



中州证券

Central China Securities Co., Ltd.

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

Stock Code: 01375

Interim Report 2014

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COMPANY INFORMATION

COMPANY NAME

Legal Chinese name: 中原证券股份有限公司
(a joint stock company incorporated
on 8 November 2002 in Henan,
China with limited liability and
carrying on business in Hong Kong
in the name of “中州证券”)
English name: CENTRAL CHINA SECURITIES CO., LTD.

LEGAL REPRESENTATIVE

Mr. Jian Mingjun

SECRETARY OF THE BOARD

Mr. Xu Haijun

JOINT COMPANY SECRETARIES

Mr. Xu Haijun
Ms. Kwong Yin Ping Yvonne

AUTHORIZED REPRESENTATIVES

Mr. Jian Mingjun
Ms. Kwong Yin Ping Yvonne

HEADQUARTERS IN THE PRC

Registered address of the Company:
No. 10 Shangwu Waihuan Road,
Zhengdong New District, Zhengzhou,
Henan Province, China
Office address of the Company:
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Zhengzhou, Henan Province, China
Website of the Company: www.ccnew.com
E-mail: investor@ccnew.com

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

COMPLIANCE ADVISOR

Guotai Junan Capital Limited

ACCOUNTANTS

Domestic: Shinewing Certified Public Accountants
(Special General Partnership)
International: PricewaterhouseCoopers

HONG KONG LEGAL ADVISER

Li & Partners

STOCK CODE

Stock Exchange
Stock code of H share: 01375

SHARE REGISTRAR

For Domestic Share:
China Securities Depository and Clearing
Corporation Limited
For H Share:
Computershare Hong Kong Investor Services Limited

FINANCIAL HIGHLIGHTS

Accounting data and financial indices set out herein are prepared in accordance with IFRS.

PRINCIPAL ACCOUNTING DATA AND FINANCIAL INDICES

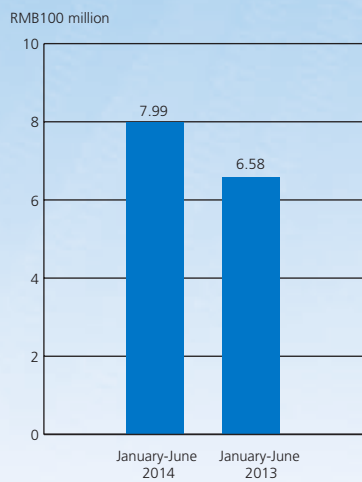
Item	January-June 2014	January-June 2013	Growth of this period from last period (%)
Operating results (RMB'000)			
Total of revenue and other incomes	799,229	657,888	21.48
Profit before income tax	237,006	177,100	33.83
Interim profit-attributable to the Company's shareholders	179,324	133,840	33.98
Net cash inflows/(outflows) from/(for) operating activities	(1,380,373)	(427,281)	–
Earnings per share (RMB/share)			
Basic earnings per share	0.09	0.07	28.57
Diluted earnings per share	0.09	0.07	28.57
Profitability index			
– Return on equity ^(note 1) (%)	3.79	3.44	Up by 0.35 percentage points
Scale merit (RMB'000)			
As at 30 June 2014			
Total assets	16,972,335	As at 31 December 2013 13,649,605	24.34
Total liabilities	11,518,566	9,474,323	21.58
Accounts payable to brokerage clients	5,654,541	4,994,071	13.23
Equity attributable to the Company's shareholders	5,376,983	4,091,342	31.42
Share capital ('000 shares)	2,631,616	2,033,516	29.41
Net asset value per share attributable to the Company's shareholders (RMB/share)	2.04	2.01	1.49
Liability-asset ratio ^(note 2) (%)	51.81	51.76	Up by 0.05 percentage points

Notes:

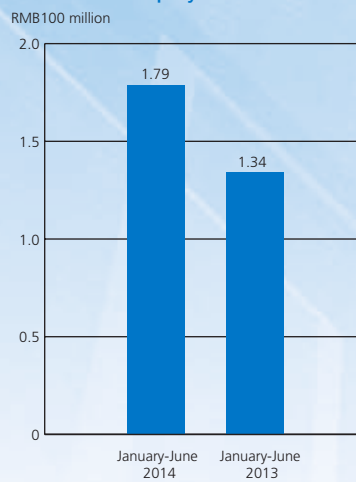
- Profit attributable to the Company's shareholders divided by the average balance of the equity attributable to the Company's shareholders as at the beginning and as at the end of this period
- Liability-asset ratio = (total liabilities – accounts payable to brokerage clients)/(total assets – accounts payable to brokerage clients)

