When the risk control index, including net capital, has approached or reached the monitoring pre-warning level, the Company will promptly replenish net capital by reducing the scale of the variety of proprietary investment products with high risks, raising capital, increasing capital, introducing strategic investors, and issuing subordinated bonds.

II. Discussion and Analysis of the Board on the Future Development of the Company

(I) Industry Development Trend

The sustained and stable growth of the national economy provided good opportunity for the continued profitability of enterprises and stimulated their financing needs. The on-going increase in the disposable income of residents per capita, growing demands on adjustments to assets deployment and transformation of wealth management of residents, the increasing proportions of financial assets such as shares, bonds and funds in the properties of residents, and the expansion both in the demand for and supply of securities markets brought a broad market prospect for securities companies. In addition, with the further promotion of construction of multi-layer capital market and constant improvement on market regulation, the securities industry is facing a historic development opportunity. Scalable, innovative transformation and internationalization have become the keynotes of industry development.

The current market environment and regulatory policies facilitated the industry pattern differentiation and accelerated the integration opportunities. The promulgation of regulatory policy centered on net capital by CSRC has promoted the securities companies to increase the capital utilization efficiency under the premise of effective risk control. Securities companies with strong capital, regulated management and strong innovative capacity are of stronger competitive advantages, which had enabled them to achieve rapid expansion of branch network and business scale through acquisition of small-to-medium sized securities firms during market downturn. Since 2015, the concentration of size of securities industry increased significantly and the industry has begun to show a gradual convergence and concentration momentum.

Currently, the revenue of securities companies in China is mainly derived from three traditional businesses including securities brokerage, securities proprietary and underwriting and sponsorship. With intensifying fierce competition in traditional business and increasingly diversified customer demand, securities companies began to explore ways of transformation successively, actively seizing the innovative business markets such as asset management, margin financing and securities lending, pledged repurchase transaction, stock index futures, agency sales of financial products and the NEEQ. The securities industry is gradually moving towards a capital-intensive business represented by capital intermediary and capital investment business, the profit model of which is gradually diversifying, and the importance of innovative business in future earnings growth continued to emerge.

With the escalating status of China's economy in globalization and the growing robust demand of domestic enterprises and residents for resource allocation globally, participating in international market competition and developing cross-border business are expected to become a new high-growth sector in the securities industry. On the one hand, the international business that clings to both the domestic market and foreign markets will flourish continuously, and on the other hand, the situation that domestic securities companies establish branches overseas will increase day by day. The scope, capacity and market share of international financial services in domestic securities companies will increase.

Section 5 Report of the Directors

(II) Market Competition

In recent years, although the securities companies recorded an increase in the proportion of revenue of innovative businesses such as capital intermediary business and capital investment business, however, the aforesaid business development is still at its early stage, the revenue of securities companies is still mainly derived from three traditional businesses including securities brokerage, securities proprietary and underwriting and sponsorship. According to the statistics of SAC, in 2017, the securities industry in China realized an accumulated operating income of RMB311.328 billion, of which, the total revenue of the three traditional businesses accounted for 66.37% of the operating income. There is still not much significant difference on the profit model among different securities companies, and the phenomenon of homogeneous competition mainly represented by price competition is relatively obvious. Taking the securities brokerage as an example, the industry net commission rate has dropped by 32.55% in the past three years and profitability has decreased significantly. By means of moderately increasing the leverage, the securities industry is transforming toward a profitability model focusing on capital-intensive as its core through the development of capital intermediary business and capital investment business.

With the rapid development of Internet finance and mobile finance, the business philosophy and mode of the traditional financial industry are undergoing significant changes. The securities companies promoted the strategy of “Internet +” one after another, accelerated the Internet transformation of traditional businesses and the construction of mobile internet terminals, and accelerated the development pace of Internet securities through multi-dimensional innovations such as online investment consulting, account systems, organizational structures and cross-border cooperation, especially the mobile securities. The Internet agencies were also engaged in the securities business chain successively, and their strategic cooperation with securities companies at the capital and business aspects became more and more popular. With the Internet and securities industry’s entering an in-depth integration stage, the competition among securities companies in the Internet finance sector and competition among securities companies and Internet agencies in the securities business sector will be increasingly intense.

With the internationalization of Renminbi and the comprehensive facilitation of deepening reform in domestic capital market, the financial industry is gradually opening up to private capital and foreign investment, and the competition among peers becomes increasingly intense. With the approval of pilot policies of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, and the accelerating pace in opening up to foreign capital market in China, it is expected that there will be more foreign securities companies entering into the Chinese capital market, and bombarding the domestic securities companies in the investment banking and asset management sectors. Under the trend of innovative development and unified supervision of the financial industry, the competition between financial institutions such as banks, insurance, funds and trust companies, because of their advantages of branch network and customer resources, and securities companies in business sectors such as asset management, sales of financial products and bond underwriting is fierce.

(III) Market Position of the Company

The Company is the only fully-licensed legal person securities firm registered in Wuxi. After 25 years of development, it has formed a relatively comprehensive business mechanism including securities brokerage, asset management, securities investment, margin financing and securities lending business, and is a medium-sized comprehensive securities firm. The Company has wholly-owned subsidiaries, Guolian Capital Co., Ltd. and Hua Ying Securities Co., Ltd. and invests in Zhonghai Fund Management Co., Ltd and Jiangsu Equity Exchange Center, forming an operating layout integrating securities, funds, and direct investment businesses.

According to the statistics of SAC, as at the end of the Reporting Period, the Company ranked 62nd, 66th and 63rd respectively out of 129 securities companies in terms of the indicators of total assets, net assets, net capital. During the Reporting Period, the Company ranked 70th and 61st respectively in terms of operating revenue and net profit in the industry (on a non-consolidation basis).

The Company has strong market competitiveness and brand influence in Wuxi region. As at the end of the Reporting Period, the Company has accumulated 1.02 million customers and total customer assets of RMB130.5 billion. Of which 720,000 customers are in Wuxi region, accounting for 70% of total customers. The securities brokerage business of the Company is the leader in the Wuxi region market. The Company completed the listing of total 19 enterprises in Wuxi on the NEEQ; raised RMB306 million on equity financing for 14 enterprises in Wuxi; completed mergers and acquisitions and reorganizations for 3 enterprises in Wuxi with an asset size of RMB109 million; provided market making service for 13 enterprises in Wuxi; and provided continuous supervision services for 36 enterprises in Wuxi.

During the Reporting Period, the Company was awarded the title of “Issuer of Short-term Financing for Securities Companies” of 2016 Outstanding Bond Issuer by China Central Depository & Clearing Co., Ltd. (中央國債登記結算有限責任公司), the “2017 Secured Operation Award for Securities Information Service” issued jointly by SSE INFONET LTD., CO and Shenzhen Securities Information Co., Ltd., and was granted the title of “Caring Corporation of Project Hope in Susong County”.

Section 5 Report of the Directors

(IV) Analysis of Core Competitiveness

1. Unique Regional Advantages

The headquarters of the Company is in Wuxi, Jiangsu Province. Its current principal places of business are in Wuxi and other regions in Jiangsu Province. Jiangsu Province is one of the most economically developed provinces in China, and Wuxi is a strong economically developed city in Jiangsu Province. As at the end of 2017, the GDP of Jiangsu Province was over RMB8.59 trillion, ranked second in China. According to the 2017 Statistical Report on Wuxi Domestic Economy and Social Development, the GDP of Wuxi achieved a breakthrough in reaching trillion yuan for the first time, up to RMB1.05 trillion, representing a year-on-year increase of 7.4%, and ranked third in Jiangsu Province. The deposit balance reached RMB1.5 trillion, accounting for 0.9% of the whole nation. There are 73 A-share listed companies in Wuxi region, accounting for 2.1% of the total number in China, with the market value of RMB564 billion, representing 1.0% of the whole country. In 2016 and 2017, the number of A-share IPO in Wuxi enterprises was 13 and 15, accounting for 5.8% and 3.4% of the whole country respectively. The Company focuses deeply on its businesses in the economically-developed Jiangsu market for a long time, and established 7 branch offices in Wuxi, Yixing, Jiangyin, Suzhou, Changzhou, Nanjing and North Jiangsu region respectively with 53 securities branches. Of which, 34 are in Wuxi (including Jiangyin and Yixing). With the gradual decrease in the proportion of saving deposits to assets allocation of residents and the adjustment in real estate industry at a high level, the proportion of securities assets to assets allocation of residents will gradually increase. The Company's brokerage business still has ample increasing capacity. At the same time, the tremendous needs of refinancing and investment and wealth management from listed companies within the region provide the Company the broad space to develop institutional business and institutional brokerage business. Other strategic regions of the Company's key layout, such as Beijing, Shanghai, Shenzhen, Sichuan and Chongqing economic belt and Central China economic circle, are having a solid economic foundation with sound development momentum, and will reserve more potential for the high-speed development of the Company.

2. Hong Kong Listing Is to Improve Our Market Competition and Risk Resistance Capability

The Company was listed on the Main Board of Hong Kong Stock Exchange on 6 July 2015 and completed its overseas initial public offering of 402,400,000 H Shares. Thereafter, the social influence and industry publicity of the Company keep on increasing. The increased capital strength created a strong support for the Company in its business transformation and sustainable development. In 2016, the Company officially initiated the A-Share listing plan.

3. Continue Improving Product Research and Development Capability and Financial Service Capability

Our Company will make full efforts to build a product system with complete categories, rich product range and risk return characteristic by adhering to the objective of enhancing customer experience, focusing on meeting customer demand and relying on constantly perfecting securities service mobile platform. We will explore ways to make effective breakthroughs in key areas, keep on improving our product research and development capability, expand product service range and control credit risks stringently to build brand business lines and star products proactively. The Company launched the stock pledged repurchase products in the industry earlier than its peers and realized the rapid development in the new capital-based intermediary business including margin financing and securities lending and stock pledged repurchase. At the same time, the Company rolled out the FOF, fixed income and equity quantitative products in a timely manner and received good market response. In facing the increasingly complex investment and financing demand of customers, the Company is committed to providing customers with professional integrated financial solutions. The Company has transformed itself from a mere channel service provider to a comprehensive financial service provider providing investment advisory, asset management, credit transactions, investment banking and NEEQ services. With the continuous improvement of business diversification, a more balanced development in all business segments is achieved.

4. Sound and Highly Efficient Operation Management and Prudent Risk Control Approach

For many years, the Company has abided to the business philosophy of steady development, facilitated the stable transformation and upgrading of its business models, optimized its revenue mix and profit source of the Company, and achieved years of profitability successively. Of the domestic securities companies in the PRC since inception (from 1999 to date), the Company is one of the few securities companies with successive profitability. During the Reporting Period, the Company has kept on improving operating efficiency and strengthening cost control.

The Company regards comprehensive risk management as its important measures to achieve and ensure its business development, facilitates its development scheme in the aspects of management structure, systems and procedures, quantitative index system, team building, system and data governance, risk management of subsidiaries and branches as planned, adopts measures of prior review, supervision during business transactions and risk handling measures for full coverage of risk control. At the same time, the Company upholds its compliance baseline, regulates various systems and procedures, strengthens implementation monitoring and strictly enforces accountability, so as to lay a solid foundation for achieving stable business objectives. During the Reporting Period, the Company achieved compliant operation and controllable risks for various businesses. The Company was rated as Class A in A Category in the evaluation results of the securities companies segment announced by CSRC for three successive years from 2014 to 2016, and the Company was rated as Class BBB in B Category in 2017.

Section 5 Report of the Directors

5. Experienced Senior Management Team and High-Quality Talents

The senior management team of the Company has extensive experience and outstanding management abilities in securities and financial services industry, and over half of the management hold master's degrees or doctorate degrees and have many years of management experience in the securities and financial services industry. They are able to understand profoundly the development trend of the industry, make accurate business judgment, and capture promptly business opportunities and adjust business strategies prudently.

The middle management team of the Company has many years of experience in the securities industry in China, and possesses very strong execution ability. The Company establishes a comprehensive remuneration review incentive mechanism, and sets up a comprehensive three-dimensional human resources model including high-end talents recruitment, middle-level management training, back-up management capability training, executive-trainee management program and escalating new staff professional barrier. This will facilitate the recruitment and cultivation of a large number of high-quality professional talents for the Company and provide strong talent support for the transformation development of the Company.

(V) Future Development Prospects

Looking forward into 2018, the Company will develop a more systematic approach to strategic development, a more complete integrated service mechanism, a more scientific business network layout, a stronger system and platform support, a more comprehensive compliance risk control system and a more excellent professional talent team by adhering to the objective of enhancing customer experience and the strategy of improving comprehensive capacity in full and enlarging business basics, and actively cope with market changes and the challenges of industry competition.

In 2018, the Company will proactively promote A share listing, open up diversified financing channels, enhance the potential for sustainable development. The Company will further advance into comprehensive financial strategy, take serving local economy as an important mission of the Company's development, expedite the construction of comprehensive financial customer service platform and build up regional comprehensive financial services chain, so as to provide highly-efficient and integrated comprehensive financial services for achieving personal wealth appreciation, enterprises connecting with capital market, government investment and financing and urban economic development. The Company will further expand its business scope, strive to attain fund custodian business, alternative investment subsidiary and relevant licences for international businesses, improve the diversification service standard and increase income source. The Company will accelerate the implementation of financial technology strategy, promote the construction level of big data warehouse, intelligent investment and consultancy, securities trading service software, Wechat and other mobile Internet platforms and smart applications, explore and implement strategic cooperation in platform construction, marketing model innovation, channel traffic directing, capital investment layout for industrial chain and other segments. The Company will continue to facilitate regional strategy, focus its layout on townships in Wuxi, Suzhou, Changzhou, and Chengdu, Changsha, Wuhan, Hefei and other strategic regions with rapid economic growth in Central and Western China and occupy more new emerging markets. The Company will vigorously implement the talent thriving enterprise strategy, speed up the introduction of high-end professional talents in Internet finance, system research and development and investment banking business to build a professional talent team with rational structure and strong competitiveness.

(VI) Risk Factors Exposed and Counter Measures

The Company's business operation is exposed to risks in which they mainly include: market risk, credit risk, liquidity risk, operational risk, compliance risk, concentration risk and reputation risk. Specifically speaking, they are represented in the following aspects:

1. Market Risk

Market risk refers to the risk that may cause losses to the Company's business resulting from the adverse changes in market prices, including stock prices, commodity prices, interest rates and exchange rates. Currently, the market risk of the Company mainly comes from the securities proprietary trading, assets management businesses and market-making business. The market risk factors that affect the Company mainly include equity risk factor, interest rate risk factor and credit spread risk factor.

To control market risk, the Company mainly adopted the following measures: (1) sensitivity analysis, the Company ensures that its overall portfolio risk falls within the expected range by setting limit control to different sensitivity parameter and adjusting the market risk of financial products; (2) concentration control, the Company executes the business limit at all levels (including business and products), and control its risk bearing capacity by limiting market risk exposure, the Company adjusts the limit annually to reflect market conditions, operation position and change in risk bearing level of the Company; (3) value-at-risk method, the Company evaluates risk exposure and debts of the Company, relative or absolute risk of equity investment by using daily value at risk, and timely monitor the relevant risk limits of the Company; (4) stress test and scenario analysis, the Company monitors risk exposure by adopting stress test and scenario analysis.

2. Credit Risk

Credit risk refers to the risk that may cause economic losses to the Company due to the failure of the debtors and transaction counterparties in performing the obligations as agreed in the deeds. It includes the credit risks and collateral risk of transaction counterparty.

Currently, the Company has preliminarily established a credit risk management system to control the principal credit risk and collateral credit risk of transaction counterparty through the measures of due diligence and internal rating, and to measure and manage credit risk by monitoring quantitative indicators, integrating methods of credit rating analysis, analysis on the capital structure and solvency of debt subject and credit stress test. In addition, the Company will make periodic adjustment on the value of the collaterals according to the market situation and the risk of individual stock.

Section 5 Report of the Directors

3. Liquidity Risk

Liquidity risk refers to the risk that the Company is unable to obtain sufficient fund in time at reasonable costs for paying indebtedness when it falls due, performance of other payment obligations and meet the funding needs of normal business operation. The rapid development of the businesses, such as proprietary business, asset management, securities lending and credit transaction exerts higher requirements on liquidity.

To cope with and manage the liquidity risk effectively, the Company adopts the following measures: (1) manage funding source, financing arrangement and funds allocation in a highly efficient manner; (2) based on the business development, financial position and financing capacity of the Company, and also taking into account of the liquidity risk and other related risks involved in the operation process, the Company determines the liquidity risk preference, normal liquidity level and liquidity risk limit; (3) conduct stress test when the utilization of funds has reached the liquidity limit, and take appropriate measures to ensure that the liquidity risk exposure for each business line falls within the authorized threshold value; (4) set up adequate liquidity reserve to ensure additional fund source will be provided in emergency circumstances.

4. Operational Risk

Operational risk refers to the risk of loss resulting from the improper or invalid internal processes, personnel and system or external events during the operation process of the Company.

As for operational risk, the Company has established a sound internal control mechanism, regularly carries out effective assessment of internal control throughout the Company; arranges special staff to manage operational risk to standardize and optimize related business processes; reorganizes the statistics of the operational risk event occurrence frequency and corresponding losses for the purpose of establishing loss database. Furthermore, the Company constantly strengthens behavior adequacy and normative operation of staff from each position through various means, such as internal training, annual assessment; and prepares emergency risk management plan with regular drills to ensure the security of equipment, data and system, thereby preventing the outbreak of large-scale operational risk caused by information system failure.

5. Compliance Risk

Compliance risk refers to the risk that the Company may be exposed to legal sanction or regulatory penalties, significant property damages or reputation losses as a result of violating the laws and regulations, regulatory requirements, rules, the relevant criterions set up by self-disciplined organizations, and the code of conduct applicable for the operation activities of the Company.

The Company has established an effective and impeccable compliance risks management system and compliance management and organisation system. To facilitate its compliance management, the Company sets up the Compliance and Legal Department, establishes the compliance institutional system and control system, and adopts effective measures for compliance risk management. At the same time, the Compliance and Legal Department of the Company implements an effective and comprehensive control on compliance risks encountered by the Company in its business operation by means of compliance testing, compliance inspection, compliance investigation, compliance supervision and compliance training.

6. Concentration Risk

Concentration risk refers to the risk resulting from the excessive risks exposure from the same source due to mere single business. The Company sets threshold values on various levels for effective limit management, and enhances and improves the identification, measurement, monitoring and reporting system of concentration risk, and thus perfects the stress test system of concentration risk. Based on the stress test results, the Company sets the risk warning line to give a reminder or warning on concentration risk, and thus forms a concentration risk prevention and control mechanism.

7. Reputation Risk

Reputational risk refers to the risk of the Company being negatively evaluated by relevant interested parties due to operations, management and other activities or external events.

The Company has rolled out public opinion monitoring system to focus on factors that may cause reputation risks during the process of carrying out businesses, as a result of the changes of internal organizational structure, policies and systems, financial indicators and system adjustment, and reputation risk factors that revealed by news media reports, online public opinion tendency, customer complains, internal and external audit and regulatory compliance inspection as well as other reputation risk factors that may incur as a result of involvement in judicial matters or mass incidents.

Section 5 Report of the Directors

(VII) Systematic Construction of Company Risk Management

The Company amended the Basic System for Comprehensive Risk Management of Guolian Securities Co., Ltd. (《國聯證券股份有限公司全面風險管理基本制度》), in which it determined the risk management organization structure of the Company: the Board has the ultimate responsibility for the risk management of the Company. The Board delegates its Risk Control Committee to fulfill part of its function of comprehensive risk management; the senior management of the Company is responsible for organizing and implementing various works in comprehensive risk management in the operation and management process. The Company appoints dedicated chief risk officer to assist the president of the Company to carry out risk management on various businesses of the Company. The Risk Management Committee under the senior management of the Company is mainly responsible for risk assessment on significant operation projects and innovation business of the Company, review and approve operational process and rules for risk management, review and approve risk over limit falling within certain range, and the division and adjustment of specific functions for risk management department and other functional departments of risk management of the Company. The Company set risk management department as a special department to organize and implement its overall risk management and facilitate comprehensive risk management works under the leadership of the chief risk officer. The Risk Management Department of the Company performs risk identification, measurement, control, reporting and other specific tasks respectively according to risk classification and functional division. The officers of business departments and branches of the Company are mainly responsible for proper identification, assessment, response and reporting of related risks, accept independent supervision by risk management department of the Company, assume the risks incurred in the process of business decision-making and execution, and take up direct responsibility on the effectiveness of risk management.

Before and during the operation and management activities, the Company requires various departments to collect and analyze comprehensively, systematically and continuously the internal and external information that may affect the Company in achieving its operational targets, identify business risk countered and possible consequences, and prepare risk identification report on each key business. The risk management department and other functional departments on risk management of the Company direct the business departments or functional departments to commence the collection work of internal and external information and initial risk identification work, formulate risk identification methods and corresponding reporting mechanism, then update timely and continuously. To ensure the accuracy of risk identification analysis, under the premise of cost-benefit principal, the risk management department and other functional departments on risk management conduct a comprehensive and systematic investigation, analysis, review and confirmation on the initial identification results of business departments or functional departments, reveals its nature, type and possible consequences according to the source of risk, features, formation conditions and potential impact, and classified them by business, department and risk type.

The risk management department and other functional departments on risk management of the Company set up the evaluation criteria based on the nature, type, extent of impact and occurrence possibility of the risks, analyzes and measures the risks identified by combining the qualitative and quantitative methods, and conducts grade evaluation or quantization sorting to determine risks that are required to pay more attention and needs priority control. During the execution process, the risk management department and other functional departments on risk management of the Company may select the risk measurement and assessment methods suitable for its own management needs according to the type of business and nature of risk exposure.

III. Profit Distribution and Profit Distribution Plan

(I) Dividend Distribution for 2016

The Profit Distribution Plan for 2016 of Guolian Securities Co., Ltd. (《國聯證券股份有限公司2016年度利潤分配議案》) was passed at the 2016 annual General Meeting of the Company convened on 29 June 2017, which approved that based on the total share capital of Domestic Shares and H Shares of 1,902,400,000 shares as of 31 December 2016, the Company could distribute cash dividends of RMB1.4 per 10 shares (tax inclusive) to holders of Domestic Shares and H Shares whose names appeared on the Company's register on the record date, with total cash dividends of RMB266,336,000.00.

The cash dividend will be denominated, declared and payable in RMB to domestic shareholders and in Hong Kong dollars to the shareholders of H Shares. The actual distributable amount in Hong Kong dollars will be converted based on the average benchmark exchange rate of RMB to Hong Kong dollars (namely RMB0.874414 to HK\$1.00) as announced by the PBOC five business days before the date of the 2016 annual general meeting of the Company. The Company's profit distribution for the year 2016 was completed on 29 August 2017.

(II) Profit Distribution Plan for 2017

The audited net profit of the Company in 2017 was RMB395,228,392.72. According to the relevant requirements of the Company Law, Securities Law, Financial Rules for Financial Enterprises and Articles of Association, after 10% was appropriated to each of the statutory provident fund, general risk reserve and transaction risk reserve respectively, totaling RMB118,568,517.81, the profit available for distribution for this year amounted to RMB276,659,874.91.

The balance of the undistributed profit of RMB1,596,724,731.99 in the previous year, after deducting the dividend payment of RMB266,336,000.00 as implemented during this year under the 2016 dividend distribution plan, the accumulated undistributed profit for this year was RMB1,607,048,606.90.

Section 5 Report of the Directors

Pursuant to Rule 18 of “Measures for the Administration of Securities Issuance and Underwriting” (《證券發行與承銷管理辦法》) of CSRC and related regulatory Q&A requirements, for domestically issuing securities a company shall have profit distribution proposal(s), or for conversion of capital reserve into share capital proposal(s) which has/have not yet been submitted to the General Meeting for voting, or when such proposal has been approved by the General Meeting but has not been implemented yet, the domestic issuance of securities can only be proceeded after such proposal has been implemented. In view of prior disclosure updates of the prospectus of A shares of the Company on the website of CSRC, issuance and listing related works are being steadily pushed ahead. Taking into comprehensive consideration of various factors such as long-term benefits, sustainable development and interests of the shareholders of the Company, the Company intended not to implement profit distribution for 2017.

In order to safeguard a reasonable return of investments for the investors and carry out a continuous and stable profit distribution policy, the Company will consider matters on interim profit distribution in 2018 according to the progress of issuance and listing of A shares.

IV. Issuance of Shares and Use of Proceeds

(I) Overall Situation of Proceeds Raised

As approved by Zheng Jian Xu Ke [2015] No. 1024 “Reply Concerning Approval of Issuing Overseas-Listed Foreign Shares by Guolian Securities Co., Ltd.” (《關於核准國聯證券股份有限公司發行境外上市外資股的批覆》) of the CSRC, in accordance with the relevant requirements of the state’s relevant laws and regulations, the Company completed its first issue of 402,400,000.00 H shares to overseas investors at Hong Kong Stock Exchange on 6 July 2015 at an issue price of HKD\$8.00 per share. The net proceeds raised amounted to HKD\$3,097.3263 million (equivalent to RMB2,443.9763 million) (after deducting underwriting expenses and other capitalization issue expenses), which was verified by PricewaterhouseCoopers Zhong Tian LLP and issued the PricewaterhouseCoopers Zhong Tian Capital Verification Report Yanzi (2015) No. 956.

As at 31 December 2017, the Company’s actual cumulative investment amount used was RMB2,343.9778 million according to committed proceeds purpose (had adopted the exchange rate for the H shares proceeds raised to calculate based on actual settlement exchange rates computation), and the closing balance of bank account for the proceeds raised totalled HKD312.6290 million and RMB0.0921 million (equivalent to RMB262.2478 million using the period-end closing exchange rate) respectively.

Section 5 Report of the Directors

According to the development strategies and actual market situation, the Company was in strict compliance with the requirements of use of proceeds, the committed proceeds were used as follows:

- (1) Approximately 45.00% of the funds will be used to further develop margin financing and securities lending business of the Company, among which RMB1,157.6372 million has been used;
- (2) Approximately 20.00% of the funds will be used to develop other capital-based intermediary services of the Company, among which RMB524.1577 million has been used;
- (3) Approximately 15.00% of the funds will be used to expand proprietary trading business of the Company, among which RMB386.0812 million has been used;
- (4) Approximately 10.00% of the funds will be used to develop the Internet trading business of the Company, the usage is currently changed to using its as capital contribution and other preliminary expenses for the planned establishment of subsidiaries in Hong Kong and as supplemental working capital of the Company, and RMB600 has been used;
- (5) Approximately 10.0% of the funds will be used for working capital and other general corporate purposes, among which RMB276.1011 million has been used.

(II) Change of Proceeds Raised in Projects

As approved at the extraordinary General Meeting held on 29 July 2016, the Company changed 10% of the raised funds which were originally planned to be used for developing Internet trading business of the Company to capital contribution and other preliminary expenses used for establishing subsidiaries in Hong Kong and as supplemental working capital of the Company.

Section 5 Report of the Directors

(III) Use of Proceeds for the Committed Projects

Unit: in RMB ten thousands

Name of committed projects	Any change in project	Invested amount of proceeds raised during the reporting period	Actual total invested amount of proceeds	Progress of project used	Change in usage
Margin financing and securities lending	None	21,763.72	115,763.72	100%	
Capital-based intermediary services	None	9,415.77	52,415.77	100%	
Investment business	None	1,608.12	38,608.12	100%	
Internet trading	Yes			–	Changed as the capital contribution and other preparation expenses for establishing subsidiaries in Hong Kong and supplementing the working capital of the Company
Working capital and others	None	27,609.90	27,610.11	100%	
Establishing subsidiaries in Hong Kong and supplementing the working capital of the Company	Yes	0.06	0.06	–	
Total		60,397.57	234,397.78	90%	

Note: The exchange rate used for the capital raised from H shares is based on actual settlement exchange rates.

V. Directors

Information about the Directors of the Company during the Reporting Period and as at the date of this report is set out in Section 8 “Directors, Supervisors, Senior Management and Staff” in this report.

VI. Directors and Supervisors’ Service Contracts

All Directors and Supervisors of the Company have entered into service contract with the Company, but have not entered into any service contract with the Company or its subsidiaries which is not terminable within one year without payment of compensation (other than statutory compensations).

VII. Interests of Directors and Supervisors in Transactions, Arrangements and Contracts of Significance

No transactions, arrangements or contract of significance in relation to the Group's business to which the Company, its subsidiaries, its Controlling Shareholders or the subsidiaries of the Company's Controlling Shareholders was a party and in which a Director or Supervisor of the Company or an entity connected with a Director or Supervisors has a material interest, whether directly or indirectly, has been entered into or subsisted at the end of the financial year under review or at any time during the financial year.

VIII. Controlling Shareholders' Interests in Contracts of Significance

No contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party to and in which a Controlling Shareholder had a material interest on, whether directly or indirectly, and subsisted at the end of the financial year under review or at any time during the financial year under review save as disclosed under "IV. Connected Transactions" in Section 6 and notes to the financial statements.

IX. Directors' Interests in the Business Competing with the Company

During the Reporting Period, Mr. Hua Weirong, a non-executive Director, serves as a Chairman of the Board of Guolian Industrial Investment. Guolian Industrial Investment is principally engaged in the industrial investment business which competes with the direct investment business of the Group. Therefore, Mr. Hua Weirong is deemed to be interested in the business which competes with the Company under the Listing Rules. However, Mr. Hua Weirong is not involved in the daily management of the Company and Guolian Industrial Investment. Therefore, the possibility of conflict of interest due to Mr. Hua Weirong's role as a director of the Company and a director of Guolian Industrial Investment is quite remote. Except for the above, the Directors of the Company have no interest in the business that is competing with the Company.

X. Director and Supervisors' Right to Purchase Shares or Debentures

As at the end of the Reporting Period, no rights were granted to any Director, Supervisor or their respective spouse or children under 18 years of age by the Company, its subsidiaries, its Controlling Shareholders or the subsidiaries of the Company's Controlling Shareholders to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, or were any such rights exercised by them; or was the Company, its subsidiaries, its Controlling Shareholders or the subsidiaries of the Company's Controlling Shareholders a party to any arrangement to enable any Director, Supervisor or their respective spouse or children under 18 years of age, to acquire such rights in the company or any other body corporate.

Section 5 Report of the Directors

XI. Interests and Short Positions of Directors, Supervisors and Senior Management in the Shares, Underlying Shares or Debentures of the Company and Any of Its Associated Corporations

As at the end of the Reporting Period, based on the information available to the Company and to the knowledge of the Directors, no Directors, Supervisors or senior executive of the Company have any interest or short positions in the shares, underlying shares or debentures of the Company or any of its any associated corporations (within the meaning of Part XV of the SFO) (i) which will have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under those provisions of the SFO), or (ii) which will be required to be recorded in the equity register kept pursuant to Section 352 of the SFO, or (iii) which will be required to be notified to the Company and Hong Kong Stock Exchange pursuant to the Model Code.

XII. Compliance with Non-competition Agreement

As disclosed in the prospectus, on 15 June 2015, the Controlling Shareholders of the Company entered into a Non-competition Agreement in favour of the Group, pursuant to which, the Controlling Shareholders have irrevocably undertaken to the Company that, save for the exceptional circumstances as disclosed in the prospectus, the Controlling Shareholder and the controlled entities (as defined in the prospectus) will not, directly or indirectly, invest in, participate in, be engaged in or operate or be interested in any business in any way inside or outside the PRC separately or with any other parties, whereby it will compete or is likely to compete with the main business of the Company, and have undertaken not to engage in any competitive activities by taking advantages as the Controlling Shareholders of the Company which would be prejudicial to the benefits of the Company or its subsidiaries. For the direct investment business, the Controlling Shareholders and the controlled entities have also undertaken to provide the Company the options and pre-emptive rights regarding new direct investment business opportunities. The Investment Decision Committee of Guolian Capital is responsible for reviewing and deciding whether the Group should take up the related new direct investment opportunities. The independent non-executive directors of the Company supervise and review the composition of the committee and the decisions it made.

The Independent Non-executive Directors had reviewed members of the Investment Decision Committee of Guolian Capital twice during the Reporting Period, and considered that the members involved in the decision-making of new business investment opportunities had business experience and professional capacity which are necessary for performance of their duties, and had no conflict of interest with the Group.

During the Reporting Period, the Controlling Shareholders and the controlled entities referred 13 new business investment opportunities to Guolian Capital. The Investment Decision Committee of Guolian Capital had reviewed such new business investment opportunities, and considered that such business investment opportunities involved issues like existence of project risks that are difficult to control, industries not being those that Guolian Capital has invested normally, relatively high valuation, long investment cycle and uncertain withdrawal mechanism, which did not meet the investment project review standards of Guolian Capital, and Guolian Capital had conducted reorganization in accordance with the “Notice on the Issuance of Management Rules for the Private Investment Funds Subsidiaries under Securities Companies” and “Management Rules for the Alternative Investment Subsidiaries under Securities Companies” (Zhong Zheng Xie Fa [2016] 253) formulated by the SAC since February 2017 and no longer conducted the direct equity investment business through the self-owned funds during the Period, so it decided not take up such new business investment opportunities. The independent non-executive Directors had made an annual review on such decision, and was of the view that the decision made by the Investment Decision Committee of Guolian Capital was based on its professional judgement to the new business investment opportunities, reflecting the interest of the Group.

The Controlling Shareholders have confirmed to the Company that, during the Reporting Period, they have complied with all the terms of the non-competition agreement. The Independent non-executive Directors have conducted an annual review regarding the compliance of non-competition agreement and have not found any non-compliance issues on the non-competition agreement by Controlling Shareholders.

XIII. Other Disclosures

(1) Share Capital

The information is set out in the “Consolidated Statement of Financial Position” and Note 36 to the consolidated financial statements of this report.

(2) Pre-emptive Rights

There is no pre-emptive rights arrangement of the Company pursuant to the laws of the PRC and the requirements of the Articles of Association.

(3) Sufficiency of Public Float

During the Reporting Period and up to the date of this report, the public float of H Shares of the Company is 23.267%, which remains in compliance with the waiver from strict compliance with the public float requirements granted by the Hong Kong Stock Exchange pursuant to Rule 8.08(1) (d) of the Listing Rules.

Section 5 Report of the Directors

(4) Management Contracts

During the Reporting Period, the Company did not enter into any contracts nor had any existing contracts in respect of all or any significant parts of management and administration of business of the Company.

(5) Information on Tax Reduction and Exemption for Holders of H Shares

According to the Notice on the Management of Personal Income Tax Impose after the Abolition of Guo Shui Fa [1993] No. 045 Document issued by the State Administration of Taxation (Guo Shui Han [2011] No. 348), the dividend received by foreign resident individual shareholders from the issuance of shares in Hong Kong by domestic non-foreign invested enterprises is subject to the payment of individual income tax according to the items of “interests, dividend and bonus income”, which shall be withheld by the withholding agents according to relevant laws. The foreign resident individual shareholders who hold the shares issued by domestic non-foreign invested enterprises in Hong Kong are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax agreements signed between the countries where they reside and China or the tax arrangements between Mainland and Hong Kong (Macau). The tax rate for dividends under the relevant tax agreements and tax arrangements is generally 10%, and for the purpose of simplifying tax administration, domestic non-foreign invested enterprises issuing shares in Hong Kong may, when distributing dividends, generally withhold individual income tax at the rate of 10%, and are not obligated to file an application. If the tax rate for dividends is not equal to 10%, the following provisions shall apply: (1) for citizens from countries which have entered into tax agreements/arrangements stipulating a tax rate of lower than 10%, the withholding agents will file applications on their behalf to seek entitlement of the relevant agreed preferential treatments, and upon approval by the tax authorities, the excess tax amounts withheld will be refunded; (2) for citizens from countries which have entered into tax agreements/arrangements stipulating a tax rate of higher than 10% but lower than 20%, the withholding agents will withhold the individual income tax at the agreed-upon effective tax rate when distributing dividends, and are not obligated to file an application; (3) for citizens from countries without tax agreements or are under other situations, the withholding agents will withhold the individual income tax at a tax rate of 20% when distributing dividends.

According to the Arrangements for the Avoidance of Double Taxation and Prevention of Tax Evasion in Mainland and Hong Kong (Guo Shui Han [2006] No. 884) signed on 21 August 2006 in relation to income tax, the Chinese government may impose tax on dividends payable by the Chinese companies to Hong Kong resident beneficial owners, but the tax should not exceed 10% of the total dividend payable; if Hong Kong resident beneficial owners hold at least 25% equity interest in the Chinese company, the relevant tax shall not exceed 5% of the total dividend payable by the Chinese company.

According to the Enterprise Income Tax law of the PRC and the Regulations on the Implementation of the Enterprise Income Tax Law of the PRC effective on 1 January 2008, if non-resident enterprises establish no organizations and sites within the territory of China, or though establish organizations and sites but the dividends and bonuses received have no real connection to the organizations and sites established, such enterprises shall pay the corporate income tax at the rate of 10% of its income from the Chinese territory. The withholding tax may be relief under an applicable double taxation treaty.

According to the Notice on the Withholding Corporate Income Tax on the Dividends Distributed by the Chinese Resident Enterprise to Foreign H Share Non-resident Enterprise Shareholders (Guo Shui Han [2008] No. 897) issued by the State Administration of Taxation and effective on 6 November 2008, when the Chinese resident enterprises distribute dividends of 2008 and subsequent years to foreign H share non-resident enterprise shareholders, they shall pay the withholding enterprise income tax at the rate of 10%. Upon receipt of such dividends, a non-resident enterprise shareholder may apply to the competent tax authorities for relevant treatment under the tax treaties (arrangements) in person or through a proxy or a withholding agent and provide evidence in support of its status as a beneficial owner as defined in the tax treaties (arrangements). Upon verification by the competent tax authorities, the difference between the tax levied and the amount of tax payable as calculated at the tax rate under the tax treaties (arrangements) will be refunded.

Pursuant to provisions in the Notice on Tax Policy Regarding Shanghai-Hong Kong Stock Connect Pilot Programs (Cai Shui [2014] No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)) issued by the Ministry of Finance, the State Administration of Taxation and CSRC, for the dividends obtained by mainland individual investors from investing in H-shares listed in Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect, such H-share companies shall withhold individual income tax at the tax rate of 20%. For the dividends obtained by mainland securities investment funds by investing in shares listed in Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect, the individual income tax will be levied pursuant to the provisions mentioned above. For the dividends obtained by mainland enterprise investors from investing in shares listed in Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect, such H-share companies shall not withhold and pay any income taxes on the dividends, as the income taxes shall be reported and paid by the investing enterprises on their own. Meanwhile, for the dividends obtained by mainland resident enterprises from holding relevant H shares for consecutive 12 months, the corporate income taxes shall be exempted according to laws.

Pursuant to the current practices of Inland Revenue Department of Hong Kong, no taxes shall be levied for the dividends distributed by the Company.

The shareholders of the Company shall pay the relevant taxes and/or be entitled to tax relieves pursuant to the above provisions.

(6) Reserves and reserves of profits available for distribution

Please refer to the “Consolidated Statement of Changes in Equity” and Note 37 to the consolidated financial statements of this report regarding the changes in the Group’s reserves and reserves of profits available for distribution during the Reporting Period.

(7) Major Customers and Suppliers

The Company provides services for various individual and institutional customer groups with a large customer base and wide distribution. The Company’s major customers include non-enterprise institutions, large, medium and small enterprises, institutional investors and retail customers. During the Reporting Period, revenue generated from the top five customers accounted for 4.67% of total revenue and other income of the Group. None of the Directors, Supervisors or any of their respective close associates or any shareholder holding more than 5% of the issued share capital of the Company has any interests in the Company’s top five customers.

Due to the nature of the business, the Company has no major supplier.

Section 5 Report of the Directors

(8) Property and Equipment

Please refer to the Note 21 to the consolidated financial statements of this report for the Group's property and equipment during the Reporting Period.

(9) Fulfillment of Social Responsibilities

For the information of fulfillment of social responsibilities during the reporting period, please refer to the “(VII) Community Investment of II. Society” in section 10 of this report.

(10) Relationship between the Company and its Staff, Customers and Suppliers

1. Staff

For details, please refer to Section 8 “VI. Information About Staff and Remuneration of the Company and Major Subsidiaries” in this report.

2. Customers

For details, please refer to “XIII. Other Disclosures” in this section.

3. Suppliers

For details, please refer to “XIII. Other Disclosures” in this section.