FINANCIAL HIGHLIGHTS

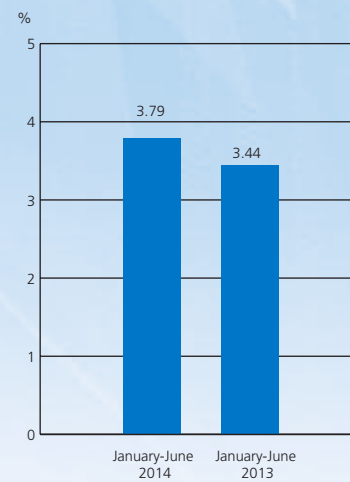
Total revenue and other incomes



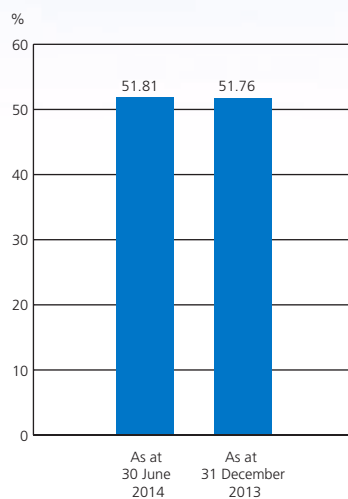
Interim profit – attributable to the Company's shareholders



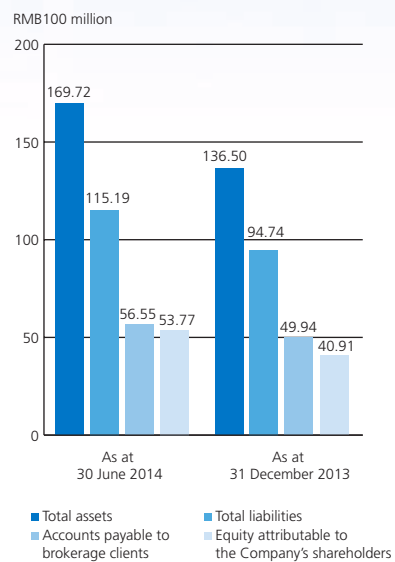
Return on equity



Liability-asset ratio



Scale indicator



MANAGEMENT DISCUSSION AND ANALYSIS

I. MARKET REVIEW

During the reporting period, the global economy maintained a slow recovery momentum on the whole. Although OECD composite leading indicators continued to rise, major economies diverged in recovery pace. Emerging economies as a whole have remained in the stage of structural adjustment. In particular, discouraged by property investment, Chinese economic growth fell short of the full-year control target set by the government, with GDP growth sliding to 7.4% in the first half of 2014. During the reporting period, A share market remained deadlocked under the dual effect of slowdown of economic growth and policy on minor stimulus amid steady growth, with SSE Composite Index continuing jolting narrowly in a short term. Outlook for the main board was uncertain and emerging growth stocks represented by the second board continued declining for about three months. In this context, the market posted a chilly climate, with daily trading volume falling slightly from the same period last year. As the financing transaction mode for domestic investors gained popularity gradually, margin financing and securities lending still maintained rapid growth, as evidenced by the balance of the said business increasing 17.28% from late 2013 to RMB406,408 million as at the end of the reporting period. During the reporting period, equity financing helped raise RMB326,259 million in total, including RMB27,751 million raised by 57 IPO enterprises after reopen of the IPO, RMB288,344 million by 177 enterprises through secondary offering and RMB10,164 million by seven enterprises through stock allotment. During the reporting period, benefiting from increasing risk aversion on economic slowdown and improving liquidity, the bond market performed well and yield of 10-year treasury bonds continuously declined from 4.63% in late 2013 to 4.07% in late June 2014.

II. GENERAL OPERATING RESULTS

During the reporting period, the Group logged revenue and other incomes of RMB799 million and net profit attributable to the Company's shareholders of RMB179 million, representing a year-on-year growth of 21.48% and 33.98% respectively.

As at the end of the reporting period, the Group's total assets amounted to RMB16,972 million, up by 24.34% from RMB13,650 million in late 2013. Total liabilities were RMB11,519 million, up by 21.58% from RMB9,474 million in late 2013. Net assets attributable to the Company's shareholders came to RMB5,377 million, up by 31.42% from RMB4,091 million in late 2013. In particular, the listing of the Company's H Shares in Hong Kong helped increase the net assets by RMB1,103 million. The liability-asset ratio of the Group was 51.81%, up by 0.05 percentage points from 51.76% in late 2013.

III. ANALYSIS OF PRINCIPAL BUSINESS

(I) Brokerage

1. Securities brokerage

During the reporting period, the Company sped up business transformation in securities brokerage, with service capability of value-added business and mobile finance improving constantly. Multiple marketing service activities organized by the Company helped increase its market share from 0.60% in late 2013 to 0.64% as at the end of the reporting period, which effectively relieved the impact of relevant factors on the commission rate and revenue of the Company; in response to challenge from Internet finance, the Company continuously promoted the building of e-securities platform and began to develop new client service mode based on Internet and mobile Internet with e-securities phase 1 put into trial operation. Moreover, the Company further optimized the branch network, actively advanced the building of light branches and strengthened deep development of regional market resources.