(11) Compliance with Laws and Regulations

The business of the Company is mainly conducted in mainland China, and the Company has already listed on the Hong Kong Stock Exchange. Hence, in strict compliance with the requirements of laws, regulations and regulatory documents for both domestic and overseas listing markets, including the Company Law, Securities Law, Regulations on Supervision and Management of Securities Companies, Measures for the Risk Control Indexes of Securities Companies, CG Code, the Company has formulated and improved continuously the Articles of Association, rules and regulations of the Company to regulate the business and operation of the Company, striving to maintain and promote a sound corporate market image. During the Reporting Period and up to the date of this report, the Company has complied with the relevant laws and regulations in Mainland China and Hong Kong.

(12) Major Events after the Reporting Period

For details, please refer to Section 6 “IX. Significant Subsequent Events” of this report.

Section 5 Report of the Directors

(13) Exchange Rate Fluctuation Risks and Any Related Hedging

The foreign currency assets and liabilities held by the Company are not material when compared to total assets and liabilities. In terms of the Company's revenue structure, the majority of the business transactions are settled in RMB, with only insignificant revenue from foreign currency transactions. The Company considers that their exchange rate fluctuation risk is immaterial.

(14) Issued Debentures, Equity Linked Agreement and Share Option Arrangement

Please refer to "2. Debt Financing of (VI) Major Investment and Financing Activities under I. Board's Discussion and Analysis on the Operation of the Company During the Reporting Period" for details regarding issued debentures of the Company.

During the Reporting Period, the Company did not signed any equity linked agreement or had any share option arrangement.

(15) Business Review

Please refer to section "I. Board's Discussion and Analysis on the Operation of the Company During the Reporting Period" for details regarding the fair review and analysis of the business of the Company using financial key performance indicators, section "II. Discussion and Analysis of the Board on the Future Development of the Company" for details regarding the major risks and uncertainties exposed to the Company and discussion and analysis regarding the future business development of the Company, section "(11) Compliance with Laws and Regulations of XIII. Other Disclosures" for details regarding the Company's compliance with the laws and regulations that have material impact on the Company, section "(10) Relationship between the Company and its Staff, Customers and Suppliers of XIII. Other Disclosures" for details regarding the explanation of the major relationship between the Company and its staff, customers and suppliers, Section 6 "IX. Significant Subsequent Events" of this report for details regarding the significant events that have material impact on the Company after the end of financial year and Section 10 "Environmental, Social and Governance Report" of this report for details regarding the environmental policy and performance of the Company.

By order of the Board
Guolian Securities Co., Ltd.



Yao Zhiyong
Chairman

12 March 2018

Section 6 Other Significant Events

I. Penalty or public censure during the Reporting Period of the Company

During the Reporting Period, the Company was not subject to any other administrative penalty or public censure by regulatory authorities such as CSRC, SAC, stock exchanges due to any material illegal activities or violations.

II. Significant lawsuits and arbitrations

(I) New lawsuits and arbitration cases during the Reporting Period

The Company had no new significant lawsuits and arbitration cases involving an amount of over RMB10 million during the Reporting Period.

(II) Cases concluded during the Reporting Period

During the Reporting Period, there was no case concluded of the Company.

(III) Cases on enforcement procedures and bankruptcy proceedings

During the Reporting Period, the Company involved in two arbitration cases that entered into enforcement procedures and bankruptcy proceedings, the development of which were as follows:–

On 9 November 2012, the Company subscribed for the 2012 SME private placement bonds of Inner Mongolia Nailun Agriculture Technology Corporation (內蒙古奈倫農業科技股份有限公司, hereinafter referred to as “Nailun Agriculture”), and Inner Mongolia Nailun Group Inc. (內蒙古奈倫集團股份有限公司, hereinafter referred to as “Nailun Group”) provided a full, unconditional and irrevocable joint liability guarantee in respect of the repayment of principal and interests of the bonds. An event of default occurred after the expiry of the bonds, and the Company initiated arbitration proceedings at South China International Economic and Trade Arbitration Commission in March 2015. In August 2015, South China International Economic and Trade Arbitration Commission delivered the verdict that Nailun Agriculture shall pay the Company the principal and interests of the bonds and the damages for breach of contract etc., amounting to approximately RMB10.49 million. In December 2015, the Company had applied to the court for compulsory enforcement, the procedures of which have not been completed yet at the moment.

On 29 March 2013, the Company acquired the 2012 SME private placement bonds of Huzhou Jintai Technology Company Limited (湖州金泰科技股份有限公司, hereinafter referred to as “Jintai Technology”) from Zheshang Futures Co., Ltd. (浙商期貨有限公司) with the principal amount of RMB6.5 million. Pan Jianhua (潘建華), chairman of Jintai Technology, provided an unconditional and irrevocable joint liability guarantee in respect of redeeming the bonds upon maturity. On 20 June 2014, the Company sold the aforesaid bonds it held back to Jintai Technology, but Jintai Technology failed to pay the principal and interests to the Company on 10 July 2014 pursuant to the contract. In October 2014, the Company initiated arbitration proceedings at China International Economic and Trade Arbitration. In June 2015, China International Economic and Trade Arbitration Commission delivered the verdict that Jintai Technology shall pay the principal of the bonds of RMB6.5 million as well as the interest and the overdue default penalty to the Company and that Pan Jianhua (潘建華) shall bear the joint liability for the aforementioned debts. Before then, the People’s Court of Wuxing District, Huzhou City has given judgment for the bankruptcy reorganization of Jintai Technology on 12 March 2015. On 10 June 2015, the Company submitted a claim to the administrator of Jintai Technology for an amount of approximately RMB7.54 million. On 28 September 2017, the People’s Court of Wuxing District, Huzhou City has given judgment for approval of the reorganization project and terminated the reorganization procedure.

III. Important contracts and their fulfillment

During the Reporting Period, the Company entered into two property leasing agreement with Wuxi Guolian Xincheng Investment Co., Ltd. (無錫國聯新城投資有限公司), the rental charges for 2017 were RMB8.2334 million and 1.5720 million respectively and the term of the agreement had expired on 31 December 2017. The Yixing Renmin South Road Securities Branch (宜興人民南路證券營業部) of the Company entered into a property leasing agreement with Cui Junrui (崔俊瑞) for a leasing term of 10 years in total from 18 July 2017 to 17 July 2027 at the aggregate rental of RMB26.3667 million. The Nanjing Taiping South Road Securities Branch (南京太平南路證券營業部) of the Company entered into a property leasing agreement with Jiangsu Liuyuan Industrial Company Limited (江蘇濠源實業有限公司) for a leasing term of 10 years in total from 1 August 2017 to 31 July 2027 at the aggregate rental of RMB8.6083 million. The Hangzhou Zhongshan North Road Securities Branch (杭州中山北路證券營業部) of the Company entered into a property leasing agreement with Hangzhou Jinhui Property Development Company Limited (杭州金匯房地產開發有限公司) for a leasing term of 5 years in total from 1 December 2017 to 30 November 2022 at the aggregate rental of RMB5.9607 million.

IV. Connected Transactions

Particulars of the major related party transactions of the Group for the year ended 31 December 2017 are set out in note 50 to the financial statement.

Certain transactions in the aforementioned related party transactions also constitute Connected Transactions as prescribed in Chapter 14A under the Listing Rules and are subject to reporting, annual review and announcement in accordance with the requirements of Chapter 14A under the Listing Rules, and the above Connected Transaction has complied the provisions in Chapter 14A under the Listing Rules, particulars of which are as follows:

Section 6 Other Significant Events

(I) Continuing Connected Transactions by the Company during this Year

The Continuing Connected Transactions of the Group are mainly conducted with Guolian Group and its Associates. Guolian Group is the Controlling Shareholder of the Company. Under the Listing Rules, Guolian Group and its Associates are connected parties of the Group. Therefore, the agreements entered into between the Group and Guolian Group and its Associates constitute Connected Transactions under the Listing Rules. On 15 June 2015, the Group and Guolian Group entered into a series of framework agreements in relation to a number of Continuing Connected Transactions, namely the Securities and Financial Services Framework Agreement and the Property Leasing and Related Services Framework Agreement. The agreements came into force upon the listing of H Shares and will expire on 31 December 2017. On 3 June 2016, the Company, Guolian Group and Guolian Trust entered into a Supplemental Agreement to Securities and Financial Services Framework Agreement (the "Supplemental Agreement") in relation to the further agreement in providing securities and financial services by the Group. The Group has set up respective annual caps in relation to the Continuing Connected Transactions under the agreements in accordance with the requirements of the Listing Rules. As the applicable percentage ratio of the annual caps set up in accordance with the Listing Rules reaches 0.1% but is less than 5%, the Group is subject to the reporting, announcement and annual review requirements, but can be exempted from the independent shareholders' approval requirements.

1. Securities and Financial Services Framework Agreement and Supplemental Agreement

Pursuant to the Securities and Financial Services Framework Agreement, the Group provided a series of financial services to Guolian Group and its Associates on normal commercial terms or better, including (1) securities brokerage and Futures IB services; (2) asset management service; (3) agency sales service of financial products; and (4) financial advisory service. The service fees or commissions charged by the Group for the provision of financial services to Guolian Group and its Associates shall be determined based on arms' length negotiations according to the relevant laws and regulations and by reference to market price, and shall be not be less than the price paid for purchasing similar services from independent third parties. Pursuant to the Supplemental Agreement, in order to facilitate the business development of the Company, the Company agreed to appoint Guolian Trust to provide management services for trust plans to the Company based on its development needs, the management services fee for such trust plans shall be agreed by both parties according to normal commercial terms.

Details of the pricing basics for respective services are set out below:

(1) *Securities Brokerage*

According to data in Wind and SAC, in the past three years, the average market net commission rate is about 0.04%.

Section 6 Other Significant Events

In addition, according to the Notice on the Adjustment of Securities Trading Commission Standard (Zheng Jian Fa (2002) No. 21) (《關於調整證券交易傭金收取標準的通知》(證監發[2002]21號)) jointly published by CSRC, State Development Planning Commission and State Administration of Taxation in April 2002, the commission charged by the securities companies to the client (including the collection of securities trading regulatory fees and stock exchange fees, etc.) shall not be higher than 3‰ of securities transactions amount, nor less than the fee charged by securities trading regulatory and stock exchange.

The brokerage commission of the transactions with Guolian Group is determined upon fair negotiation based on above-mentioned market price, historical price and applicable laws and regulation, and is no less favourable to the Group than terms available to independent third parties.

(2) *Futures IB*

The service fee of futures IB are determined with reference to industry practice, the revenue sharing ratio of major securities company in China and upon fair negotiation. According to the latest available market data, in respect of futures IB business, the major securities company in China usually split revenue with futures dealer at a certain ration. In the futures IB transaction between the Group and Guolian Futures Co., Ltd., the revenue sharing ratio will fall within the prevailing market revenue sharing ratio scope and is more favorable to the Group compared with the market practices.

(3) *Asset Management*

In respect of the pricing policy of service fee of collective asset management plan, the subscription price, management fee and other terms with Guolian Group is consistent with normal commercial terms and those of the Group similar transactions with independent third party investors. The fee ratios of transactions between our Group and Guolian Group fall within a certain ratio range of similar transactions in the market. In addition, the Group will take into account factors such as basic conditions of the assets or business to determine the management fee.

In respect of the pricing policy of service fee of targeted asset management plan with Guolian Group, as each transaction has different target assets whose conditions vary from each other, it is hard to set out a standardized fee ratio. However, the Group determines the management fee based on the price of similar transactions in the market which have similar target asset or in similar condition. In addition, historical management fee in similar transactions between the Group and independent third parties will also be considered, so as to ensure that the price between the Group and Guolian Group is not less favorable to the Group.

Section 6 Other Significant Events

(4) Agency Sales of Financial Products

In respect of agency sales of funds, the price is determined based on the subscription price or redemption price set out in relevant funds contract, asset management contract or prospectus, and the Group will refer to the industry practice and market price to determine the agency sales commission rate. The subscription commission rate will not be lower than a certain ratio, while the redemption fee will be determined according to the products' commission rate published by fund companies.

In respect of sales fee of other financial products, as the risk factors of different products vary from each other, products with higher risks charge higher agency sales fee. There is no specific standard price or commission rate in the market. Therefore, the price of agency sales transactions between the Group and Guolian Trust is determined upon fair trade principle and with reference to market price and industry practice for specific products, which will not be less favorable to the Group than terms available to independent third party agencies.

(5) Financial Advisory

As the financial advisory services are highly individualized, different transaction's target business varies in size, conditions and different counterparties have different bargaining power, it is hard to set out a standardized price or fee ratio. However, the Group will refer to the price of similar transactions which are available publicly on Wind, and the Group's similar historical transactions with independent third parties to ensure the services fee is not less favorable to the Group.

(6) Management Services of Trust Plans

The price of management services of trust plans is determined with reference to similar trust plan management services in the market and fair negotiation between the Group and Guolian Trust Co., Ltd. In the negotiation, the Group will refer to the management fee ratio charged by independent third parties of the Group's historical similar transactions to ensure the management fee charged by Guolian Trust is no less favorable or even better to the Group.

Section 6 Other Significant Events

During the Reporting Period, the particulars of the commissions charged/paid by the Group for the provision of/receiving the securities and financial services to/from Guolian Group and its Associates were as follows:–

Unit: RMB'0,000

Item	2017 Annual Cap of Transaction Amount	2017 Actual Transaction Amount
Securities brokerage and Futures IB service	565	134.9
Asset management service	733	210.5
Agency sales service of financial products	3,000	118.2
Financial advisory service	400	69.7
Management services for trust plans	3,000	300.9

2. Property Leasing and Related Services Framework Agreement

Pursuant to the Property Leasing and Related Services Framework Agreement, the Group and Guolian Group agreed to determine the rental income of the leasing property and the respective service fees according to the relevant laws and regulations, and also the market reference price confirmed by property valuers.

Section 6 Other Significant Events

During the Reporting Period, the particulars of the expenses of the Group incurred for renting/leasing the properties and receiving the related property services provided by Guolian Group and its Associates were as follows:–

Unit: RMB'0,000

Items	2017 Annual Cap of Transaction Amount	2017 Actual Transaction Amount
Rental expenses incurred for leasing the properties from Guolian Group and/or its Associates	2,000	1,347.3
Fee expense incurred for the related property services	650	226.8
Rental income received from leasing the properties to Guolian Group's Associates	500	106.2

The independent non-executive Directors of the Company have reviewed the aforesaid Continuing Connected Transactions and issued the following independent opinions on those Continuing Connected Transactions that they are being conducted:–

- (1) during the ordinary course of business of the Company;
- (2) on normal commercial terms or better;
- (3) according to relevant agreements of the transactions, the terms of which are fair and reasonable and are in the interests of the shareholders of the Company as a whole.

The auditors engaged by the Company had issued a letter to the Board of the Company regarding their review of the aforesaid Continuing Connected Transactions and provided the following opinions:

In respect of the disclosed Continuing Connected Transactions:–

- (1) Nothing has come to our attention that causes us to believe that such Continuing Connected Transactions as disclosed were not approved by the Board of the Company;
- (2) for the transactions involving the provision of services by the Group, nothing has come to our attention that causes us to believe that such transactions were not entered into, in all material respects, according to the pricing policy of the Group;

Section 6 Other Significant Events

- (3) nothing has come to our attention that causes us to believe that such transactions were not entered into, in all material respects, according to the relevant transaction agreements;
- (4) for the purpose of the total amount of every Continuing Connected Transaction, nothing came to our attention that causes us to believe that the amount of such Continuing Connected Transactions had exceeded the annual cap set by the Company.

The Company has provided a copy of the letter from the auditors to the Stock Exchange and the Company confirmed that it had complied with all the disclosure requirements in relation to the disclosure of the Continuing Connected Transactions under Chapter 14A of the Listing Rules.

(II) New Framework Agreements of Continuing Connected Transactions Entered Into by the Group during the Year.

On 11 December 2017, the Company entered into the new Securities and Financial Services Framework Agreement, and new Property Leasing and Related Service Framework Agreement with Guolian Group. As one or more applicable percentage ratios of annual caps for the year of 2018, 2019 and 2020 for Securities and Financial Services Framework Agreement and Property Leasing and Related Service Framework Agreement are more than 0.1% but less than 5%, the Securities and Financial Services Framework Agreement, Property Leasing and Related Service Framework Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules, but are exempt from independent shareholders' approval requirements.

The validity period of the Securities and Financial Services Framework Agreement, Property Leasing and Related Service Framework Agreement is three years, commencing on 1 January 2018 and expiring on 31 December 2020, and renewable under the premises of mutual agreement and compliance with the Listing Rules.

The major terms and conditions of the securities and financial services framework agreement, property leasing and related service framework agreement were set out in the announcement of the Company dated 11 December 2017.

For detail of the pricing base of each service in this agreement, please see the paragraph of "2. Securities and Financial Services Framework Agreement and Supplemental Agreement" of (I) Continuing Connected Transactions by the Company during this Year.

(III) Internal Control and Corporate Governance Measures

The Company has been adopting strict internal control and monitoring procedures relating to Continuing Connected Transactions, and the Company has been in strict compliance with such measures in practice all along. Furthermore, the transactions under the Securities and Financial Services Framework Agreement will also be governed by CSRC, which is even stricter.

Section 6 Other Significant Events

In particular, the Company's internal control measures include:

- (1) The Company has set up a monitoring system, which has a detailed list of the Company's connected persons. If any of the transactions involve connected person of the Company, such transaction will be automatically reported to the Director's office of the Company and can only be continued with Director's office's approval and confirmation. In this way, the Director's office is able to track down every Connected Transaction's amounts and make sure the annual caps would not be exceeded. Thus, the monitoring system will report to the Director's office of the Company on the transaction amounts under the Securities and Financial Services Framework Agreement and the Property Leasing and Related Services Framework Agreement on a daily basis so that the Director's office of the Company is able to strictly control the balance of annual caps to ensure the annual caps would not be exceeded;
- (2) the department in charge of the specific transaction will collect market prices. Such market prices include (i) prices of similar transactions in the market; (ii) the Company's pricing of similar transactions in the past; and (iii) as to the Property Leasing and Related Services Framework Agreement, pricing by similar market transactions or independent third party property valuers. The Company will refer to such market prices in determination of the transaction prices under the Securities and Financial Services Framework Agreement and the Property Leasing and Related Services Framework Agreement;
- (3) the Company has established its internal guidelines and policies for conduct of different types of securities and financial products transactions, as well as the internal procedures and systems for approval and supervision of such transactions. Such policies and guidelines set out the requirements for pre-trading pricing enquiries, applicable interest rates, procedures for price determination, approval authority and procedures, record keeping, supervision and review procedures for different types of transactions and businesses; and
- (4) all of the continued Connected Transactions will be reviewed and confirmed by independent non-executive Directors annually.

(IV) Other Connected Transactions

1. Establishing a partnership

Guolian Capital, a wholly-owned subsidiary of the Company, entered into a partnership agreement with Guolian Industrial Investment in relation to establishing a partnership on 10 May 2017.

The total size of the partnership amounted to RMB0.15 billion, of which RMB0.14 billion was contributed by Guolian Capital and RMB0.01 billion was contributed by Guolian Industrial Investment.

Section 6 Other Significant Events

For further information of such Connected Transactions, please refer to the announcement of the Company dated 10 May 2017.

As the applicable percentage ratios of the partnership agreement (other than the profit ratio) calculated under Chapter 14 of the Listing Rules are more than 0.1% but less than 5%, therefore, the partnership agreement is subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules, but is exempted from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

2. Acquisition of remaining 33.3% equity interests in Hua Ying Securities

On 6 July 2017, the Company entered into the equity transfer agreement with RBS in respect of the acquisition of remaining 33.3% equity interests in Hua Ying Securities (the "Acquisition"). The consideration for the Acquisition is RMB354 million. Hua Ying Securities became a wholly-owned subsidiary of the Company after the completion of the Acquisition.

Please refer to the announcements of the Company dated 6 July 2017 and 28 September 2017 regarding the details and completion of this Connected Transaction.

As one or more of the applicable percentage ratios of the acquisition, as calculated in accordance with Chapter 14 of the Listing Rules in respect of the equity transfer agreement, exceeds 5% but is less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

RBS holds 33.3% equity interests in Hua Ying Securities prior to the completion of the Acquisition and accordingly is its substantial shareholder. RBS is a Connected Person at the subsidiary level according to Rule 14A.07(1) of the Listing Rules. Accordingly, the Acquisition constitutes a Connected Transaction of the Company under Chapter 14A of the Listing Rules. By virtue of Rule 14A.101 of the Listing Rules, since (1) RBS is a Connected Person at the subsidiary level; (2) the Board has approved the Acquisition; and (3) the independent non-executive Directors have confirmed that the terms of the Acquisition are fair and reasonable and the Acquisition is on normal commercial terms or better and in the interests of the Company and its shareholders as a whole, the Acquisition is subject to the reporting and announcement requirements and is exempted from the circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Section 6 Other Significant Events

3. Underwriting of the proposed issuance of bonds of Guolian Group

On 8 August 2017, the subsidiary of the Company, Hua Ying Securities, entered into the underwriting agreement with Guolian Group, pursuant to which Hua Ying Securities will undertake as the lead underwriter in respect of Guolian Group's proposed issuance of bonds in China with an aggregate principal amount not exceeding RMB1,000,000,000 and receive an underwriting commission not exceeding RMB6,000,000.

Please refer to the announcement of the Company dated 8 August 2017 regarding the details of this Connected Transaction.

As each of the applicable percentage ratios (other than the profits ratio), as calculated in accordance with Chapter 14 of the Listing Rules in respect of the underwriting agreement, is more than 0.1% but less than 5% and the consideration under the underwriting agreement exceeds HK\$3,000,000, therefore, the underwriting agreement is subject to the reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Listing Rules, but is exempted from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

V. Bankruptcy reorganization, acquisitions, mergers and divisions

During the Reporting Period, the Company completed the acquisition of remaining 33.3% equity in Hua Ying Securities, and Hua Ying Securities has become a wholly-owned subsidiary of the Company.

During the Reporting Period, the Company and its subsidiaries had not engaged in any bankruptcy reorganization, acquisitions, mergers or divisions.

VI. Information about individual business qualifications obtained during the Reporting Period

During the Reporting Period, the Company did not obtain any information about new individual business qualifications.

VII. Major Off-Balance-Sheet items

During the Reporting Period, the Company and its subsidiaries did not record any guarantees, mortgages or other major off-balance-sheet items that may affect the Company's financial position and operating results.

VIII. Engagement and Dismissal of Certified Public Accountants

(I) Certified Public Accountants Currently Engaged by the Company

Name of Domestic Accounting Firm	Deloitte Touche Tohmatsu Certified Public Accountants LLP
Remuneration of Domestic Accounting Firm	RMB1.03 million
Continuous Term of Audit Service of Domestic Accounting Firm	2 years
Name and Continuous Term of Service of Domestic Certified Public Accountants	Ma Hing Fai (馬慶輝) : 2 years; Han Jian (韓健) : 2 years
Name of Overseas Accounting Firm	Deloitte Touche Tohmatsu
Remuneration of Overseas Accounting Firm	RMB70,000
Continuous Term of Audit Service of Overseas Accounting Firm	2 years
Name and Continuous Term of Service of Overseas Certified Public Accountant	Ma Hing Fai (馬慶輝) : 2 years

In addition, the Company appointed Deloitte Touche Tohmatsu Certified Public Accountants LLP as the A Share IPO accountant of the Company, providing auditing service for the A Share IPO reporting of the Company. Relevant audit expenses are RMB480,000.

(II) Change of Engagement of Certified Public Accountants by the Company in Recent Three Years

In January 2015, the Company engaged PricewaterhouseCoopers as the H Share IPO reporting accountant of the Company; In April 2015, the Company re-appointed Jiangsu Gongzheng Tianye Certified Public Accountants LLP as the domestic auditing institution of the Company, responsible for providing auditing services according to PRC CAS; After approval by the first extraordinary General Meeting in 2016, the Company appointed PricewaterhouseCoopers as its overseas auditing institution, responsible for providing auditing and review services according to IFRS.

Upon approval by the 2015 annual General Meeting, the Company appointed Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as its external auditing institutions, which are responsible for providing auditing and review services according to PRC CAS and IFRS respectively.

Section 6 Other Significant Events

The main reasons for changing external auditing institutions of the Company were: (1) the term of the business agreement among the Company and PricewaterhouseCoopers and Jiangsu Gongzheng Tianye Certified Public Accountants LLP (江蘇公證天業會計師事務所) had expired; and (2) the Company appointed Deloitte Touche Tohmatsu Certified Public Accountants LLP as the A Share IPO reporting accountant of the Company in 2016. The Company decided to change the external auditing institutions to ensure the coherence and orderly implementation of all auditing works. PricewaterhouseCoopers and Jiangsu Gongzheng Tianye Certified Public Accountants LLP have confirmed that there are no material disagreements or outstanding matters between them and the Company.

Upon approved by 2016 annual General Meeting, the Company extended the appointment of Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as external auditing authorities.

(III) Engagement of Certified Public Accountants by the Subsidiaries

In 2017, Hua Ying Securities reappointed Deloitte Touche Tohmatsu Certified Public Accountants LLP as its external auditing institution with an audit fee of RMB80,000.

In 2017, Guolian Capital appointed Jiangsu Suyajincheng CPA LLP as its annual external auditing institution with an audit fee of RMB40,000.

IX. Significant Subsequent Events

(I) Changes Of Directors, Supervisors and Senior Management

On 16 January 2018, Mr. Qin Shunda (秦順達) tendered his resignation in writing to the Board and applied to resign as the vice president.

(II) Proposed Annual Profit Distribution Proposal of the Company

The proposed annual profit distribution proposal for the year 2017 is set out in Section 5 of this report "III. Profit Distribution and Proposed Profit Distribution Proposal".

Section 6 Other Significant Events

(III) Major Investing and Financing Activities

Nil

(IV) Major Litigations and Arbitrations

According to the reorganization plan in relation to the amalgamation and reorganization case between Huzhou Jintai Technology Company Limited (湖州金泰科技股份有限公司) and Huzhou Hete Jintai Automobile Parts Co., LTD (湖州赫特金泰汽车零部件有限公司), the Company may be granted a bond allotment amounted to RMB392,118.13. Such amount has been fully paid by the manager of Huzhou Jintai Technology Company Limited (湖州金泰科技股份有限公司) on 22 January 2018.

(V) Business Mergers or Disposals of Subsidiaries

Nil

(VI) Other Events That May Have a Material Impact on the Financial Position, Operating Results and Cash Flows of the Company

Nil

X. Important Matters or Major Subsequent Events of a Subsidiary

(I) Changes Of Directors, Supervisors and Senior Management

As Mr. Qin Shunda (秦順達先生), the former chairman of the board, general manager submitted his resignation, the Board of Guolian Capital elected Mr. Yang Ming (陽明先生) as a chairman of the board and general manager on 16 January 2018.

(II) Profit Distribution Plan

The audited net profit of Hua Ying Securities in 2017 was RMB27,998,200. According to the relevant requirements of the Company Law, Securities Law, Financial Rules for Financial Enterprises and Articles of Association, after 10% was appropriated to each of the statutory provident fund, general risk reserve and transaction risk reserve respectively, totaling RMB8,399,500, the profit available for distribution for this year amounted to RMB19,598,700 in total. With the addition of the balance of the undistributed profit of RMB127,209,100 in previous year, the accumulated profit distributable to Shareholders in cash for this year was RMB146,807,800.

After synthesized considering the development and shareholder interest of Hua Ying Securities, the proposed profit distribution plan in 2017 will be as follows: cash distribution of RMB100 million and undistributed profit of RMB46,807,800 will be transfer to next year.

Section 7 Information of Changes of Equity (Capital) and Substantial Shareholders

I. Changes in Shares During the Reporting Period

During the Reporting Period, there was no change in the shares of the Company. As at the end of the Reporting Period, the total share capital of the Company was 1,902,400,000 shares, of which 1,459,760,000 shares were Domestic Shares and 442,640,000 Shares were H Shares.

II. Shareholders as at the End of the Reporting Period

At the end of the Reporting Period, the Company had 124 registered shareholders, including 12 shareholders of Domestic Shares and 112 registered shareholders of H Shares.

At the end of the Reporting Period, the shareholdings of the top 10 shareholders were as follows:

Name of Shareholders	Nature of Shareholders	Number of Shares Held (Shares)	Percentages of Shares Held	Number of Shares changed during the Reporting Period (Shares)	Pledge or Freeze up over shares held (Shares)
Guolian Group	State-owned legal person	543,901,329	28.59%	–	Nil
HKSCC (Nominees) Limited (Note 1)	Overseas legal person	442,487,500	23.26%	23,000	Nil
Guolian Trust	State-owned legal person	390,137,552	20.51%	–	Nil
Wuxi Electric	State-owned legal person	266,899,445	14.03%	–	Nil
Minsheng Investment	State-owned legal person	73,500,000	3.86%	–	73,500,000
Cotton Textile	State-owned legal person	72,784,141	3.83%	–	Nil
Huaguang Boiler	State-owned legal person	29,113,656	1.53%	–	Nil
Wuxi Jinhong Telecommunications Group Co., Ltd. (無錫金鴻通信集團有限公司)	Domestic Non-state-owned legal person	24,000,000	1.26%	–	Nil
Jiangsu Xinfang	Domestic Non-state-owned legal person	22,500,000	1.18%	–	Nil
Wuxi Weifu High-technology Co., Ltd.* (無錫威孚高科技集團股份有限公司)	Domestic Non-state-owned legal person	18,000,000	0.95%	–	Nil

Note 1: The shares held by HKSCC (Nominees) Limited are for the benefits of non-registered holders of H Shares.

At the end of the Reporting Period, Guolian Group, the Controlling Shareholder of the Company, directly held 28.59% of the shares in the Company, and indirectly held 43.76% of the shares in the Company through Guolian Trust, Wuxi Electric, Minsheng Investment, Cotton Textile and Huaguang Boiler, and thus holding 72.35% of the Shares in the Company in total.

Section 7 Information of Changes of Equity (Capital) and Substantial Shareholders

III. General Information on Shareholders Holding 10% or More of the Share of the Company

Guolian Group was established in December 1997, and is a wholly state-owned enterprise group contributed and organized by Wuxi State-owned Assets Supervision and Administration Commission of the State Council (hereinafter referred as “SASAC”) with a state-owned asset investment qualification granted. Its registered capital is RMB8 billion. Guolian Group is mainly engaged in the management and operation of capital assets, agency investment, investment consultancy and investment service. The legal representative and general manager of Guolian Group are Mr. Gao Min and Mr. Hua Weirong, respectively.

Guolian Trust was established in January 1987, and is formerly known as Wuxi Trust Investment Company* (無錫市信託投資公司). It was then renamed and transformed as a joint stock company with limited liability with a registered capital of RMB1.23 billion. Guolian Trust is principally engaged in trust services and direct investment. The legal representative and general manager of Guolian Trust are Mr. Zhou Weiping and Mr. Zhu Wenge respectively.

Wuxi Electric was established in March 1986, and is an enterprise owned by the whole people with a registered capital of RMB319.506 million. Wuxi Electric is principally engaged in the planning and operation of municipal electric system and facilities. Mr. Ma Guibin is both the legal representative and principal of Wuxi Electric.

IV. Disclosure of Interests

As at 31 December 2017, to the knowledge of the Company’s Directors after making reasonable enquiry, the following persons (not being the Directors, Supervisors or chief executives of the Company) have interests or short positions which shall be disclosed to the Company and recorded in the register required to be kept by the Company in the shares and underlying shares of the Company in accordance with Sections 2 and 3 of Part XV of the SFO and Section 336 of the SFO:

Name of Shareholders	Types of Shares	Nature of Interests	Number of Shares (Note 5)	Percentage of Total Number of Issued Shares of the Company (Note 6)	Percentage of Total Issued Domestic Shares/ H Shares of the Company (Note 6)
Guolian Group (Note1)	Domestic Shares	Beneficial Owner and Interest of Controlled Corporation	1,376,336,123 (L)	72.35%	94.29%
Guolian Trust	Domestic Shares	Beneficial Owner	390,137,552 (L)	20.51%	26.73%
Guolian Industrial (Note 2)	Domestic Shares	Interest of Controlled Corporation	266,899,445 (L)	14.03%	18.28%
Wuxi Electric	Domestic Shares	Beneficial Owner	266,899,445 (L)	14.03%	18.28%
Guolian Financial Investment (Note 3)	Domestic Shares	Interest of Controlled Corporation	73,500,000 (L)	3.86%	5.04%
Minsheng Investment	Domestic Shares	Beneficial Owner	73,500,000 (L)	3.86%	5.04%
CES Global Holdings (Hong Kong) Limited	H Shares	Beneficial Owner	48,964,500 (L)	2.57%	11.06%
Central Huijin Investment Ltd. (Note 4)	H Shares	Interest of Controlled Corporation	27,513,000 (L)	1.45%	6.22%
China Reinsurance (Group) Corporation	H Shares	Beneficial Owner	27,513,000 (L)	1.45%	6.22%

Section 7 Information of Changes of Equity (Capital) and Substantial Shareholders

Note1: Guolian Group is the beneficial owner of 543,901,329 Domestic Shares of the Company, and is deemed to be interested in the following shares in controlled corporations: (i) 390,137,552 Domestic Shares of the Company held by Guolian Trust; (ii) 266,899,445 Domestic Shares of the Company held by Wuxi Electric; (iii) 73,500,000 Domestic Shares of the Company held by Minsheng Investment; (iv) 72,784,141 Domestic Shares of the Company held by Cotton Textile; and (v) 29,113,656 Domestic Shares of the Company held by Huaguang Boiler.

Note 2: Guolian Industrial is deemed to be interested in the 266,899,445 Domestic Shares of the Company held by Wuxi Electric, its wholly-owned subsidiary.

Note 3: Guolian Financial Investment is deemed to be interested in the 73,500,000 Domestic Shares of the Company held by Minsheng Investment, its wholly-owned subsidiary.

Note 4: Central Huijin Investment Ltd. is deemed to be interested in 27,513,000 H Shares of the Company held by China Reinsurance (Group) Corporation, its non-wholly owned subsidiary.

Note 5: (L) denotes long positions.

Note 6: Up to 31 December 2017 and up to the date of this report, the Company issued 1,459,760,000 Domestic Shares and 442,640,000 H Shares in total. The total number of shares is 1,902,400,000.

Save as disclosed above, as at 31 December 2017, the Company is not aware of any other persons (excluding the Directors, Supervisors and chief executives of the Company) having the interests or short positions that are required to be recorded in the register in the shares or underlying shares of the Company under Section 336 of the SFO.

V. Purchase, Sale or Redeem of the Company's Listed Securities

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

Section 8 Information of Directors, Supervisors, Senior Management and Staff

I. Changes in Shareholdings and Remuneration Information of Current and Resigned Directors, Supervisors and Senior Management During the Reporting Period

Name	Position	Gender	Age	Date of commencement and completion of employment	Shares held (H Shares)	Total remuneration received from the Company during the Reporting Period (In RMB ten thousands)	Remarks
Directors							
Yao Zhiyong	Chairman	Male	46	16 June 2016 to 15 June 2019	–	5	–
	Executive Director			16 June 2016 to 8 March 2017	–	–	–
	Non-executive Director			8 March 2017 to 15 June 2019	–	–	–
Peng Yanbao	Executive Director	Male	51	16 June 2016 to 15 June 2019	–	83.53	–
	President			16 June 2016 to 15 June 2019	–	–	–
Hua Weirong	Non-executive Director	Male	52	16 June 2016 to 15 June 2019	–	N/A	–
Zhou Weiping	Non-executive Director	Male	49	16 June 2016 to 15 June 2019	–	N/A	–
Liu Hailin	Non-executive Director	Male	40	16 June 2016 to 15 June 2019	–	N/A	–
Zhang Weigang	Non-executive Director	Male	55	16 June 2016 to 15 June 2019	–	N/A	–
Chen Qingyuan	Independent Non-executive Director	Female	41	16 June 2016 to 15 June 2019	–	12	–
Lee Pak Hay	Independent Non-executive Director	Male	76	5 July 2016 to 15 June 2019	–	12	–
Lu Yuanzhu	Independent Non-executive Director	Male	40	10 March 2017 to 15 June 2019	–	9	–
Wang Wei	Independent Non-executive Director (Resigned)	Male	59	16 June 2016 to 10 March 2017	–	3	Resigned on 16 January 2017 due to personal reasons, with effect from 10 March 2017

Section 8 Information of Directors, Supervisors, Senior Management and Staff

Name	Position	Gender	Age	Date of commencement and completion of employment	Shares held (H Shares)	Total remuneration received from the Company during the Reporting Period (In RMB ten thousands)	Remarks
Supervisors							
Jiang Zhiqiang	Chairman of Supervisory Committee and Shareholder Representative Supervisor	Male	47	10 March 2017 to 15 June 2019	–	66.80	–
	Vice President (Resigned)			16 June 2016 to 17 January 2017	–		Resigned and was formally effective on 17 January 2017 due to job re-designation
Zhou Weixing	Shareholder Representative Supervisor	Male	55	16 June 2016 to 15 June 2019	–	N/A	–
Ren Jun	Shareholder Representative Supervisor	Male	39	10 March 2017 to 15 June 2019	–	N/A	–
Shen Ying	Employee Representative Supervisor	Female	49	16 June 2016 to 15 June 2019	–	22.17	–
Yu Lei	Employee Representative Supervisor	Female	44	16 June 2016 to 15 June 2019	–	31.08	–
Senior Management							
Li Zhengquan	Vice President and Secretary to the Board	Male	41	16 June 2016 to 15 June 2019	–	54.30	–
Yang Ming	Vice President	Male	36	19 September 2016 to 15 June 2019	–	66.80	–
Qin Shunda	Vice President	Male	43	23 January 2017 to 16 January 2018	272,993 ⁴	66.80	Resigned and was formally effective on 16 January 2018 due to job re-designation.
Xu Faliang	Chief Compliance Officer	Male	53	16 June 2016 to 15 June 2019	–	66.80	–
Chen Xingjun	Chief Risk Officer	Male	36	20 January 2017 to 15 June 2019	–	58.40	–
Chen Zhiying	Chief Financial Officer	Female	43	16 June 2016 to 15 June 2019	–	67.45	–
	Chief Risk Officer (Resigned)			16 June 2016 to 20 January 2017	–		Ceased on 20 January 2017 due to job re-designation

- Notes:
1. No Director or Supervisor of the Company had once held any shares of the Company at the beginning or at the end of the Reporting Period.
 2. During the Reporting Period, the Company did not implement any equity incentive schemes for the Directors, Supervisors or senior management of the Company.
 3. During the Reporting Period, no non-cash remuneration was ever received by any Directors, Supervisors or senior management of the Company.
 4. During the Reporting Period, Mr. Qin Shunda, vice president of the Company, held the H Shares of the Company purchased through QDII collective trust scheme in 2015 continuously, according to the percentage of his actual amount contributed to the collective trust scheme, the number of shares held by him after the translation was 272,993 H Shares.
 5. The remuneration of the Directors, Supervisors and senior management of the Company includes salary before tax, bonus and allowance.