As at the end of the reporting period, the Company has set up six brokerage branch offices and 62 securities branches, and has one branch office and 11 securities branches established upon approval by regulatory authorities and ready to commence operation. During the reporting period, revenue and other incomes from securities brokerage were RMB289 million, down by 6.62% year-on-year, and the Company took 0.8% market share in net revenue from agency securities trading, ranking No. 36 among 117 securities firms in Mainland China. As at the end of the reporting period, 31 branches of the Company have been approved by regulatory authorities to carry out futures IB business.

2. Margin financing and securities lending

Through strengthening business promotion, diversifying trading strategies and improving client service, the Company saw margin financing and securities lending maintained rapid development momentum. With major business indices higher than the industrial growth and interest income 3.5 times of the reading in the same period last year, margin financing and securities lending has grown into a major contributor to the Company's profit. During the reporting period, after being qualified for securities refinancing, the Company actively studied IPO subscription through credit account, short-term financing and other functions to expand space for future development.

As at the end of the reporting period, margin financing and securities lending of the Company recorded balance of RMB2,710 million, up by 19.54% from late 2013 and turnover of RMB26,830 million, 2.8 times of the reading in the same period last year; refinancing balance was RMB260 million.

3. Futures brokerage

During the reporting period, revenue and other incomes of Central China Futures declined 18.90% year-on-year to RMB24.021 million under the adverse effect of a year-on-year slip of 9.87% in trading volume and marked drop in commission rate caused by structural adjustment of the Chinese futures market. Meanwhile, Central China Futures intensified management and control on business cost and operating cost, which led to a year-on-year decline of 24.96% in total cost. As a result, the total profit before income tax recorded RMB5.563 million, up by 10.77% year-on-year.

4. Wealth management

In addition to traditional brokerage business, riding on “Central China Wealth (財富中原)” brand and product system, the Company, based on various needs of its clients, actively dealt with the decline in industry commission as a “new normal”, focused on improving value-added service capability and advancing the upgrading and promotion of “Central China Wealth” service package, and continuously improved the professional advisory service capability and value-added services capability by starting with innovating investment advisory business operation mode to deepen client service experience, so as to provide clients with comprehensive and multi-level value-added wealth management service.

During the reporting period, the Company upgraded and improved such wealth investment management services as Central China Express (中原快車), Central China Bible (中原寶典) and Central China Housekeeper (中原管家) and further diversified the product line and portfolio of “Central China Wealth” service, providing differentiated services for clients in different categories. As at the end of the reporting period, revenue from the Company’s investment advisory commission and fees income amounted to RMB35.886 million, up by 61.71% year-on-year.

5. Distribution of financial products

During the reporting period, the Company added new categories including collection products, trust products, wealth management products and funds to the self-developed asset management products and third-party financial products sold through securities branch network. As at the end of the reporting period, the sales volume of asset management products and third-party financial products reached RMB5,555 million, up by 119.63% year-on-year; in particular, balance for sale of securities investment fund, asset management product and trust and wealth management products was RMB539 million, RMB849 million and RMB2,629 million respectively, representing a 9.5% increase, 53.8% increase and significant increase from late 2013.

(II) Investment banking business

During the reporting period, despite such unfavourable factors as change of IPO policy and high market financing cost for investment banking, the Company actively promoted projects underway, intensified project reserve and seized the opportunity from New OTC Board to develop asset securitization and other innovative businesses.

1. Equity financing and financial advisory services

During the reporting period, the Company undertook one project concerning refinancing of listed companies and four financial advisory projects concerning merger and acquisition; the Company made significant headway in expanding New OTC Board businesses, as evidenced by revenue from listing in New OTC Board of RMB8.75 million and subsidy revenue of RMB1.76 million in the first half of 2014, up by 13.14 times year-on-year in total. By now, the number of listing projects in New OTC Board undertaken by the Company as the lead securities dealer has come to 23, ranking No. 12 in the industry.

As at the end of the reporting period, the Company completed one non-public offering project as the lead underwriter, involving an amount of RMB459.5 million, application for a non-public offering project, with relevant examination for offering being underway, three purchaser financing advisory projects, three other financial advisory projects and one project of continuous supervision by financial advisor, change to six projects of listing in New OTC Board and continuous supervision on a New OTC Board project phase 1, and recommended 10 enterprises to be listed in New OTC Board.

2. Debt financing

During the reporting period, the Company stepped up underwriting of debt financing, deeply tapped financing needs of clients and completed one corporate bond project and one asset securitization project as the lead underwriter respectively, involving an amount of RMB1.33 billion.