Section 8 Information of Directors, Supervisors, Senior Management and Staff

II. Positions held by Current Directors, Supervisors and Senior Management

(I) Positions held in the shareholders

Name	Name of companies under the Group	Position currently held	Date of commencement and completion of employment
Yao Zhiyong	Wuxi Guolian Development (Group) Co., Ltd. (無錫市國聯發展(集團)有限公司)	Vice President	March 2017 to present
Hua Weirong	Wuxi Guolian Development (Group) Co., Ltd. (無錫市國聯發展(集團)有限公司)	President	December 2015 to present
Zhou Weiping	Guolian Trust Co., Ltd. (國聯信託股份有限公司)	Chairman	January 2014 to present
Liu Hailin	Jiangsu Xinfang Industrial Co., Ltd.* (江蘇新紡實業股份有限公司)	Assistant to Chairman of the Board and Deputy General Manager	August 2006 to present
Zhou Weixing	Wuxi Weifu High-technology Co., Ltd.* (無錫威孚高科技集團股份有限公司)	Secretary to the Board	June 2005 to present
Ren Jun	Wuxi Municipal Xinfu Group Limited* (無錫市新發集團有限公司)	Deputy General Manager	July 2016 to present

Section 8 Information of Directors, Supervisors, Senior Management and Staff

(II) Positions held in other companies

Name	Name of other companies	Position held	Date of commencement and completion of employment
Yao Zhiyong	Guolian Financial Holding Group Co., Limited	Chairman of the Board	March 2017 to present
	Hua Ying Securities* (華英證券)	Chairman of the Board	May 2016 to present
Peng Yanbao	Hua Ying Securities* (華英證券)	Director	April 2011 to present
	Zhonghai Fund* (中海基金)	Director	May 2008 to present
Hua Weirong	Guolian Financial Holding Group Co., Limited	Chairman of the Board	March 2016 to March 2017
	Jiangsu Asset Management Co., Ltd.*	Chairman of the Board	March 2014 to March 2017
	Wuxi Baolian Investment Co., Ltd.*	Chairman of the Board	March 2016 to present
	Wuxi Delian Investment Co., Ltd.*	Chairman of the Board	March 2016 to present
	Wuxi Liantai Venture Capital Co., Ltd.*	Chairman of the Board	March 2016 to present
	Guolian Financial Investment (國聯金融投資)	President	June 2012 to present
Zhang Weigang	Guolian Industrial Investment (國聯產投)	Chairman of the Board	May 2017 to present
	Xinwu District branch office of Wuxi municipal branch of China Post Group Company* (中國郵政集團公司無錫市分公司新吳區分局)	Manager	February 2016 to present
Chen Qingyuan	Guangcai International Investment Group Co., Ltd.*	Chief Financial Officer	July 2013 to present
	Hua Ying Securities* (華英證券)	Independent Director	April 2016 to September 2017
Lee Pak Hay	TONG & Lawyers	Lawyer	December 2016 to present
Lu Yuanzhu	Central University of Finance and Economics (中央財經大學)	Professor	October 2011 to present
Jiang Zhiqiang	Zhonghai Fund* (中海基金)	Director	November 2011 to present
Li Zhengquan	Guolian Capital	Chairman of the Board	May 2012 to July 2017
		General Manager	February 2017 to July 2017
	SAC	Member of Professional Committee of Direct Investment Industry	July 2012 to present
	Jiangsu Equity Exchange Co., Ltd.	Director	October 2015 to present
Qin Shunda	Hua Ying Securities* (華英證券)	Director	April 2016 to September 2017
	Guolian Capital	General Manager	January 2016 to January 2017 and July 2017 to January 2018
		Chairman of the Board	July 2017 to January 2018
		Chief Risk Officer	June 2017 to present
Chen Xingjun	Guolian Capital	Chief Risk Officer	March 2015 to present
Chen Zhiying	Hua Ying Securities* (華英證券)	Chief Financial Officer	March 2015 to March 2017

III. Remuneration Management Information of Directors, Supervisors and Senior Management

(I) Basis of Determination

The remuneration standards for Directors and Supervisors of the Company are determined in accordance with the level of the same industry and the practical situation of the Company, while the remuneration of senior management is decided by the remuneration system of the Company and is determined based on position and performance.

(II) Decision-making Procedures

The non-executive Directors and non-employee Supervisors of the Company do not receive any remuneration from the Company. The remuneration of independent non-executive Directors of the Company is determined by submitting to General Meetings for consideration after reviewing by the Remuneration and Nomination Committee and the Board with reference to industry average norm. The remuneration of executive Directors of the Company is determined after reviewing by the Remuneration and Nomination Committee and the Board and submitting for approval at the General Meetings. The remuneration of employee Supervisors of the Company is determined after reviewing by the Supervisory Committee and submitting for approval at General Meetings. The remuneration of senior management of the Company is determined under the remuneration assessment system of the Company and submitting to the Board of the Company for approval after the consideration and approval of the remuneration and nomination committee of the Board.

(III) Non-cash Remuneration Information

During the Reporting Period and up to the date of this report, the Company does not have any equity incentive system. The Directors, Supervisors and senior management of the Company did not hold any shares or options of the Company through the Company's equity incentive system.

(IV) Information of Remuneration Payment to Directors, Supervisors and Senior Management

For details regarding the information of remuneration payment to Directors, Supervisors and senior management of the Company, please refer to the "Changes in Shareholdings and Remuneration Information of Current and Resigned Directors, Supervisors and Senior Management During the Reporting Period" (《現任及報告期內離任董事、監事和高級管理人員持股變動及報酬情況》) under this section. The total remuneration of Directors, Supervisors and senior management of the Company in 2017 is RMB6,251,300. For the list of top five staff with highest remuneration and the category of remuneration of senior management, please refer to the note 12 to consolidated financial statements in this report.

IV. Changes of Directors, Supervisors and Senior Management During the Reporting Period

(I) Changes of Directors

On 10 March 2017, the Company convened the first extraordinary General Meeting of 2017, and elected Mr. Lu Yuanzhu as an independent non-executive Director of the third session of the Board of the Company. Mr. Lu Yuanzhu has obtained the qualification for the appointment as an independent director of the securities companies on 2 March 2017 and commenced his office on 10 March 2017. Mr. Wang Wei, the prior independent non-executive Director, ceased to serve his position.

(II) Changes of Supervisors

On 10 March 2017, the Company convened the first extraordinary General Meeting of 2017, and elected Mr. Jiang Zhiqiang and Mr. Ren Jun as shareholder representative Supervisor of the third session of the Supervisory Committee of the Company. Mr. Ren Jun has obtained the qualification for the appointment as a supervisor of the securities companies on 2 March 2017 and commenced his office with Mr. Jiang Zhiqiang on 10 March 2017.

(III) Changes of Senior Management

On 22 December 2016, the 7th meeting of the third session of the Board of the Company resolved to engage Mr. Chen Xingjun as the chief risk officer of the Company. Mr. Chen Xingjun has obtained the qualification for the appointment as a senior management of the securities companies and commenced his office on 20 January 2017.

On 23 January 2017, the 8th meeting of the third session of the Board resolved to engage Mr. Qin Shunda as vice president of the Company. Mr. Qin Shunda has obtained the qualification as a senior management of securities companies on 20 January 2017.

V. Biographies of Directors, Supervisors and Senior Management

(I) Directors

Mr. Yao Zhiyong (姚志勇), aged 46, is currently the chairman of the Board of the Company and became the executive Director of the Company from August 2012 to March 2017 and the non-executive Director of the Company since March 2017. Mr. Yao has approximately 23 years of experience in the financial industry, including securities and financial investment, and 17 years of experience in corporate management. Mr. Yao joined the Company in August 1994 and served successively as a sales clerk of Wuxi Securities Company* (無錫市證券公司) (the predecessor of the Company), a floor trader stationed at the Shanghai Stock Exchange and an office director of branch during the period from August 1994 to November 2000. From November 2000 to December 2003, Mr. Yao served successively as an investment manager, manager and deputy general manager of the securities research department in Guolian Investment Management. From January 2004 to December 2004, Mr. Yao served as a deputy general manager in the securities investment department of Guolian Group, and then served as the chairman of the board of directors and general manager of Guolian Investment Management from January 2005 to December 2008. He then worked in Guolian Financial Investment as the assistant to president and the general manager of the strategic development department from May 2009 to June 2012, and also concurrently worked in Wuxi Equity Exchange Co., Ltd.* (無錫產權交易所有限公司) from January 2010 to June 2012 as an executive director and the legal representative. Mr. Yao has served as a director of Surrich International from July 2010 to July 2015 and a director of Hua Ying Securities from February 2013 to May 2016. Mr. Yao became the chairman of the Board of Hua Ying Securities since May 2016 to date; the vice president of Guolian Group since March 2017 to date; and the chairman of the board of Guolian Financial Holding Group Co., Limited since March 2017 to date. Mr. Yao graduated from Dalian University of Technology (大連理工大學) with a bachelor's degree majoring in environmental engineering in July 1994 and then obtained a master's degree majoring in business administration from Nanjing University (南京大學) in June 2004.

Mr. Peng Yanbao (彭焰寶), aged 51, is currently the president of the Company and became the executive Director of the Company since June 2016 to date. Mr. Peng joined the Company in April 1994 and served as a floor trader, an investment manager and the general manager of the securities investment department of the Company from April 1994 to December 1999 and from January 2009 to October 2009, respectively. Before joining the Company, Mr. Peng worked in Guolian Investment Management as an investment manager from January 2000 to May 2000. He then subsequently served as the manager of the investment department in Surrich International from May 2000 to July 2003 and successively served as the chief investment officer, the general manager of the risk management department and the chief risk officer in Zhonghai Fund from March 2004 to December 2008, and has been a director of Zhonghai Fund since May 2008. Mr. Peng has also been a director of Hua Ying Securities since its establishment. Mr. Peng served as vice president of the Company from August 2009 to May 2016. Mr. Peng graduated from Tsinghua University (清華大學) with a bachelor's degree of engineering majoring in internal combustion engine in July 1990.

Section 8 Information of Directors, Supervisors, Senior Management and Staff

Mr. Hua Weirong (華偉榮), aged 52, is currently the president of Guolian Group and became non-executive Director of the Company since May 2008. Mr. Hua has approximately 32 years of experience in the financial industry. Mr. Hua joined the Company in January 2002 and served as a Director and the general manager of the Company from January 2002 to December 2004. Before joining the Group, Mr. Hua served in Wuxi Finance Bureau (無錫市財政局) as a clerk of the department of budget management and the department of the comprehensive planning and the deputy section chief of the department of comprehensive planning from July 1986 to December 1991; worked in Guolian Trust as a department manager, an assistant to general manager and a deputy general manager from January 1992 to December 2001; served as a director of Guolian Group from November 2001 to December 2004; the chairman of the board of directors of Zhonghai Fund from March 2004 to March 2007; the chairman of the board of directors of Guolian Trust from January 2005 to June 2012 and a director of China Asset Management Co., Ltd.* (華夏基金管理有限公司) from May 2012 to September 2013; the vice president of Guolian Group from November 2004 to December 2015. Mr. Hua has also served as a director of Wuxi Guolian Venture Capital Co., Ltd.* (無錫國聯創業投資有限公司) from September 2008 to January 2015, and was the chairman of the board of directors from January to December 2015; a director of Wuxi Rural Commercial Bank Co., Ltd. (無錫農村商業銀行股份有限公司) from November 2008 to June 2016 and a director of Jiangsu Yixing Rural Commercial Bank Co., Ltd. (江蘇宜興農村商業銀行股份有限公司) from September 2010 to June 2016; a director and the chairman of the board of directors of Jiangsu Asset Management Co., Ltd.* (江蘇資產管理有限公司) from May 2013 to March 2014 and from March 2014 to March 2017 respectively; he has served as a director of Wuxi Baolian Investment Co., Ltd.* (無錫市寶聯投資有限公司), Wuxi Delian Investment Co., Ltd.* (無錫市德聯投資有限公司) and Wuxi Liantai Venture Capital Co., Ltd.* (無錫聯泰創業投資有限公司) since August 2006, June 2009 and June 2009 to March 2016 respectively; He has served as the chairman of the board of directors of Guolian Life Insurance Co., Ltd.* (國聯人壽保險股份有限公司) from May 2015 to August 2016; and the chairman of the board of Guolian Financial Holding Group Co., Limited from March 2016 to March 2017. Mr. Hua has also served as the president of Guolian Financial Investment since June 2012; concurrently, the chairman of the board of directors of Wuxi Baolian Investment Co., Ltd., Wuxi Delian Investment Co., Ltd., Wuxi Liantai Venture Capital Co., Ltd. since March 2016; and the chairman of the board of Guolian Industrial Investment (國聯產投) since May 2017. Mr. Hua graduated from Suzhou University (蘇州大學) with a bachelor's degree in economics majoring in finance in July 1986 and then obtained an executive master's degree of business administration from Cheung Kong Graduate School of Business (長江商學院) in October 2009. Mr. Hua qualified as a senior accountant by Human Resource Bureau of Jiangsu Province in November 2004.

Section 8 Information of Directors, Supervisors, Senior Management and Staff

Mr. Zhou Weiping (周衛平), aged 49, is currently the chairman of the board of Guolian Trust and became non-executive Director of the Company since June 2016. Mr. Zhou served as an accountant at Wuxi Mineral Exploration Machinery Factory* (無錫市探礦機械總廠) from August 1991 to March 1993; the finance manager at Wuxi Hengda Securities Co., Ltd.* (無錫恒達證券公司) from March 1993 to February 1996; the deputy manager of Shanghai Handan Road Branch of Wuxi Trust Investment Co., Ltd.* (無錫市信託投資公司) from February 1996 to May 1997; deputy manager and manager of Kaixin Securities Branch of Wuxi Trust Investment Co., Ltd. from May 1997 to December 2001 successively; general manager of Xianqiandong Street Branch of the Company from January 2002 to December 2002; general manager of Brokerage Department of the Company from January 2003 to May 2003; general manager of Wuxi Guolian Futures Brokerage Co., Ltd.* (無錫國聯期貨經紀有限公司) from May 2003 to January 2008; the finance manager of Guolian Group and chairman of the board of Wuxi Guolian Futures Brokerage Co., Ltd. from February 2008 to March 2013; acted as the executive director, president, chief executive officer and chief financial officer of Suntech Power Holdings Co., Ltd. from March 2013 to December 2013. Mr. Zhou graduated from Southeast University (東南大學) with a master's degree in business administration in March 2002.

Mr. Liu Hailin (劉海林), aged 40, is currently assistant to chairman of the board of directors and the deputy general manager of Jiangsu Xinfang and became the non-executive Director of the Company since May 2008. Mr. Liu has approximately 17 years of experience in corporate management. He consecutively served in Jiangsu Xinfang as a technician, the head of workshop and a deputy general manager from August 2000 to July 2006. Mr. Liu obtained a bachelor's degree of management majoring in accounting from Jiangnan University (江南大學) in January 2008.

Mr. Zhang Weigang (張偉剛), aged 55, is currently the manager of Xinwu District branch office of Wuxi municipal branch of China Post Group Company* (中國郵政集團公司無錫市分公司新吳區分局) and became the non-executive Director of the Company since February 2016, and has over 22 years of experience in management. During the period from November 1998 to December 2003, Mr. Zhang served as the director of Xinan Center Branch of Wuxi Postal Office* (無錫郵政局錫南中心局), the manager of the property company and the general manager of Wuxi Postal Communication Development Company* (無錫郵政局通信發展公司) and the deputy director of the management service department and the multi-function department, the director of the telecommunication business department of Wuxi Postal Office and general manager of Wuxi Postal Communication Development Company; he acted as the general manager of Wuxi Jinhong Telecommunications Group Co., Ltd.* (無錫金鴻通信集團有限公司) from December 2003 to July 2015; He acted as the director of the logistics service center of Wuxi municipal branch of China Post Group Company from July 2015 to February 2016. Before that, he served as the director of branch offices of Wuxi Postal Office. Mr. Zhang obtained a bachelor's degree in management engineering from Nanjing Forestry University in July 2001.

Section 8 Information of Directors, Supervisors, Senior Management and Staff

Ms. Chen Qingyuan (陳清元), aged 41, is currently the chief financial officer of Guangcai International Investment Group Co.,Ltd.* (光彩國際投資集團有限公司) and became the independent non-executive Director of the Company since October 2014; Ms. Chen served in Hunan Changde Local Taxation Bureau (湖南省常德市地方稅務局) as an accountant from July 1996 to August 2004 and in Hunan Yuancheng Certified Public Accountants* (湖南遠誠聯合會計師事務所) as an auditing manager from September 2004 to July 2006; she served as a partner of Hunan Branch of Ascenda Certified Public Accountants* (天健正信會計師事務所) from April 2010 to June 2013; she also acted as the independent director of Hua Ying Securities from April 2016 to September 2017. Ms. Chen graduated from Hunan Normal University (湖南師範大學) with a bachelor's degree in law in January 2006 and then obtained a master's degree of business administration from Xiangtan University (湘潭大學) in December 2009. Ms. Chen was qualified as Chinese Certified Public Accountant (中國註冊會計師) granted by the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in April 2007.

Mr. Lee Pak Hay (李柏熹), aged 76, is currently a lawyer of TONG & Lawyers and became independent non-executive Director of the Company since July 2016. Mr. Lee acted as sales manager of Credit Factoring International (Hong Kong) Limited from September 1974 to July 1975; director of Bunnan Tong & Company Limited from July 1975 to May 1990; director of Novel Year Company Limited from July 1990 to August 1996; human resources manager of Chun Wo Construction and Engineering Company Limited from September 1996 to April 2000; also a lawyer of Au-Yeung, Cheng, Ho & Tin from September 2011 to October 2013. Mr. Lee successively obtained Bachelor's degree of Arts (Honours), Diploma in Management and Juris Doctor Degree in Law from The University of Hong Kong in 1966, Hong Kong Polytechnic University in 1976 and City University of Hong Kong in 2011. Mr. Lee is also a solicitor of the High Court of Hong Kong and the member of the Australian Institute of Management, the Chartered Management Institute of the United Kingdom and the International Talent Management Institute.

Mr. Lu Yuanzhu (盧遠矚), aged 40, is currently a professor at the China Economics and Management Academy of the Central University of Finance and Economics and became independent non-executive Director of the Company since March 2017. Mr. Lu serves at the China Economics and Management Academy of the Central University of Finance and Economics and was an assistant professor from September 2006 to February 2007; and an associate professor from March 2007 to September 2011. Mr. Lu acted as an independent non-executive director of eFuture Holding Inc. (北京富基融通科技有限公司) between March 2016 and January 2017. Mr. Lu graduated from the National University of Singapore in April 2007 with a doctoral degree in economics.

Section 8 Information of Directors, Supervisors, Senior Management and Staff

(II) Supervisors

Mr. Jiang Zhiqiang (江志強), aged 47, is the chairman of the Supervisory Committee of the Company since March 2017. Mr. Jiang served successively as the manager of the securities investment department, the general manager of the securities branches, the general manager of wealth management center, the general manager of the asset management department, the assistant president and the vice president of the Company from October 1993 to January 2017. Mr. Jiang has been a director of Zhonghai Fund since November 2011. Mr. Jiang graduated from Nanjing University of Aeronautics and Astronautics (南京航空航天大學) with a bachelor's degree in engineering majoring in instrument and testing system in July 1993 and obtained a master's degree of business administration from Southeast University (東南大學) in April 2005.

Mr. Zhou Weixing (周衛星), aged 55, is currently the Secretary to the Board of Directors and the Director of the Board office of Wuxi Weifu High-technology Co., Ltd.* (無錫威孚高科技集團股份有限公司, "Weifu High-technology") and has been a shareholder representative Supervisor of the Company since August 2013. Mr. Zhou successively served as the deputy director, director and the securities representative of the securities department in Weifu High-technology since December 1993. Mr. Zhou graduated from Jilin University (吉林大學) with a bachelor's degree in economics majoring in national economic management in July 1985.

Mr. Ren Jun (任俊), aged 39, currently serves as the deputy general manager of Wuxi Municipal Xinfu Group Limited (無錫市新發集團有限公司), and the shareholder representative Supervisor of the Company since March 2017. Mr. Ren has served successively as the corporate accountant, account manager and the head of consumer finance at Wuxi Municipal Commercial Bank (無錫市商業銀行) from July 1996 to September 2003; the assistant to general manager and head of human resources department at Wuxi Jinbawang Motorcycle Technology Co., Ltd. (無錫金霸王機車科技有限公司) from September 2005 to July 2007; the executive deputy general manager at Jiangsu Jinshan Information Industry Company Limited (江蘇金山信息產業有限公司) from July 2007 to July 2008; the deputy general manager at Wuxi Zhushang HiTech. Logistics Co., Ltd. (無錫住商高新物流有限公司) from July 2008 to July 2010; the vice-chairman of the Wuxi New District Federation of Trade Unions (無錫市新區總工會) from July 2010 to July 2016. Mr. Ren graduated from Shanghai Jiao Tong University in July 2005 with a master degree in business administration.

Ms. Shen Ying (沈穎), aged 49, currently acts as the audit manager of the audit and supervision department of the Company and became the employee representative Supervisor of the Company since June 2016. Ms. Shen was a personnel of the financial department of Wuxi Mechanical and Electrical Equipment Co., Ltd.* (無錫市機電設備有限公司) from July 1987 to March 1994. Mr. Shen then consecutively acted as the financial manager of several securities branches and the financial head of accounting department of the Company since April 1994. Ms. Shen graduated from Southwest University of Science and Technology with a bachelor's degree in June 2006 and also owns the intermediate accountant certificate.

Section 8 Information of Directors, Supervisors, Senior Management and Staff

Ms. Yu Lei (虞蕾), aged 44, currently acts as the responsible person for the accounting division of the financial and accounting department of the Company and became the employee representative Supervisor of the Company since June 2016. Ms. Yu consecutively acted as the accountant of the securities branch, the audit person of the audit department, the financial manager of the securities branch and the general accountant of the financial and accounting department of the Company from July 1993 to December 2014. Ms. Yu graduated from Shanghai University of Finance and Economics with a bachelor's degree in July 2000 and also owns the intermediate accountant certificate.

(III) Senior Management

Mr. Li Zhengquan (李正全), aged 41, is currently the Vice President of the Company and Secretary to the Board. Mr. Li served as a vice president of Guolian Group from August 2005 to December 2006; and worked as the assistant director of the research center of Wuxi Municipal Government (無錫市委研究室) from December 2006 to June 2011. Mr. Li served as the assistant president of the Company from July 2011 to December 2012 and the deputy general manager of Guolian Trust from January 2013 to December 2013. He has also served as the chairman of the board of Guolian Capital from May 2012 to July 2017; the general manager of Guolian Capital from February 2017 to July 2017. He has served as the director of Hua Ying Securities from April 2016 to September 2017. In addition, Mr. Li has been a member of the Professional Committee of Direct Investment Industry of the SAC since July 2012; served as a director of Jiangsu Equity Exchange Co., Ltd. since October 2015. Mr. Li obtained a doctor's degree in economics from Peking University (北京大學) in July 2005.

Mr. Yang Ming (楊明), aged 36, is currently the vice president of the Company. Mr. Yang served as the investment manager of Shenyin & Wanguo Securities Co., Ltd. from May 2008 to August 2010; fund manager of Da Cheng Fund Management Co., Ltd. from August 2010 to June 2011; the department manager and investment manager of Fortune SG Fund Management Co., Ltd.* (華寶興業基金管理有限公司) from June 2011 to January 2014. He was also senior vice president for business of Taiping Asset Management Company Limited from February 2014 to June 2016. Mr. Yang graduated from the University of Durham, UK and obtained a Master's Degree in Finance and Investment in January 2008.

Mr. Qin Shunda (秦順達), aged 43, served as the vice president of the Company from January 2017 to January 2018. Mr. Qin has successively served as an exchange trader and manager of the business department of Wuxi Trust Investment Company (無錫市信托投資公司) from July 1993 to December 2000. He has successively served as the deputy general manager and general manager of the business department, deputy general manager and general manager of the headquarter of brokerage business management and assistant to company president of the Company from January 2001 to January 2017. Mr. Qin also worked as chairman of the Board and general manager of Guolian Capital from July 2017 to January 2018. Mr. Qin graduated from Southeast University (東南大學) and obtained a master's degree of business administration in June 2009.

Section 8 Information of Directors, Supervisors, Senior Management and Staff

Mr. Xu Faliang (徐法良), aged 53, is currently the Chief Compliance Officer of the Company. Mr. Xu served as the financial manager, the deputy general manager and the general manager of the securities branch of the Company from March 1993 to December 2005, and subsequently acted as the general manager of Audit Department of the Company from January 2006 to December 2015. He has also been the chief compliance officer of Hua Ying Securities from the date of its establishment to February 2012 and since September 2013 to November 2016. Prior to that, he also served as the chairman of its supervisory committee of Guolian Futures. Mr. Xu obtained a bachelor's degree in finance from Central Radio & Television University (中央廣播電視大學) in October 2005.

Mr. Chen Xingjun (陳興君), aged 36, is currently the chief risk officer and general manager of the risk management department of the Company. Mr. Chen has served as the accounting and financial manager in Guolian Group from August 2003 to November 2007. He has served as the general manager of the financial department of Guolian Futures* (國聯期貨) from December 2007 to December 2009. Mr. Chen acted successively as the general manager of the financial accounting department, financial officer and chief risk officer of the Company from January 2010 to March 2015. He has served as the assistant to general manager of the financial accounting department of Guolian Group from April 2015 to December 2016. Mr. Chen worked as the assistant to the general manager of Guolian Finance Co., Ltd.* (國聯財務有限責任公司) from April 2015 to December 2016. He served as the chairman of the Supervisory Committee of the Company from June 2016 to December 2016. Mr. Chen serves as the chief risk officer of Guolian Capital from June 2017 to present. Mr. Chen served as the director of Wuxi Micro-nano Industry and Development Limited (無錫微納產業發展有限公司), director of Jiangsu Little Swan Group Co. Ltd. (江蘇小天鵝集團有限公司), director of Wuxi Guolian Investment Management Consulting Co., Ltd.* (無錫市國聯投資管理諮詢有限公司), director of Jiangsu Taihu Digital Publishing Limited (江蘇太湖數字出版有限公司), supervisor of Wuxi Civil Card Limited (無錫市民卡有限公司) and chairman of the supervisory committee of Jiangsu Asset Management Co., Ltd. Mr. Chen graduated from Nanjing Audit University (南京審計學院) with a bachelor's degree in auditing in June 2003.

Ms. Chen Zhiying (陳志穎), aged 43, is currently the chief financial officer of the Company. Ms. Chen served as a chief accountant of Guolian Group from July 1998 to December 2004; then served as the general manager of financial and accounting department of the Company from January 2005 to April 2010; she also served as the head of the finance department of Guolian Futures from April 2010 to December 2014. She has served as the chief risk officer of the Company from March 2015 to January 2017. She also served as the chief risk officer of Hua Ying Securities from March 2015 to March 2017. Ms. Chen served as chief financial officer of Hua Ying Securities since March 2015. Ms. Chen graduated from Nanjing University of Science and Technology (南京理工大學) with a bachelor's degree in economics majoring in accounting in July 1998 and obtained a master's degree of business administration from Southeast University (東南大學) in June 2011.

VI. Information about Staff and Remuneration of The Company and Major Subsidiaries

(I) Number and Composition of Staff of the Company

As at the end of the Reporting Period, the Company had a total of 1,441 staff, the composition of which is as follows:

Item		Headcount	Percentage
Professional structure	Research personnel	50	3.47%
	Investment bank personnel (OTC market)	83	5.76%
	Brokerage business personnel	905	62.80%
	Assets management business personnel	60	4.16%
	Securities investment	9	0.62%
	Financial personnel	50	3.47%
	Operation, custody and liquidation	51	3.54%
	Information technology personnel	60	4.16%
	Audit, compliance and risk control	36	2.50%
	Credit transaction	8	0.56%
	Institutions business	64	4.44%
	Internet finance business	26	1.80%
	Administrative management	36	2.50%
	Others	3	0.21%
Total staff		1,441	100.00%
Education standard	College Degree or below	100	6.94%
	Bachelor's Degree	939	65.16%
	Master's Degree	397	27.55%
	Doctoral Degree	5	0.35%
Total staff		1,441	100.00%

Section 8 Information of Directors, Supervisors, Senior Management and Staff

(II) Number and Composition of Staff in the Subsidiary, Hua Ying Securities

As at the end of the Reporting Period, the Hua Ying Securities had a total of 197 staff, the composition of which is as follows:

Item		Headcount	Percentage
Professional structure	Investment bank personnel	169	85.79%
	Finance personnel	4	2.03%
	Information technology personnel	2	1.02%
	Human Resources and Administration and Compliance personnel	18	9.14%
	Company Management	4	2.03%
Total		197	100.00%
Education standard	College Degree	8	4.06%
	Bachelor's Degree	43	21.83%
	Master's Degree	143	72.59%
	Doctoral Degree	3	1.52%
Total		197	100.00%

(III) Number and Composition of Staff in the Subsidiary, Guolian Capital

As at the end of the Reporting Period, Guolian Capital had a total of 6 staff, the composition of which is as follows:

Item		Headcount	Percentage
Professional structure	Human Resources and Administration and Compliance personnel	1	16.67%
	Sales personnel	5	83.33%
Total		6	100.00%
Education standard	Bachelor's Degree	4	66.67%
	Master's Degree	2	33.33%
Total		6	100.00%

Section 8 Information of Directors, Supervisors, Senior Management and Staff

(IV) Staff Remuneration

The staff remuneration of the Company comprises basic salary, performance-based salary and welfare. The basic salary is relatively a fixed part of remuneration, and performance-based salary is drawn from annual profit and distributed according to the results of performance evaluation in favor of the front-line employees and employees with outstanding performance. The Company provided employees with statutory welfare such as social insurance and housing provident fund according to relevant state provisions. Moreover, it offered employees group annuity insurance, staff hospitalization medical mutual insurance, etc to improve their welfare benefits.

VII. Information about Customer Solicitation and Customer Service of Commission Brokers

As of 31 December 2017, 62 branches of the Company have commissioned securities brokers to engage businesses, such as customer solicitation and so on, and 452 brokers in total have signed securities brokers agency contract (《證券經紀人委託代理合同》) with the Company.

The Company achieved concentrated and unified management for securities brokers through well-established and effective management system. The system covers qualification management for brokers, agency contract management, training management, file management, behavioral code, customer feedback and complaint management, abnormal transaction monitoring, accountability, performance evaluation, etc., and set up procedures for approval and operation. The Company and each of the branches perform their own responsibilities and monitor each other, and ensure the normativity and effectiveness of the management by regular inspection and non-scheduled spot-check.

During the Reporting Period, each of the branches of the Company has conducted securities broker business pursuant to the systematic requirements of the Company strictly and each of the systems has been properly materialized during the implementation process. Broker team played a positive role in market expansion and customer development of the Company and has met its expectation.

Section 9 Corporate Governance Report

The Company has adopted various policies to ensure compliance with the code provisions of Corporate Governance Code under Appendix 14 of the Listing Rules.

I. Corporate Governance Overview

As a company established in the mainland of China in which its H Shares are listed in the Hong Kong Stock Exchange, the Company has operated in strict compliance with laws, regulations and normative documents at the jurisdictions of establishment and listing, and kept committed to maintaining and improving its sound social image. Pursuant to the Company Law, the Securities Law and other applicable laws, regulations and regulatory provisions, the Company has formed a corporate governance structure under which the General Meeting, Board, Supervisory Committee, and the management have their respective authorities and duties, so as to ensure regulated operation of the Company. The convening and voting procedures for General Meetings and meetings of the Board and Supervisory Committee are legal and valid; the information disclosed by the Company is true, accurate and complete and is disclosed in time; the management of investor relations is efficient and practical; and the corporate governance is based on scientific, rigorous and normative procedures. As at the end of the Reporting Period, the Company has strictly complied with and observed all the provisions and principles of the CG Code and satisfied with most of the requirements for recommended best practices specified in the CG Code.

II. General Meetings, Board Meetings, Supervisory Committee Meetings and Resolutions during the Reporting Period

During the Reporting Period, the Company convened the first extraordinary General Meeting of 2017, the 2016 annual General Meeting, the first domestic shares General Meeting of 2017, the first H shares General Meeting of 2017, ten Board meetings and four Supervisory Committee meetings.

(I) General Meetings

1. The First Extraordinary General Meeting of 2017

The first extraordinary General Meeting of 2017 was convened on 10 March 2017, which considered and approved the followings: Resolution on the Election of Mr. Lu Yuanzhu as an Independent Non-executive Director for the Third Session of the Board of the Company (《關於選舉盧遠矚先生為公司第三屆董事會獨立非執行董事的議案》); Resolution on the Election of Mr. Jiang Zhiqiang as a Shareholder Representative Supervisor for the Third Session of the Supervisory Committee of the Company (《關於選舉江志強先生為公司第三屆監事會股東代表監事的議案》); Resolution on the Election of Mr. Ren Jun as a Shareholder Representative Supervisor for the Third Session of the Supervisory Committee of the Company (《關於選舉任俊先生為公司第三屆監事會股東代表監事的議案》).

Section 9 Corporate Governance Report

2. The 2016 Annual General Meeting

The 2016 annual General Meeting was convened on 29 June 2017, which considered and approved the followings: Report of the Board of Guolian Securities for the Year 2016(《國聯證券2016年度董事會工作報告》), Report of the Supervisory Committee of Guolian Securities for the Year 2016(《國聯證券2016年度監事會工作報告》), Annual Report of Guolian Securities for the Year 2016(《國聯證券2016年年度報告》), Financial Final Accounts Report of Guolian Securities for the Year 2016(《國聯證券2016年度財務決算報告》), Profit Distribution Proposal of Guolian Securities for the Year 2016(《國聯證券2016年度利潤分配方案》), Directors' Remuneration Distribution Proposal of Guolian Securities for the Year 2016(《國聯證券2016年度董事薪酬分配方案》), Supervisors' Remuneration Distribution Proposal of Guolian Securities for the Year 2016(《國聯證券2016年度監事薪酬分配方案》), Resolution on the Re-appointment of Annual Audit Institutions for the Year 2017(《關於續聘2017年度審計機構的議案》), Resolution on the Proprietary Business Scale of the Company for the Year 2017(《關於公司2017年度自營業務規模的議案》), Resolution on the Establishment of Alternative Investment Subsidiary(《關於設立另類投資子公司的議案》), Resolution on the Amendments to the "Rules of Procedures of the Board of Guolian Securities Co., Ltd." and Synchronous Amendments to "Rules of Procedures of the Board of Guolian Securities Co., Ltd." (A+H Shares, draft)(《關於修訂〈國聯證券股份有限公司董事會議事規則〉和同步修訂〈國聯證券股份有限公司董事會議事規則〉(A+H股·草案)的議案》), Resolution on the Amendments to the "Rules of Procedures of the Supervisory Committee of Guolian Securities Co., Ltd." and Synchronous Amendments to "Rules of Procedures of the Supervisory Committee of Guolian Securities Co., Ltd." (A+H Shares, draft)(《關於修訂〈國聯證券股份有限公司監事會議事規則〉和同步修訂〈國聯證券股份有限公司監事會議事規則〉(A+H股·草案)的議案》), Resolution on the Amendments to the "Articles of Association of Guolian Securities Co., Ltd." and Synchronous Amendments to "Articles of Association of Guolian Securities Co., Ltd." (A+H Shares, draft)(《關於修訂〈國聯證券股份有限公司章程〉和同步修訂〈國聯證券股份有限公司章程〉(A+H股·草案)的議案》), Resolution on the Extension of the Validity Period of the Resolutions relating to the Initial Public Offering and Listing of A Shares of the Company(《關於延長公司首次公開發行A股股票並上市股東大會決議有效期的議案》), Resolution on the Extension of the Validity Period of Authorizations Granted to the Board by the General Meeting to Deal with Matters relating to the Initial Public Offering and Listing of A Shares(《關於延長股東大會對董事會辦理首次公開發行A股股票並上市具體事宜的授權有效期的議案》), Duty Report of the Independent Non-executive Directors for the Year 2016 (Non-voting matters)(《國聯證券2016年度獨立非執行董事述職報告》(非表決事項)).

3. The First Domestic Shares General Meeting of 2017

The first domestic shares General Meeting of 2017 was convened on 29 June 2017, which considered and approved the followings: Resolution on the Extension of the Validity Period of the Resolutions relating to the Initial Public Offering and Listing of A Shares of the Company (《關於延長公司首次公開發行A股股票並上市股東大會決議有效期的議案》), Resolution on the Extension of the Validity Period of Authorizations Granted to the Board by the General Meeting to Deal with Matters relating to the Initial Public Offering and Listing of A Shares (《關於延長股東大會對董事會辦理首次公開發行A股股票並上市具體事宜的授權有效期的議案》).

4. The First H Shares General Meeting of 2017

The first H Shares General Meeting of 2017 was convened on 29 June 2017, which considered and approved the followings: Resolution on the Extension of the Validity Period of the Resolutions relating to the Initial Public Offering and Listing of A Shares of the Company (《關於延長公司首次公開發行A股股票並上市股東大會決議有效期的議案》), Resolution on the Extension of the Validity Period of Authorizations Granted to the Board by the General Meeting to Deal with Matters relating to the Initial Public Offering and Listing of A Shares (《關於延長股東大會對董事會辦理首次公開發行A股股票並上市具體事宜的授權有效期的議案》).

(II) Board Meetings

1. The Eighth Meeting of the Third Session of the Board

The eighth meeting of the third session of the Board was convened on 23 January 2017, which considered and approved the followings: Resolution on Nomination of Candidates for Independent Directors to the third session of the Board (《關於提名公司第三屆董事會獨立董事候選人的議案》), Resolution on the Appointment of Mr. Qin Shunda as Company's Deputy President (《關於聘任秦順達先生為公司副總裁的議案》), Resolution on Adding Shanghai and Lianyungang as Alternative Cities for New Establishment of Branches for the Year 2017 (《關於新增上海市、連雲港市作為2017年新設網點備選城市的議案》), Resolution on Convening the First Extraordinary General Meeting of 2017 of the Company (《關於召開公司2017年度第一次臨時股東大會的議案》).

2. The Ninth Meeting of the Third Session of the Board

The ninth meeting of the third session of the Board was convened on 10 March 2017, which considered and approved the following: Resolution on the Election of Members of the Audit Committee (《關於補選審計委員會委員的議案》).

Section 9 Corporate Governance Report

3. The Tenth Meeting of the Third Session of the Board

The tenth meeting of the third session of the Board was convened on 15 March 2017, which considered and approved the followings: Annual Report of Guolian Securities for the Year 2016(《國聯證券2016年年度報告》), Report of the Board of Guolian Securities for the Year 2016(《國聯證券2016年度董事會工作報告》), Report of the President of Guolian Securities for the Year 2016(《國聯證券2016年度總裁工作報告》), Report on Compliance Management of Guolian Securities for the Year 2016(《國聯證券2016年度合規管理工作報告》), Internal Control Assessment Report of Guolian Securities for the Year 2016(《國聯證券2016年度內部控制評價報告》), Resolution on Risk Management Report of Guolian Securities for the Year 2016(《關於國聯證券2016年風險管理報告的議案》), Financial Final Accounts Report of Guolian Securities for the Year 2016(《國聯證券2016年度財務決算報告》), Profit Distribution Proposal of Guolian Securities for the Year 2016(《國聯證券2016年度利潤分配預案》), Resolution on Remuneration Distribution of Directors and Senior Management of Guolian Securities for the Year 2016(《國聯證券2016年度董事、高管薪酬分配議案》), Resolution on the Amendments to Risk Preference of Guolian Securities(《關於修訂國聯證券風險偏好的議案》), Resolution on Principal Business Scale of the Company for the Year 2017(《關於公司2017年度主要業務規模的議案》), Resolution on the Re-appointment of Audit Institution for the Year 2017(《關於續聘2017年度審計機構的議案》), Resolution on the Establishment of Alternative Investment Subsidiary(《關於設立另類投資子公司的議案》), Resolution on the Amendments to the Articles of Association of Guolian Securities Co., Ltd. and Synchronous Amendments to the Articles of Association of Guolian Securities Co., Ltd. (A+H Shares, draft)(《關於修訂〈國聯證券股份有限公司章程〉和同步修訂〈國聯證券股份有限公司章程〉(A+H股·草案)的議案》), Resolution on the Amendments to the Rules of Procedure of the Board of Directors of Guolian Securities Co., Ltd. and Synchronous Amendments to the Rules of Procedure of the Board of Directors of Guolian Securities Co., Ltd. (A+H Shares, draft)(《關於修訂〈國聯證券股份有限公司董事會議事規則〉和同步修訂〈國聯證券股份有限公司董事會議事規則〉(A+H股·草案)的議案》), Resolution on Considering the Financial Statements of Guolian Securities for Recent Three Years(《關於審議國聯證券最近三年財務報表的議案》), Resolution on Confirming the Connected Transactions of Guolian Securities Co., Ltd. for Recent Three Years(《關於確認國聯證券股份有限公司最近三年關聯交易的議案》), Resolution on Considering the Explanation of Tax Payment for Major Tax Category of Guolian Securities Co., Ltd.(《關於審議國聯證券股份有限公司關於主要稅種納稅情況的說明的議案》), Resolution on Considering the Non-recurring Profit or Loss Items of Guolian Securities Co., Ltd. for Recent Three Years(《關於審議國聯證券股份有限公司最近三年非經常性損益明細表的議案》), Resolution on Considering the Difference in Comparison and Explanation of the Original Financial Statements and the Reported Financial Statements for Recent Three Years of Guolian Securities Co., Ltd.(《關於審議國聯證券股份有限公司關於最近三年原始財務報表與申報財務報表差異比較及說明的議案》), Resolution on Considering the Monitoring Statement of Risk Control Indicators as at 31 December 2016 of Guolian Securities Co., Ltd.(《關於審議國聯證券股份有限公司2016年12月31日風險控制指標監管報表的議案》), Resolution on Considering the Special Report in relation to the Use of Proceeds of Guolian Securities Co., Ltd. Raised Previously(《關於審議國聯證券股份有限公司關於前次募集資金使用情況的專項報告的議案》), Resolution on the Extension of the Validity Period of the Resolutions of General Meetings relating to the Initial Public Offering and Listing of A Shares(《關於延長公司首次公開發行A股股票並上市股東大會決議有效期的議案》), Resolution on the Extension of the Validity Period of Authorisations Granted to the Board by the General Meeting to Deal with Matters relating to the Initial Public Offering and Listing of A Shares(《關於延長股東大會對董事會辦理首次公開發行A股股票並上市具體事宜的授權有效期的議案》), Resolution on Convening General Meeting of the Company for the Year 2016(《關於召開公司2016年度股東大會的議案》).

Section 9 Corporate Governance Report

4. The Eleventh Meeting of the Third Session of the Board

The eleventh meeting of the third session of the Board was convened on 28 April 2017, which considered and approved the followings: Resolution on Related (Connected) Transactions relating to the Signing of a Partnership Agreement and Setting up of a Partnership by Guolian Capital Co., Ltd. (國聯通寶資本投資有限責任公司) and Wuxi Guolian Industrial Investment Co., Ltd. (無錫國聯產業投資有限公司) (《關於國聯通寶資本投資有限責任公司與無錫國聯產業投資有限公司簽署合夥協議暨設立合夥企業之關聯(連)交易的議案》), Resolution on Formulation of Corporate Bond Management Measures of Guolian Securities Co., Ltd. (《關於制定〈國聯證券股份有限公司公司債券管理辦法〉的議案》), Resolution on Formulation of the Policy on the Management and Use of Proceeds of Corporate Bonds of Guolian Securities Co., Ltd. (《關於制定〈國聯證券股份有限公司公司債券募集資金管理與使用制度〉的議案》), Resolution on Formulation of Management Measures on Information Disclosure of Corporate Bonds of Guolian Securities Co., Ltd. (《關於制定〈國聯證券股份有限公司公司債券信息披露管理辦法〉的議案》), Resolution on Proprietary Business Scale of the Company for the Year 2017 (《關於公司2017年度自營業務規模的議案》).

5. The Twelfth Meeting of the Third Session of the Board

The twelfth meeting of the third session of the Board was convened on 29 June 2017, which considered and approved the followings: Resolution on New Establishment of Branches and Setting up of Alternative Cities (《關於新增網點設立備選城市的議案》), Resolution on New Establishment of Hubei Branch (《關於新設湖北分公司的議案》), Resolution on Establishment of Risk Management Department (《關於設立風險管理部的議案》), Resolution on Change of Compliance and Risk Control Department to Compliance and Legal Department (《關於合規風控部變更為合規法務部的議案》), Resolution on the Amendments to Basic System for Comprehensive Risk Management of Guolian Securities Co., Ltd. (《關於修訂〈國聯證券股份有限公司全面風險管理基本制度〉的議案》).

6. The Thirteenth Meeting of the Third Session of the Board

The thirteenth meeting of the third Session of the Board was convened on 18 July 2017, which considered and approved the followings: Resolution on Appointment of Hua Ying Securities as Lead Underwriter of Corporate Bonds of Guolian Group for the Year 2017 (《關於華英證券擔任國聯集團2017年公司債券主承銷商的議案》), Resolution on Helping Poverty Alleviation Work of Guolian Securities (《關於國聯證券結對扶貧幫扶工作的議案》), Resolution on Adjustment to the Proprietary Fund Participating Scale of the Stock Pledged Business of the Company (《關於調整公司股票質押業務自有資金參與規模的議案》).

Section 9 Corporate Governance Report

7. The Fourteenth Meeting of the Third Session of the Board

The fourteenth meeting of the third session of the Board was convened on 25 August 2017, which considered and approved the followings: Report of the President of Guolian Securities Co., Ltd. for the First Half Year of 2017 (《國聯證券股份有限公司2017年上半年度總裁工作報告》), 2017 Interim Report on Compliance Management of Guolian Securities Co., Ltd. (《國聯證券股份有限公司2017年中期合規管理工作報告》), 2017 Interim Report of Guolian Securities Co., Ltd. (《國聯證券股份有限公司2017年中期報告》), Resolution on Amendment to the Accounting Policies of the Company relating to "Government Grants" (《關於公司修訂“政府補助”相關會計政策的議案》).

8. The Fifteenth Meeting of the Third session of the Board

The fifteenth meeting of the third session of the Board was convened on 15 September 2017, which considered and approved the followings: Resolution on Considering the Financial Statements of Guolian Securities Co., Ltd. for Recent Three Years and First Quarter (《關於審議國聯證券股份有限公司最近三年及一期財務報表的議案》), Resolution on Confirming the Connected Transactions of Guolian Securities Co., Ltd. for Recent Three Years and First Quarter (《關於確認國聯證券股份有限公司最近三年及一期關聯交易的議案》), Resolution on Considering the Explanation of Tax Payment for Major Tax Category of Guolian Securities Co., Ltd. (《關於審議國聯證券股份有限公司關於主要稅種納稅情況的說明的議案》), Resolution on Considering Non-recurring Profit or Loss Items of Guolian Securities Co., Ltd. for Recent Three Years and First Quarter (《關於審議國聯證券股份有限公司最近三年及一期非經常性損益明細表的議案》), Resolution on Considering the Difference in Comparison and Explanation of the Original Financial Statements and the Reported Financial Statements for Recent Three Years and First Quarter of Guolian Securities Co., Ltd. (《關於審議國聯證券股份有限公司關於最近三年及一期原始財務報表與申報財務報表差異比較及說明的議案》), Resolution on Considering the Special Report in relation to the Use of Proceeds of Guolian Securities Co., Ltd. Raised Previously (《關於審議國聯證券股份有限公司關於前次募集資金使用情況的專項報告的議案》), Resolution on Considering the Monitoring Statement of Risk Control Indicators as at 30 June 2017 of Guolian Securities Co., Ltd. (《關於審議國聯證券股份有限公司2017年6月30日風險控制指標監管報表的議案》), Resolution on Considering the Internal Control Evaluation Reports Relevant to the Financial Statements as at 30 June 2017 of Guolian Securities Co., Ltd. (《關於審議國聯證券股份有限公司關於2017年6月30日與財務報表相關的內部控制評價報告的議案》).

9. The Sixteenth Meeting of the Third Session of the Board

The sixteenth meeting of the third session of the Board was convened on 6 November 2017, which considered and approved the followings: Resolution on Transfer of Equity Interest of Zhonghai Fund (《關於轉讓中海基金股權的議案》).

10. The Seventeenth Meeting of the Third Session of the Board

The seventeenth meeting of the third session of the Board was convened on 28 November 2017, which considered and approved the followings: Resolution on Authorization of Corporate Onshore and Offshore Debt Financing (《關於公司境內外債務融資授權的議案》), Resolution on the Amendments to Basic Regulations of Compliance Management of Guolian Securities Co., Ltd. (《關於修訂〈國聯證券股份有限公司合規管理基本制度〉的議案》), Resolution on Signing the Framework Agreement of Continuing Connected Transactions (《關於簽署持續性關連交易框架協議的議案》), Resolution on the Amendments to the Articles of Association of Guolian Securities Co., Ltd. and Synchronous Amendments to the Articles of Association of Guolian Securities Co., Ltd. (A+H Shares, draft) (《關於修訂〈國聯證券股份有限公司章程〉和同步修訂〈國聯證券股份有限公司章程〉(A+H股·草案)的議案》), Resolution on the Amendments to the Rules of Procedures of the Board of Directors of Guolian Securities Co., Ltd. and Synchronous Amendments to the Rules of Procedures of the Board of Directors of Guolian Securities Co., Ltd. (A+H Shares, draft) (《關於修訂〈國聯證券股份有限公司董事會議事規則〉和同步修訂〈國聯證券股份有限公司董事會議事規則〉(A+H股·草案)的議案》), Resolution on Convening the First Extraordinary General Meeting of 2018 of the Company (《關於召開公司2018年度第一次臨時股東大會的議案》).

(III) Supervisory Committee Meetings

1. The Third Meeting of the Third Session of the Supervisory Committee

The third meeting of the third session of the Supervisory Committee was convened on 19 January 2017, which considered and approved the followings: Resolution on Nomination of Mr. Jiang Zhiqiang as Supervisor Candidate for the third session of the Supervisory Committee of the Company (《關於提名江志強先生為公司第三屆監事會監事候選人的議案》), Resolution on Nomination of Mr. Ren Jun as Supervisor Candidate for the third session of the Supervisory Committee of the Company (《關於提名任俊先生為公司第三屆監事會監事候選人的議案》).

2. The Fourth Meeting of the Third Session of the Supervisory Committee

The fourth meeting of the third session of the Supervisory Committee was convened on 15 March 2017, which considered and approved the followings: Annual Report of Guolian Securities for the Year 2016 (《國聯證券2016年年度報告》), Report of the Supervisory Committee of Guolian Securities for the Year 2016 (《國聯證券2016年度監事會工作報告》), Report on Compliance Management of Guolian Securities for the Year 2016 (《國聯證券2016年度合規管理工作報告》), Internal Control Assessment Report of Guolian Securities for the Year 2016 (《國聯證券2016年度內部控制評價報告》), Profit Distribution Proposal of Guolian Securities for the Year 2016 (《國聯證券2016年度利潤分配預案》), Supervisors' Remuneration Distribution Proposal of Guolian Securities for the Year 2016 (《國聯證券2016年度監事薪酬分配議案》), Resolution on Election of Chairman of the Supervisory Committee of the Company (《關於選舉公司監事會主席的議案》), Resolution on the Amendments to the Rules of Procedures of the Supervisory Committee of Guolian Securities Co., Ltd. and Synchronous Amendments to the Rules of Procedures of the Supervisory Committee of Guolian Securities Co., Ltd. (A+H Shares, draft) (《關於修訂〈國聯證券股份有限公司監事會議事規則〉和同步修訂〈國聯證券股份有限公司監事會議事規則〉(A+H股·草案)的議案》).

Section 9 Corporate Governance Report

3. The Fifth Meeting of the Third Session of the Supervisory Committee

The fifth meeting of the third session of the Supervisory Committee was convened on 25 August 2017, which considered and approved the following: 2017 Interim Report of Guolian Securities Co., Ltd. (《國聯證券股份有限公司2017年中期報告》).

4. The Sixth Meeting of the Third Session of the Supervisory Committee

The sixth meeting of the third session of the Supervisory Committee was convened on 21 November 2017, which considered and approved the following: Resolution on the Amendments to the Rules of Procedures of the Supervisory Committee of Guolian Securities Co., Ltd. and Synchronous Amendments to the Rules of Procedures of the Supervisory Committee of Guolian Securities Co., Ltd. (A+H Shares, draft) (《關於修訂〈國聯證券股份有限公司監事會議事規則〉和同步修訂〈國聯證券股份有限公司監事會議事規則〉(A+H股·草案)的議案》).

III. Board of Directors

Composition of the Board

As at the end of the Reporting Period, the 3rd session of the Board comprised nine Directors, including one executive Director, namely Mr. Peng Yanbao (President), five non-executive Directors, namely Mr. Yao Zhiyong (Chairman), Mr. Hua Weirong, Mr. Zhou Weiping, Mr. Liu Hailin and Mr. Zhang Weigang, and three independent non-executive Directors, namely Ms. Chen Qingyuan, Mr. Lee Pak Hay and Mr. Lu Yuanzhu.

During the Reporting Period, as considered and approved at the first extraordinary General Meeting of the Company in 2017 convened on 10 March 2017, Mr. Lu Yuanzhu was elected as an independent non-executive Director of the Company, the term of which commences from 10 March 2017 and will expire till the end of term of the third session of the Board. Mr. Wang Wei ceased to be an independent non-executive Director of the Company on the same day.

All of Directors possess the skills, experience and expertise either in the industry or relevant to the management of the business of the Company.

(I) Chairman and President

As at the end of the Reporting Period, the positions of the chairman and president of the Company are held by different persons, so as to ensure the independence of their duties and balance of authorization. The Non-executive directors, Mr. Yao Zhiyong served as the chairman of the Board and the executive Directors Mr. Peng Yanbao served as the president. Their duties and authorities are clearly divided and specified in the Articles of Association.

Section 9 Corporate Governance Report

The chairman of the Board is the legal representative of the Company. The chairman, Mr. Yao Zhiyong, leads the Board in determining the Company's development strategy to ensure the effective operation and fulfillment of duties of the Board, and fully discusses the issues within the scope of the Board's duties, so as to ensure that the Directors can receive true, accurate and complete information for making decisions in time. The chairman of the Board shall ensure that the Company can comply with well-established corporate governance procedures and the decisions of the Board are in the interest of the Company and its shareholders as a whole. During the Reporting Period, Mr. Peng Yanbao, the president, manages the business operations of the Company, organizes the execution of the Board's resolutions, and reports relevant work to the Board.

(II) Non-executive Directors and Independent Non-executive Directors

As at the end of the Reporting Period, the Company had five non-executive Directors and three independent non-executive Directors. The Company entered into a service contract with each non-executive Director and independent non-executive Director, the term of which commences from 16 June 2016, the date on which such qualification was approved by CSRC or the date of approval at the General Meeting (whichever is later) and will end till the expiration of term of the third session of the Board.

The Company confirmed that it had received annual confirmations issued by each independent non-executive Director in respect of their independence according to Rule 3.13 of the Listing Rules. The Company further confirmed the independence of the independent non-executive Directors.

(III) Relationship between Board Members

None of the Directors, Supervisors and senior management of the Company has any relationship (including financial, business, family or other material/relevant relations) between each other.

(IV) Roles and Responsibilities of the Board

The Board is responsible for the leadership, control and promotion of success of the Company by directing and supervising its business operations in the interests of the shareholders through the ways of formulating strategic directions and monitoring the financial and management performance of the Company.

(V) Respective Duties of the Board and the Management

The powers and duties of the Board and the management have been clearly specified to ensure adequate check and balance for sound corporate governance and internal control. The Board is primarily responsible for the following duties: convening a General Meeting, and reporting thereon; implementing the resolutions of the General Meeting; resolving on the Company's business plans and investment plans; formulating the Company's profit distribution proposal and loss recovery proposal; formulating proposals for the increase or reduction of the Company's registered capital and for the issuance and listing of the debentures or other securities; drawing up plans for any substantial acquisition, re-purchasing the shares of the Company; developing plans for the merger, division, transformation and dissolution of the Company; deciding on the setup of Company's internal management bodies and branches; appointing or removing the Company's president, Secretary to the Board, chief compliance officer, the chief risk officer according to the nomination by the chairman; appointing or removing the Company's deputy president, chief financial officer and personnel actually performing the above duties according to the nomination by the president and determining their remunerations, incentives and punishments; formulating the basic management system of the Company.

Section 9 Corporate Governance Report

The management is primarily responsible for implementing the production, operation and management works of the Company, organizing the implementation of the resolutions of the Board and reporting to the Board; implementing the Company's annual business plans and investment plans; formulating the Company's specific rules; proposing wages, benefits, incentives and punishments for the Company's employees; and determining the appointment and dismissal of the Company's employees.

(VI) Directors' Performance During the Reporting Period

1. Directors' attendance at the meetings

The attendance of Directors at the meetings during the Year is set out below:

Name of Directors	Meetings attended/held during the term of office							
	Board	Board Attendance	Audit Committee	Remuneration and Nomination Committee	Risk Control Committee	Strategy Committee	General Meetings	General Meetings Attendance
<i>Executive Director</i>								
Peng Yanbao (彭焰寶)	10/10	100%	N/A	N/A	N/A	3/3	4/4	100%
<i>Non-executive Directors</i>								
Yao Zhiyong (姚志勇) ¹	10/10	100%	N/A	N/A	4/4	3/3	4/4	100%
Hua Weirong (華偉榮)	10/10	100%	N/A	2/2	4/4	3/3	4/4	100%
Zhou Weiping (周衛平)	10/10	100%	5/5	N/A	4/4	3/3	4/4	100%
Liu Hailin (劉海林)	10/10	100%	N/A	N/A	4/4	N/A	3/4	75%
Zhang Weigang (張偉剛)	10/10	100%	N/A	N/A	N/A	N/A	4/4	100%
<i>Independent Non-executive Directors</i>								
Chen Qingyuan (陳清元) ²	10/10	100%	5/5	2/2	4/4	N/A	4/4	100%
Lee Pak Hay (李柏熹) ³	10/10	100%	N/A	2/2	N/A	3/3	4/4	100%
Wang Wei (王巍)	1/1	100%	N/A	N/A	N/A	N/A	1/1	100%
Lu Yuanzhu (盧遠矚) ⁴	9/9	100%	4/4	N/A	N/A	N/A	3/3	100%

- Notes:
- Mr. Yao Zhiyong is the chairman of the Board and chairman of the Strategy Committee and Risk Control Committee, re-designated as a non-executive Director from an executive Director since 8 March 2017.
 - Ms. Chen Qingyuan is the chairlady of the Audit Committee.
 - Mr. Lee Pak Hay has become the chairman of the Remuneration and Nomination Committee.
 - Mr. Lu Yuanzhu has become a member of the Audit Committee since 10 March 2017, Mr. Wang Wei ceased to be a member of the Audit Committee.

2. *Directors' Voting*

The Directors agreed that, during the Reporting Period, they had not voted against or abstained from voting on all the resolutions of the Board and resolutions of committees in which they cast their votes.

3. *Performance of Independent Non-executive Directors*

During the Reporting Period, the independent non-executive Directors of the Company complied with the relevant requirements under laws, regulations and the Articles of Association, and had adequate time and commitment to perform their duties. The independent non-executive Directors were not affected by the Substantial Shareholders of the Company and other interested units or individuals of the Company when making their independent judgements in the decision-making of the Company and did their best to protect the interest of the minority shareholders of the Company and exercised their duties and authorizations as independent non-executive Directors.

During the Reporting Period, the independent non-executive Directors did not object any to relevant matters of the Company.

After reviewing (a) the annual confirmation of the time commitment contributed by each Director; (b) the directorships and major commitments of each Director; and (c) the attendance rate of each Director at the Board meetings and the respective board committee meetings as well as General Meetings, the Board is satisfied that all Directors have contributed sufficient time in performing their responsibilities during the year.

As at the end of the Reporting Period, the chairman of the Board also held one meeting with the Non-executive Directors (including the Independent Non-executive Directors) without the presence of Executive Directors.

(VII) **Insurance Coverage of Directors**

The Company had arranged appropriate insurance coverage in relation to any legal actions which may arise against the Directors.

(VIII) **Training for Directors**

The Directors confirmed that they had complied with Code Provision A.6.5 of the CG Code in relation to the training of Directors. During the Reporting Period, Mr. Yao Zhiyong, Mr. Peng Yanbao, Mr. Hua Weirong, Mr. Zhou Weiping, Mr. Liu Hailin, Mr. Zhang Weigang, Ms. Chen Qingyuan, Mr. Lee Pak Hay and Mr. Lu Yuanzhu attended the guided training under the compliance operation of Hong Kong listed companies and responsibilities of directors.

Section 9 Corporate Governance Report

(IX) Board Meetings and Procedures

During the Reporting Period, the Board convened a total of 10 Board meetings. The chairman of the Board convenes regular Board meetings and the notices of Board meetings shall be sent to all Directors in writing 10 working days before the meeting. A regular Board meeting does not include the practice of obtaining consent from the Board through circulating written resolutions.

The Directors may, before the meeting, inquire about the information needed for decision making from relevant persons or institutions such as the office of the Board, the convener of the meeting, the president and other senior management members, committees, accounting firm and law firm, or may, while the meeting is underway, suggest to the Chairman of the meeting that the aforesaid persons or institutions to attend at the meeting to make relevant explanations, at the expense of the Company.

For a regular Board meeting, the Secretary to the Board (or the competent office of the Board) is responsible for collecting draft proposals, which shall be submitted by proponents 14 days before the date of the meeting together with explanatory materials. After summarising relevant materials, the Secretary to the Board shall submit the time, place and agenda of the board meeting to the Chairman. Before giving the notice on convening a regular meeting, the office of the Board shall fully consult all Directors to form the initial proposal and then submit them to the Chairman for approval. The Chairman, if necessary, shall consult the president or other senior management staff before finalizing the proposal.

For a special meeting of the Board, it shall give a meeting notice in writing to all Directors five days before the meeting. When a special meeting needs to be held as early as possible in case of emergency, the meeting notice is allowed to be given by telephone or otherwise verbally at any time provided that the convener makes necessary explanations at the meeting.

When a Director and the legal persons and natural persons involved in the resolutions of the Board meeting have certain interests or connection, such Director shall not exercise his/her voting rights on such resolutions nor can he/she exercise any voting rights on behalf of other Directors. The Board' meeting may be held if it is attended by more than one half of the unconnected or uninterested Directors, and the resolutions of the Board' meeting shall be passed by more than one half of the unconnected or uninterested Directors.

The Secretary to the Board shall arrange the Office of the Board staff to keep the minutes of the Board meeting. A Director present at the meeting shall have the right to require an explanatory note to be made in the minutes in respect of his speech at the meeting. The minutes of Board meeting shall be kept by the secretary to the Board as files of the Company. The Secretary to the Board shall make the minutes of meetings openly available for inspection in any reasonable period of time by Directors, who has made a reasonable notice in respect thereto.

IV. Supervisory Committee

(I) Supervisor' attendance at the meetings of the Supervisory Committee

Name of Supervisors	Number of meetings required to attend	Number of meetings attended
Jiang Zhiqiang	3	3
Ren Jun	3	3
Zhou Weixing	4	4
Shen Ying	4	4
Yu Lei	4	4

(II) During the Reporting Period, the Supervisory Committee of the Company had no objection to the matters supervised.

V. Board Committees

For the purpose of corporate governance, the corporate governance policies formulated by the Company shall state clearly that the Board is responsible for formulating and reviewing corporate governance policies and practices of the Company; reviewing and monitoring training and continuous professional development of the Directors and senior management of the Company; reviewing and monitoring policies and practices of the Company in compliance with laws and regulatory requirements; formulating, reviewing and monitoring the code of conduct and compliance manual for employees and the Directors of the Company; and reviewing the compliance by the Company with the Corporate Governance Code as set out in Appendix 14 of the Listing Rules and the disclosures in the Corporate Governance Report.

To assist the Board in executing its duties and facilitate effective management, certain functions of the Board have been delegated by the Board to the Audit Committee, Remuneration and Nomination Committee, Strategy Committee and Risk Control Committee.

Clear written terms of reference of all the Board Committees are provided to respective members of these Committees. Details of the Board Committees are set out as follows:–

Section 9 Corporate Governance Report

(I) Audit Committee

The Audit Committee comprises three non-executive Directors, namely Ms. Chen Qingyuan (Chairlady) and Mr. Lu Yuanzhu, being independent non-executive Directors, and Mr. Zhou Weiping, being a non-executive Director.

The specific written terms of reference of the Audit Committee are available on the websites of Stock Exchange and the Company. The main responsibilities of the Audit Committee are:

1. to assist the Board in fulfilling its responsibilities by supervising financial and other reporting, and providing an independent review as to the effectiveness of the risk management and internal controls of the Group, and as to the adequacy of the external and internal audits;
2. to be primarily responsible for making recommendations to the Board in relation to the appointment, re-appointment and removal of the authorized independent auditors ("External Auditors"), and to approve the remuneration and terms of engagement of External Auditors, and dealing with any questions of its resignation or dismissal;
3. to serve as a focal point for communication between other Directors, External Auditors and internal auditors or any person responsible for internal audit function ("IA Staff") as regards to their duties relating to financial and other reporting, risk management, internal controls, external and IA Staff and such other matters as the Board may determine from time to time;
4. to review and monitor External Auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
5. to review and monitor the effectiveness of the Company's financial control, internal control and risk management systems; and
6. other responsibilities as required in the Terms of Reference and Procedures of the Audit Committee.

During the Reporting Period, the Audit Committee convened a total of 5 meetings. The Audit Committee mainly discussed about the following issues: the Annual Report for the Year 2016, the Financial Final Accounts Report for the Year 2016, the Internal Control Evaluation Report for the Year 2016, the by-elected Audit Committee member, authorisation of corporate onshore and offshore debt financing, the framework agreement for the continuing connected transactions, reappointment of annual audit institution, changes of accounting policies, Interim Report for the Year 2017, Report of Utilization of Proceeds from previous issuance and the A Share IPO related matters of the Company, and made the recommendations to the Board. At the same time, the Audit Committee also performed its duty on reviewing the 2017 annual results and performed the reporting of other responsibilities as set out in the Code.

(II) Remuneration and Nomination Committee

The Remuneration and Nomination Committee comprises three non-executive Directors, namely Mr. Lee Pak Hay (Chairman), Ms. Chen Qingyuan, being independent non-executive Directors and Mr. Hua Weirong, being a non-executive Director.

The specific written terms of reference of the Remuneration and Nomination Committee are available on the websites of the Stock Exchange and the Company. The main responsibilities of the Remuneration and Nomination Committee are:

1. to consult the chairman and/or chief executive officer about their remuneration proposals for other executive Directors;
2. to make recommendations to the Board regarding the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for formulating remuneration policy;
3. to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;
4. to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. The remuneration packages should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
5. to make recommendations to the Board on the remuneration of non-executive Directors;
6. to review the structure, size and composition (including skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
7. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection and of individuals nominated for directorships;
8. to assess the independence of independent non-executive Directors of the Company;
9. to make recommendations to the Board on the appointment or re-appointment of Directors and succession plan for Directors, especially for chairman and chief executive officer; and
10. other responsibilities as required in the Terms of Reference and Procedures of the Remuneration and Nomination Committee.

Section 9 Corporate Governance Report

During the Reporting Period, the Remuneration and Nomination Committee convened a total of 2 meetings. The Remuneration and Nomination Committee mainly discussed and made recommendations to the Board in relation to the following issues: annual remuneration distribution scheme, nomination of the candidate for independent non-executive Directors of the 3rd session of the Board, appointment of the vice-president of the Company and other matters. At the same time, the Remuneration and Nomination Committee also formulated the policies for Directors' remuneration, evaluated the performance of executive Directors and approved the terms of service contracts of executive Directors, and made recommendations to the Board regarding the salary package of individual executive Director. For the board diversity policy of the Company, please refer to the relevant contents in the 14th paragraph of this section. The Remuneration and Nomination Committee also discussed and made the recommendations on the board diversity policy.

(III) Strategy Committee

During the Reporting Period, the Strategy Committee comprises five Directors, namely Mr. Peng Yanbao, being an executive Director, Mr. Yao Zhiyong (Chairman), Mr. Hua Weirong and Mr. Zhou Weiping, being non-executive Directors, and Mr. Lee Pak Hay, being an independent non-executive Director.

The specific written terms of reference of the Strategy Committee are available on the websites of Stock Exchange and the Company. The main responsibilities of the Strategy Committee are:

1. to study and review the strategic development plans of the Company and making recommendations to the Board;
2. to implement information exchange and research within the industry, understand the development and trend of macro-economy and securities industry and prepare specific strategic reports;
3. to conduct preliminary review of the Company's annual operating plans and strategic capital allocation plans and make recommendations to the Board;
4. to study major investment financing programs which require to be approved by the Board or the Risk Control Committee as stated in the Articles of Association or in the terms of reference and procedures of the Risk Control Committee and make recommendations to the Board;
5. to study major capital operation and assets management projects which require to be approved by the Board as stated in the Articles of Association and make recommendations to the Board;
6. to evaluate the balanced development of various business segments and make recommendations to the Board;

Section 9 Corporate Governance Report

7. to review the major constitutional restructuring and organizational structure plans and make recommendations to the Board;
8. to study other important matters affecting the Company's development and make recommendations to the Board; and
9. other responsibilities as required in the Terms of Reference and Procedures of the Strategy Committee.

During the Reporting Period, the Strategy Committee convened a total of 3 meetings. The Strategy Committee mainly discussed and made recommendation to the Board in relation to the following issues: principal business scale for the year, establishment of an alternative investment subsidiary, extension of the validity period of the shareholders' meeting resolutions of the Company relating to the initial public offering and listing of A shares, transfer of the equity in Zhonghai Fund, authorisation of corporate onshore and offshore debt financing and other matters.

(IV) Risk Control Committee

The Risk Control Committee comprises five Directors, namely Mr. Yao Zhiyong (Chairman), Mr. Hua Weirong, Mr. Zhou Weiping and Mr. Liu Hailin, being non-executive Directors, and Ms. Chen Qingyuan, being an independent non-executive Director.

The specific written terms of reference of the Risk Control Committee are available on the websites of Stock Exchange and the Company. The main responsibilities of the Risk Control Committee are:

1. to review and give opinion on the overall objectives and basic policies of compliance management and risk management;
2. to review and give opinion on the establishment of specific departments and duties of compliance management and risk management;
3. to evaluate and give opinion on the risks of the major decisions approved by the Board and solutions to solve such major risks;
4. to review and give opinion on compliance reports and risk evaluation reports approved by the Board; and
5. other responsibilities as required in the Terms of Reference and Procedures of the Risk Control Committee.

Section 9 Corporate Governance Report

During the Reporting Period, the Risk Control Committee convened a total of 4 meetings. The Risk Control Committee mainly discussed the review of policies and practices in respect of the compliance with laws and regulatory requirements and made recommendation to the Board. At the same time, the Risk Control Committee also performed its duty on review of risk management, revision of the risk preference and internal control system and reporting of effectiveness of internal audit function.

VI. Securities Transactions of Directors, Supervisors and Relevant Employees

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors, Supervisors and relevant employees' securities transactions. Having made specific enquiries with all Directors, Supervisors and relevant employees, all of them confirmed that they have complied with the required standard of dealings as set out in the Model Code from the listing date up to the end of the Reporting Period.

VII. Remuneration of Senior Management

For details of the emoluments of senior management as disclosed by the Company by remuneration range during the Reporting Period, please refer to section 8 "I. Changes in Shareholdings and Remuneration Information of Current and Resigned Directors, Supervisors and Senior Management During the Reporting Period" of this report.

VIII. Risk Management and Internal Control

The Board acknowledges its responsibility for maintaining and reviewing the effectiveness of the Company's risk management and internal control system. The risk management and internal control system is implemented to minimize the risks to which the Company is exposed and used as a management tool for the day-to-day operation of business. Those systems aim to manage rather than eliminate the risk of failing to achieve the business objectives and only provide reasonable but not absolute assurance of not having any material misrepresentation or losses. At the same time, the Audit Committee and the Risk Control Committee of the Company are responsible for its internal audit.

The management is primarily responsible for the design, implementation and maintenance of the risk management and internal control system to safeguard the shareholders' investment interests and assets of the Company. The management monitors the business activities closely and reviews the financial results of operations against budgets/forecast on a monthly basis. Proper controls are in place for the recording of complete, accurate and timely accounting and management information. Regular reviews and audits are carried out to ensure that the consolidated financial statements are prepared in accordance with generally accepted accounting principles, the Company's accounting policies and applicable laws and regulations.

Section 9 Corporate Governance Report

During the Reporting Period, the management conducted 5 reviews on the effectiveness of the Company's risk management and internal control system with a view to identify any areas that need improvement. The approach of the review included conducting interviews with relevant management and staff members, reviewing relevant documentation of the risk management and internal control system and evaluating findings on any deficiencies in the design of the risk management and internal controls. The reviews covered major operating aspects of the business of the Company, including brokerage business, assets management business, credit trading business and proprietary trading of the Company and other operating segments. Proper management of risks, including credit risk, market risk, liquidity risk, operational risk, reputation risk, concentration risk and compliance risk, are also important to the business of the Company. The Company has implemented policies and procedures on these segments and continuous revisions on the relevant policies and procedures will be made from time to time. Monitoring of the internal control system and risk management mainly rest on Compliance and Legal Department, Risk Management Department and Audit and Supervision Department.

The Company has established related anti-fraudulent management system, which clearly stated the concept and form of fraud, responsibility body and regular department, responsibility attribution, fraud prevention and control, and listed the critical information like whistleblowing hotline, whistleblowing mailbox, fraud whistleblowing, investigation, reporting process and remedial measures and punishment. At the same time, the Company sets up an independent Audit and Supervision Department, which are delegated as the regular department of the Company for anti-fraudulent works.

The Company has established related information disclosure management system, which clearly stated the basic principles of information disclosure, content, disclosure management procedures and confidentiality measures, etc. The system also explicitly defined the procedures of disclosing inside information and made the information that may need to be disclosed into written documents for relevant person in charge to review their truth, accuracy and completeness. Upon confirmation, the documents shall be submitted to the Secretary to the Board and the Company Secretary for further approval as soon as possible. The information must be strictly confidential in the process. If the necessary confidentiality cannot be ensured, or the information has been leaked, public disclosure would be made immediately. The Company appointed the Secretary to the Board and the Company Secretary to be responsible for the information disclosure of the Company, and the office of the Board is the specific executive body responsible for the information disclosure of the Company.

The Company has established connected transaction management system, which clearly stated the explanation on the definition of connected persons, as well as the definition and type of connected transactions under the Listing Rules. It standardized review and approval body for connected transactions, reporting process, auditing supervision, legal liability and punishment requirements. The Secretary to the Board of the Company shall be responsible for managing the files for connected persons and collection, disclosure, reporting of connected transactions and their submission for approval. The Company Secretary shall assist the Secretary to the Board or, under delegation of the Secretary to the Board, to conduct related matters. The office of the Board is the specific executive body.

Section 9 Corporate Governance Report

The Company has established the relevant system for external investment, which clearly specified the decision authority for external investment, daily management, transfer and recovery, major events reporting and information disclosure, etc. At the same time, the respective audit department of the Company will monitor and rectify investment projects according to their responsibilities and report the same to the project investment approval authority for discussion and handling.

The Company has established the relevant system for external guarantee, which clearly specified the review and approval procedures for external guarantee object, management, information disclosure and the responsibilities of the person-in-charge, etc. At the same time, any department and person-in-charge involved in the guarantee issues of the Company has the obligation to report the external guarantee to the Secretary to the Board in a timely manner, and provides the documents required for information disclosure.

The Board and the Audit Committee have conducted a review on the effectiveness of risk management and internal control system of the Company. The review covered all significant supervision and control, including financial, operational and compliance controls and risk management functions as well as resources, staff qualifications and experience, the adequacy of training programs and budget of the Company's accounting and financial reporting function. The Board considered that the Company's risk management and internal control system are effective and adequate.

IX. Communication with Shareholders

The General Meetings shall be the highest authority of the Company. All shareholders exercise their power through the General Meetings. The Company formulates Procedures and Rules of General Meeting to ensure the compliance of the convening and holding of General Meetings. The Company explicitly specifies shareholders' rights in the Articles of Association to ensure the rights of shareholders, especially the right to be informed of the minority shareholders. The Company treats all shareholders impartially.

There are persons specially designated for contacting with Shareholders. The Company attaches great importance to their opinions and suggestions and tries to meet their reasonable requests in time. The Company sets up "Investor Relations" column on its website www.glsc.com.cn for publishing such information as announcements and financial data of the Company. Shareholders can also call the Company directly to inquire about relevant information, and the Company will deal with such inquiry in a timely and proper manner.

The Company welcomes all Shareholders to attend General Meetings and facilitates their attendance to the range permitted. The Company's Directors, Supervisors and senior management will attend General Meetings. According to Provision E.1.2 of Corporate Governance Code, chairman and chairperson of the Audit Committee, Remuneration and Nomination Committee, and other committees of the Board shall attend annual General Meeting and answer questions at the meeting. The management of the Company shall ensure External Auditors to attend annual General Meeting and answer relevant questions put forward by Shareholders.

X. Shareholders' Rights

The Company convenes and holds General Meetings strictly according to the Articles of Association and Rules of Procedure for General Meetings to guarantee the equal status and full exercise of rights for all Shareholders, especially the minority Shareholders. All of the Company's Directors, Supervisors and senior management shall attend General Meetings in accordance with Articles of Association and answer questions from Shareholder.

Section 9 Corporate Governance Report

Procedures of Shareholders' application for convening General Meetings and proposing resolutions at the General Meeting

Pursuant to the procedures set out in Article 8.08 of the Articles of Association which states that "Shareholder(s) severally or jointly holding more than 10% shares of the Company shall have the right to request the Board to convene an extraordinary General Meeting, and shall put forward such request to the Board in writing. The Board shall, pursuant to the relevant laws, administrative regulations and the Articles of Association, give a written reply stating its consent or reject for the convening of the extraordinary General Meeting within 10 days after receiving the proposal. If the Board agrees to convene the extraordinary General Meeting, it shall serve a notice of such meeting within 5 days after the resolution is made by the Board. In the event of any change to the original proposal set forth in the notice, the consent of relevant shareholder(s) shall be obtained. If the Board does not agree to hold the extraordinary General Meeting or fails to give any reply within 10 days after receiving the proposal, shareholder(s) severally or jointly holding more than 10% shares of the Company shall be entitled to propose to the Supervisory Committee to convene an extraordinary General Meeting, and shall put forward such request to the Supervisory Committee in writing. If the Supervisory Committee agrees to convene the extraordinary General Meeting, it shall serve a notice of such meeting within 5 days after receiving the said request. In the event of any change to the original proposal set forth in the notice, the consent of relevant shareholder(s) shall be obtained. In the case of failure to issue the notice for the General Meeting within the stipulated term, the Supervisory Committee shall be deemed as failing to convene and preside over the General Meeting. As a result of its failure to do so, the shareholder(s) severally or jointly holding more than 10% shares of the Company for more than 90 consecutive days may convene and preside over such meeting by itself/themselves. All reasonable expenses incurred for such meeting convened by the shareholders as a result of the failure of the Board of Directors to convene a meeting as required by the above request(s) shall be borne by the Company and be set off against sums owed by the Company to the defaulting directors." and Article 8.23 "Shareholder(s) severally or jointly holding more than 3% shares of the Company may submit written provisional proposals to the convener 10 days before a General Meeting is convened. The convener shall issue a supplementary notice of the General Meeting to give details of the provisional proposals within 2 days after the receipt thereof, and publish the contents of provisional proposals. Save as specified in the preceding paragraph, the convener shall not change the proposal set out in the notice of the General Meeting or add any new proposal after the said notice is served", the shareholders may convene an extraordinary General Meeting or shareholders class meeting. The shareholders may attend General Meetings and exercise voting rights either in person or by proxy. The minutes together with the attendance record of shareholders and the powers of attorney of the proxies shall be kept at the Company's premises. Shareholders may have access to copies of the minutes free of charge during the office hours of the Company. The Articles of Association has been disclosed on the websites of the Company and the Stock Exchange. The Company encourages shareholders to attend the General Meeting, and make suggestions by the following ways: make direct questions with the Board and the Board committees on the matters in relation to operation and governance at the meeting, or submit the company secretary such suggestions by the following manners: (i) to deliver in writing with the address of office of the Company in the PRC: 9/F, No. 8 Jinrong One Street, Wuxi, Jiangsu Province, the PRC; Postal Code: 214000, or (ii) Email: glsc-ir@glsc.com.cn.

Section 9 Corporate Governance Report

XI. Amendments to the Articles of Association

During the Reporting Period, one round of amendments to the Articles of Association was made and was approved at the General Meeting held on 29 June 2017. Details of the amendments to the Articles of Associations are stated in the circular and announcement published on the websites of the Company and Stock Exchange on 15 May 2017 and 20 September 2017, respectively.

XII. Investor Relationship

Dedicated to becoming an elite listed company in Hong Kong capital markets, the Company has always given priority to continuous enhancement of Shareholders' value, paid high attention to investor relationship management, gradually established smooth two-way communication channels with investors and kept on improving the corporate governance structure. During the Reporting Period, the Company communicated with investors by ways of telephone calls, emails, receiving visitors and road shows, and treated all investors equally to ensure that all Shareholders can fully exercise their rights.

During the Reporting Period, the Company disclosed information in a truthful, accurate, complete and timely manner in strict accordance with laws, regulations and regulatory provisions, to ensure that investors are able to know about the Company's material matters in time and thereby protecting their interests to the greatest extent.