From the end of the reporting period to the date of this report, the Company continuously completed two corporate bond projects, with an underwriting amount of RMB1.25 billion.

(III) Investment management business

1. Asset management

In the reporting period, the Company's commission and fee income from asset management business totalled RMB13,296,200, up by 62.78% as compared with the same period in 2013. RMB18,938,500 was withdrawn for provision for depreciation of owned assets in the asset management products of the Company in the reporting period, rendering the total provision for depreciation of owned assets at RMB44,238,500. For details, please refer to the section "Business – Investment Management – Asset Management" in the Prospectus.

In the reporting period, the Company diversified its product portfolio, endeavoured to expand the investment scope and enhanced cooperation with financial institutions like banks and trust companies. In the reporting period, the Company increased three collective asset management schemes, five targeted asset management schemes and one specific asset management scheme. As at the end of the reporting period, the Company had 20 asset management products, including 9 collective asset management schemes amounting to RMB1.51 billion (up by 8.6% from the end of 2013), 10 targeted asset management schemes amounting to RMB760 million (down by 21.6% from the end of 2013), and one specific asset management scheme amounting to RMB530 million.

2. Direct investment

In the reporting period, ZDKY Venture Capital promptly adjusted its investment strategies, made efforts to expand business channels, strengthened quality project reserve and completed eight investment projects including five debt investment projects. As at the end of the reporting period, all the original registered capital had been used for investment and the revenues from direct investment business and other incomes came to RMB3,707,300, down by 0.31% as compared with the same period in 2013.

3. Fund management

In the reporting period, Ashmore-CCSC adjusted and improved the three-year business plan and deepened RQFII business cooperation; and the first publicly offered securities investment fund – Ashmore-CCSC Money Market Fund was approved by the CSRC in its document (Zheng Jian Xu Ke [2014] No. 596) on 12 June 2014. The fund has not been issued so far. As at the end of the reporting period, Ashmore-CCSC had issued and operated two specific client asset management plans, with the quantity of products remaining the same as that logged at the end of 2013 and the net values of shares of the products higher than the par values.

(IV) Proprietary trading

In the reporting period, revenues from the proprietary business and other incomes of Shanghai branch office of the Company recorded RMB174 million (up by 27.18% year-on-year), accounting for 21.73% of the total of the Company's revenues and other incomes. The proprietary business division scored a pre-tax profit of RMB70 million, accounting for 29.65% of the Company's pre-tax profit.

Regarding equity principal investment, given weak market and limited operation space, the Company earnestly studied and actively leveraged market trend and seized the opportunity of short-term rebound of the broad market, with its investment income far higher than the broad market index and the industry average. In respect of fixed-income principal investment, in line with the market trend and riding on a round of rise in the bond market in the first half of 2014, the Company promptly adjusted bond positions to achieve stable income.

(V) Other innovative businesses

In the reporting period, the Company made great headway in preparation for individual stock option business. In the first half of 2014, the Company set up the Derivative Brokerage Headquarters, sturdily and effectively carried out relevant work, became one of the 20 excellent members in the option strategy promotions held by SSE regarding client cultivation, and led the industry in activity in mock trading. On 6 June 2014, the Company successfully and unconditionally passed the site acceptance carried out by SSE on the preparation for option business (the passing rate of the industry was 25%), laying a solid foundation for acquisition of qualifications for individual equity option business as a front runner.

The Company saw rapid growth in the securities-backed lending business, and successfully developed and maintained a number of industrial clients by organizing various activities and business training and directly visiting high-end clients. As at the end of the reporting period, the Company recorded RMB1.095 billion (up by 330.12% over the end of 2013) from the initial stock pledged repurchase transaction. In the reporting period, the interest revenue from stock pledged repurchase business was RMB20,932,900, up by 210.26% over 2013.

On 28 May 2014, the Company submitted to the SSE the Application for Voluntary Participation of Central China Securities Co., Ltd. in Shanghai-Hong Kong Stock Connect, and in July, it successfully participated the pioneer test as one of the 25 securities firms.

On 2 July 2014, National Equities Exchange and Quotations Company Limited approved the Company to conduct market making business as a host broker in the national equities exchange and quotations system. At present, the Company has preliminarily reached agreements with a number of enterprises on market making.

(VI) Research

In the reporting period, the Company's service support capability for research business increased substantially. It released 318 research reports and 119 morning meeting reports, providing significant research support for the Company's decision making and development of principal businesses, provided 177 services, produced over 120 research reports, completed thematic researches concerning Shanghai-Hong Kong Stock Connect, industry innovation conference, etc. with high quality, and provided substantial research support for such businesses as proprietary trading, investment banking and brokerage. Meanwhile, it explored a major customer service mode applicable to the Company and launched pilot projects like branch video service, marking a positive step in exploration of revenue generation mode of research service.

IV. PROSPECTS AND FUTURE PLANS

(I) Market analysis

In the second half of 2014, given a series of steady growth policies, targeted easing and liquidity policies and overseas economic recovery, China is seeing warming market environment and accumulated positives of the fundamentals. In the meantime, China's securities industry is steering towards innovation. Rollout of the new National Nine Guidelines indicates the concern and care of the State Council for sustained and healthy development of the capital market and securities industry and can help tamp the development foundation of the capital market from the system aspect. Issue of the Opinions on Further Promoting Innovative Development by Securities Business Firms was the first measure taken by the CSRC for promoting the implementation of the new National Nine Guidelines. It specifies the general principles, major tasks and specific measures for promoting innovative development of securities business firms in the near future and can help further propel innovative development of the securities industry. In the meantime, specific innovative businesses such as preferred stock, Shanghai-Hong Kong Stock Connect and New OTC Board market making are being gradually carried out. Innovative businesses will contribute more and more profits to securities dealers in Mainland China, driving business transformation and business model reform of securities dealers.

(II) Development plan

In June 2014, the Company successfully entered Hong Kong capital market, providing an opportunity for the Company to step up going global and become a modern large financial holding group.

In the second half of 2014, the Company will take full advantage of the effect of listing in Hong Kong and markedly increased capital strength to further expand its business development foundation and firmly grasp the opportunity brought by Shanghai-Hong Kong Stock Connect to set up branches in Hong Kong and substantially enter international capital markets; promote high-level development of the Company's businesses with priority on direct investment business; allocate more capital to the five key profit growth driving businesses comprising margin financing and securities lending, equity pledge financing, direct investment, New OTC Board and New OTC Board market making and accelerate development of the Company's principal businesses and innovative businesses, so as to bring considerable returns to investors.

The Company will continue its A share issue plan, consider to re-submit a new application for A share issue to CSRC at an appropriate time in a bid to return to A share market.

(III) Plans for future investment or capital asset purchase

1. Upon deliberation and approval at the 28th meeting of the 4th session of the Board of the Company, the registered capital of ZDKY Venture Capital (a subsidiary of the Company) will increase by RMB300 million from RMB200 million to RMB500 million. It is planned that RMB200 million of the increased capital will be in place in August and September 2014 and the remaining RMB100 million will be in place at an appropriate time before the end of 2014 according to the Company's financial condition and ZDKY Venture Capital's external investment.

The increased capital will come partly from the Company's owned funds and the proceeds from listing in Hong Kong. In particular, at most 25% of the net proceeds from listing in Hong Kong can be used for capital increase of ZDKY Venture Capital.

2. To expand commercial and office space in Zhengzhou, centralize business and management functions, have a safe place for its IT infrastructures and improve its image, the Company acquired a land (with a gross area of 10,002.9 m²) at approximately RMB101 million in Longhu Financial Center, Zhengzhou in October 2013. Since the second half of 2014, the Company plans to develop and build a new business complex on the newly acquired land after obtaining the relevant title deeds. When completed, the business complex is expected to appreciate and it will support our business expansion and long-term development.

V. LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

In the reporting period, the Group maintained profit growth. As at the end of the reporting period, the equity attributable to the Company's shareholders came to RMB5.377 billion, up by 31.42% from RMB4.091 billion at the end of 2013. As compared with the end of 2013, the Group's net assets rose about 30.62%, which mainly came from proceeds from H share listing and profits achieved during the reporting period.

The Company saw an increase in the total asset size and maintained sound asset quality and liquidity. Due to strong liquidity of the businesses of the Company, the balance sheet is mainly about current assets and liabilities. At the end of the reporting period, the Group's total owned assets (i.e., total assets less accounts payables to brokerage clients) reached RMB11.318 billion, up by 30.76% as compared with RMB2.662 billion at the end of 2013. Specifically, of the total owned assets, cash and bank balance accounted for 12.74%; investment assets (including investment in associated companies and financial assets, especially investment in financial assets with strong liquidity) accounted for 42.94%; on steady development of margin financing and securities lending, the receivables in the margin account accounted for 23.87%; and the property and equipment of the non-current assets and intangible assets accounted for 1.96% and 0.38%, respectively.

The total asset-liability ratio of the Company remained stable. As at the end of the reporting period, the ratio of the Group's owned assets to liabilities (i.e., the total assets and total liabilities less accounts payables to brokerage clients) was 51.81%, up by about 0.05 percentage points over 51.76% at the end of 2013; the Group's degree of operating leverage (i.e., the total assets less accounts payables to brokerage clients/equities attributable to the Company's shareholders) was 2.10 times (including the increased net assets from the H share listing), down by about 0.94% over 2.12 times at the end of 2013. The Company plans to energetically develop capital-based intermediary businesses and enlarge liability scale through multi-channel financing so as to further improve the leverage ratio. The Group has worked out strict risk management measures for net capital and other risk control indicators. A pressure test will be done on the general liquidity and other financial indicators before any material capital investment is made. The Group meets the demand for working capital and other capital demands mainly with the cash flow from operating activities, raising activities and repurchase transactions, cash on hand and cash equivalents. In addition, it borrows or lends funds from time to time for the purpose of liquidity management. As mentioned in the section "Financial Information and Business" in the Prospectus, the Group does not rely on bank loans and did not have any bank loan from 1 January 2011 to 30 June 2014. Given the available financial resources, including proceeds from the H Shares, cash flow from operating activities, financing plans and available credit financing limit, the Group's working capital can meet the capital demand for business development.