XIII. Company Secretary

Mr. Li Zhenquan, the Secretary to the Board, is responsible for making recommendations to the Board of Directors for the corporate governance and ensuring the policies and procedures of the Board, applicable laws, rules and regulations are observed. In order to maintain sound corporate governance and comply with the Listing Rules and applicable Hong Kong laws, Ms. Lin Fanyu, the Company Secretary of the Company, assists Mr. Li Zhenquan in fulfilling the duties as the Secretary to the Board. Ms. Lin Fanyu is an employee of the Company. The main contact person of the Company is Ms. Lin Fanyu, the Company Secretary of the Company. As at the end of the Reporting Period, Ms. Lin Fanyu received no less than 15 hours of professional trainings in accordance with Rule 3.29 of the Listing Rules.

XIV. Board Diversity Policy

The Company has adopted the board diversity policy according to Provision A.5.6 of the Corporate Governance Code. The Company's board diversity policy can be summarized as follows: the Company recognizes the importance of diversity to corporate governance and the Board's effectiveness. The board diversity policy established by the Company is to set out the basic principles to be followed to ensure that the members of the Board have the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effective operation of the Board and to maintain high standards of corporate governance. The nomination and appointments of members of the Board will continue to be made on a merit basis based on the Company's business needs from time to time while taking into account the benefits of Board member diversity. Selection of the Board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, race, language, cultural background, educational background, industrial experience and professional experience. The Company offers advices to the Board in respect of the appointment or reappointment of directors and the director succession plans through the Remuneration and Nomination Committee, and the advices will take effect after being reviewed and passed by the Board and the General Meeting successively.

XV. Responsibilities of Directors Concerning Financial Statements

The declarations of the responsibilities of Directors concerning financial statements set out hereinafter and the “Responsibilities of Auditors” in the Independent Auditor’s Report of this report shall be read jointly. The declarations of the responsibilities of the same shall be understood severally.

All the Directors of the Company confirmed their responsibility of preparing the financial statements that can truly reflect the Company’s operating results for each financial year. To the knowledge of the Directors, no event or circumstance that may cause material adverse impact on the Company’s continuous operations needs to be reported.

XVI. Auditor’s Independence And Remuneration

The Audit Committee is mandated to review and monitor the independence of the auditors to ensure objectivity and effectiveness of the financial statements during the audit process in accordance with applicable standards. The Audit Committee was of the view that the Company’s auditor, Deloitte Touche Tohmatsu is independent and made certain recommendations to the Board. In order to maintain the independence of the external auditor, unless the non-audit works meet the criteria as defined in the Listing Rules and have received prior approval from the Audit Committee, the Company will not appoint external auditors to engage in non-audit works.

During the Reporting Period, Deloitte Touche Tohmatsu has rendered services to the Company and the remuneration paid/payable by the Company to Deloitte Touche Tohmatsu is set out as follows:

Service rendered	Fees paid/payable in RMB ten thousands
Audit services	3.5
Non-audit services	
Review of the Interim Financial Report	3.5
Special auditing service	20.0

XVII. Other Matters

(I) Internal Control

1. Responsibility Statement on Internal Control

It is the responsibility of the Board of the Company to establish a comprehensive and effectively implemented internal control, evaluate its effectiveness, and truthfully disclose the internal control evaluation reports in accordance with the requirements of the enterprise internal control regulated system. The Board, Supervisory Committee and Directors, Supervisors and senior management of the Company warrants that the contents in this report do not contain any false representation, misleading statement or material omission, and jointly and severally accept the legal responsibility regarding the truthfulness, accuracy and completeness of the content of the report.

2. Basis of Establishment of Internal Control and Development of Internal Control System

The Company emphasized the development of internal rules and regulations and management system. A comprehensive corporate internal control system has been established by the Company in accordance with the Company Law, Securities Law, Fundamental Norms on Enterprise Internal Control, Listing Rules and its supporting guidance and the supervision requirements on internal control from CSRC, and the Company always places the development of internal control throughout the operation and development of the Company, and adheres to the principles of giving priority to system procedures (制度流程先行) during the business operation, constantly perfect the internal control system, regulate system enforcement, enhance supervision and inspection and promote the continuous and sound development for the Company.

The Company has established an internal system which covers environment control, business control, capital management and accounting control, information system control, human resources and remuneration management, compliance management and risk control. The internal control set up by the Company includes various mechanisms such as prior prevention, supervision when incident occurred and post examination, which formed a comprehensive and systematic internal control system with check and balance among different positions in a department and different departments, and have independent supervision by the Compliance and Legal and Risk Management Department, and Audit and Supervision Department.

3. Conclusion of Internal Control Evaluation and Opinions of Internal Control Auditing Report

According to the provisions of the Basic Standard for Enterprise Internal Control (《企業內部控制基本規範》) and its supporting guidance as well as the requirements of other relevant laws and regulations, the Company conducted self-evaluation regarding the effectiveness of internal control design and operation of the Company as at 31 December 2017.

Section 9 Corporate Governance Report

The Company puts great importance on the construction and improvement of internal control system and regards the internal control management and compliance culture as an important element of corporate development strategy. The Company sets up a more regulated corporate governance structure which formed an internal control system with clear responsibilities and duties, with check and balance. The Company established and perfected a more integrated internal control system in which different control measures have covered different segments such as prior prevention beforehand, supervision when incident occurred and post examination on each business, thereby establishing a more comprehensive compliance governance system. There is no material defect in the corporate internal control system, or exists any major deviation during the process of operation activities. The internal control system of the Company is effective as a whole which can effectively protect the legality and compliance of corporate operation management and assets security to prevent the existence of major and significant defects. During the Reporting Period, there was no occurrence of irregular action and material internal control problems, nor was it exposed to penalty or public censure. The Company and its Directors, Supervisor and senior management were free from any penalty by CSRC, SAC, stock exchange, Financial Futures Exchange and any public censure, nor under any punishment records under the departments of finance and taxation, foreign exchange and audit. The risk that may be caused by common defects is under control in which they will not result any significant impact on the quality of corporate operation management activities and financial targets, and we have conscientiously implemented the rectification. There was no major change on internal control that would make substantial impact on the evaluation conclusion from the date of corporate internal control report to the date of publishing the internal control evaluation report.

The Company noticed that internal control should follow and adapt to the operation scale, business scope, competition situation and risk level of the Company with timely adjustment as the conditions change. The Company will continue to improve the internal control system, regulate the enforcement of internal control system and enhance the supervision and inspection on internal control for the purpose of facilitating the healthy and sustainable development of the Company.

The attestation opinion on the internal control of the Company in 2017 issued by Deloitte Touche Tohmatsu Certified Public Accountants LLP was: “we are of the opinion that, in accordance with “Fundamental Norms on Enterprise Internal Control”(《企業內部控制基本規範》) and the requirements of its supporting guidelines, Guolian Securities had maintained an effective internal control on the financial statements in all major respects as at 31 December 2017”.

(II) Development Compliance Management System and Compliance Inspection

In 2017, according to the requirements of the “Measures for Compliance Management 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》) of CSRC and the “Guidelines on Implementation of Compliance Management of Securities Companies”(《證券公司合規管理實施指引》) of SAC (hereinafter collectively referred to as “New Rules”), through integrating with actual operation development situation, the Company improved continuously the compliance management mechanism and organization construction, and carried out all works in respect of compliance management, which enabled the Company to achieve a stable and orderly development for the various businesses of the Company.

Section 9 Corporate Governance Report

According to the requirements of New Rules, the Company's compliance management system underwent a significant change. Under the leadership of the Board, a compliance management framework system comprising four tiers, namely chief compliance officer, compliance management staff of the Compliance and Legal Department, as well as departments and branches. In June 2017, the Risk Management Department established a tier-one department. The original "Compliance and Risk Control Department" changed and became the "Compliance and Legal Department" and set up two tier-two departments including the Compliance Management Department and the Legal Department, which mainly undertook the compliance management, legal affairs and other works of the Company under the leadership of the chief compliance officer.

I. Amend compliance management systems, enhance system development

The Company reorganised and rationalized the corporate systems with reference to each New Rules and carried out amendment works to the corporate governance systems and the compliance and internal control systems. Such amendments perfected the 3 corporate governance systems, including the "Articles of Association of Guolian Securities Co., Ltd." (《國聯證券股份有限公司章程》), the "Rules of Procedure of the Board of Directors of Guolian Securities Co., Ltd." (《國聯證券股份有限公司董事會議事規則》) and the "Rules of Procedure of the Supervisory Committee of Guolian Securities Co., Ltd." (《國聯證券股份有限公司監事會議事規則》) as well as 4 compliance and internal control systems, including the "Basic Regulations of Compliance Management of Guolian Securities Co., Ltd." (《國聯證券股份有限公司合規管理基本制度》), the "Management Measures on Compliance Complaint and Whistleblowing of Guolian Securities Co., Ltd." (《國聯證券股份有限公司合規投訴與舉報管理辦法》), the "Management Measures on Compliance and Risk Control Staff of Guolian Securities Co., Ltd." (《國聯證券股份有限公司合規風控人員管理辦法》) and the "Measures on Compliance and Risk Assessment of Guolian Securities Co., Ltd." (《國聯證券股份有限公司合規與風險考核辦法》). There are 2 newly added systems including the "Accountability Management Measures on Classification Appraisal Results of Guolian Securities Co., Ltd." (《國聯證券股份有限公司分類評價結果問責管理辦法》) and the "Compliance Management System of Subsidiaries of Guolian Securities Co., Ltd." (《國聯證券股份有限公司子公司合規管理制度》), which have further enhanced the development of the Company's compliance management systems.

Furthermore, the Compliance and Legal Department formulated the "Management System for Investor Suitability of Guolian Securities Co., Ltd. (Provisional)" (《國聯證券股份有限公司投資者適當性管理制度(試行)》), the "Implementing Regulations on Procurement of Specialized Legal Service of Guolian Securities Co., Ltd." (《國聯證券股份有限公司專項法律服務採購實施細則》) and their corresponding special legal service procurement process, and made preliminary amendments to the "Confidentiality Management System of Guolian Securities Co., Ltd." (《國聯證券股份有限公司保密管理制度》). The Company reviewed over 90 systems, including the "Basic System for Private Investment Fund Service Business of Guolian Securities Co., Ltd." (《國聯證券股份有限公司私募投資基金服務業務基本制度》), the "Management Measures for Financial Consultancy Business of Institutional Business Management Department of Guolian Securities Co., Ltd." (《國聯證券股份有限公司機構業務部財務顧問業務管理辦法》), and the "Management Measures on Corporate Bonds of Guolian Securities Co., Ltd." (《國聯證券股份有限公司公司債券管理辦法》), and provided relevant amendment suggestions, whereby further regulating the business standards and preventing the occurrence of risk events.

II. Reinforce the development of information system, improve compliance monitoring efficiency

Under the philosophy of "Creating value with compliance, compliance is the fundamental of corporate survival", the Company aggressively implemented the relevant requirements of the New Rules comprehensively, and continued to optimize, upgrade and perfect the system framework of its foundation systems including the original compliance management system and the internal risk control platform. By upgrading the abnormal trading system, the Company conducted real-time monitoring on customer trading activities, refined the management on customer trading behavior and discover material abnormal trading behavior timely. Through the online practice behavior monitoring module, the Company enforced the management on practicing behavior of the practitioners, the illegal behavior and violation by staff were discovered and rectified. Through the online suitability monitoring module, the Company followed up the types of the customers and products, service risk grading and prevented suitability risk. The Company strengthened the management on sensitive information flow and prevented conflict of interests and delivery of interests through upgrading the Chinese wall module.

III. Implement compliance assessment system, reinforce compliance performance security

In 2017, according to the preliminary study and the requirements of New Rules, the Compliance and Legal Department perfected the compliance assessment mechanism and enhanced the compliance management on every business segment and branch, so as to further achieve the supervision requirements of overall coverage for compliance management. The chief compliance officer carried out the assessment on performance of duties of the Company's compliance and risk control staff according to the supervision requirements. The specific assessment standards and requirements were formulated and adjusted by the Compliance and Legal Department as authorized by the chief compliance officer. The chief compliance officer is in full weight when assessing the professional compliance and risk control staff. While for assessing the part-time compliance and risk control staff, the proportion of weight of the chief compliance officer is 55%.

The assessment on branch compliance and risk control staff was preliminarily evaluated by branch office and reviewed by Compliance and Legal Department. The compliance and risk control staff of branch offices and the operation departments of the headquarters were assessed by the Compliance and Legal Department. The assessment results of the compliance and risk control staff were subject to the final confirmation of the chief compliance officer. The Human Resources Department organised and implemented the performance bonus issuance according to the assessment results.

Section 9 Corporate Governance Report

IV. Strictly implement compliance inspection and standardize business development effectively

The Compliance and Legal Department organized compliance inspection on operation department and branches in accordance with supervision requirements and inspection plans. In 2017, the Compliance and Legal Department conducted compliance inspection on 5 branches, implemented comprehensive compliance inspection on standardized implementation of the proprietary business of the Securities Investment Department, gave specific inspection on the securities investment behavior of the Company's staff and carried out compliance inspection on the management and rectification of transaction units of the Information Technology Headquarter and the Wealth Management Headquarter. Comments or suggestions on the problems spotted during inspection were put forward, which required the inspection department to conduct proactive rectification and give feedback and implement subsequent follow up.

In strict compliance with the supervision requirements, the Company will construct an effective compliance management system, perfect the compliance management system process, optimize compliance assessment mechanism, reinforce the construction of compliance culture, and further enhance corporate compliance management standard, so as to promote the compliance operation and stable development of every business of the Company.

(III) Working Information of Audit and Supervision Department

The objective of the Audit and Supervision Department is to perfect corporate internal control, facilitate continuous regulated development, ensure the legality and compliance of operation of the Company and to prevent risks. The department adheres to the vision of prudence and practicability, seeking truth from facts, team cooperation, and innovative development, entwining the operation developing target of the Company, actively organizes and conducts different auditing works, practically implement the functions of the departments according to annual audit and supervision work plan. The Company completed 36 auditing and supervisory reports under different aspects, of which, 1 was the annual compliance effectiveness evaluation of the Company, 15 were resignation audit reports, 11 were branch and branch office comprehensive inspection reports, 3 were control inspection within the functional departments and 6 were special project inspection. The audit inspection projects covered brokerage business, credit transactions, financial management, compliance management, internal control and personal management etc. Through organizing on-site audits, they can objectively reflect the conditions of implementing national laws and regulations, industry standards and corporate system of the auditee and also the operation management conditions. Regarding the problems and deficiencies discovered during audit, the department provides audit rectification measures and suggestions in time, and strives to urge the implementation of audit rectification issues, which thereby promotes and supports the regulated development of the different businesses of the Company.

Section 10 Environmental, Social and Governance Report

In 2017, the Company discussed about the operation and social responsibility performance to identify if there were any relevant significant environmental, social and governance issues and evaluated the respective performance and impact. The Company sorted out and summarized the social responsibility management task for the year, included the environmental, social and governance related issues into this report according to Appendix 27 of the Listing Rules ("Environmental, Social and Governance Reporting Guide").

I. Environment

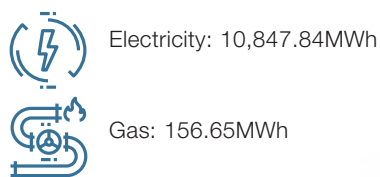
The Company vigorously promotes the concept of environmental protection and energy conservation. The Company complies with the requirements of the development of low-carbon economy and minimizes the environmental impact of its daily operation. The Company also exploits the advantages at the financial level, exploring the path of green finance development and guiding the optimal allocation of resources.

Low-carbon Operation

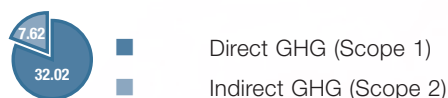
Due to the business nature, the Company mainly consumes electricity and a small amount of gas for daily operation. The Company actively carries out reforms for reducing energy consumption and promotes staff to develop environmental friendly habits, aiming to contribute to easing the pressure of global warming.

In the daily office and business process, the Company pays attention to conserving energy and protecting the environment. The Company chooses energy-saving products and has completed the replacement for LED lamps in office area. The Company requires employees to turn off all equipment during non-working hours and set the upper and lower limits of air-conditioning temperature. In order to further enhance the efficiency of electricity use and reduce the energy consumption of air conditioners, in all newly decorated securities branches in 2017, the Company set out from the perspective of environmental protection, replaced the existing single-pane glass with double-pane insulating glass and strengthened the insulation effect through the interior design for those who had no insulation of the outer wall.

In 2017 the Company consumed:



Greenhouse gas emissions (in tonnes)



Section 10 Environmental, Social and Governance Report

During our operations, the Company does not use packaging materials, while the main resource consumed is office paper. The Company has reduced the resource consumption by increasing the automation of our office and business operations.



In 2017, the Company consumed 15.30 tonnes of office paper

In order to minimize the use of office paper, the Company enhanced employees' awareness of conservation, advocated duplex printing of documents and recycling the paper that has been used on single side. The Company has completed the construction of Office Automation system and improve mobile and online sales office as well as "One Counter System" to enhance the level of business automation. The Company has basically realized paperless business besides signing the necessary paper agreements.

Emissions Management

As a financial institution, the Company's main workplaces are branches and offices. During the operations, industrial waste water and waste gas are not discharged. The domestic sewage generated by the Company is discharged through municipal sewers.

The Company is committed to enhancing employees' awareness of water saving and posting related promotional slogans in the office. The Company also chose the water-saving faucet for decoration. In addition, the pressure test was conducted for 24 hours after the pipes were laid, in order to prevent the leakage problems of water, minimizing waste of water resources.



In 2017, the Company consumed 30,178.34 tonnes of municipal water

The non-hazardous wastes generated by the Company are mainly domestic wastes and construction wastes from decoration of branches. The domestic wastes are handled by the property management and the construction wastes are handled by the construction contractor to prevent the disorder and reduce the impacts on the surrounding environment.

The only hazardous wastes generated by the Company are batteries, including dry cells and UPS batteries. The dry cells are recycled when the property management processes the wastes, while the expired UPS batteries which are replaced in the decoration are specifically recycled by the manufacturers.



In 2017, the Company generated 660.09 tonnes of non-hazardous wastes and 8.97 tonnes of hazardous wastes

The Company encourages employees to go green travel, take public transport for commuting, and reduce the self-driving rate. The Company also recommends that employees who are willing to purchase new cars should consider choosing new energy vehicles to reduce vehicle emissions.

Section 10 Environmental, Social and Governance Report

Green Finance

The Company took advantage of being a finance company by helping to guide social capital, helping related energy companies to develop their financial businesses, supporting the structural adjustment and transformation. The Company devoted to upgrading of environmental protection and contributed to the coordinated, sustainable development of economy, society and the environment.

In 2017, the Company successfully issued “17 Zhihui 01” bonds (RMB460 million) for Far East Smart Energy Co., Ltd., helping it acquire high-quality assets such as Intelligence Power and Semeurek and invest in Toaero and TrafficData by raising funds, consolidating the Internet industry chain layout of Far East Smart Energy Co., Ltd..

In 2017, as a financial advisor and co-lead underwriter, the Company participated in and completed the project of Huaguang Boiler absorbing and consolidating Guolian Environmental and paying cash to purchase assets. The Company also raised matching funds. After the completion of this transaction, the energy and environmental protection business of Guolian Environmental will be injected into the listed companies as a whole. Guolian Environmental will realize the overall listing of its core assets.

The environmental relevant statistics during the Reporting Period are summarized as follows:

Indicator name	Indicator unit	2017
Total greenhouse gas emissions	Tonnes	39.64
Direct GHG emissions (Scope 1)	Tonnes	32.02
Indirect GHG emissions (Scope 2)	Tonnes	7.62
Intensity of Greenhouse gas emissions	Tonnes/m ²	0.000469
Total emissions of waste gas	Tonnes	N/A
Total emissions of hazardous wastes	Tonnes	8.97
Dry cells	Tonnes	0.012375
Expired UPS batteries	Tonnes	8.96
Intensity of hazardous waste emissions	Tonnes/m ²	0.00011
Total emissions of non-hazardous wastes	Tonnes	660
Domestic waste	Tonnes	339
Construction waste	Tonnes	321
Intensity of non-hazardous waste emissions	Tonnes/m ²	0.008
Total water consumption (All municipal water)	Tonnes	30,178.34
Intensity of water consumption	Tonnes/m ²	0.38
Electricity	MWh	10,847.84
Intensity of electricity consumption	MWh/m ²	0.135
Gas	MWh	156.65
Intensity of gas consumption	MWh/m ²	0.00195
Office paper consumption	Tonnes	15.30

II. Society and Governance Report

During the process of achieving high quality self-development, the Company pays attention to the needs of all stakeholders, including employees, customers, suppliers and communities, and conducts the operation in accordance with the laws and regulations, with an effort to achieve staff happiness, proprietor satisfaction and social recognition as well as seeking for a harmonious development to maximize the interests of all stakeholders.

(I) Employment

The Company always adheres to its human-oriented philosophy, strictly implements laws and regulations, which include the "Labour Law of the PRC" and "Labour Contract Law of the PRC" and observes compliance employment according to laws to ensure employees are entitled to equal employment, choice of employment, labour remuneration, rest and paid holidays, work safety and health protection, vocational skill training, social insurance and benefits and other labour rights as required by laws. The Company executes labour contracts with each employee and is in line with the principle of lawfulness, fairness, equality, voluntariness, unanimity, integrity and trustworthiness. The Company abides the principle of openness, equality and justice with respect to its human resources management, including recruitment, training, remuneration, appraisal and staff development and prevents discriminative behaviours of all forms to assure employees to receive diversified development amid healthy working environment.

Remuneration and Welfare Policy

The Company set up a remuneration system that determines remuneration and distributes income on the basis of job position and performance-related appraisal results. The staff remuneration of the Company comprises basic salary, performance-based salary and welfares. The basic salary is relatively a fixed part of remuneration, which constitutes annual basic income for staff and is determined primarily based on factors such as values, responsibilities, work intensity and working conditions and in accordance with wage standards of job position of the Company. Drawn from the annual profit, performance-based salary is linked up with operating conditions and business performances of the Company for the year and distributed according to the appraisal results of department and staff performances. The distribution of performance-based salary is in favour of business departments with high profitability and employees with prominent merits while due consideration is also channeled to the middle-back end supportive departments.

Section 10 Environmental, Social and Governance Report

The Company established an all-round welfare benefit system for staff: Apart from statutory welfares such as social insurance and housing provident fund provided to employees according to relevant state provisions, the Company offered supplemental medical insurance and accident insurance to staff to free them from future worries and troubles. Under the principle of voluntary participation, the Company set up group annuity scheme to improve staff's living standards after their retirement. The Company organized physical examinations and arranged diverse cultural activities such as badminton, table tennis, basketball and mountaineering for staff regularly to enrich their after-office-hour cultural life. The labour union proactively extended its sincere regards to the retired and financially-difficult staff of the Company, organised donation activities for hospitalized staff with serious illnesses and provided them with help and care both materially and mentally.

Dismissal, Recruitment and Promotion Policy

The Company is in strict compliance with the state and local laws and regulations and the company regulations to handle the procedures regarding staff introduction and resignation and strives to build a harmonious labour relationship. Based on an annual recruitment plan, the Company follows the principle of "equal opportunity, fair competition, comprehensive review and talent selection" to conduct its recruitment work, persists in standardized process and comprehensive assessment and pays attention to its channel and approach improvement and innovation, so as to greatly attract talents for the development of the Company, and the total number of staff recruited was 299 for the year. The Company cooperates with local human resources service centre and higher learning institutions, organizes multiple scientific research practices and internship programs to attract college students practicing their internships in the Company, a total of 110 trainees was recruited during the year. This will improve students' practical ability on the one hand and help various departments to select talents through practical work on the other.

The Company has formulated Guidance on Staff Position Management and Career Development of Guolian Securities Co., Ltd. (《國聯證券股份有限公司員工職位管理與生涯發展指引》) to establish a dual-career development system characterized by vertical promotion and horizontal advancement for staff and expand the room for their career development in a bid to providing them with a broad platform to achieve their self-development.

Working Hours and Holiday Policy

The Company sets up a standard working hour system in conformity with the relevant state provisions. Measures for Overtime Working (《加班管理辦法》) is formulated to make reasonable arrangement for overtime works according to work needs, pay wages and fix time-off-in-lieu for workers in line with the laws. All employees are entitled to statutory holidays and weekends. Paid-annual leave system is also put into practice to ensure staff has the legal right to rest.

Section 10 Environmental, Social and Governance Report

Equality and Anti-discrimination Policy

The Company has human resources management systems in place to define the rights and obligations of the Company and staff, protect the legal interests of both parties and establish complete, equal and impartial labour relationship. In strict compliance with the state's laws, regulations and policies relating to protection of female staff interests, the Company has organised physical examinations for female staff and all kinds of amateur cultural activities regularly to ensure female staffs are treated equally and their interests are protected.

Diversified Policy

The Company has vigorously implemented the strategy of invigorating the enterprise through human resources development, improved the developing environment for the talented and devotedly continuously, and pushed for the co-development between staff and the Company. The Company has strived to provide staff with competitive remuneration package and attract and retain talents both internally and externally through matching with the high standards of external markets and optimizing the remuneration system; The Company put strenuous efforts to build up the talented team by: establishing a full-fledged and effective mechanism for management cultivation and development through the formulation of Measures for Appointment of the Management (《任職幹部管理辦法》) and Measures of Tier-construction of the Management (《幹部梯隊建設管理辦法》); seek, develop and cultivate back-up management in a reasonable manner, uphold the decent guidance on personnel placement to select a number of talents with high comprehensive quality into the management back-up of the Company through open recommendation, organize excursion and open job competition; greatly promote the introduction of high-end talents through headhunters and internal referrals so as to bolster the diversity of staff structures and provide intellectual support for corporate development. At present, the management of the Company holding either bachelor degrees or above has accounted for 94% of the total, representing a high quality pool of human resources with well-educated background and strong market competitiveness.

Section 10 Environmental, Social and Governance Report

During the Reporting Period, the statistics relating to employment were summarised as follows:

Indicators	Unit	2017
Total staff	Employees	1441
Among which: (by work location)		
Domestic	Employees	1441
Overseas	Employees	0
Among which: (by labour contract type)		
Indefinite term	Employees	586
Fixed term	Employees	855
A term until completion of certain work	Employees	0
Among which: (by age group)		
29 or below	Employees	496
30-39	Employees	658
40-49	Employees	210
50-54	Employees	53
55 or above	Employees	24
Among which: (by gender)		
Male	Employees	780
Female	Employees	661
New employees during the Reporting Period	Employees	299
Staff loss ratio during the year	%	13.82%

Section 10 Environmental, Social and Governance Report

(II) Health and Safety

The Company implements its safety production management system and fire safety management system, strengthens employees' occupational safety education, and carries out potential risks investigation in key areas such as system implementation, power circuit, fire-fighting device, information security and projects under construction. It also applies electronic information technology to intensify safety management for branch offices, ensuring a safe working environment for all staff.

The Company cares for the health and safety of its staff and actively provides a healthy and safe working environment. The Company attaches great importance in strengthening health protection, organizes regular physical health examination for staff and specialized physical examination for female staff. The Company offers dormitories for eligible staff; The headquarters of the Company have canteens for staff dining convenience; The Company pays heatstroke prevention expenses on a timely basis according to state regulations.

The Company assures the legitimate vacation rights and benefits of its female staff during pregnancy, birth-giving and lactation period. To help mitigating common office diseases and helping employees to foster daily healthcare awareness, the Company organizes free Chinese medical consultation campaign and invites traditional therapists to give gratuitous treatment to its staff.

The Company strictly complies with the relevant occupational health and safety regulations including "Measures on Identification of Work-related Injuries" (《工傷認定辦法》) and "Regulations of Insurance for Work-related Injuries" (《工傷保險條例》).

Section 10 Environmental, Social and Governance Report

(III) Development and Training

The Company keeps on improving its target-oriented and performance-based performance assessment mechanism, conducts a comprehensive assessment on the annual work performance and important tasks fulfillment of the Company's departments and staff by all-round assessment and attaches importance to the control of compliance and risk management. The assessment results are linked to the annual performance-based award and position promotion of each department and employee, guiding departments and employees to emphasize performance contributions and focus on the development of their own professional competence.

In order to adapt to the trend of innovative development of the industry and personnel development and training, constantly improve the comprehensive qualities of the Company's staff and ensure continuous development of the Company's operation, the Company attaches great importance to staff trainings and keeps on improving and optimizing staff training system. The first measure is to improve the training management regulation system. The Company formulated "Management Measures on Online Learning Platform" (《在線學習平台管理辦法》) and "Management Measures on Inter-departmental Training" (《跨部門培訓管理辦法》) and revised "Management Measures on Training Merit Points" (《培訓積分管理辦法》), and at the same time refined and implemented the requirements on post-training sharing of staff external trainings, which provided a normative and well-organized regulation guarantee for the Company. The second measure is to organize and implement various types of training activities, such as organizing a four-stage new employee induction trainings, a three-stage management training classes which basically cover the management of each level of the Company, road show skill trainings and promotion classes of special business capabilities according to the requirements of business departments, suitable management measure trainings in which all staff shall participate and advanced case exchange etc. throughout the year. The third measure is to intensify online training and learning, accomplish the online learning of comprehensive financial knowledge by the Group in which over 4,000 employee-headcount have participated, key courses learning according to the business development of the Company in which 42,030 employee-headcount have participated and post-education remote trainings for all staff in which 1,210 employees have participated with 16,953 training hours. The fourth measure is to continue to promote staff external learning, such as selecting approximately 400 employees by category and by batch to take part in various learning activities held by superior departments, professional institutions and renowned colleges and universities according to the business requirements and training programs of the Company. The fifth measure is to strengthen the establishment of online learning platform and management system of the Company. OA knowledge central function is improved. At present, there are 558 pieces of learning documents in total with a total number of over 52,600 employee-headcount participated in learning. Through the full utilization of E-learning learning platform, the learning efficiency can be improved. There are altogether 318 internal courses in the platform with approximately 48 E courses updated quarterly and 195 E courses newly launched throughout the year. Total learning hours are 59,498 hours with 43 online learning hours per capita. In addition, the Company encourages employees to have aggressive self-development mentality according to the requirements of business development and individual career development plans, such as taking part in various studies and further education after office hours and update professional knowledge in a timely manner to constantly improve their comprehensive qualities. The Company also rewards employees who have obtained relevant certificates pursuant to relevant regulations.

Section 10 Environmental, Social and Governance Report

The Company has established multi-level training systems, such as the new employee induction trainings, executive management trainings, professional skills trainings, professional qualification examinations, post-vocational trainings, continued education for staff on qualifications/degrees, professional qualification trainings (including technical titles), etc., in which they have improved the comprehensive qualities of employees of each level efficiently.

During the Reporting Period, the Company carried out various methods of education trainings, such as face-to-face trainings, online study and external trainings, and organized various trainings with a total of 95,968 employee-headcount who have participated in such trainings. The investment in trainings was RMB2,510,000. During the Reporting Period, the statistics of the Company relating to training performance was summarized as follows:

Indicators	Unit	2017
Total training hours	Hours	114,141
Number of employee-headcount participating in trainings (by training content)		
Online study	Hours	105,923
External trainings	Hours	3,280
Face-to-face trainings	Hours	4,938
Average training hours per employee-headcount participating in training	Hours	79.2

(IV) Labour Standard

The Company strictly complies with the management policies set out in the relevant standards, rules and regulations prevailing across the world as well as of the country and locations of operation with respect to the prevention of child labor or forced labor. The Company prohibits any employment of child labor and forced labor and adheres to normative employment under the laws. In order to further implement the above laws and regulations, the Company revised regulations in the “Human Resources Management Systems” (《人力資源管理制度》) and “Staff Handbook” (《員工手冊》) of the Company according to the changes of internal and external objective conditions, and passed for review in the employee representatives meeting, thereby establishing a foundation of harmonious labor relationship. During the Reporting Period, the Company did not have any non-compliance with the relevant standards, rules and regulations prevailing across the world as well as of the country and locations of operation in connection with child labor and forced labor.

Section 10 Environmental, Social and Governance Report

(V) Product Liability¹

Service Quality

The Company strictly complies with Contract Law, Securities Law and other relevant management measures, temporary provisions and implementing regulations. During the Reporting Period, there was no violation of relevant laws and regulations.

The Company adheres to the service philosophy of “Guolian Securities, All for You”. By keeping customer-prioritized and regarding customers as the most valuable treasures of an enterprise, we always regard protecting investors’ interests as our responsibility and strive to provide quality service for customers and minority shareholders continuously.

The Company stringently implemented the moderate management requirements of investors and established smooth customer communication and coordination mechanism and sound complaint system arrangement. During 2017, the Company received a total of 9 customer complaints, which were properly handled through timely coordination by customer service center and branch tracking service. Customer satisfaction was improving and interests of investors were sufficiently safeguarded.

Customer Privacy

The Company regards customer information security as the guarantee for corporate production and operation safety and healthy development of customer relationship. While perfecting the confidentiality management system, the Company has established the customer management system with compulsory mechanism at different levels and at different authorities, and set up safe customer information database to safeguard customer information protection. The Company strictly complies with the requirements of laws in the location where it operates to protect customer privacy. During the Reporting Period, there was no complaint of non-compliance in customer privacy or any relevant accepted or verified complaints that came to the attention to the Company.

¹ As the Group is mainly engaged in the securities brokerage, investment banking, asset management and investment, proprietary trading and credit transactions and other businesses, during the Reporting Period, no disclosure was made regarding the indicators relating to product quality, packaging materials, advertisement, labels which were not of significant environmental related issues to the Company and hence not applicable to us.

Section 10 Environmental, Social and Governance Report

Investor Education

The investor education services of the Company abide the principles of long-term, suitability, effectiveness and standardizing. "Taking the national investment education base as a base, promoting development with insurance coverage and facilitating services with science and technology" have always been the guiding principles, innovative thinking, project facilitation and pragmatic implementation that regulatory authorities and self-disciplinary organizations are adhering to. Ensuring investors to understand capital market business and various financial products knowledge, establish decent investment philosophy and enhance investment and wealth management ability; familiar with the laws and regulations of capital market to strength risk prevention consciousness; help the public understand the securities industry and consciously maintain market order to promote the regulated development of capital market; earnestly protect the lawful rights and interests of customers to continuously improve customer service quality and service standard.

In the agency sales businesses of financial products that include securities brokerage business, asset management business and securities investment fund, provision of intermediary introduction business for futures companies, margin financing and securities lending business and securities investment advisory business, the Company strengthened various investor education services in strict compliance with the regulatory requirements of CSRC and the self-discipline rules of SAC. The investor education services of the Company have been integrated into all aspects such as opening (canceling) accounts, securities transactions, depositing and withdrawal of funds, securities marketing and information disclosure, and complete and detailed investor services rules and standards are in place.

(VI) Anti-corruption

In strict compliance with relevant laws and regulations, the Company promotes compliance management and operation and strengthens the construction of integrity system while absolutely resisting commercial bribery. The Company has formulated relevant management systems in respect of clean administration construction accountability management, accountability appraisal as well as party conduct and clean administration construction education, staff violation treatment and leadership accountability and so on. Also, the Company has carried out anti-corruption education and training and developed convenient and effective monitoring network through various methods including whistleblowing platform, whistleblowing hotline and electronic mails, with an objective to penalize cases of commercial bribery and commercial corruption severely.

The Company carries out disciplinary inspection and supervision training to promote the professional supervision and audit capability and focuses on investment merger & acquisition, procurement bidding, operation management, etc. to conduct supervision and checking and urge the rectification of identified problems.

Section 10 Environmental, Social and Governance Report

The Company attaches great importance to anti-money laundering. Through the adoption of a series of effective measures in 2017, the Company carried out anti-money laundering sturdily and effectively, further strengthens the anti-money laundering management and inspection, and continues to improve staff's awareness of anti-money laundering. Meanwhile, the Company improves the anti-money laundering working quality and carries out anti-money laundering training and publicity proactively.

During the Reporting Period, the management of anti-corruption and anti-money laundering was summarized as follows:

Indicators	Unit	2017
Number of corruption and bribery cases	Cases	0
Number of employees punished for corruption and bribery	Employees	0
Times of anti-corruption and anti-money laundering education publicity	Times	1
Number of employees participating in anti-corruption and anti-money laundering education	Employees	44,764
Times of disciplinary inspection and supervision business training	Times	4
Number of employees participating in disciplinary inspection and supervision business training	Employees	177
Total hours of disciplinary inspection and supervision business training	Hours	302

Section 10 Environmental, Social and Governance Report

(VII) Community Investment

The Company's community investment objective is to achieve a harmonious development in conjunction with the place where the operation is located. In addition to helping community welfare, the Company also leverages on the professional advantages and relies on business operation to contribute to the development of the community where the operation is located.

The Company requires itself to follow the corporate development vision of "becoming a respected investment bank". Being respected does not only reflect its professional business accomplishment, but also requires corporate social responsibility practice. The Labor Union actively organized our staff to donate RMB148,800 to the "Red Cross Humanity Donation by Ten Thousand People" activity organized by the Wuxi Municipal Propaganda Department, Municipal Civilization Office, Municipal Labor Committee and Municipal Red Cross for helping socially difficult people and disadvantaged groups, conveying the care message of the Party and its government as well as all sectors of the society. What's more, Guolian Securities further donated a total of RMB92,700 to the "Warming Heart and Offering Love" charitable and donating activity jointly organized by the Wuxi Municipal Propaganda Department, Municipal Civilization Office, Municipal Charity Association, Working Committee of Municipal Authorities, Municipal Bureau of Civil Affairs and Municipal General Labor Union and other departments. The Company organized 43 staff to donate blood voluntarily during the year.

In responding to the spirit of the Central Poverty Alleviation Work Conference and the call from CSRC and SAC, the Company actively carried out the "one company for one county" pairing support activity, and implemented the precise poverty alleviation and precise poverty shake off work in 2017 with Susong County, Anhui province and Pingchang County, Sichuan province, the state-level poverty counties.

During the process of implementing the financial poverty alleviation project, the Company focused on making into full play of its advantage as a financial enterprise, provided support and created wealth for the poverty regions and promoted their development potentials. In Pingchang County, Sichuan province, the 2016 corporate bonds of Sichuan Jincai Jinxin Investment Company Limited (四川金財金鑫投資有限公司) ("16 Chuan Jin Cai Bonds") were lead-underwritten by Hua Ying Securities, the investment banking subsidiary of the Company, and raised the total proceeds of RMB1 billion. The proceeds used for local economic construction had alleviated the intense situation of capital shortage in the local economic development significantly. The securities branch in Susong County established by the Company is about to commence its operation and will endeavor to enliven the local financial environment and serve the local economic development and wealth management needs of the residents.

Section 10 Environmental, Social and Governance Report

The Company focused on public welfare poverty alleviation and helped the poor with intelligence. It set up the “Guolian Love Scholarship” and for three consecutive years, provided RMB80,000 every year for 50 children of poor households that have established card and files in Susong County, Anhui province. The Company donated to establish the “Guolian Love Bookstore” and “Red Scarf Broadcasting Station” in Aijiao Primary School and Zuoba Primary School, the two impoverished village-level primary schools in Susong County, with a view of helping local poverty students to improve their learning and living conditions.

The Company carried out the “pair-up urban areas with villages for civilized construction” activities with the economically impoverished villages in Jiangsu province, and helped to construct the village road lighting project and the newspaper bulletins in Jintiao Village, Guanyun County, Lianyungang City, to create a graceful living environment and enrich cultural life.

Independent Auditor's Report

Deloitte.

德勤

To the Shareholders of Guolian Securities Co., Ltd.

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

Opinion

We have audited the consolidated financial statements of Guolian Securities Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 172 to 300, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

Consolidation of structured entities

We identified consolidation of structured entities as a key audit matter due to the key judgement exercised by the management of the Group in assessing and concluding whether the Group controls the structured entities.

The Group consolidated the structured entities which it controlled. The principle of control sets out the following three elements of control: (a) power over the investee; (b) exposure, or rights, to variable returns from involvement with the investee; and (c) the ability to use power over the investee to affect the amount of the investor's returns.

The Group held interests as investor or acted as investment manager in various structured entities including collective asset management schemes and investment funds. The Group considered its power, arising from the rights entitled directly or indirectly, over the structured entities, and assessed whether the combination of investments it held together with its remuneration created exposure to variability of returns from the structured entities that are of such significance that it indicated the Group controlled the structured entities and should consolidated these structured entities.

As at 31 December 2017, the carrying amount of the interests in unconsolidated structured entities held by the Group was RMB475,583 thousands whilst the carrying amount of the Group's interests in consolidated structured entities was RMB241,267 thousands.

How our audit addressed the key audit matter

Our procedures in relation to this key audit matter included:

- Understanding the process and internal controls of the management in determining the consolidation scope of the structured entities;
- Checking the documents and information used by the management in assessing the consolidation criteria of significant structured entities against the related agreements and other related service agreements of structured entities newly established, invested or with changes in the contractual terms during the year;
- Assessing management judgement in determining the scope of consolidation for each of the significant structured entities and the conclusion about whether or not the consolidation criteria are met.

Independent Auditor's Report

Impairment Assessment – Available-for-Sale Equity Investments

We identified impairment assessment of available-for-sale equity investments as a key audit matter because the management of the Group applied judgement in determining the impairment of available-for-sale equity investments.

For the available-for-sale equity investment measured at fair value, judgment would be required when determining whether any decline in fair value would be regarded as significant comparing to the original costs of the financial asset at initial recognition, and whether the decline would be prolonged comparing to the period that the fair value has declined. For the available-for-sale equity investment that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, the management of the Group assessed the financial condition and operation of the investee and applied judgement in assessing objective evidence for impairment and determining the recoverable amount as disclosed in Note 4.

As at 31 December 2017, the Group held available-for-sale equity investments of RMB1,044,393 thousands, out of which RMB941,158 thousands were measured at fair value and RMB103,235 thousands were measured at cost less impairment. Details of the Group's available-for-sales equity investments are disclosed in Note 26 to the consolidated financial statements.

Our procedures in relation to this key audit matter included:

- Understanding the process and internal controls in the identification of available-for-sale equity investments with indicators of impairment;
- Assessing the management judgement in determining whether the available-for-sale equity instruments are impaired;
- Checking the management's calculation of the impairment allowance for available-for-sale equity instruments;

In addition, for available-for-sale equity investments measured at fair value:

- Checking, on a sample basis, the data used by the management, including quoted market prices and the duration for the continued decline of the fair value below the cost, against market data;

For available-for-sale equity investments measured at cost less impairment:

- Assessing, on a sample basis, the appropriateness of the estimation of discounted future cash flows made by the management by checking to latest financial information of those investees to understand their financial position.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Independent Auditor's Report

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Ma Hing Fai.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 12 March 2018

Consolidated Statement of Profit or Loss

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Revenue			
Commission and fee income	6	793,813	1,316,948
Interest income	7	757,869	767,998
Net investment gains	8	235,472	240,612
Other income	9	5,649	10,109
Total revenue, net gains and other income		1,792,803	2,335,667
Commission and fee expenses	10	(154,642)	(281,594)
Interest expense	11	(274,350)	(301,493)
Staff costs	12	(466,663)	(567,789)
Depreciation and amortization	13	(57,152)	(53,771)
Other operating expenses	14	(218,712)	(257,046)
Impairment losses	15	(7,365)	(100,774)
Total expenses		(1,178,884)	(1,562,467)
Share of (loss) profit of associates		(80,912)	27,539
Other (loss) gains, net	16	(16,329)	59,132
Profit before income tax		516,678	859,871
Income tax expense	17	(143,030)	(216,262)
Profit for the year		373,648	643,609
Attributable to:			
Owners of the Company		361,492	610,068
Non-controlling interests	18	12,156	33,541
		373,648	643,609
Earnings per share (Expressed in RMB per share)			
– Basic	19	0.19	0.32

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
Profit for the year	373,648	643,609
Other comprehensive expense		
Items that may be reclassified subsequently to profit or loss:		
Share of other comprehensive income (expense) of associates	1,136	(2,717)
Available-for-sale financial assets		
– Changes in fair value	122,284	(4,355)
– Amounts reclassified to profit or loss upon disposal or impairment of available-for-sale financial assets	(199,679)	(12,352)
– Income tax effect	19,349	4,176
Other comprehensive expense for the year, net of tax	(56,910)	(15,248)
Total comprehensive income for the year	316,738	628,361
Attributable to:		
Owners of the Company	304,582	594,820
Non-controlling interests	12,156	33,541
	316,738	628,361

Consolidated Statement of Financial Position

As at 31 December 2017

	NOTES	2017/12/31 RMB'000	2016/12/31 RMB'000
Assets			
Non-current assets			
Property and equipment	21	98,599	105,572
Goodwill	22	–	–
Intangible assets		26,582	27,625
Investments in associates	24	125,448	219,256
Other non-current assets	25	29,173	20,178
Available-for-sale financial assets	26	161,104	887,418
Financial assets held under resale agreements	27	1,461,393	432,100
Deferred income tax assets	28	21,477	8,605
Refundable deposits	29	106,290	80,216
Total non-current assets		2,030,066	1,780,970
Current assets			
Other current assets	30	309,579	265,035
Available-for-sale financial assets	26	899,211	776,601
Margin accounts receivable	31	4,609,341	4,353,213
Financial assets held under resale agreements	27	4,591,780	1,549,296
Financial assets at fair value through profit or loss	32	2,362,037	2,732,492
Clearing settlement funds	33	2,656,833	3,296,270
Cash held for brokerage clients	34	4,655,092	6,773,686
Cash and bank balances	35	1,952,059	2,464,918
Total current assets		22,035,932	22,211,511
Total assets		24,065,998	23,992,481
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital	36	1,902,400	1,902,400
Share premium	37	2,178,478	2,178,478
Reserves	37	1,719,074	1,672,232
Retained earnings		1,792,620	1,816,033

Consolidated Statement of Financial Position

As at 31 December 2017

	NOTES	2017/12/31 RMB'000	2016/12/31 RMB'000
Total equity attributable to shareholders of the Company		7,592,572	7,569,143
Non-controlling interests		–	327,027
Total equity		7,592,572	7,896,170
Liabilities			
Non-current liabilities			
Bonds in issue	38	3,800,000	1,500,000
Total non-current liabilities		3,800,000	1,500,000
Current liabilities			
Other current liabilities	39	355,402	436,573
Current income tax liabilities		13,947	63,712
Bonds in issue	38	2,820,000	1,800,000
Due to other financial institutions	41	600,000	–
Derivative financial liabilities	42	–	244
Financial assets sold under repurchase agreements	43	297,910	882,240
Financial liabilities at fair value through profit or loss	44	1,707,115	1,787,478
Accounts payable to brokerage clients	45	6,879,052	9,626,064
Total current liabilities		12,673,426	14,596,311
Total liabilities		16,473,426	16,096,311
Total equity and liabilities		24,065,998	23,992,481

The consolidated financial statements on pages 172 to 300 were approved and authorised for issue by the Board of Directors on 12 March 2018 and signed on behalf by:

Yao Zhiyong

Chairman of the Board and non-Executive Director

Peng Yanbao

Executive Director and President

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to shareholders of the Company					Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Reserves RMB'000	Retained earnings RMB'000	Subtotal RMB'000		
Balance at 1 January 2017	1,902,400	2,178,478	1,672,232	1,816,033	7,569,143	327,027	7,896,170
Profit for the year	-	-	-	361,492	361,492	12,156	373,648
Other comprehensive income (expense) for the year	-	-	(56,910)	-	(56,910)	-	(56,910)
Total comprehensive income (expense) for the year	-	-	(56,910)	361,492	304,582	12,156	316,738
Dividends recognized as distribution	-	-	-	(266,336)	(266,336)	-	(266,336)
Appropriation to general reserves	-	-	118,569	(118,569)	-	-	-
Acquisition of non-controlling interests	-	-	(14,817)	-	(14,817)	(339,183)	(354,000)
Balance at 31 December 2017	1,902,400	2,178,478	1,719,074	1,792,620	7,592,572	-	7,592,572
Balance at 1 January 2016	1,902,400	2,178,478	1,522,573	2,131,832	7,735,283	293,486	8,028,769
Profit for the year	-	-	-	610,068	610,068	33,541	643,609
Other comprehensive income (expense) for the year	-	-	(15,248)	-	(15,248)	-	(15,248)
Total comprehensive income (expense) for the year	-	-	(15,248)	610,068	594,820	33,541	628,361
Dividends recognized as distribution	-	-	-	(760,960)	(760,960)	-	(760,960)
Appropriation to general reserves	-	-	164,907	(164,907)	-	-	-
Balance at 31 December 2016	1,902,400	2,178,478	1,672,232	1,816,033	7,569,143	327,027	7,896,170

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
Cash flows from operating activities		
Profit before income tax	516,678	859,871
Adjustments for:		
Depreciation and amortisation	57,152	53,771
Impairment losses	7,365	100,774
Net losses (gains) on disposal of property and equipment and other intangible assets	226	(368)
Unrealised fair value change of financial instruments at fair value through profit or loss	64,016	(12,024)
Foreign exchange losses (gains)	24,971	(55,978)
Share of losses (profit) of associates	80,912	(27,539)
Interest expense of bonds in issue	209,546	336,946
Realised gains from disposal of available-for-sale financial assets	(192,080)	(125,605)
Dividends and interest income from available-for-sale financial assets	(23,968)	(16,846)
Operating cash flows before movements in working capital	744,818	1,113,002
Net decrease/(increase) in margin accounts receivable	(256,930)	1,737,352
Net decrease/(increase) in financial assets in fair value through profit and loss	359,082	(206,554)
Net decrease/(increase) in financial assets held under resale agreements	(4,294,248)	481,457
Net decrease/(increase) in refundable deposits	(26,074)	47,928
Net decrease/(increase) in cash held for brokerage clients	2,118,594	3,559,301
Net decrease in clearing settlement funds	617,046	562,700
Net increase in other assets	(38,193)	(26,398)
Net decrease in accounts payable to brokerage customers	(2,747,012)	(3,931,237)
Net increase/(decrease) in financial assets sold under repurchase agreements	(584,330)	454,244
Net increase in due to other financial institutions	600,000	–
Net decrease in other liabilities	(102,480)	(149,290)
Net decrease in financial liabilities at fair value through profit or loss and derivative financial liabilities	(133,250)	(926,251)
Cash generated from/(used in) operations	(3,742,977)	2,716,254
Income taxes paid, net	(190,432)	(282,074)
Net cash generated by/(used in) operating activities	(3,933,409)	2,434,180

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	NOTE	2017 RMB'000	2016 RMB'000
Cash flows from investing activities			
Dividends and interest received from investments		23,968	16,846
Dividends received from investments in associates		14,032	15,064
Proceeds on disposal of property and equipment, intangible assets and other long-term assets		2,256	507
Purchase of property and equipment, intangible assets and other long-term assets		(60,612)	(56,093)
Cash paid for purchase of available-for-sale financial assets		(430,592)	(1,040,563)
Cash received from disposal of available-for-sale financial assets		1,154,900	948,731
Payment for investments in associates		–	(6,000)
Net cash used in investing activities		703,952	(121,508)
Cash flows from financing activities			
Dividends paid		(266,336)	(760,960)
Cash received from additional bonds in issue		5,120,600	2,100,000
Cash paid from repayment of bonds in issue		(1,800,600)	(4,450,000)
Interest expense of bonds in issue		(190,598)	(336,946)
Acquisition of non-controlling interest of a subsidiary		(354,000)	–
Net cash generated by/(used in) financing activities		2,509,066	(3,447,906)
Effect of exchange rate changes on the balance of cash held in foreign currencies		(24,971)	55,978
Net increase/(decrease) in cash and cash equivalents		(720,391)	(1,135,234)
Cash and cash equivalents at the beginning of the year		3,788,648	4,867,904
Cash and cash equivalents at the end of the year	46	3,043,286	3,788,648

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

1. General information

Guolian Securities Co., Ltd. (國聯證券股份有限公司) (the “Company”) is a joint stock financial institution incorporated in Jiangsu Province, the People’s Republic of China (the “PRC”).

The Company, originally named as Wuxi Securities Company (無錫市證券公司), was set up upon approval from the People’s Bank of China in November 1992 as a collectively owned enterprise with an initial registered capital of RMB32,000 thousand. On 8 January 1999, the Company was converted to a limited liability company and was renamed as Wuxi Securities Co. Ltd. (無錫證券有限責任公司). On 16 May 2008, Wuxi Securities Co., Ltd. was converted to a joint-stock company upon approval by the China Securities Regulatory Commission (the “CSRC”) with a registered capital of RMB1,500,000 thousand and was renamed as Guolian Securities Co. Ltd. (國聯證券股份有限公司).

The Company completed its initial public offering of overseas-listed foreign shares (“H” shares) on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) on 6 July 2015. Under the offering, the Company issued a total of 402,400 thousand shares with a nominal value of RMB1 per share. After this public offering, total share capital of the Company increased to RMB1,902,400 thousand.

As at 31 December 2017, the registered capital of the Company is RMB1,902,400 thousand. The Company holds the securities institution license No.13120000 and business license No.91320200135914870B. The registered address of the Company is No.8 Jinrong One Street, Wuxi, Jiangsu Province, PRC.

The Company and its subsidiaries (the “Group”) are engaged in the following principal activities: securities and futures brokerage, investment consultancy and financial advisory, securities underwriting and sponsorship, proprietary securities investment, asset management, introducing broker for futures companies, margin financing and securities lending, and agency sale of financial broker products.

These consolidated financial statements were authorised for issue by the Board of Directors (the “Board”) on 12 March 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

2. Application of new and revised international financial reporting standards

In the current year, the Group has applied for the first time the following revised International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board.

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRSs 2014-2016 Cycle

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

Amendments to IAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from these financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in Note 49. Consistent with the transition provision of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in Note 49 the application of these amendments has had no impact on the Group's consolidation financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

2. Application of new and revised international financial reporting standards – continued

New and revised IFRSs issued but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective.

IFRS 9	Financial Instruments ¹
IFRS 15	Revenue from Contracts with Customers and the related Amendments ¹
IFRS 16	Leases ²
IFRS 17	Insurance Contracts ⁴
IFRIC 22	Foreign Currency Transactions and Advance Consideration ¹
IFRIC 23	Uncertainty over Income Tax Treatments ²
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts ¹
Amendments to IFRS 9	Prepayment Features with Negative Compensation ²
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement ²
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures ²
Amendments to IAS 40	Transfers of Investment Property ¹
Amendments to IAS 28	As part of the Annual Improvements to IFRS Standards 2014-2016 Cycle ¹
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015-2017 Cycle ²

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 January 2021

Except for the following new IFRSs, the directors of the Company anticipate that the application of all other new and amendments to IFRSs and interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

2. Application of new and revised international financial reporting standards – continued

New and revised IFRSs issued but not yet effective – continued

IFRS 9 Financial instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are described below:

- All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39 Financial Instruments: Recognition and Measurement, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

2. Application of new and revised international financial reporting standards – continued

New and revised IFRSs issued but not yet effective – continued

IFRS 9 Financial instruments – continued

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application IFRS 9.

Classification and measurement

- Debt instruments classified as available-for-sale financial assets carried at fair value as disclosed in Note 26: based on the management's assessment on cash flow characteristics and business model, these financial asset will be measured subsequently at fair value with fair value gains or losses to be recognised in profit or loss instead of other comprehensive income under IFRS 9.
- Equity instruments classified as available-for-sale financial assets carried at fair value as disclosed in Note 26: the Group will not elects the option for designation as measured at FVTOCI under IFRS 9, and all of these financial assets will be measured at fair value with subsequent fair value gains or losses to be recognised in profit or loss.
- Equity instruments classified as available-for-sale financial assets carried at costs less impairment as disclosed in Note 26: the Group will not elects the option for designation as measured at FVTOCI under IFRS 9, and these financial assets will be measured at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of IFRS 9, fair values changes, representing the differences between the cost less impairment and fair value, will be adjusted to retained profits as at 1 January 2018, which will have a slight increase impact on total equity of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

2. Application of new and revised international financial reporting standards – continued

New and revised IFRSs issued but not yet effective – continued

IFRS 9 Financial instruments – continued

Classification and measurement – continued

All other financial assets and liabilities will continue to be measured on the same basis as are currently measured under IAS 39.

According to the assessment made by the directors of the Company up to issue date of the financial statements, the changes in measurement basis mentioned above in respect of financial assets will have a slight increase impact of less than 1% on total equity of the Group at 1 January 2018 on initial application of IFRS 9, after having taken into account the impacts of deferred tax.

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortized costs and other items that subject to the impairment provisions upon application of IFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be slightly increased as compared to the accumulated amount recognised under IAS 39 this increase is mainly attributable to expected credit losses provision on financial assets held under resale agreements, margin account receivables and debt instruments carried at amortised costs. Such further impairment recognised under expected credit loss model would have a slight decrease impact of less than 1% on total equity of the Group at 1 January 2018 on initial application of IFRS 9 after having taken into account the impacts of deferred tax.

2. Application of new and revised international financial reporting standards – continued

New and revised IFRSs issued but not yet effective – continued

IFRS 15 Revenue from contracts with customers

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1 : Identify the contract(s) with a customer
- Step 2 : Identify the performance obligations in the contract
- Step 3 : Determine the transaction price
- Step 4 : Allocate the transaction price to the performance obligations in the contract
- Step 5 : Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In 2016, the IASB issued Clarification to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Group provides various services including securities and futures broking, investment management, securities underwriting and advisory services. The directors of the Company anticipate that the application of IFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognized by the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

2. Application of new and revised international financial reporting standards – continued

New and revised IFRSs issued but not yet effective – continued

IFRS 16 Leases

IFRS 16 Leases was issued by IASB in January 2016. It will be effective for annual periods beginning on or after January 1, 2019. This new standard provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees. As the Group does not have material lease commitment as a lessor, the Group will be principally impacted by the new standard due to its role as a lessee.

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and/or operating cash flows respectively by the group.

As set out in Note 47, total operating lease commitment of the Group in respect of rental payment as at 31 December 2017 amounted to RMB202,870 thousands (31 December 2016: RMB175,176 thousands). The directors of the Company expected that certain portion of these lease commitments will be required to be recognized in the consolidated statement of financial position as right-of-use assets and lease liabilities.

2. Application of new and revised international financial reporting standards – continued

New and revised IFRSs issued but not yet effective – continued

IFRS 16 Leases – continued

In addition, the Group currently considers refundable rental deposits paid of RMB11,235 thousands and refundable rental deposits received of RMB90 thousands as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amount of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

3. Significant accounting policies and basis of preparation

Statement of compliance

The consolidated financial statements have been prepared in accordance with International IFRSs which comprise all standards and interpretations approved by the IASB and the disclosures required by the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) and Hong Kong Companies Ordinance (“CO”).

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis (except for financial instruments that are measured at fair values) at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. Significant accounting policies and basis of preparation – continued

Basis of preparation – continued

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Share-based Payment or value in use in IAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. Significant accounting policies and basis of preparation – continued

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities (SEs)) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. Significant accounting policies and basis of preparation – continued

Basis of consolidation – continued

When the Group has decision-making rights (a decision maker) over a structured entity, the Group considers the overall relationship with the relevant structured entity and other investors involved with the structured entity, in particular all the factors below, in determining whether the Group is acting as an agent or principal:

- the scope of its decision-making authority over the investee;
- the rights held by other parties;
- the remuneration to which it is entitled in accordance with the remuneration agreement(s); and
- the Group's exposure to variability of returns from other interests that it holds in the investee.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income and expense of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3. Significant accounting policies and basis of preparation – continued

Basis of consolidation – continued

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. Significant accounting policies and basis of preparation – continued

Business combinations – continued

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another IFRS.

3. Significant accounting policies and basis of preparation – continued

Business combinations – continued

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. Significant accounting policies and basis of preparation – continued

Investments in associates

An associate is an entity over which the investor has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Investments accounted for using equity method

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with *IAS 36 Impairment of assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. Significant accounting policies and basis of preparation – continued

Investments accounted for using equity method – continued

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. Significant accounting policies and basis of preparation – continued

Property and equipment

Property and equipment including leasehold land (classified as finance lease) and buildings held for use in the supply of services, or for administrative purpose (other than construction in progress), are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property and equipment (other than construction in progress) less their residual values over their estimated useful lives, using straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress for supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such assets are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The estimated residual value rates and useful lives of each class of property and equipment are as follows:

Classes	Estimated residual value rates	Useful lives
Buildings	0 – 5%	30 years
Motor vehicles	0 – 5%	6 years
Electronics and other equipment	0 – 5%	2 – 5 years

3. Significant accounting policies and basis of preparation – continued

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. Significant accounting policies and basis of preparation – continued

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as finance lease, and accounted for as property and equipment.

Foreign currencies

In preparing the financial statements of each individual group entities, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

3. Significant accounting policies and basis of preparation – continued

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Employee benefits

In the reporting period in which an employee has rendered services, the Group recognises the employee benefits expenses for those services in profit or loss.

Social welfare

Social welfare expenditure refers to payments for employees' social welfare system established by the Government of the PRC, including social insurance, housing funds and other social welfare contributions. The Group contributes on a regular basis to these funds based on certain percentage of the salaries of the employees and the contributions are recognised in profit or loss for the period when employees have rendered service entitling them to the contribution. The Group's liabilities in respect of these funds are limited to the contribution payable in the reporting period.

Contributions to pension schemes and annuity plans

Payments to defined contribution retirement benefits plan are charged as expenses when employees have rendered service entitling them to the contributions.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. Significant accounting policies and basis of preparation – continued

Employee benefits – continued

Short-term benefit

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “profit before income tax” as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

3. Significant accounting policies and basis of preparation – continued

Taxation – continued

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. Significant accounting policies and basis of preparation – continued

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity investments and available-for-sale investments. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as FVTPL, of which interest income is included in net gains or losses.

3. Significant accounting policies and basis of preparation – continued

Financial instruments – continued

Financial assets – continued

Financial assets at fair value through profit or loss

Financial assets at FVTPL include financial assets held for trading and financial assets designated at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future;
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. Significant accounting policies and basis of preparation – continued

Financial instruments – continued

Financial assets – continued

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including advances to customers on margin financing, accounts receivable, interest receivables, other receivables, financial assets held under resale agreements, clearing settlement funds, cash held for brokerage clients and bank balances etc.), are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net investment gains.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale investments

Available-for-sale investments (“AFS”) are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method. Dividends on AFS equity instruments are recognised in profit or loss when the Group’s right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of reserves. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the reserves is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

3. Significant accounting policies and basis of preparation – continued

Financial instruments – continued

Financial assets – continued

Available-for-sale investments – continued

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. Significant accounting policies and basis of preparation – continued

Financial instruments – continued

Financial assets – continued

Impairment of financial assets – continued

For certain categories of financial asset, such as advances to customers on margin financing and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment. Assets for which an impairment loss is individually recognized are not included in a collective assessment of impairment. The group takes into account the amount and nature of the financial assets held by the group in order to determine the individual significant financial assets. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

3. Significant accounting policies and basis of preparation – continued

Financial instruments – continued

Financial assets – continued

Impairment of financial assets – continued

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and advances, advances to customers on margin financing, accounts receivable and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When an advance to customer on margin financing, an account receivable or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale investment is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses were recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated under the heading of investment revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. Significant accounting policies and basis of preparation – continued

Financial instruments – continued

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than those financial liabilities classified as at FVTPL, of which the interest expense is included in net gains or losses.

3. Significant accounting policies and basis of preparation – continued

Financial instruments – continued

Financial liabilities and equity instruments – continued

Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading, financial liabilities designated at FVTPL.

A financial liability is classified as financial liabilities held for trading if:

- it has been acquired principally for the purpose of repurchasing in the near future;
- on initial recognition it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise, or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivative, and IAS 39 permits the entire combined contract (assets or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in the line item in profit or loss and excludes any interest paid on the financial liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. Significant accounting policies and basis of preparation – continued

Financial instruments – continued

Financial liabilities and equity instruments – continued

Financial liabilities at amortised cost

Financial liabilities including bonds in issue, financial assets sold under repurchase agreements, accounts payable to brokerage clients and other payables are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Financial assets sold under repurchase agreements and financial assets held under resale agreements

Financial assets sold under repurchase agreements continue to be recognised, which do not result in derecognition of the financial assets, and are recorded as “available-for-sale investments” or “financial assets at FVTPL” as appropriate. The corresponding liability is included in “financial assets sold under repurchase agreements”. Financial assets held under agreements to resell are recorded as “financial assets held under resale agreements”. Financial assets sold under repurchase agreements and financial assets held under resale agreements are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

3. Significant accounting policies and basis of preparation – continued

Financial instruments – continued

Securities lending

The Group lends securities to clients and the cash collaterals balance required under the securities lending agreements and the interest arisen from these are classified as “accounts payable to brokerage clients”. For those securities held by the Group lent to clients that do not result in the derecognition of financial assets, they are included in related financial assets.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred assets, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of transferred financial assets, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognised financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when both of the following conditions are satisfied: (i) the Group currently has a legal enforceable right to set off the recognised amounts; and (ii) the Group intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. Significant accounting policies and basis of preparation – continued

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business. Revenue is recognised when it is probable that the economic benefits will flow to the Group and when revenue can be measured reliably, on the following basis:

- (i) Commission income for broking business is recorded as income on a trade date basis, and handling fee income arising from broking business is recognised when services are rendered;
- (ii) Underwriting and sponsors fees are recognised as income in accordance with the terms of the underwriting agreement or deal mandate when the relevant significant acts have been completed;
- (iii) Interest income from a financial asset is accrued on a time basis using the effective interest method, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition;
- (iv) Financial advisory and consultancy fee income is recognised when the relevant transactions have been arranged or the relevant services have been rendered;
- (v) Assets management fee income is recognised when management services are provided in accordance with the management contracts; and
- (vi) Dividend income from investments is recognised when the rights to receive payments have been established.

3. Significant accounting policies and basis of preparation – continued

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Impairment on tangible and intangible assets other than goodwill and financial assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. Significant accounting policies and basis of preparation – continued

Impairment on tangible and intangible assets other than goodwill and financial assets – continued

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) or in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

4. Key sources of estimation uncertainty and critical accounting judgment

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The Group reviewed the estimates and underlying assumptions on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Impairment of advances to customers

The Group reviews its advances to customers to assess impairment on a periodic basis. In determining whether an impairment loss should be recognised in profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is an objective evidence of impairment that will have a measurable decrease in the estimated future cash flows from a portfolio of advances. Moreover, the Group also reviews the value of the securities collateral received from the customers in determining the impairment. The Group reviewed the methodology and assumptions used for estimating both the amount and timing of future cash flows regularly to reduce any differences between loss estimates and actual loss experience. Details of advances to customers are set out in Note 27 and 31.

4. Key sources of estimation uncertainty and critical accounting judgment – continued

Impairment of available-for-sale investments

The determination of whether an available-for-sale investment is impaired requires significant judgment. For listed available-for-sale equity investments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgment is required when determining whether a decline in fair value has been significant or prolonged. In making this judgment, the Group evaluates the duration and extent to which the fair value of an investment is less than its cost. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. The Group also takes into account other factors, such as the historical data on market volatility and the price of the specific investment, significant changes in technology, markets, economics or the law, as well as industry and sector performance and the financial information regarding the investee that provides evidence that the cost of the equity securities may not be recovered. Judgment is also required to determine whether historical performance remains representative of current and future economic conditions. For unlisted available-for-sale equity investments, the Group makes the judgement as to whether there is an objective evidence of impairment exists based on the investee's financial conditions and business prospects, including industry environment, as well as operating and financing cash flows. This requires a significant level of management judgement which would affect the amount of impairment losses in profit or loss. Details of the available-for-sale investments are set out in Note 26.

Fair value of financial instruments

The Group uses valuation techniques to estimate the fair value of financial instruments which are not quoted in an active market. These valuation techniques include the use of recent transaction prices of the same or similar instruments and discounted cash flow analysis. To the extent practical market observable inputs and data, such as interest rate yield curves, are used when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. However, areas such as the credit risk of the Group and the counterparty, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

Income taxes

There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

4. Key sources of estimation uncertainty and critical accounting judgment – continued

Income taxes – continued

The realisation of a deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future.

In cases where it becomes probable that sufficient profits or taxable temporary differences are expected to be generated, deferred tax assets would be recognised in profit or loss in that period. On the contrary, if sufficient profits or taxable temporary differences are not expected to be generated, deferred tax assets would be reversed in profit or loss in that period. Details of the deductible temporary differences are disclosed in Note 28.

Determination of consolidation scope

All facts and circumstances must be taken into consideration in the assessment of whether the Group, as an investor, controls the investee. The principle of control sets out the following three elements of control: (a) power over the investee; (b) exposure, or rights, to variable returns from involvement with the investee; and (c) the ability to use power over the investee to affect the amount of the investor's returns.

For collective asset management schemes and investment funds where the Group involves as manager and also as investor, the Group considers the scope of its decision-making authority and assesses whether the combination of investments it holds together with its remuneration and credit enhancements creates exposure to variability of returns from the activities of the collective asset management schemes and investment funds that is of such significance that it indicates that the Group is a principal. The collective asset management schemes and investment funds are consolidated if the Group acts in the role of principal.

5. Segment Analysis

The Group manages the business operations by the following segments in accordance with the nature of the operations and the services provided:

- (a) Securities brokerage: securities trading and brokering services;
- (b) Credit transaction: providing financial leverage for brokerage clients, securities-backed lending and securities repurchase businesses;
- (c) Investment banking: corporate finance and financial advisory services to institutional clients and market maker business;
- (d) Proprietary trading: trading in financial products;
- (e) Asset management and investment: direct investments and funds related business, in addition to portfolio management and maintenance, investment advisory and transaction execution services;
- (f) Other businesses: including headquarters operations and interest income and expenses relating to working capital in general.

Inter-segment transactions, if any, are conducted with reference to the prices charged to third parties and there was no change in the basis during the year ended 31 December 2017.

The Group mainly operates in Jiangsu Province, the PRC. Almost all of the revenue and other income of the Group are generated in the PRC.

Non-current assets of the Group are all located in the PRC.

No income from any single customer contributed over 10% of the total revenue and other income of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

5. Segment Analysis – continued

Year ended 31 December 2017

	Securities brokerage RMB'000	Credit transaction RMB'000	Investment banking RMB'000	Proprietary trading RMB'000	Asset management and investment RMB'000	Other business RMB'000	Elimination RMB'000	Total RMB'000
Total revenue, net gains and other income	727,760	482,636	250,216	217,754	76,129	52,742	(14,434)	1,792,803
Commission and fee income								
– external	568,728	–	166,490	–	58,595	–	–	793,813
– internal	–	–	14,434	–	–	–	(14,434)	–
Interest income								
– external	158,660	482,636	39,701	9,965	19,417	47,490	–	757,869
– internal	–	–	–	–	–	–	–	–
Net investment gains								
– external	–	–	29,591	207,789	(1,908)	–	–	235,472
– internal	–	–	–	–	–	–	–	–
Other income								
– external	372	–	–	–	25	5,252	–	5,649
– internal	–	–	–	–	–	–	–	–
Total expenses	(513,880)	(248,577)	(192,779)	10,362	(34,093)	(202,811)	2,894	(1,178,884)
Operating profit/(loss)	213,880	234,059	57,437	228,116	42,036	(150,069)	(11,540)	613,919
Other gains/(losses), net								
– external	(174)	–	1,596	–	2,166	(19,917)	–	(16,329)
– internal	–	–	–	–	–	–	–	–
Share of losses of investments in associates	–	–	–	–	(3,149)	(77,763)	–	(80,912)
Profit/(loss) before income tax	213,706	234,059	59,033	228,116	41,053	(247,749)	(11,540)	516,678
Total assets	6,402,279	10,876,245	1,323,288	1,723,058	2,405,760	2,423,173	(1,087,805)	24,065,998
Total liabilities	6,292,781	7,835,454	272,103	48,772	1,790,282	222,494	11,540	16,473,426
Supplemental information								
Investments in associates	–	–	–	–	16,945	108,503	–	125,448
Interest expense	32,124	223,522	11,789	1,531	6,863	–	(1,479)	274,350
Depreciation and amortisation	24,201	1,585	2,225	578	2,514	26,049	–	57,152
Impairment (losses) reversal	(1)	(13,212)	(12,267)	19,700	(1,655)	70	–	(7,365)
Capital expenditure	16,627	24	2,559	14	65	41,323	–	60,612

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

5. Segment Analysis – continued

Year ended 31 December 2016

	Securities brokerage RMB'000	Credit transaction RMB'000	Investment banking RMB'000	Proprietary trading RMB'000	Asset management and investment RMB'000	Other business RMB'000	Elimination RMB'000	Total RMB'000
Total revenue, net gains and other income	1,009,085	432,483	545,220	147,152	142,743	70,819	(11,835)	2,335,667
Commission and fee income								
– external	795,432	–	457,610	–	63,906	–	–	1,316,948
– internal	–	–	11,085	–	–	–	(11,085)	–
Interest income								
– external	212,102	432,483	29,453	4,195	28,254	61,511	–	767,998
– internal	–	–	–	–	–	–	–	–
Net investment gains								
– external	–	–	47,072	142,957	50,583	–	–	240,612
– internal	–	–	–	–	–	–	–	–
Other income								
– external	1,551	–	–	–	–	8,558	–	10,109
– internal	–	–	–	–	–	750	(750)	–
Total expenses	(589,093)	(256,488)	(395,307)	(75,366)	(37,530)	(220,518)	11,835	(1,562,467)
Operating profit/(loss)	419,992	175,995	149,913	71,786	105,213	(149,699)	–	773,200
Other gains/(losses), net								
– external	1,932	–	2,646	–	(4,818)	59,372	–	59,132
– internal	–	–	–	–	–	–	–	–
Share of profit of investments in associates	–	–	–	–	77	27,462	–	27,539
Profit/(loss) before income tax	421,924	175,995	152,559	71,786	100,472	(62,865)	–	859,871
Total assets	8,928,378	6,715,269	1,652,310	2,110,374	2,778,953	2,541,062	(733,865)	23,992,481
Total liabilities	8,838,910	4,127,812	639,545	103,635	2,142,081	244,328	–	16,096,311
Supplemental information								
Investments in associates	–	–	–	–	20,094	199,162	–	219,256
Interest expense	43,963	237,364	8,722	799	6,680	3,965	–	301,493
Depreciation and amortisation	13,850	198	2,282	14	10	37,417	–	53,771
Impairment (losses) reversal	1,948	(1,661)	(32,574)	(67,240)	(410)	(837)	–	(100,774)
Capital expenditure	10,146	12	3,739	15	21	42,160	–	56,093

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

6. Commission and fee income

	2017	2016
	RMB'000	RMB'000
Securities brokerage	568,728	795,432
Underwriting and sponsorship	118,104	370,672
Investment consultancy and financial advisory	48,386	86,938
Asset management	58,595	63,906
	793,813	1,316,948

7. Interest income

	2017	2016
	RMB'000	RMB'000
Interest income from margin financing and securities lending	322,669	361,443
Interest income from bank deposits	255,967	315,248
Interest income from financial assets held under resale agreements	179,233	91,307
	757,869	767,998

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

8. Net investment gains

	2017	2016
	RMB'000	RMB'000
Net gains from disposal of available-for sale financial assets	192,080	125,605
Dividends and interest income from available-for sale financial assets	23,968	16,846
Realised gains from disposal of financial assets		
at fair value through profit or loss	88,192	52,508
Distribution to interest holders of consolidated SEs	(139,206)	(123,715)
Dividends and interest income from financial assets		
at fair value through profit or loss	133,223	148,084
Net realised gains from derivative financial instruments	1,231	9,260
Unrealised fair value change of financial instruments		
at fair value through profit or loss		
– Financial assets at fair value through profit or loss	(11,030)	(68,478)
– Derivative financial instruments	(99)	85
– Financial liabilities at fair value through profit or loss	(52,887)	80,417
	235,472	240,612

9. Other income

	2017	2016
	RMB'000	RMB'000
Rental income	5,420	9,959
Others	229	150
	5,649	10,109

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

10. Commission and fee expenses

	2017	2016
	RMB'000	RMB'000
Securities brokerage	150,493	206,559
Underwriting and sponsorship	2,212	71,849
Investment consultancy and financial advisory	–	180
Asset management	1,937	3,006
	154,642	281,594

11. Interest expense

	2017	2016
	RMB'000	RMB'000
Interest expense of bond in issue	209,546	240,437
Interest expense of financial assets sold under repurchase agreement	20,075	17,081
Interest expense of accounts payable to brokerage clients	32,232	43,963
Interest expenses of due to other financial institutions	12,497	12
	274,350	301,493

12. Staff costs (including directors' and supervisors' remuneration)

	2017	2016
	RMB'000	RMB'000
Salaries and bonus	335,458	453,527
Pension	68,131	59,983
Other social security	35,971	30,548
Labor union funds and employee education funds	7,576	6,536
Other welfare	19,527	17,195
	466,663	567,789

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

12. Staff costs (including directors' and supervisors' remuneration) – continued

12.1 The five highest paid individuals

For the year ended 31 December 2017, the five highest paid individuals do not include any of the directors or supervisors of the Company.

Details of the remuneration for the five highest paid individuals for the relevant year are as follows:

	2017	2016
	RMB'000	RMB'000
Salaries allowances and other welfares	5,714	9,522
Bonus	18,811	21,234
	24,525	30,756

The remuneration of the senior management and individuals by range:

	Number of Employees	
	2017	2016
HKD3,000,001 to HKD5,000,000	4	–
HKD5,000,001 to HKD7,000,000	1	3
HKD7,000,001 to HKD9,000,000	–	1
HKD9,000,001 to HKD11,000,000	–	1
	5	5

The Group has not provided any compensation to any of the directors and supervisors of the Company or the five highest paid individuals as incentive for them to join the Group, reward for joining the Group or for leaving the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

13. Depreciation and amortisation

	2017	2016
	RMB'000	RMB'000
Depreciation of property, plant and equipment	22,977	21,276
Amortisation of intangible assets	24,532	24,450
Amortisation of long-term prepaid expense	9,643	8,045
	57,152	53,771

14. Other operating expenses

	2017	2016
	RMB'000	RMB'000
Tax and surcharges	9,742	44,489
Rentals	59,168	57,211
Office expenses	17,910	22,783
Marketing and distribution expenses	18,535	17,939
Securities investors protection fund	18,634	13,659
Travelling expenses	22,152	23,647
Consulting expenses	9,789	9,727
Professional service expenses	7,647	16,462
Auditor's remuneration		
– audit services (Note)	1,860	2,160
Others	53,275	48,969
	218,712	257,046

Note: Auditor's remuneration for statutory audit of the Group for the year ended 31 December 2017 was included in auditor's remuneration (2016: the same). The statutory financial statements were audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP (2016: the same).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

15. Impairment losses (Reversal)

	2017	2016
	RMB'000	RMB'000
Available-for-sale financial assets	(5,920)	109,135
Margin accounts receivable	802	(5,212)
Accounts receivable	124	(3,627)
Financial assets held under resale agreements	12,359	478
	7,365	100,774

16. Other (losses)/gains, net

	2017	2016
	RMB'000	RMB'000
Foreign exchange (losses)/gains	(24,971)	55,978
Others	8,642	3,154
	(16,329)	59,132

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

17. Income tax expense

	2017 RMB'000	2016 RMB'000
Current income tax expense		
– Mainland China	136,553	250,785
Deferred taxation		
– Mainland China (Note 28)	6,477	(34,523)
Income tax		
– Mainland China	143,030	216,262

The mainland China income tax provision is based on the statutory tax rate of 25% of the taxable income of the Group as determined in accordance with the relevant PRC income tax rules and regulations.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the taxation rate of 25%. The major reconciliation items are as follows:

	2017 RMB'000	2016 RMB'000
Profit before income tax	516,678	859,871
Tax calculated at applicable statutory tax rate of 25%	129,170	214,968
Income not subject to tax	(2,450)	(5,637)
Expense/loss not deductible for tax purposes	25,378	1,956
Adjustment in respect of prior years	(9,068)	4,975
	143,030	216,262

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

18. Profit attributable to non-controlling interests

	2017	2016
	RMB'000	RMB'000
Hua Ying Securities Co., Ltd.	12,156	33,541

19. Earnings per share

19.1 Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2017	2016
Profit attributable to shareholders of the Company (RMB'000)	361,492	610,068
Weighted average number of ordinary shares in issue (in thousand)	1,902,400	1,902,400
Basic earnings per share (in RMB)	0.19	0.32

19.2 Diluted earnings per share

For the year ended 31 December 2017, there were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share (2016: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

20. Dividends

No dividend has been proposed for the year ended 31 December 2017 since the end of reporting period (2016: RMB0.14 per share, amounting to a total dividend of RMB266,336 thousand).

Under the “Company Law” of the PRC, the Group’s Articles of Association and in accordance with the requirements of CSRC, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

- (1) Making up cumulative losses from prior years, if any;
- (2) 10% of the Company’s profit is appropriated to the non-distributable statutory surplus reserve;
- (3) 10% of the Company’s profit is appropriated to the non-distributable general reserve;
- (4) 10% of the Company’s profit is appropriated to the non-distributable transaction risk reserve;
- (5) Appropriations to the discretionary surplus reserve with approval from the General Meeting of Shareholders. These funds form part of the shareholders’ equity.