VI. MATERIAL FINANCING OF THE COMPANY

(I) Equity financing

1. Listed at the Stock Exchange on 25 June 2014, the Company offered a total of 598,100,000 new overseas listed foreign shares (H Shares), with 59,810,000 state-owned shares held by National Council for Social Security Fund converted to overseas listed foreign shares (H shares). The Company raised a total of HK\$1.501 billion, with net proceeds amounting to RMB1.103 billion after deducting underwriting fees and capitalisation.
2. The Company's application for A shares offering has been submitted to the CSRC for approval in September 2012. On 1 July 2014, CSRC informed the Company that its application for A share offering was rejected. Up to now, the Company's competitiveness and growth indicators are still in compliance with the CSRC's prudential regulatory requirements on the initial public offering and listing of securities companies. So the Company will continue its A share offering plan and consider to re-submit the application for A share offering to the CSRC at the time appropriate.

(II) Bond financing

1. Pursuant to the Notice of Issuance of Short-Term Notes by Central China Securities Co., Ltd. of the People's Bank of China (Yin Fa [2013] No.215) and the resolutions of the board meeting and shareholders' meeting, the Company issued the first, second and third batch of short-term notes of RMB900 million, RMB800 million and RMB900 million respectively in January, April and July 2014. The terms of the short-term notes are 90 days, 90 days and 60 days and the coupon rate are 6.65%, 5% and 4.45% respectively. The proceeds from short-term notes were used to supplement our working capital and we will continue issuing short-term notes according to market conditions and capital demands.
2. On 10 August 2013, the Company adopted the Proposal for Central China Securities Co., Ltd.'s Issue of Corporate Bonds in the 12th meeting of the 4th session of the Board, pursuant to which the amount of the corporate bonds issued shall not exceed RMB1.5 billion nor 40% of the latest audited net asset of the Company before the issue and the proceeds shall be used to supplement the Company's working capital. The proposal was passed in the 5th extraordinary general meeting of year 2013 on 25 August 2013. On 20 December 2013 the Company received the Approval and Reply to Central China Securities Co., Ltd.'s Proposal to Issue Bonds from the CSRC. On 25 April 2014, we issued RMB1.5 billion of corporate bonds in PRC stock exchange market, with a coupon rate of 6.2% and a term of 5 years (including the issuer's option to raise the coupon rate and the investors' option to repurchase the bonds at the end of the third year). The proceeds from the issuance of the corporate bonds were used to supplement the working capital. Although the corporate bonds will increase our debts and interest expenses, we plan to improve our return on equity by lifting the leverage ratio.

VII. INVESTMENTS DURING THE REPORTING PERIOD

(I) Use of proceeds

During the reporting period, the Company issued H Shares and raised HK\$1.501 billion, with net proceeds amounting to RMB1.103 billion after deducting underwriting fees and capitalization. As at the end of the reporting period, the said proceeds have not been put into use yet.

The intended use of proceeds remains unchanged and same as those disclosed in the Prospectus. The Company has completed the registration for overseas listing with the State Administration of Foreign Exchange of the PRC, and the net proceeds has been settled and will be used gradually in accordance with the Company's strategies, market conditions and the plan on the use of proceeds.

(II) Progress of investments by subsidiaries and joint stock companies

On 7 July 2014, the 28th meeting of the 4th session of the Board passed the Proposal for Central China Securities Co., Ltd.'s Capital Increase to Zhongding Kaiyuan Venture Capital Management Co., Ltd. of increase share capital of RMB300 million. The capital of ZDKY Venture Capital was increased from RMB200 million to RMB500 million, with the Company's shareholding percentage still being 100%.

VIII. ACQUISITION OR DISPOSAL OF MATERIAL ASSETS, EXTERNAL GUARANTEE, MORTGAGE, PLEDGE AND MATERIAL CONTINGENT LIABILITIES

During the reporting period, there was no acquisition, sale or replacement of the Company's material assets or business merger.

During the reporting period, the Company did not record any major external guarantee, mortgage, pledge or other major off-balance-sheet items that may affect the Company's financial position and operating results.