In accordance with the relevant regulations, upon the occurrence of certain events, the net profit after tax of the Group for the purpose of profit distribution is deemed to be the lesser of (1) the retained profits determined in accordance with People’s Republic of China Generally Accepted Accounting Principles (“PRC GAAP”) and (2) the retained profit determined in accordance with IFRSs.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

21. Property and equipment

	Buildings RMB'000	Motor vehicles RMB'000	Electronics and other equipment RMB'000	Total RMB'000
Cost				
1 January 2017	155,303	9,419	162,055	326,777
Additions	–	–	18,485	18,485
Disposals	–	(666)	(17,097)	(17,763)
31 December 2017	155,303	8,753	163,443	327,499
Accumulated depreciation				
1 January 2017	(84,069)	(8,102)	(129,034)	(221,205)
Additions	(5,530)	(746)	(16,701)	(22,977)
Disposals	–	633	14,649	15,282
31 December 2017	(89,599)	(8,215)	(131,086)	(228,900)
Carrying amount				
31 December 2017	65,704	538	32,357	98,599

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

21. Property and equipment – continued

	Buildings RMB'000	Motor vehicles RMB'000	Electronics and other equipment RMB'000	Total RMB'000
Cost				
1 January 2016	155,303	10,769	146,244	312,316
Additions	–	–	23,347	23,347
Disposals	–	(1,350)	(7,536)	(8,886)
31 December 2016	155,303	9,419	162,055	326,777
Accumulated depreciation				
1 January 2016	(78,539)	(8,140)	(121,997)	(208,676)
Additions	(5,530)	(1,245)	(14,501)	(21,276)
Disposals	–	1,283	7,464	8,747
31 December 2016	(84,069)	(8,102)	(129,034)	(221,205)
Carrying amount				
31 December 2016	71,234	1,317	33,021	105,572

For the year ended 31 December 2017, (losses)/gains from disposal of property and equipment amounted to RMB (226) thousand (2016: RMB368 thousand).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

22. Goodwill

Goodwill of the Group arose from its acquisition of securities branches. The Group recognised the excess of acquisition cost over the fair value of the net identifiable assets acquired as the goodwill, amounting to RMB10,316 thousand, these two securities branches were considered to be one cash-generating unit (CGU).

Based on value in use calculations, it was estimated that goodwill had been fully impaired. Therefore, goodwill impairment was fully provided.

23. Principal subsidiaries

23.1 General information of principal subsidiaries

The following were principal subsidiaries of the Group as at 31 December 2017. The equity interests in these subsidiaries were all ordinary shares and directly held by the Company and the percentage of ownership held by the Group represented the voting rights of the Group. The registered addresses were also their business locations.

Name of subsidiary	Date of establishment	Place of Registration	Registered capital	Equity interests held by the Group		Principal
				31 December 2017	31 December 2016	
Hua Ying Securities Co., Ltd.	April 2011	Wuxi, PRC	800,000	100.00%	66.70%	Underwriting and sponsor
Guolian Tongbao Capital Investment Co., Ltd.	January 2010	Wuxi, PRC	200,000	100.00%	100.00%	Investment holding

23.2 Material non-controlling interests

On 6 July 2017, the Company entered into the Equity Transfer Agreement with The Royal Bank of Scotland plc ("RBS"), pursuant to which, the Company had agreed to acquire, and RBS had agreed to sell, 33.3% of the equity interest in Hua Ying Securities Co., Ltd. ("Hua Ying Securities")

Upon completion of the Company's acquisition of the 33.3% equity interest in Hua Ying Securities from RBS, Hua Ying Securities became a wholly-owned subsidiary of the Company. On 22 September 2017, Hua Ying Securities completed the business registration for the change of shareholders. The consideration for the acquisition is RMB354 million, and the consideration was paid by the Company in cash.

As at 31 December 2017, there was no non-controlling interests for the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

24. Investments in associates

Set out below are the associates of the Group as at 31 December 2017, which, in the opinion of the directors of the Company, are material to the Group. Investments in associates as listed below are held directly by the Company; the country of incorporation or registration is also their principal place of business.

Nature of investment in associates as at 31 December 2017

	Place of business/ country of incorporation	% of ownership interest	Nature of the relationship	Management method
Zhonghai Fund Management Co., Ltd.	China	33.41%	Note 1	Equity
Wuxi Guolian Lingxiang SME Investment Company (L.P.)	China	33.33%	Note 2	Equity

Note 1: Zhonghai Fund Management Co., Ltd., held by the Company, provides funds distribution, asset management and other services authorised by the CSRC.

Note 2: Wuxi Guolian Lingxiang SME investment Company (L.P.) is a Limited Liability Partnership mainly operating in investment in small and medium enterprises.

All the entities are private companies and there are no quoted market prices available for their shares.

There are no contingent liabilities relating to the Group's interests in the associates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

24. Investments in associates – continued

	2017	2016
	RMB'000	RMB'000
Balance at beginning of the year	219,256	203,498
Additional investment	–	6,000
Share of profit	(80,912)	27,539
Share of other comprehensive income/(expense)	1,136	(2,717)
Dividend received	(14,032)	(15,064)
Balance at end of the year	125,448	219,256

The results of the Group's principal associates, and their aggregated assets (including goodwill) and liabilities, are as follows:

	Zhonghai Fund Management Co., Ltd.	
	2017	2016
	RMB'000	RMB'000
Carrying amount of total assets	707,745	762,049
Carrying amount of net assets	351,266	616,154
Amounts of the Group's share thereon	108,503	199,161
(Losses)/profit for the year	(226,288)	91,889
Other comprehensive income/(expense)	3,400	(8,134)
Amounts of the Group's share of (losses)/profit for the year	(77,763)	27,462
Amounts of the Group's share of other comprehensive income/(expense)	1,136	(2,717)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

24. Investments in associates – continued

	Wuxi Guolian Lingxiang SME Investment Company (L.P.)	
	2017	2016
	RMB'000	RMB'000
Carrying amount of total assets	50,850	60,299
Carrying amount of net assets	50,836	60,284
Amounts of the Group's share thereon	16,945	20,095
(Losses)/profit for the year	(9,169)	142
Other comprehensive income	–	–
Amounts of the Group's share of (losses)/profit for the year	(3,149)	77
Amounts of the Group's share of other comprehensive income	–	–

25. Other non-current assets

	2017/12/31	2016/12/31
	RMB'000	RMB'000
Long-term prepaid assets (Note)	29,173	20,178

Note: Long-term prepaid assets

	2017	2016
	RMB'000	RMB'000
Balance at beginning of the year	20,178	18,990
Additions	18,638	9,251
Disposal	–	(18)
Amortisation	(9,643)	(8,045)
Balance at end of the year	29,173	20,178

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

26. Available-for sale financial assets

Non-current assets

	2017/12/31 RMB'000	2016/12/31 RMB'000
At cost		
Investments in unlisted companies	103,235	121,914
At fair value		
Debt Instrument	15,922	72,305
Collective asset management schemes	41,947	139,002
Other equity investment ⁽¹⁾	–	554,197
	57,869	765,504
	161,104	887,418
Analysed as		
Unlisted	161,104	887,418

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

26. Available-for sale financial assets – continued

Current assets

	2017/12/31	2016/12/31
	RMB'000	RMB'000
At fair value		
Equity securities ⁽²⁾	637,437	549,954
Investment funds	142,660	98,530
Collective asset management schemes	119,114	128,117
	899,211	776,601
Analysed as		
Listed in Hong Kong	259,358	128,479
Listed outside Hong Kong	472,091	432,236
Unlisted	167,762	215,886
	899,211	776,601

- (1) As at 31 December 2016, other equity investment mainly included an investment in designated accounts established and managed by China Securities Finance Corporation Limited ("CSF"). According to the relevant contracts between the securities companies and CSF, the Company, along with other securities companies, make investments in a designated account managed by CSF, and share the risk and reward profiles in proportion. The Company contributed RMB500,000 thousand into the designated account during 2015. The fair value of the investments was determined based on the valuation provided by the CSF.
- (2) As at 31 December 2017, available-for-sale financial assets for the Group included securities lent to clients of RMB17,148 thousand (31 December 2016: RMB14,399 thousand).
- (3) As at 31 December 2017, the fair value of securities of the Group which have been placed as collateral is RMB142,499 thousand (31 December 2016: nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

27. Financial assets held under resale agreements

Non-current assets

	2017/12/31	2016/12/31
	RMB'000	RMB'000
Analysed by asset type:		
– Equity securities	1,465,790	433,400
Less: Impairment allowance	(4,397)	(1,300)
	1,461,393	432,100
Analysed by market:		
– Shanghai Stock Exchange	841,458	–
– Shenzhen Stock Exchange	619,935	432,100
	1,461,393	432,100

Current assets

	2017/12/31	2016/12/31
	RMB'000	RMB'000
Analysed by asset type:		
– Equity securities	3,721,455	634,087
– Debt securities	881,490	917,112
Less: Impairment allowance	(11,165)	(1,903)
	4,591,780	1,549,296
Analysed by market:		
– Interbank market	237,790	753,712
– Shanghai Stock Exchange	3,503,200	300,793
– Shenzhen Stock Exchange	850,790	494,791
	4,591,780	1,549,296

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

27. Financial assets held under resale agreements – continued

The Group received equity securities and debt securities as collaterals in connection with the purchase of assets under resale agreements. Certain of these collaterals can be resold or re-pledged. As at 31 December 2017, there is no collaterals accepted by the Group that can be resold or re-pledged for financial assets sold under repurchase agreement. (31 December 2016: RMB173,557 thousand). As at 31 December 2017, no financial assets held under resale agreements of the Group are overdue (31 December 2016: the same).

28. Deferred income tax assets and liabilities

(1) The net movements on the deferred income tax account are as follows:

	2017/12/31 RMB'000	2016/12/31 RMB'000
Balance at beginning of the year	8,605	(30,094)
(Charge)/credit to profit or loss (Note 17)	(6,477)	34,523
Credit to other comprehensive income	19,349	4,176
Balance at end of the year	21,477	8,605

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

28. Deferred income tax assets and liabilities – continued

(2) The gross movements in deferred income tax assets during the year are as follows:

	Impairment losses RMB'000	Changes in fair value of financial assets at fair value through profit or loss RMB'000	Other RMB'000	Total RMB'000
As at 1 January 2016	14,100	–	13,339	27,439
Credit to profit or loss	20,562	–	7,823	28,385
Tax charge relating to components of other comprehensive income	–	–	–	–
At 31 December 2016	34,662	–	21,162	55,824
(Charge)/credit to profit or loss	(15,676)	2,510	(8,196)	(21,362)
Charge relating to components of other comprehensive income	–	–	–	–
At 31 December 2017	18,986	2,510	12,966	34,462

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

28. Deferred income tax assets and liabilities – continued

- (3) The gross movements in deferred income tax liabilities during the year are as follows:

	Changes in fair value of available-for- sale financial assets RMB'000	Changes in fair value of financial assets at fair value through profit or loss RMB'000	Changes in fair value of derivatives RMB'000	Other RMB'000	Total RMB'000
As at 1 January 2016	24,331	2,102	4	31,096	57,533
(Credit)/charge to profit or loss	–	(1,854)	21	(4,305)	(6,138)
Credit to other comprehensive income	(4,176)	–	–	–	(4,176)
At 31 December 2016	20,155	248	25	26,791	47,219
Credit to profit or loss	–	(248)	(25)	(14,612)	(14,885)
Credit to other comprehensive income	(19,349)	–	–	–	(19,349)
At 31 December 2017	806	–	–	12,179	12,985

- (4) Net amount of deferred income tax assets and liabilities after offsetting:

	2017/12/31 RMB'000	2016/12/31 RMB'000
Deferred income tax assets	21,477	8,605
Deferred income tax liabilities	–	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

29. Refundable deposits

	2017/12/31	2016/12/31
	RMB'000	RMB'000
Deposits to Stock Exchanges		
– Shanghai Stock Exchange	76,738	42,205
– Shenzhen Stock Exchange	27,645	35,219
– China Beijing Equity Exchange	1,907	1,172
Deposits to futures brokers		
– Guolian Futures Co., Ltd. ("Guolian Futures")	–	1,620
	106,290	80,216

30. Other current assets

	2017/12/31	2016/12/31
	RMB'000	RMB'000
Interest receivable (Note 1)	220,896	188,194
Accounts receivable (Note 2)	39,385	48,174
Prepaid expenses	31,048	13,671
Other receivables	19,122	15,744
Less: Impairment allowance	(872)	(748)
	309,579	265,035

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

30. Other current assets – continued

Note 1: Interest receivable

	2017/12/31	2016/12/31
	RMB'000	RMB'000
Interest receivable from margin financing, securities lending and financial assets held under resale agreements	156,955	116,362
Interest receivable from bonds	60,234	70,320
Interest receivable from deposits	3,707	1,512
	220,896	188,194

Note 2: Account receivables

The aging analysis of accounts receivables based on the date of rendering services is as follows:

	2017/12/31		2016/12/31	
	Amount	Impairment allowance	Amount	Impairment allowance
	RMB'000	RMB'000	RMB'000	RMB'000
Up to 1 year	37,928	–	41,156	–
1 to 2 years	1,457	–	7,018	–
	39,385	–	48,174	–

31. Margin accounts receivable

	2017/12/31	2016/12/31
	RMB'000	RMB'000
Margin accounts receivable	4,623,242	4,366,312
Less: Impairment allowance	(13,901)	(13,099)
	4,609,341	4,353,213

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

31. Margin accounts receivable – continued

Margin accounts are the funds the Group lends to the customers in margin financing and securities lending business. As at 31 December 2017, impairment allowance amounting to RMB13,901 thousand was provided on a collective basis (31 December 2016: RMB13,099 thousand).

Margin accounts receivable as at 31 December 2017 is secured by the customers' securities as collateral with undiscounted market value of approximately RMB13,626,700 thousand (31 December 2016: RMB13,716,076 thousand).

32. Financial assets at fair value through profit or loss

	2017/12/31 RMB'000	2016/12/31 RMB'000
Financial assets held for trading		
Debt securities	2,120,482	2,350,006
Equity securities	69,693	74,158
Investment funds	121,862	129,190
	2,312,037	2,553,354
Financial assets designated at fair value through profit or loss		
Debt securities	–	36,478
Asset backed securities	50,000	50,190
Equity securities	–	92,470
	50,000	179,138
	2,362,037	2,732,492

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

32. Financial assets at fair value through profit or loss – continued

	2017/12/31	2016/12/31
	RMB'000	RMB'000
Analysed as:		
Financial assets held for trading		
Listed outside Hong Kong	2,312,037	2,553,354
	2,312,037	2,553,354
Analysed as		
Financial assets designated at fair value through profit or loss		
Listed outside Hong Kong	50,000	179,138
	50,000	179,138
	2,362,037	2,732,492

If a portfolio of financial assets is managed and its performance is evaluated on a fair value basis in accordance with the Group's investment strategy, and information about the portfolio is reported to the management on that basis, the same basis is adopted for designation. According to this principle, the Group manages certain financial assets at fair value under the established investment strategy and considers the relationship between assets and liabilities, in order to mitigate the market risk, and therefore designates these financial assets at fair value through profit or loss.

As at December 2017, the fair value of securities of the Group which have been placed as collateral was RMB716,237 thousand (31 December 2016: RMB1,369,072 thousand).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

33. Clearing settlement funds

	2017/12/31	2016/12/31
	RMB'000	RMB'000
Clearing settlement funds held for clients	2,272,606	2,889,652
Proprietary clearing settlement funds	384,227	406,618
	2,656,833	3,296,270

34. Cash held for brokerage clients

The Group maintains separate banking accounts with banks and authorised institutions for clients' monies arising from the normal course of business. The Group records these monies as cash held for brokerage clients under current assets, and recognises them as due to clients given that they are held liable for any loss or appropriation of these monies. Cash held for brokerage clients for their transaction and settlement purposes is subject to regulatory oversight by third-party depository institutions as per CSRC regulations.

35. Cash and bank balances

	2017/12/31	2016/12/31
	RMB'000	RMB'000
Bank balances	1,952,059	2,464,918
	1,952,059	2,464,918

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

36. Share capital

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

	2017/12/31	2016/12/31
	RMB'000	RMB'000
Issued and fully paid ordinary share of RMB1 each		
Domestic shares	1,459,760	1,459,760
H shares	442,640	442,640
	1,902,400	1,902,400
Share Capital		
Domestic shares	1,459,760	1,459,760
H shares	442,640	442,640
	1,902,400	1,902,400

On 6 July 2015, the Company completed its initial public offering of 402,400 thousand H shares on the Main Board of Hong Kong Stock Exchange.

The excess of RMB2,042,840 thousand over the par value of RMB402,400 thousand for the 402,400 thousand ordinary shares issued, net of the relevant incremental costs of RMB94,922 thousand directly contributed to the newly issued shares, was credited to "share premium".

According to the relevant PRC requirements, existing shareholders of the state-owned shares of the Company have converted an aggregated of 40,240 thousand shares into H shares on a one-for-one basis. Total amount of RMB253,995 thousand from the proceeds of such shares has been paid to the National Council for Social Security Fund of the PRC.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

37. Share premium and reserves

	Share Premium RMB'000	Surplus reserve ⁽¹⁾ RMB'000	General reserve ⁽²⁾ RMB'000	Transaction risk reserve ⁽²⁾ RMB'000	Share of other Comprehensive Income of investments in associates RMB'000	Available-for- sale Financial assets revaluation reserve ⁽³⁾ RMB'000	Other reserve RMB'000	Total
As at 1 January 2016	2,178,478	391,129	547,008	508,864	2,565	73,007	–	3,701,051
Amounts recognized in other comprehensive income	–	–	–	–	(2,717)	(12,531)	–	(15,248)
Appropriation to surplus reserve	–	54,969	–	–	–	–	–	54,969
Appropriation to general reserve	–	–	54,969	–	–	–	–	54,969
Appropriation to transaction risk reserve	–	–	–	54,969	–	–	–	54,969
As at 31 December 2016	2,178,478	446,098	601,977	563,833	(152)	60,476	–	3,850,710
Amounts recognized in other comprehensive income	–	–	–	–	1,136	(58,046)	–	(56,910)
Appropriation to surplus reserve	–	39,523	–	–	–	–	–	39,523
Appropriation to general reserve	–	–	39,523	–	–	–	–	39,523
Appropriation to transaction risk reserve	–	–	–	39,523	–	–	–	39,523
Acquisition of non-controlling interests	–	–	–	–	–	–	(14,817)	(14,817)
As at 31 December 2017	2,178,478	485,621	641,500	603,356	984	2,430	(14,817)	3,897,552

(1) Surplus reserve

Pursuant to the Company Law of the PRC, the Company's Articles of Association and resolutions of the Board, the Company is required to appropriate 10% of its profit net of the previous years' losses to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses, or converted into capital of the Company, provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before capitalisation.

(2) General reserve and transaction risk reserve

In accordance with the requirements of the CSRC Circular regarding the Annual Reporting of Securities Companies in 2007 (Zhengjian Jigou Zi [2007] No.320) issued on 18 December 2007, the Company appropriates 10% of its profit to the general risk reserve.

In accordance with the requirements of the CSRC Circular regarding the Annual Reporting of Securities Companies in 2007 (Zhengjian Jigou Zi [2007] No.320) issued on 18 December 2007 and in compliance with the Securities Law, for the purpose of covering securities trading losses, the Company appropriates 10% from its profit to the transaction risk reserve.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

37. Share premium and reserves – continued

(3) Available-for-sale financial assets revaluation reserve

Fair value changes of available-for-sale financial assets for other comprehensive income are as below:

	Year ended 31 December 2017		
	Pre-tax amount	Income tax effect (Note 28)	After-tax net amount
	RMB'000	RMB'000	RMB'000
Balance at beginning of year	80,636	(20,160)	60,476
Changes in fair value for available-for-sale financial assets	122,284	(30,571)	91,713
Amounts reclassified to profit or loss upon disposal or impairment provision of available-for-sale financial assets	(199,679)	49,920	(149,759)
Balance at end of year	3,241	(811)	2,430

	Year ended 31 December 2016		
	Pre-tax amount	Income tax effect (Note 28)	After-tax net amount
	RMB'000	RMB'000	RMB'000
Balance at beginning of year	97,343	(24,336)	73,007
Changes in fair value for available-for-sale financial assets	(4,355)	1,088	(3,267)
Amounts reclassified to profit or loss upon disposal or impairment provision of available-for-sale financial assets	(12,352)	3,088	(9,264)
Balance at end of year	80,636	(20,160)	60,476

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

38. Bonds in issue

	2017/12/31	2016/12/31
	RMB'000	RMB'000
Current		
Subordinated bonds with fixed rate – 2017 ^(a)	–	1,500,000
Corporate bonds with fixed rate – 2018 ^(b)	500,000	–
Income certificates ^(c)	2,320,000	300,000
	2,820,000	1,800,000
Non-Current		
Subordinated bonds with fixed rate – 2021 ^(d)	1,500,000	1,500,000
Corporate bonds with fixed rate – 2020 ^(e)	1,000,000	–
Corporate bonds with fixed rate – 2019 ^(f)	800,000	–
Corporate bonds with fixed rate – 2019 ^(g)	500,000	–
	3,800,000	1,500,000
	6,620,000	3,300,000

(a) On 31 October 2014, the Company issued RMB1,500,000 thousand of subordinated bonds on Shanghai Stock Exchange with a term of 3 years and a fixed coupon rate of 6.20% paid annually.

(b) On 11 July 2017, the Company issued RMB500,000 thousand of Corporate bonds on Shanghai Stock Exchange with a term of 274 days and a fixed coupon rate of 5.00% paid at maturity.

(c) As at 31 December 2017, income certificates were with a maturity ranging from 1 to 12 months and bore interest rates ranging from 4.50% to 5.75% per annum paid at maturity (As at 31 December 2016, income certificates were with a maturity of 24 months and bore interest rates ranging from 6.36% to 6.40% per annum paid at maturity).

(d) On 29 July 2016, the Company issued RMB1,500,000 thousand of subordinated bonds on Shanghai Stock Exchange with a term of 5 years and a fixed coupon rate of 3.89% paid annually.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

38. Bonds in issue – continued

- (e) On 24 August 2017, the Company issued RMB1,000,000 thousand of corporate bonds on Shanghai Stock Exchange with a term of 3 years and a fixed coupon rate of 5.00% paid annually.
- (f) On 14 September 2017, the Company issued RMB800,000 thousand of corporate bonds on Shanghai Stock Exchange with a term of 2 years and a fixed coupon rate of 4.95% paid annually.
- (g) On 16 November 2017, the Company issued RMB500,000 thousand of corporate bonds on Shanghai Stock Exchange with a term of 2 years and a fixed coupon rate of 5.30% paid annually.

39. Other current liabilities

	2017/12/31	2016/12/31
	RMB'000	RMB'000
Salaries, bonus, allowances and benefits payable (Note 40)	157,882	255,261
Interest payable	103,080	74,903
Accounts payable	25,154	24,112
Other taxes payable	37,899	17,077
Securities investor protection fund	9,815	6,928
Others	21,572	58,292
	355,402	436,573

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

40. Payroll and welfare

	1 January 2017 RMB'000	Current year charge RMB'000	Current year payment RMB'000	31 December 2017 RMB'000
Salaries and bonus	254,161	335,458	(433,103)	156,516
Pension	577	68,131	(68,144)	564
Other social security	510	35,971	(36,011)	470
Other welfare	–	19,527	(19,202)	325
Labour union funds and employee education funds	13	7,576	(7,582)	7
	255,261	466,663	(564,042)	157,882

	1 January 2016 RMB'000	Current year charge RMB'000	Current year payment RMB'000	31 December 2016 RMB'000
Salaries and bonus	227,163	453,527	(426,529)	254,161
Pension	5	59,983	(59,411)	577
Other social security	50	30,548	(30,088)	510
Other welfare	–	17,195	(17,195)	–
Labour union funds and employee education funds	66	6,536	(6,589)	13
	227,284	567,789	(539,812)	255,261

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

41. Due to other financial institutions

	2017/12/31	2016/12/31
	RMB'000	RMB'000
Due to other financial institutions	600,000	–
	600,000	–

As at 31 December 2017, the taking from China Securities Finance Corporation Limited bears interest rate of 5.10% per annum, with original maturities within 182 days.

42. Derivative financial instruments

	31 December 2017		31 December 2016	
	Assets	Liabilities	Assets	Liabilities
	RMB'000	RMB'000	RMB'000	RMB'000
Futures contracts	–	–	–	–
Listed options	–	–	–	244
	–	–	–	244

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

42. Derivative financial instruments – continued

(1) Futures contracts

	31 December 2017		31 December 2016	
	Contractual value	Fair value	Contractual value	Fair value
	RMB'000	RMB'000	RMB'000	RMB'000
SIF	–	–	3,950	36
Less: Cash paid as settlement	–	–	–	(36)
Net position of SIF contracts	–	–	–	–

The future contracts of the Group mainly represent stock index futures contracts. The Group settles its gains or losses on stock index futures (“SIF”) position on a daily basis, at 31 December 2017, there is no such derivative financial instruments.

(2) Listed options

The listed options of the Group mainly represent ETF options which were traded at Shanghai Stock Exchange. At 31 December 2017, there is no outstanding ETF options. As at 31 December 2016, the intrinsic value of the outstanding ETF options amounted to RMB452 thousand.

43. Financial assets sold under repurchase agreement

	2017/12/31	2016/12/31
	RMB'000	RMB'000
Analysed by asset type		
– Debt securities	297,910	882,240

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

43. Financial assets sold under repurchase agreement – continued

	2017/12/31	2016/12/31
	RMB'000	RMB'000
Analysed by market		
– Interbank market	187,410	459,741
– Shanghai Stock Exchange	110,500	413,499
– Shenzhen Stock Exchange	–	9,000
	297,910	882,240

	2017/12/31	2016/12/31
	RMB'000	RMB'000
Analysed by transaction type:		
– Pledged	297,910	882,240

As at 31 December 2017 and 2016, the fair value of the financial assets at fair value through profit or loss that had been placed as financial assets sold under repurchase agreements of the Group were listed as below:

	2017/12/31	2016/12/31
	RMB'000	RMB'000
Pledged		
Financial assets at fair value through profit or loss	690,432	1,369,072

44. Financial liabilities at fair value through profit or loss

	2017/12/31	2016/12/31
	RMB'000	RMB'000
Interests of other holders in consolidated SEs	1,707,115	1,787,478

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

45. Accounts payable to brokerage clients

Accounts payable to brokerage clients mainly include money held for clients placed at banks and at clearing houses by the Group, and are interest bearing at the prevailing market interest rates. The majority of the accounts payable balances are repayable on demand except where certain balances represent margin deposits and cash collateral received from clients for their trading activities under the normal course of business. Only the excess amounts over the required margin deposits and cash collateral stipulated are repayable on demand.

As at 31 December 2017, cash collateral received from clients for margin financing and securities lending arrangements amounted to RMB617,854 thousand (31 December 2016: RMB838,017 thousand), and are included in the Group's accounts payable to brokerage clients.

46. Cash and cash equivalents

For the purpose of cash flow statements, cash and cash equivalents include amounts that can be used to meet short-term cash commitments.

	2017/12/31	2016/12/31
	RMB'000	RMB'000
Bank balances	1,952,059	2,464,918
Proprietary clearing settlement funds	384,227	406,618
Cash equivalents		
– Financial assets held under resale agreements with original maturity less than 3 months	707,000	917,112
	3,043,286	3,788,648

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

47. Transferred financial assets

In the normal course of business, the Group enters into certain transactions in which it transfers recognised financial assets to third parties or customers. If these transfers qualify for derecognition, the Group derecognises all or part of the financial assets where appropriate. If the Group has retained substantially all the risks and rewards on these assets, the Group continues to recognise these assets.

(1) Securities lending

Transferred financial assets that do not qualify for derecognition include securities lent to clients for them to sell, for which the clients are required provide collateral that could fully cover the credit exposure of the securities lent, and have the obligation to return the securities to the Group in accordance with the contracts. In certain circumstances, if the securities increase or decrease in value, the Group may require additional collateral from the clients or have to return part of the collateral it holds to the clients. In these instances, the Group believes that it retains substantially all the risks and rewards of these securities and therefore does not derecognise them.

(2) Repurchase agreements

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 the agreed date and price. The repurchase prices are fixed and the Group is still exposed to substantially all the credit risks, market risks and rewards of those securities sold. These securities loans are not derecognised from the financial statements but regarded as “collateral” for the liabilities because the Group retain substantially all the risks and rewards of these securities.

The proceeds from selling such securities are presented as financial assets sold under repurchase agreements. Because the Group sells the contractual rights to the cash flows of the securities, it does not have the ability to use the transferred securities during the term of the arrangements and transferred rights and interests in margin loans.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

47. Transferred financial assets – continued

(2) Repurchase agreements – continued

The following table analyses the carrying amount of the above mentioned financial assets transferred to third parties or customers that did not qualify for derecognition and their associated financial liabilities:

	2017/12/31		2016/12/31	
	Carrying amount of transferred assets RMB'000	Carrying amount of related liabilities RMB'000	Carrying amount of transferred assets RMB'000	Carrying amount of related liabilities RMB'000
Financial assets at fair value through profit or loss	690,432	(297,910)	1,369,072	(882,240)
Securities lending	17,148	–	14,399	–
	707,580	(297,910)	1,383,471	(882,240)

48. Commitments and contingent liabilities

(1) Capital commitments

As at 31 December 2017, the Group was not involved in any material commitments (31 December 2016: same).

(2) Operating lease commitments

Considering the Group as a lessee, the total future minimum lease payments of buildings under irrevocable operating lease arrangements are as follows:

	2017/12/31 RMB'000	2016/12/31 RMB'000
Within 1 year	50,735	41,324
1 to 3 years	110,945	59,560
Over 3 years	41,190	74,292
	202,870	175,176

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

48. Commitments and contingent liabilities – continued

(3) Legal proceedings

From time to time in the ordinary course of business, the Group may be involved in claims and legal proceedings or subjected to investigations by regulatory authorities. As at 31 December 2017, the Group was not involved in any material legal, arbitration or administrative proceedings which the Group expects would have significant adverse impact on its financial position and operating results, should unfavourable rulings have been handed down (31 December 2016: the same).

49. Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bonds in issue RMB'000	Interest payable of bonds in issue RMB'000	Dividend Payable RMB'000	Total RMB'000
At 1 January 2017	3,300,000	74,841	–	3,374,841
Financing cash flows				
– Additional bonds in issue	5,120,600	–	–	5,120,600
– Repayment of bonds in issue	(1,800,600)	–	–	(1,800,600)
– Interest paid	–	(190,598)	–	(190,598)
– Dividends paid	–	–	(266,336)	(266,336)
Non-cash changes				
– Interest expense	–	209,546	–	209,546
– Dividends declared	–	–	266,336	266,336
At 31 December 2017	6,620,000	93,789	–	6,713,789

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

50. Related party transactions

50.1 Transactions and balances with the Company's controlling shareholder – Guolian Group

Wuxi Guolian Development (Group) Co., Ltd. (collectively referred to as “Guolian Group” together with its subsidiaries) is a wholly state-owned company established in the PRC with a registered capital of RMB8,000,000 thousand. As at 31 December 2017, Guolian Group directly held 28.59% of the equity interest in the Company. In addition, Guolian Group also indirectly held equity interest in Company through its subsidiaries of Guolian Trust Co., Ltd. (“Guolian Trust”), Wuxi Municipal Electric Power Company (“Wuxi Electric”), Wuxi Yi Mian Textile Group Co., Ltd. (“Yi Mian Textile”) Wuxi Guolian Environmental Energy Group Co., Ltd. (“Guolian Environmental”) and Wuxi Min Sheng Investment Co., Ltd. (“Min Sheng Investment”) and Wuxi Huaguang Boiler Co., Ltd. (“Wuxi Huaguang Boiler”).

Guolian Trust is the subsidiary of Guolian Group who directly held 65.85% of the equity interest. As at 31 December 2017, Guolian Trust held 20.51% of the equity interest in the Company.

Wuxi Electric is an indirectly wholly-owned subsidiary of Guolian Group. As at 31 December 2017, Wuxi Electric held 14.03% of the equity interest in the Company.

Yi Mian Textile is a direct wholly-owned subsidiary of Guolian Group. As at 31 December 2017, Yi Mian Textile held 3.83% of the equity interest in the Company.

Min Sheng Investment is an indirectly wholly-owned subsidiary of Guolian Group. As at 31 December 2017, Min Sheng Investment held 3.86% of the equity interest in the Company.

Wuxi Huaguang Boiler is the subsidiary of Guolian Group who directly held 72.11% of the equity interest. As at 31 December 2017, Wuxi Huaguang Boiler held 1.53% of the equity interest in the Company.

Transactions during the year

	2017/12/31	2016/12/31
	RMB'000	RMB'000
Income from providing securities brokerage services	<1	35
Income from providing asset management services	1,869	286
Income from providing bond underwriting services	–	15,397
Rental expenses	1,075	1,457

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

50. Related party transactions – continued

50.1 Transactions and balances with the Company's controlling shareholder – Guolian Group – continued

Balances at the end of the year

	2017/12/31	2016/12/31
	RMB'000	RMB'000
Cash held for brokerage clients	20,372	1,363
Accounts Receivable	20	–

In addition to the above related party transactions, the Company provided asset management services to Wuxi Guolian Development (Group) Co., Ltd. As at 31 December 2017, the assets under investment management amounted to approximately RMB131,876 thousand (31 December 2016: RMB139,550 thousand). For the year ended 31 December 2017, the asset management fee income was RMB1,869 thousand (31 December 2016: RMB286 thousand).

50.2 Other related party transactions and balances

The below table lists the Group's other significant related parties and the Group's major shareholders as at 31 December 2017.

Significant related legal entities	The relationship with the Group
Guolian Trust	Fellow subsidiary
Guolian Futures	Fellow subsidiary
Wuxi Huaguang Boiler	Fellow subsidiary
Wuxi Guolian Xincheng Investment Co., Ltd. ("Guolian Xincheng")	Fellow subsidiary
Wuxi Guolian Property Management Co., Ltd. ("Guolian Property Management")	Fellow subsidiary
Guolian Life Insurance Company Limited	Associate invested by the controlling shareholder of the Company
Zhonghai Fund Management Co., Ltd.	Associate invested by the Group
Wuxi State – Owned Assets Supervision and Administration Committee ("Wuxi SASAC")	Controlling shareholder of Guolian Group

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

50. Related party transactions – continued

50.2 Other related party transactions and balances – continued

Transactions during the year

	2017/12/31	2016/12/31
	RMB'000	RMB'000
Income from providing securities brokerage services		
– Guolian Trust	1,258	3,366
– Zhonghai Fund Management Co., Ltd	3,524	3,537
– Guolian Futures	632	592
– Others	641	484
Income from providing fund distribution services		
– Zhonghai Fund Management Co., Ltd.	226	572
Income from providing financial advisory services		
– Guolian Futures	–	300
– Wuxi Huaguang Boiler	1,887	–
– Wuxi SASAC	236	–
– Others	697	142
Income from providing asset management services		
– Others	236	403
Income from providing securities underwriting services		
– Wuxi Huaguang Boiler	12,264	–
Rental income		
– Guolian Life Insurance Company Limited	2,784	4,236
– Guolian Futures	1,062	945
– Guolian Property Management	–	30
Rental expense		
– Guolian Xincheng	11,642	11,448
– Guolian Life Insurance Company Limited	358	–
– Others	756	878
Expense for receiving services		
– Guolian Property Management	2,121	2,155
– Guolian Futures	494	972
– Others	147	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

50. Related party transactions – continued

50.2 Other related party transactions and balances – continued

Balances at the end of the year

	2017/12/31	2016/12/31
	RMB'000	RMB'000
Accounts payable	20,372	1,363
– Guolian Futures	80	80
– Guolian Life Insurance Company Limited	408	50
Accounts Receivable		
– Others	8	–
Clearing settlement funds		
– Guolian Futures	15,732	13,342
Refundable deposits		
– Guolian Futures	–	1,620
Cash held for brokerage clients		
– Others	13,079	1,027

In addition to the above related party transactions, the Company provided asset management services to other related parties. As at 31 December 2017, the assets under investment management for other related party amounted to approximately RMB89,358 thousand (31 December 2016: RMB194,088 thousand). For the year ended 31 December 2017, the asset management fee income was RMB236 thousand (2016: RMB403 thousand).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

50. Related party transactions – continued

50.3 Key management personnel

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

	2017/12/31	2016/12/31
	RMB'000	RMB'000
Short term employee benefits	6,525	6,751
Post-employment benefits	907	761
	7,432	7,512

51. Financial risk management

51.1 Summary

The Group's risk management objective is to maintain an appropriate balance between risks and rewards, and reduce the negative impact on the operating results of the Group, so as to maximise the shareholders' value. The Group's risk management strategy is to identify and analyse a variety of risks to which the Group are exposed to, set an appropriate risk tolerance level, measure and supervise risks in a timely and reliable manner so as to ensure that risks are controlled within acceptable limits.

Operating risks to which the Group are exposed to mainly include: credit risk, market risk and liquidity risk. The Group has adopted risk management policies and procedures to identify and analyse these risks and defined appropriate risk indicators, risk limits, risk policies and internal control procedures, and constantly monitor and manage risks through its IT systems.

The risk management framework is structured into four levels consisting of (i) Board and Supervisory Committee; (ii) Risk Control Committee, Audit Committee and Investment Decision Committee; (iii) Compliance and Risk Management Department and Internal Audit Department; and (iv) Business and management departments and securities branches.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

51. Financial risk management – continued

51.1 Summary – continued

Level 1: Board and Supervisory Committee

The Board is at the highest level of the Company's risk control framework and has the ultimate responsibility for establishing a compliant and effective risk control environment. The Board is responsible for developing the Company's overall risk control objectives, risk control policies and internal control system, improving the governance structure and tiered authority delegation system, and setting objectives, limits and delegating authority to relevant administrative departments in the actual performance of risk control activities.

The Supervisory Committee focuses on mitigating the Company's exposure to legal and compliance risks and financial oversight, including monitoring the performance of risk control duties of the Company's directors, senior management and relevant responsible persons, safeguarding the Company's assets, and minimizing financial and legal risks the Company faces in carrying out its business operations, so as to protect legal rights and interests of the Company and its shareholders.

Level 2: Risk Control Committee, Audit Committee and Investment Decision Committee

Risk Control Committee, Audit Committee and Investment Decision Committee are the second level of the Company's risk control framework, and is responsible for preparing the comprehensive annual report on risk control; reviewing risk control strategies and significant risk control solutions; reviewing judgment criteria for major decisions, significant risks, major events and key business processes and the risk evaluation report for major decision-making; reviewing risk control evaluation report submitted by the Risk Management Department; reviewing the organisational structure and roles and responsibilities for risk control, as well as other matters delegated by the Board.

51. Financial risk management – continued

51.1 Summary – continued

Level 3: Compliance and Risk Management Department and Internal Audit Department

At the third level of the Company's risk control framework is the collaborative comprehensive risk management arrangement through which the Compliance and Risk Management Department, and Internal Audit Department work together to manage risks.

The Compliance Management (Legal Affairs) Team assists the Chief Compliance Officer to Formulate compliance policies and compliance rules and procedures, supports the implementation of compliance policies and procedures, provides recommendations and advice on compliance to the management and business departments, business lines and securities branches, and monitors compliance with laws and regulations in the Company's business and management activities. It also drives business departments, business lines and the Company's securities branches to evaluate, develop, revise, update and improve their internal procedures and business processes to reflect changes in the laws, regulations and standards; conducts compliance pre-clearance on internal management rules and procedures, major decisions, new products, new business offerings and major business activities; reports to regulatory authorities on a regular and extraordinary basis, in addition to mitigating legal risks to which the Company and its businesses are exposed to.