IX. EMPLOYEES, REMUNERATION POLICIES AND TRAINING

As at the end of the reporting period, the Group has a total of 2,075 employees, including 1,856 from the Company and 219 from its subsidiaries.

By signing letter of responsibilities on annual objectives with various units, the Company revised and optimized 2014 annual incentive and restriction mechanism for all business lines and linked incentives directly to business performances. Under a strict performance assessment mechanism, it also increased incentives for special contributors, which inspired the staff and improved the Company's operating results. While ensuring competitive remuneration, the Company made corresponding remuneration policies according to the characteristics and market value of different talent. Currently the Company has no share-based remuneration plans. The Company's remuneration consists of base wage, floating wage, performance bonus and welfare. The welfare provided for employees includes basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance, maternity insurance, housing provident fund, etc. The Company also provided supplementary medical insurance and enterprise annuity.

The Company made specific training programs to provide regular, continual training for its staff. According to the 2014 annual training program, in the first half year the Company organized training on listing in Hong Kong, capital intermediary business and individual equity options business, new staff training and others.

X. RISK CONTROL

(I) Major risks affecting the Company's operations and policies

Major risks include: credit risk, market risk, liquidity risk, compliance risk, operational risk, etc. To fully uncover its operational risks and control them within a reasonable range, the Company measured risks by such means as duration analysis, scenario analysis and sensitivity analysis and differentiated, prevented and managed various risks by screening, classification, analysis, etc. in order to achieve the Company's strategic development goal and maximize the interests of the Company and its shareholders.

1. Credit risk

Credit risks refer to risks arising from a debtor or counterparty's failure to perform an agreement as agreed. Since full margin settlement for brokerage can practically avoid relevant credit risks, currently the Company's credit risk mainly comes from bond investment and margin financing and securities lending, specifically in the following aspects: (1) default or ratings downgrade of investment targets; (2) a counterparty's default; (3) margin financing and securities lending customers' failure to duly repay loans or securities; and (4) receivables' becoming bad debts.

With regard to credit risk management in bond investment, the Company, via credit rating, assessed the credit risks of investment products of different credit ratings in terms of investment product, issuer and counterparty; risk supervision and control include classified management of various investment products and counterparties as well as daily monitoring on credit of position investment products. As stipulated by the Company, all transactions beyond the authorized trading volume shall be reported to the Risk Management Headquarter as well as the upper authority for examination and approval. Then the Risk Management Headquarter would examine the transaction and settlement methods, credit rating of the counterparty and other aspects concerning the investment product and point out any transaction risk.

With regard to credit risk management of margin financing and securities lending, the Company, by formulating various strict regulations and measures, controlled credit risk in these businesses in such steps as credit investigation, credit granting, marking to market and closed position.

As for the credit risk of receivables, the Company has fully withdrawn provision for bad debts according to the debtor's business operation, cash flow and bad-debt provision policies.

2. Market risk

Market risk refers to the possibility of losses or reduced income due to general or local changes in the market. It consists of risk of price fluctuations of equity assets, interest rate risk, exchange rate risk, etc.

Price risk mainly refers to the risk of losses in the Company's balance-sheet and off-balance-sheet businesses due to unfavorable changes in the price of securities like stocks brought by fluctuations in the securities market. Quantitatively, such risk is reflected in how fluctuations in the market price of tradable financial instruments and available-for-sale financial instruments respectively and proportionately affect the Company's profits and shareholders' equity.

Interest rate risk refers to the risk of fluctuations in the Company's financial position and cash flow due to interest rate changes in the market. In particular, the interest-bearing assets susceptible to market interest rate changes are mainly bank deposits, settlement reserves, guarantee deposits paid and bond investments.

MANAGEMENT DISCUSSION AND ANALYSIS

Exchange rate risk refers to the possibilities that the Company may suffer losses from operating activities which involve holding or using foreign exchange due to change in exchange rate. Though fluctuations in exchange rate do bring certain risks to the Company, the Company pays close attention to the foreign exchange market, makes reasonable decision-making and appropriately controls the scale of foreign exchange, and has relatively few foreign currency assets susceptible to such fluctuations.

To prevent market risks, the Company took the following measures: (1) followed a strict investment authorization system. The management of the Company is responsible for breaking down and allocating business size and risk limits for stock proprietary trading and bond proprietary trading during the year within the authorization granted by the Board, while the risk management department is responsible for monitoring relevant indexes and warning of risks; (2) established a multi-index risk monitoring and evaluation system. A quantitative index system was established to measure and evaluate risks in proprietary businesses by such means or tools as restriction on concentrated investment, scenario analysis, pressure test, sensitivity analysis, etc.; and (3) controlled trading procedures in an all-round way. The Company monitored various indexes via the investment management system, controlled the bond rating and concentration ratio of proprietary bond trading in advance and responsively evaluated and reported business risks brought by market changes.