Risk Management Team carries out risk control activities in accordance with risk control objectives and policies laid down by the Board of Directors; provides recommendations to the Risk Management Committee for improving the Company's risk control environment in terms of risk control policies, objectives, corporate governance structure and internal controls; formulates risk management rules and procedures for the Company, supports the review of risk management rules and procedures, measures, risk management processes and risk control indicators developed by each business and management departments, and continuously supplements, improves and updates risk control policies to help establish sound comprehensive corporate risk control mechanisms across the Company; identifies, assesses, and monitors various risks in business operations and transactions, and leverages the results to improve the end-to-end risk response process that covers every components of risk control, including policies, identification, assessment and measurement, control, monitoring, reporting and analysis; regularly tests, monitors and evaluates the implementation of risk control rules and procedures across the Company, and when necessary, conducts regular and ad hoc inspections on risk control results, follows up on issues identified and launches reporting procedures where appropriate; and establishes communications and cooperation with respect to risk control with various business lines, business departments, and securities branches.

Internal Audit Department has overall responsibility for the internal audit, including organising comprehensive audits across the Company, monitoring the implementation of and compliance with internal control rules and procedures, minimising ethical and policy risks and assisting the investigation of emergencies.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

51. Financial risk management – continued

51.1 Summary – continued

Level 4: Business and Management Departments and Securities Branches

The fourth level of risk control is the front-line risk control systems by business and management departments and securities branches, which are responsible for developing their own internal control system and risk control measures, ensuring proper risk control within their jurisdiction, and reporting risk issues in a timely manner to the Risk Management Department or Compliance Management (Legal Affairs) Department. Compliance and risk management controllers have been set in business department to assist people who are in charge to launch work with regards to risk recognition, evaluation, response and report in order to ensure each policy at the institution has been executed, also, reporting risk situation to company's risk management department timely and accepting business guidance.

The Group adopts the above risk management framework and continuously improve their risk control to ensure that the risks are measurable and controlled within acceptable limits.

51.2 Credit risk

Credit risk refers to the risk of counterparty's failure or inability to meet its payment obligations, or the risk of loss due to declining credit rating. The Group's credit risks mainly come from financial assets which include bank balances, cash held for brokerage clients, clearing settlement funds, financial assets at fair value through profit or loss, financial assets held under resale agreements, available-for-sale financial assets, margin accounts receivable, other current assets and refundable deposits.

The Group's bank balances are mainly deposited with state-owned commercial banks or joint-stock commercial banks, while clearing settlement funds are deposited in the China Securities Depository and Clearing Corporation Limited ("CSDCC"), with a relatively low level of credit risk.

In terms of proprietary trading, if the transaction is through a stock exchange or CSDCC, the default risk of counterparty is low, but for inter-bank market transactions, the Group will assess the counterparties and only select those with acceptable credit rating. The Group invests in debt securities with acceptable credit ratings and monitors the operations and credit ratings of the issuers.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

51. Financial risk management – continued

51.2 Credit risk – continued

Margin financing assets include advances to margin customers and securities lent to customers. Credit risks associated with these financial assets mainly relate to customers' inability to repay the principal, interest or securities borrowed. The Group supervises finance trading accounts on an individual customer basis, and would require additional margin, cash collateral or securities if necessary. Margin accounts receivable are monitored based on collateral rates to ensure that the value of collateral assets is sufficient to cover the advance. As of 31 December 2017, the Group's collateral value is sufficient to mitigate the credit risk in margin financing.

In terms of the Group's investment in debt instruments, the Group assesses the borrowers' business performance, repayment ability, and industrial outlook before making investment decisions, and renews the credit status of borrowers at least annually.

The Group's credit risk also arises from the securities. If a customer fails to deposit sufficient trading funds, the Group may use their own funds to complete the settlement. The Group requires customers to deposit all cash required in trading before they settle on behalf of customers, so as to mitigate and manage the credit risk properly.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

51. Financial risk management – continued

51.2 Credit risk – continued

(1) Maximum credit risk exposure

Before considering collateral or other credit enhancement methods, the maximum credit risk exposure is the carrying amount of financial assets (net of provisions for impairment). The maximum credit risk exposure of the Group is as follows:

	2017/12/31	2016/12/31
	RMB'000	RMB'000
Refundable deposits	106,290	80,216
Other current assets	276,848	250,573
Margin accounts receivable	4,609,341	4,353,213
Available-for sale financial assets	15,922	72,305
Financial assets held under resale agreements	6,053,173	1,981,396
Financial assets at fair value through profit or loss		
– Debt securities	2,120,482	2,386,484
– Asset Backed Securities	50,000	50,190
Clearing settlement funds	2,656,833	3,296,270
Cash held for brokerage clients	4,655,092	6,773,686
Bank balances	1,952,059	2,464,918
	22,496,040	21,709,251

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

51. Financial risk management – continued

51.2 Credit risk – continued

(2) Credit rating of debt investment

The Group monitors the credit risk profile of the debt securities portfolio held based on credit ratings, which are obtained from major rating agencies in the PRC where debt issuers are located.

	Financial assets at fair value through profit or loss RMB'000	Available-for- sale financial assets RMB'000
31 December 2017		
AAA	68,349	–
AA– to AA+	1,430,800	–
A– to A+	159,301	–
Unrated	512,032	15,922
	2,170,482	15,922
31 December 2016		
AAA	86,396	–
AA– to AA+	1,643,257	–
A– to A+	175,066	–
Unrated	531,955	72,305
	2,436,674	72,305

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

51. Financial risk management – continued

51.2 Credit risk – continued

(3) Allowance analysis for financial assets

	2017 12/31	2016/12/31
	RMB'000	RMB'000
Available-for-sale financial assets		
– Debt Instrument	22,785	103,293
Individually assessed impairment allowance	(6,863)	(30,988)
	15,922	72,305
Margin accounts receivable	4,623,242	4,366,312
Collectively assessed impairment allowance	(13,901)	(13,099)
	4,609,341	4,353,213
Financial assets held under resale agreement	6,068,735	1,984,599
Collectively assessed impairment allowance	(15,562)	(3,203)
	6,053,173	1,981,396
Other current assets	279,403	252,113
Collectively assessed impairment allowance	(872)	(748)
	278,531	251,365

51.3 Market risk

Summary

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

51. Financial risk management – continued

51.3 Market risk – continued

51.3.1 Interest rate risk

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

The table below presents the residual maturities of the Group's financial assets and liabilities before their contractual re-pricing dates or their maturity dates (whichever are earlier):

As at 31 December 2017	Within 3 month RMB'000	3 months to 1 year RMB'000	1-5 years RMB'000	More than 5 years RMB'000	Non-interest bearing RMB'000	Total RMB'000
Financial assets						
Refundable deposits	-	-	-	-	106,290	106,290
Other current assets	-	-	-	-	276,848	276,848
Margin accounts receivable	1,359,224	3,250,117	-	-	-	4,609,341
Available-for-sale financial assets	-	15,922	-	-	1,044,393	1,060,315
Financial assets held under resale agreements	1,789,207	2,802,572	1,461,394	-	-	6,053,173
Financial assets at fair value through profit or loss	243,013	488,994	1,264,925	173,550	191,555	2,362,037
Clearing settlement funds	2,656,833	-	-	-	-	2,656,833
Cash held for brokerage clients	4,655,092	-	-	-	-	4,655,092
Cash and bank balances	1,822,059	130,000	-	-	-	1,952,059
	12,525,428	6,687,605	2,726,319	173,550	1,619,086	23,731,988
Financial liabilities						
Bonds in issue	(670,000)	(2,150,000)	(3,800,000)	-	-	(6,620,000)
Other current liabilities	-	-	-	-	(157,843)	(157,843)
Due to banks and other financial institutions	(300,000)	(300,000)	-	-	-	(600,000)
Financial assets sold under repurchase agreement	(297,910)	-	-	-	-	(297,910)
Financial liabilities at fair value through profit or loss	-	-	-	-	(1,707,115)	(1,707,115)
Accounts payable to brokerage clients	(6,879,052)	-	-	-	-	(6,879,052)
	(8,146,962)	(2,450,000)	(3,800,000)	-	(1,864,958)	(16,261,920)
Interest rate sensitivity gap	4,378,466	4,237,605	(1,073,681)	173,550	(245,872)	7,470,068

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

51. Financial risk management – continued

51.3 Market risk – continued

51.3.1 Interest rate risk – continued

As at 31 December 2016	Within 3 month RMB'000	3 months to 1 year RMB'000	1-5 years RMB'000	More than 5 years RMB'000	Non-interest bearing RMB'000	Total RMB'000
Financial assets						
Refundable deposits	–	–	–	–	80,216	80,216
Other current assets	–	–	–	–	250,574	250,574
Margin accounts receivable	1,556,049	2,797,164	–	–	–	4,353,213
Available-for-sale financial assets	–	–	72,305	–	1,591,714	1,664,019
Financial assets held under resale agreements	942,277	607,019	432,100	–	–	1,981,396
Financial assets at fair value through profit or loss	29,984	260,948	2,070,249	75,493	295,818	2,732,492
Derivative financial assets	–	–	–	–	–	–
Clearing settlement funds	3,296,270	–	–	–	–	3,296,270
Cash held for brokerage clients	6,773,686	–	–	–	–	6,773,686
Cash and bank balances	1,814,918	390,000	260,000	–	–	2,464,918
	14,413,184	4,055,131	2,834,654	75,493	2,218,322	23,596,784
Financial liabilities						
Bonds in issue	–	(1,800,000)	(1,500,000)	–	–	(3,300,000)
Other current liabilities	–	–	–	–	(158,999)	(158,999)
Financial assets sold under repurchase agreement	(882,240)	–	–	–	–	(882,240)
Financial liabilities at fair value through profit or loss	–	–	–	–	(1,787,478)	(1,787,478)
Derivative financial liabilities	–	–	–	–	(244)	(244)
Accounts payable to brokerage clients	(9,626,064)	–	–	–	–	(9,626,064)
	(10,508,304)	(1,800,000)	(1,500,000)	–	(1,946,721)	(15,755,025)
Interest rate sensitivity gap	3,904,880	2,255,131	1,334,654	75,493	271,601	7,841,759

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

51. Financial risk management – continued

51.3 Market risk – continued

51.3.1 Interest rate risk – continued

Sensitivity analysis

The following table illustrates the potential impact, of a parallel upward or downward shift of 25 basis points in interest rate curves on the Group's net profit and equity for the next twelve months from the reporting date, based on the Group's positions of interest-earning assets and interest-bearing liabilities at the end of the reporting period.

The sensitivity analysis on net profit and equity is based on reasonably possible changes in interest rates with the assumption that the structure of financial assets and financial liabilities held at the period end remains unchanged, and does not take changes in customer behaviour, basis risk or any prepayment options on debt securities into consideration. This analysis assumes that interest rates of all maturities move by the same amount, and does not reflect the potential impact of unparallel yield curve movements.

	2017/12/31 RMB'000	2016/12/31 RMB'000
Net profit and equity		
Increase by 25 bps	13,581	10,575
Decrease by 25 bps	(13,525)	(10,521)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

51. Financial risk management – continued

51.3 Market risk – continued

51.3.1 Interest rate risk – continued

Sensitivity analysis – continued

When conducting interest rate sensitivity analysis, the Group makes the following general assumptions in determining commercial terms and financial parameters:

- different interest-bearing assets and interest-bearing liabilities have the same amplitude of interest rate volatility;
- all assets and liabilities are repriced in the middle of relevant period;
- analysis is based on the static gap on the financial position reporting date, without considering subsequent changes;
- impact of interest rate changes on customer behaviours not considered;
- interest rate of demand deposits moving in the same direction and extend; and
- necessary measures that may be adopted by the Group in response to interest rate changes not considered.

51.3.2 Currency risk

The Group operates principally in the PRC. The majority of recognised assets and liabilities are denominated in RMB and the majority of transactions are settled in RMB. The Group does not hold or issue any derivative financial instruments to manage its exposure to foreign currency risk.

As at 31 December 2017, other than deposits with banks denominated in US dollar and Hong Kong dollar totalling RMB358,924 thousand (31 December 2016: RMB1,032,257 thousand), the Group did not have significant assets or liabilities that were denominated in currencies other than RMB. Should foreign currencies had weakened/strengthened by 1% against RMB with all other variables held constant, the profit before income tax would have been RMB3,589 thousand lower/higher for the year ended 31 December 2017 (2016: RMB10,323 thousand).

51. Financial risk management – continued

51.3 Market risk – continued

51.3.3 Price risk

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

The Group's price risk exposure mainly relates to investments in equity securities, investment funds, convertible bonds, exchangeable bonds, derivatives, collective asset management schemes and investment in a segregated managed account whose values will fluctuate as a result of changes in market prices. These investments are all investments in the domestic capital markets. The Group is subject to relatively high market risk due to the high volatility of the domestic stock markets.

The Group's price risk management policy requires setting and managing investment objectives. The directors of the Company manage price risk by holding an appropriately diversified investment portfolio, setting limits for investments in different securities and closely monitoring the portfolio of investments to reduce the risk of concentration in any one specific industry or issuer. The Group uses derivatives contracts to economically hedge against certain exposures arising from its investment portfolio.

Sensitivity analysis

The analysis below shows the impact on profit after income tax and equity due to change in the prices of financial assets, including stocks, funds, derivatives, collective asset management schemes and investment in a segregated managed account by 10%, assuming all other variables remain unchanged. A positive result indicates an increase in profit after income tax and shareholders equity, while a negative result indicates otherwise.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

51. Financial risk management – continued

51.3 Market risk – continued

51.3.3 Price risk – continued

Sensitivity analysis – continued

	2017/12/31 RMB'000	2016/12/31 RMB'000
Profit after income tax		
Increase by 10%	14,367	23,169
Decrease by 10%	(14,367)	(23,169)

	2017/12/31 RMB'000	2016/12/31 RMB'000
Equity		
Increase by 10%	78,329	119,379
Decrease by 10%	(78,329)	(119,379)

51.4 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities due to lack of capital or funds. During the normal course of business, the Group may face liquidity risk caused by macroeconomic policy changes, market volatility, poor operations, credit downgrades, mismatches between assets and liabilities, low turnover rate of assets, early redemptions of exchange-quoted bond repurchase products by customers, large underwriting on a firm commitment basis, significant proprietary trading position, or an overly high ratio of long-term investments. If the Group fails to address any liquidity risk by adjusting the asset structure or comply with regulatory requirements on the risk indicators, the Group could be subject to penalties by the regulatory authorities in the form of restrictions on the Group's business operations, which would cause adverse impact on the Group's operations and reputation.

51. Financial risk management – continued

51.4 Liquidity risk – continued

The Group manages and controls its funds in a centralised manner. The Company's liquidity risk management principles are comprehensiveness, prudence and foreseeability and its overall objective is to build a sound liquidity risk management system so that it can effectively recognise, measure, monitor and control liquidity risk and ensure that its liquidity needs can be met timely with a reasonable cost. The Group's financial department organises and prepares the cash budget annually and make the financing plan based on the cash budget. Under the approval of the Company, the funds will be raised, scheduled and arranged uniformly in order to ensure the unity of funds demand and cost of the capital control.

Under the approval by the investment decision committee, the financial department confirm the scale and the structure for a high quality liquid assets reserve, by analysing the condition of the Company's business scale, total liability, financing ability, and duration of the asset and liability prudently, so that the liquidity and the risk resistance can be accordingly improved.

The Group invests surplus cash in negotiable bank deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. As at 31 December 2017 the Group held cash and cash equivalents of approximately RMB3,043,286 thousand (31 December 2016: RMB3,788,648 thousand) that is expected to readily generate cash inflows for managing liquidity risk. In addition, the Group holds financial assets held for trading of RMB2,312,037 thousand as at 31 December 2017 (31 December 2016: RMB2,553,354 thousand), which could be readily realised to provide a further source of cash if the need arose.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

51. Financial risk management – continued

51.4 Liquidity risk – continued

The tables below present the cash flows payable by the Group for non-derivative financial liabilities by remaining contractual maturities at the end of the reporting period. The amounts disclosed in the tables are the contractual undiscounted cash flows, including both interest and principal cash flows. For items with floating interest rates, the undiscounted amounts are derived using interest rates at the end of the reporting period.

As at 31 December 2017	On demand	Within 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	Over due/ Undated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-derivative financial liabilities								
Other current liabilities	-	30,400	2,531	8,239	5,105	8,488	-	54,763
Bonds in issue	-	307,562	378,621	2,416,893	4,199,500	-	-	7,302,576
Due to other financial institutions	-	307,735	-	307,735	-	-	-	615,470
Financial assets sold under repurchase agreement	-	298,472	-	-	-	-	-	298,472
Financial liabilities at fair value through profit or losses	491,018	-	-	769,789	15,067	-	431,241	1,707,115
Accounts payable to brokerage clients	6,879,052	-	-	-	-	-	-	6,879,052
	7,370,070	944,169	381,152	3,502,656	4,219,672	8,488	431,241	16,857,448
As at 31 December 2016								
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-derivative financial liabilities								
Other current liabilities	12,903	45,113	8,360	7,362	2,893	7,265	-	83,896
Bonds in issue	-	-	-	1,970,510	1,733,400	-	-	3,703,910
Financial assets sold under repurchase agreement	-	843,653	39,874	-	-	-	-	883,527
Financial liabilities at fair value through profit or losses	440,701	-	-	686,227	32,016	-	628,534	1,787,478
Accounts payable to brokerage clients	9,626,064	-	-	-	-	-	-	9,626,064
	10,079,668	888,766	48,234	2,664,099	1,768,309	7,265	628,534	16,084,875
Derivative financial instruments settled on a gross basis								
Total inflow	-	-	-	-	-	-	-	-
Total outflow	-	244	-	-	-	-	-	244
	-	244	-	-	-	-	-	244

51. Financial risk management – continued

51.5 Capital management

The Group's objectives of capital management are:

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

In accordance with Administrative Measures for Risk Control Indicators of Securities Companies (Revision 2016) (the "Administrative Measures") issued by the CSRC, the Company is required to meet the following standards for risk control indicators on a continual basis:

- The ratio of net capital divided by the sum of its various risk capital provisions shall be no less than 100%;
- The ratio of core net capital divided by total assets shall be no less than 8%;
- The ratio of quality current assets divided by net cash used in next thirty days shall be no less than 100%;
- The ratio of stable funding available divided by stable funding required shall be no less than 100%.

Net capital refers to net assets minus risk adjustments on certain types of assets as defined in the Administrative Measures.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

52. Fair value of financial assets and liabilities

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

52.1 Financial instruments not measured at fair value

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the statement of consolidated financial position approximate their fair values.

For financial instruments with a short maturity, including cash and bank balances, cash held for brokerage clients, clearing settlement funds, margin accounts receivable, financial assets held under resale agreements, due to other financial institutions, financial assets sold under repurchase agreements and accounts payable to brokerage clients, their fair value approximate their carrying amounts.

In accordance with the related regulations, the Group can put or redeem its refundable deposits with Stock Exchanges, Futures and Commodities Exchanges and China Securities Finance Corporation Limited. The Group assesses the fair value of refundable deposits approximates the carrying amount.

The aggregate fair value of bonds in issue is calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

52.2 Financial instruments measured at fair value

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised.

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

52. Fair value of financial assets and liabilities – continued

52.2 Financial instruments measured at fair value – continued

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2017 and 2016.

Financial assets/liabilities	As at 31 December 2017	As at 31 December 2016	Fair value hierarchy	Valuation technique(s) and key input(s)
Financial assets at fair value through profit or loss				
– Listed debt securities	2,120,482	2,350,006	Level 2	Discounted future cash flows estimated based on contractual amounts and coupon rates at rates that reflects the credit risk of counterparty.
– Listed debt securities	–	36,478	Level 3	Discounted future cash flows estimated based on contractual amounts and coupon rates at rates that reflects the credit risk of counterparty.
– Asset backed securities	50,000	50,190	Level 3	Discounted future cash flow estimated based on expected recoverable amounts at rates that reflect management's best estimation of the expected risk level.
– Equity securities and funds traded on stock exchanges	191,555	203,348	Level 1	Quoted bid price in an active market
– Equity securities traded on stock exchanges with lock-up periods	–	92,470	Level 3	The fair value is determined with reference to the quoted market prices with an adjustment or discount for lack of marketability.
Derivative financial instruments				
– SIF	–	36	Level 1	Quoted bid prices in an active market
– Listed options assets	–	–	Level 1	Quoted bid prices in an active market
– Listed options liabilities	–	(244)	Level 1	Quoted bid prices in an active market

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

52. Fair value of financial assets and liabilities – continued

52.2 Financial instruments measured at fair value – continued

Financial assets/liabilities	As at 31 December 2017	As at 31 December 2016	Fair value hierarchy	Valuation technique(s) and key input(s)
Available-for-sale financial assets				
– Equity securities traded on stock exchanges	588,788	506,004	Level 1	Quoted bid prices in an active market
– Equity securities listed on National Equities Exchange and Quotation	48,649	43,950	Level 2	Recent transaction prices
– Investment funds	142,660	54,711	Level 1	Quoted bid prices in an active market
– Closed-end investment funds and other equity investment	–	598,016	Level 2	Calculated based on the fair value of the underlying investments which are debt securities and publicly traded equity investments listed in the PRC in each portfolio.
– Collective asset management schemes	65,902	–	Level 2	Calculated based on the fair value of the underlying investments which are debt securities and publicly traded equity investments listed in the PRC in each portfolio.
– Collective asset management schemes	95,159	267,119	Level 3	Calculated based on the fair value of the underlying investments which invest in listed shares with lock up periods in which the fair value is determined with reference to the quoted market prices with an adjustment or discount for lack of marketability.
– Debt instrument	15,922	72,305	Level 3	Discounted cash flow with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level.
Financial liabilities at fair value through profit or loss	(1,707,115)	(1,787,478)	Level 3	Calculated based on the fair value of the underlying investments with fair value hierarchy categorized as level 3 for which an adjustment or discount for lack of marketability is applied.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

52. Fair value of financial assets and liabilities – continued

52.2 Financial instruments measured at fair value – continued

As at 31 December 2017	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at fair value through profit or loss				
– Equity securities	69,693	–	–	69,693
– Debt securities	–	2,120,482	–	2,120,482
– Investment funds	121,862	–	–	121,862
– Asset backed securities	–	–	50,000	50,000
Available-for-sale financial assets				
– Equity securities	588,788	48,649	–	637,437
– Collective asset management schemes	–	65,902	95,159	161,061
– Debt instrument	–	–	15,922	15,922
– Investment funds	142,660	–	–	142,660
	923,003	2,235,033	161,081	3,319,117
Liabilities				
Financial liabilities at fair value through profit or loss	–	–	(1,707,115)	(1,707,115)
	–	–	(1,707,115)	(1,707,115)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

52. Fair value of financial assets and liabilities – continued

52.2 Financial instruments measured at fair value – continued

As at 31 December 2016	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at fair value through profit or loss				
– Equity securities	74,158	–	92,470	166,628
– Debt securities	–	2,350,006	36,478	2,386,484
– Investment funds	129,190	–	–	129,190
– Asset backed securities	–	–	50,190	50,190
Available-for-sale financial assets				
– Equity securities	506,004	43,950	–	549,954
– Investment funds	54,711	43,819	–	98,530
– Collective asset management schemes	–	–	267,119	267,119
– Other equity investment	–	554,197	–	554,197
– Debt instrument	–	–	72,305	72,305
	764,063	2,991,972	518,562	4,274,597
Liabilities				
Derivative financial liabilities	(244)	–	–	(244)
Financial liabilities at fair value through profit or loss	–	–	(1,787,478)	(1,787,478)
	(244)	–	(1,787,478)	(1,787,722)

52. Fair value of financial assets and liabilities – continued

52.2 Financial instruments measured at fair value – continued

For the years ended 31 December 2017 and 2016, there were no transfers between level 1 and level 2 of the fair value hierarchy of the Group.

(1) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the closing price within bid-ask spread. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily securities traded on the Shanghai Stock Exchange and Shenzhen Stock Exchange classified as trading securities or available-for-sale.

(2) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

(3) Valuation methods for specific investments

As at 31 December 2017 and 2016, the Group's valuation methods for specific investments are as follows:

- (a) For exchange-listed equity securities, fair value is determined based on the closing price of the equity securities as at the reporting date within bid-ask spread. If there is no quoted market price as at the reporting date and there have been significant changes in the economic environment after the most recent trading date, valuation techniques are used to determine the fair value. For restricted shares that are acquired during an initial public offering or a private offering of additional shares, fair values are determined using valuation techniques.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

52. Fair value of financial assets and liabilities – continued

52.2 Financial instruments measured at fair value – continued

(3) Valuation methods for specific investments – continued

- (b) For closed-end investment funds, fair value is determined based on the closing price as at the reporting date. For open-end funds fair value is determined by trading price which is based on the net asset value as at the reporting date. For collective asset management products, fair value is determined based on the net asset value as at the reporting date.
- (c) For debt securities traded through exchanges which include government bonds, corporate bonds, convertible bonds and financial bonds, fair values are determined based on the closing price of the debt securities at the date of statements of financial position within bid-ask spread.
- (d) For debt securities traded through the inter-bank bond market, the over-the-counter (“OTC”) market and listed through exchanges without closing price, including government bonds, corporate bonds, commercial papers, special financial bills, central bank bills, asset-backed securities and other fixed income debt securities, fair values are determined using valuation techniques.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

52. Fair value of financial assets and liabilities – continued

52.2 Financial instruments measured at fair value – continued

(4) Financial instruments in level 3

The following table presents the changes in level 3 instruments for the year ended 31 December 2017 and 2016.

	Available-for-sale financial assets – Collective asset Management scheme RMB'000	Available-for-sale financial assets – Debt instrument RMB'000	Financial assets at fair value through profit or loss – Debt securities RMB'000	Financial assets at fair value through profit or loss – Equity securities traded on stock exchanges with lock-up periods RMB'000	Financial assets at fair value through profit or loss – Asset Backed Securities RMB'000
Balance at 1 January 2017	267,119	72,305	36,478	92,470	50,190
Fair value change	(11,517)	24,125	751	(3,557)	–
Increase	6,460	–	–	–	–
Decrease	(166,903)	(80,508)	(37,229)	(88,913)	(190)
Balance at 31 December 2017	95,159	15,922	–	–	50,000
Change in unrealized gains or losses for the period included in profit or loss for assets held at the end of the year under “Net investment gains” / “impairment losses”	–	24,125	–	–	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

52. Fair value of financial assets and liabilities – continued

52.2 Financial instruments measured at fair value – continued

(4) Financial instruments in level 3 – continued

	Available-for-sale financial assets – Collective asset Management scheme	Available-for-sale financial assets – Debt instrument	Financial assets at fair value through profit or loss – Debt securities	Financial assets at fair value through profit or loss – Equity securities traded on stock exchanges with lock-up periods	Financial assets at fair value through profit or loss – Asset Backed Securities
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2016	58,330	220,305	307,893	172,948	20,000
Fair value change	1,610	–	2,044	(25,942)	190
Increase	221,580	–	–	66,527	50,000
Decrease	(14,401)	(148,000)	(273,459)	(121,063)	(20,000)
Balance at 31 December 2016	267,119	72,305	36,478	92,470	50,190
Change in unrealized gains or losses for the period included in profit or loss for assets held at the end of the year under “Net investment gains” / “impairment losses”	–	–	751	(7,528)	190

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

52. Fair value of financial assets and liabilities – continued

52.2 Financial instruments measured at fair value – continued

(4) Financial instruments in level 3 – continued

	Financial liabilities at fair value through profit or loss RMB'000
Balance at 1 January 2017	1,787,478
Consolidation of SEs	100,000
Losses/(Gains) recognized in profit or loss	192,093
Purchase/issue	88,628
Settlements	(461,084)
Balance at 31 December 2017	1,707,115
Change in unrealized gains or losses for the year include in profit or loss for liabilities held at the end of the year under "Net investment gains"	(52,887)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

52. Fair value of financial assets and liabilities – continued

52.2 Financial instruments measured at fair value – continued

(4) Financial instruments in level 3 – continued

	Financial liabilities at fair value through profit or loss RMB'000
Balance at 1 January 2016	2,794,146
Consolidation of SEs	198,142
Losses/(Gains) recognized in profit or loss	(39,309)
Purchase/issue	103,918
Settlements	(1,269,419)
Balance at 31 December 2016	1,787,478
Change in unrealized gains or losses for the year include in profit or loss for liabilities held at the end of the year under "Net investment gains"	80,417

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

52. Fair value of financial assets and liabilities – continued

52.2 Financial instruments measured at fair value – continued

(4) Financial instruments in level 3 – continued

Financial assets/liabilities	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input(s) to fair value
Financial assets at fair value through profit or loss – Debt Securities	Level 3	Discounted future cash flows estimated based on contractual amounts and coupon rates that reflect the credit risk of counterparty.	- Expected future cash flow. - Discount rates that correspond to the expected risk level.	- The higher the future cash flow, the higher the fair value. - The lower the discount rate, the higher the fair value.
Financial assets at fair value through profit or loss – Asset backed securities	Level 3	Discounted cash flow with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level.	- Expected future cash flow. - Discount rates that correspond to the expected risk level.	- The higher the future cash flow, the higher the fair value. - The lower the discount rate, the higher the fair value.
Financial assets at fair value through profit or loss – Equity securities traded on stock exchanges with lock-up periods	Level 3	Calculated based on the fair value of the listed shares with lock up periods which is determined with reference to the quoted market prices with an adjustment or discount for lack of marketability.	Discount rates that correspond to lack of marketability.	The lower the discount rate, the higher the fair value.
Financial liabilities designated at fair value through profit or loss	Level 3	Calculated based on the fair value of the underlying investments with fair value hierarchy categorized as level 3 for which an adjustment or discount for lack of marketability is applied.	- Expected fair value of the underlying investments. - Discount rates that correspond to lack of marketability.	The higher the fair value of the underlying investments, the higher the fair value.
Available-for-sale financial assets – Debt instrument	Level 3	Discounted cash flow with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level.	- Expected future cash flow. - Discount rates that correspond to the expected risk level.	- The higher the future cash flow, the higher the fair value. - The lower the discount rate, the higher the fair value.
Available-for-sale financial assets – Collective asset management scheme	Level 3	Calculated based on the fair value of the underlying investments which invest in listed shares with lock up periods in which the fair value is determined with reference to the quoted market prices with an adjustment or discount for lack of marketability.	- Expected fair value of the underlying investments. - Discount rates that correspond to lack of marketability.	- The higher the fair value of the underlying investments, the higher the fair value. - The lower the discount rate, the higher the fair value.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

53. Offsetting financial assets and financial liabilities

Financial assets subject to offsetting, enforceable master netting agreements:

As at 31 December 2017					Net amount of Financial assets/ (liabilities) presented in the statements of financial position
	Gross amounts Of recognised financial assets RMB'000	Gross amounts of recognised financial liabilities RMB'000	Net amounts of financial assets/ (liabilities) RMB'000	Cash received as settlement RMB'000	RMB'000
Derivative financial instruments	-	-	-	-	-

As at 31 December 2016					Net amount of Financial assets/ (liabilities) presented in the statements of financial position
	Gross amounts Of recognised financial assets RMB'000	Gross amounts of recognised financial liabilities RMB'000	Net amounts of financial assets/ (liabilities) RMB'000	Cash received as settlement RMB'000	RMB'000
Derivative financial instruments	36	-	36	(36)	-

The Group has entered into master netting arrangements with counterparties for the future contracts and also with clearing house for un-settled trades.

Except for the enforceable master netting arrangements and the offset-right of the financial assets under the similar agreements disclosed above, the collateral of which, such as financial assets held under resale agreement, financial assets sold under repurchase agreement, margin accounts receivable and etc., are disclosed in the corresponding notes, which are generally not on the net basis in financial position.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

54. Unconsolidated structured entities

Unconsolidated structured entities of the Group mainly include collective and targeted asset management schemes managed by the Group, trust schemes and investment funds which the Group invests in but does not act as manager.

Except for the structured entities that the Group has consolidated as detailed in Note 23, in the opinion of the directors of the Company, the variable returns the Group exposed to over the structured entities that the Group has interests in are not significant. The Group did not consider itself being the principal and consequently did not consolidate these structured entities.

The total assets of unconsolidated collective and targeted asset management schemes managed by the Group amounted to RMB23,954,502 thousand as at 31 December 2017 (31 December 2016: RMB21,146,979 thousand).

As at 31 December 2017 and 2016, the interests in unconsolidated structured entities held by the Group included collective asset management schemes, trust schemes and investment funds that were classified as available-for-sale financial assets or financial assets at fair value through profit or loss. The related carrying amounts and the maximum exposure were as follows:

	2017/12/31	2016/12/31
	RMB'000	RMB'000
Available-for-sale financial assets	303,721	827,876
Financial assets at fair value through profit or loss	171,862	179,191
	475,583	1,007,067

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

54. Unconsolidated structured entities – continued

For the years ended 31 December 2017 and 2016, the income from these unconsolidated structured entities held and/or managed by the Group was as follows:

	2017/12/31	2016/12/31
	RMB'000	RMB'000
Net investment gains	18,550	15,179
Fee and commission income	58,595	63,906
	77,145	79,085

For the year ended 31 December 2017, the Group did not provide and had no plan to provide financial support to these unconsolidated structured entities (2016: same).

55. Subsequent events

Public offering of corporate bonds

On February 6, 2018, the Company issued public offering of RMB700 million corporate bonds on Shanghai Stock Exchange. The bond bears interests at 5.65% per annum and the term is 2 years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

56. Statement of financial position and reserve movement of the company

Statement of financial position of the Company

	2017/12/31	2016/12/31
	RMB'000	RMB'000
Assets		
Non-current assets		
Property and equipment	96,599	103,837
Intangible assets	26,382	27,365
Investments in subsidiaries	1,087,600	733,600
Investments in consolidated structured entities	241,267	221,129
Investment in associates	108,503	199,161
Other non-current assets	26,409	17,309
Available-for-sale financial investments	131,869	689,430
Deferred income tax assets	36,771	35,629
Refundable deposits	105,840	79,367
Financial assets held under resale agreements	1,461,393	432,100
Total non-current assets	3,322,633	2,538,927
Current assets		
Other current assets	230,237	176,854
Available-for-sale financial assets	645,547	684,630
Margin accounts receivable	4,609,341	4,353,213
Financial assets held under resale agreements	4,407,290	1,230,184
Financial assets at fair value through profit or loss	380,162	311,024
Clearing settlement funds	2,651,397	3,274,277
Cash held for brokerage clients	4,655,092	6,773,686
Cash and bank balances	910,263	1,317,098
Total current assets	18,489,329	18,120,966
Total assets	21,811,962	20,659,893

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

56. Statement of financial position and reserve movement of the company – continued

Statement of financial position of the Company – continued

	2017/12/31	2016/12/31
	RMB'000	RMB'000
Equity and liabilities		
Share capital	1,902,400	1,902,400
Share premium	2,177,342	2,177,342
Reserves	1,726,603	1,665,891
Retained earnings	1,607,049	1,596,725
Total equity	7,413,394	7,342,358
Liabilities		
Non-current liabilities		
Bond in issue	3,780,368	1,489,795
Total non-current liabilities	3,780,368	1,489,795
Current liabilities		
Other current liabilities	305,299	285,866
Current income tax liabilities	13,849	53,566
Bonds in issue	2,820,000	1,800,000
Derivative financial liabilities	–	244
Financial assets sold under repurchase agreements	–	62,000
Accounts payable to brokerage clients	6,879,052	9,626,064
Due to other financial institutions	600,000	–
Total current liabilities	10,618,200	11,827,740
Total liabilities	14,398,568	13,317,535
Total equity and liabilities	21,811,962	20,659,893

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

56. Statement of financial position and reserve movement of the company – continued

Reserve movement of the Company

	Retained RMB'000	Reserve earnings RMB'000
Balance at 1 January 2016	1,522,592	1,972,904
Profit for the year	–	549,687
Other comprehensive expense for the year	(21,606)	–
Total comprehensive income	(21,606)	549,687
Dividends recognized as distribution	–	(760,960)
Appropriation to reserves	164,906	(164,906)
Balance at 31 December 2016 and Balance at 1 January 2017	1,665,892	1,596,725
Profit for the year	–	395,229
Other comprehensive expense for the year	(57,858)	–
Total comprehensive income	(57,858)	395,229
Dividends recognized as distribution	–	(266,336)
Appropriation to reserves	118,569	(118,569)
Balance at 31 December 2017	1,726,603	1,607,049

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

57. Benefits and interests of directors

57.1 Directors' and supervisors' emoluments

The remuneration of directors and supervisors of the Company is set out below:

Year ended 31 December 2017							
Name	Fees	Salaries	Housing allowance	Pension	Other welfares	Annual bonus	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors							
Peng Yanbao (appointed on 16 June 2016)	–	600	27	40	71	235	973
Yao Zhiyong (President) (appointed on 16 June 2016 and retired on 8 March 2017)	–	50	4	6	13	–	73
Non-executive Directors							
Yao Zhiyong (Chairman) (appointed on 8 March 2017)	–	–	–	–	–	–	–
Hua Weirong (appointed on 16 June 2016)	–	–	–	–	–	–	–
Zhou Weiping (appointed on 16 June 2016)	–	–	–	–	–	–	–
Liu Hailin (appointed on 16 June 2016)	–	–	–	–	–	–	–
Zhang Weigang (appointed on 16 June 2016)	–	–	–	–	–	–	–
Chen Qingyuan (appointed on 16 June 2016)	120	–	–	–	–	–	120
Li Baixi (appointed on 5 July 2016)	120	–	–	–	–	–	120
Lu Yuanzhan (appointed on 10 March 2017)	90	–	–	–	–	–	90
Wang wei (appointed on 16 June 2016)	30	–	–	–	–	–	30
Supervisors							
Jiang Zhiqiang (appointed on 10 March 2017)	–	480	27	40	75	188	810
Zhou Weixing (appointed on 16 June 2016)	–	–	–	–	–	–	–
Ren Jun (appointed on 10 March 2017)	–	–	–	–	–	–	–
Sheng Yin (appointed on 16 June 2016)	–	132	27	40	21	90	310
Yu Lei (appointed on 16 June 2016)	–	171	27	40	28	140	406
	360	1,433	112	166	208	653	2,932

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

57. Benefits and interests of directors – continued

57.1 Directors' and supervisors' emoluments – continued

			Year ended 31 December 2016				
Name	Fees	Salaries	Housing allowance	Pension	Other welfares	Annual bonus	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors							
Yao Zhiyong	–	600	25	37	23	332	1,017
Peng Yanbao (President) (appointed on 16 June 2016)	–	578	25	37	22	308	970
Lei Jianhui (retired on 15 March 2016)	–	75	6	9	8	–	98
Non-executive Directors							
Hua Weirong	–	–	–	–	–	–	–
Liu Hailin	–	–	–	–	–	–	–
Jiang Zhijian (retired on 16 June 2016)	–	–	–	–	–	–	–
Zhou Weiping (appointed on 16 June 2016)	–	–	–	–	–	–	–
Wang Wei	120	–	–	–	–	–	120
Chen Qingyuan	120	–	–	–	–	–	120
Li Baixi (appointed on 5 July 2016)	60	–	–	–	–	–	60
Zhang Weigang (appointed on 14 February 2016)	–	–	–	–	–	–	–
Fan Renhe (retired on 5 July 2016)	60	–	–	–	–	–	60
Supervisors							
Shan Xudong (retired on 16 June 2016)	–	72	11	14	–	–	97
Yin Zhuowei (retired on 16 June 2016)	–	105	12	19	14	–	150
Shen Ying (appointed on 16 June 2016)	–	60	13	19	–	150	242
Yu Lei (appointed on 16 June 2016)	–	72	13	19	4	212	320
Chen Xingjun (appointed on 28 June 2016 and retired on 19 December 2016)	–	–	–	–	–	–	–
Yang Xiaojun (retired on 30 August 2016)	–	–	–	–	–	–	–
Jin Guoxiang (retired on 16 June 2016)	–	–	–	–	–	–	–
Zhou Weixing (appointed on 16 June 2016)	–	–	–	–	–	–	–
	360	1,562	105	154	71	1,002	3,254

The executive directors' emoluments shown above for their services in connection with the management of the affairs of the Company. The non-executive directors' emoluments shown above were for their services as directors of the Company.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

57. Benefits and interests of directors – continued

57.2 Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

57.3 Directors' remuneration

	2017 RMB'000	2016 RMB'000
Directors' emoluments for services as directors of the Company and its subsidiary undertakings		
Directors' fees	510	610
Other emoluments in connection with the management of the affairs of the Company and its subsidiary undertakings	1,046	2,245
	1,556	2,855

In addition to the directors' remuneration disclosed above, certain directors are not paid directly by the Company but receive remuneration from the Company's holding company, in respect of their services to the larger group which includes the Company and its subsidiaries. No apportionment has been made as the qualifying services provided by these directors to the Company and its subsidiaries are incidental to their responsibilities to the larger group.