3. Liquidity risk

Liquidity risk refers to the risk which the Company is unable to obtain sufficient funds in time at reasonable costs in order to repay maturing debts, comply with other payment obligations and satisfy the funding needs for carrying on normal business.

In view of the liquidity risk, the Company (1) strengthens its real time monitor and management of significant amount of fund in order to achieve fund centralised allocation and coordination of liquidity risk management; (2) enters into inter-bank market and the capital market, obtains bank's credit and explore different sources of other kind of liquidity, in order satisfy the Company's liquidity need; and (3) uses net capital-based monitoring system for real-time monitoring of risk control indicators, and use stress tests to assess the impact of business activities on the net capital.

4. Compliance risk

Compliance risk refers to the risk of legal sanction, being subjected to supervisory measure, self-discipline penalty, loss of property or reputation on companies arises from violation of laws, regulations or rules due to the business activities of the Company and the behaviour of the employees. The Company has always taken the compliance operation as the foundation of survival and development of the Company and development base. The Company has built up a comprehensive compliance risk management system and compliance risk organization; at the early stage of promoting the compliance management pilots of the securities industry, the Company set up a Compliance Management Headquarter, assigned full-time compliance management staff and conducted effective control on the compliance risk through compliance review, compliance monitoring, compliance examination, compliance supervision and compliance training.

5. Operational risk

Operational risk refers to risk of financial loss resulting from improper operation of transaction process or management system.

The Company responsively monitors operational risks of brokerage, proprietary business and asset management business and has formulated a brokerage risk management system and other business risk control system. Through setting up stringent operational control procedure, the Company has decreased the technological and artificial risks and improved the risk management efficiency. The Company's employees in various business risk control posts control and report the frontline risks involved in the businesses in their charge.

(II) Risk management measures adopted or to be adopted by the Company

1. A four-level structured risk control and management system set up by the Company

The first level comprises the Board and Supervisory Committee; the second level consists of the Risk Control Committee, Audit Committee and relevant investment and decision-making leading group under the Board; the third level is the cooperative work system for risk management before, during and after a risk occurs set up by the Compliance Management Headquarters (Legal Affairs Headquarters), Risk Management Headquarters and Review and Audit Headquarters; and the fourth level is composed of the frontline risk management systems of various departments and branches of the Company.

2. Risk evaluation procedure of the Company

Risk identification: To identify risks and key supervisory indices in systems, business operation and financial management.

Risk evaluation: To conduct quantitative and qualitative analysis on the possibilities and consequences of various risks by virtue of sensitivity analysis, value at risk, etc., formulate risk management strategies and evaluate risks.

Risk control and response: Based on the evaluation results, to actively take counter-measures to guarantee normal operation of the Company or minimize relevant impacts.

3. Further improving the overall risk management ability and promoting comprehensive risk management culture

The Company will further enhance its overall risk management ability, especially the frontline risk control ability of various business and management departments and branches, and improve the frontline risk control systems and measures concerning various businesses. Moreover, the Company will, from top to bottom, further promote the concept and culture of comprehensive risk management among all employees from all dimensions and throughout the whole process.

4. Advance the development of innovative businesses in an orderly way and further improve the risk management mechanism of innovative businesses

The risk management department of the Company participates in risk assessment, design of risk control procedure, design of risk control indicators and setting of the indicator value, design of risk management ancillary system and building of the corresponding risk monitoring information system of each kind of innovative businesses, builds up the system, procedures, personnel and response mechanism for innovative businesses, and implement the risk management throughout each kind of innovative business by means of pre-assessing and evaluating, allocating risk limits, risk measurement during the process and independent monitoring and risk reporting, etc.

5. Further improving the ability and level of quantitative analysis on risk management

The Company will strengthen research on and investment in quantitative analysis on risk management, focus on collection and arrangement of data and information about quantitative indices and data analysis of key links, intensify research and development of risk measurement model and select appropriate methods and models to measure market risk, credit risk and operational risk. In addition, the Company will regularly test and assess the effectiveness of valuations and models and make adjustment and improvement in time according to relevant results.

I. INTERIM DIVIDENDS, SPECIAL DIVIDENDS AND ADJUSTMENT ON DIVIDEND DISTRIBUTION PROPOSAL AFTER ISSUANCE OF THE H SHARES

(I) The Board advises not to distribute the interim dividend for the six months ended 30 June 2014 to the Company's shareholders. (II) At the extraordinary general meeting on 16 December 2013, the shareholders of the Company accepted the proposal of the accumulated profit distribution plan made before the proposed issue of H Shares this time, deciding that the undistributed accumulated profits before issue of H shares of the Company will be shared by the then existing and new shareholders as per their shareholding percentage after the H Shares are listed. Therefore, the Company will not announce distributing special dividends. (III) The Company puts great emphasis on reasonable returns to its investors and prioritises dividend distribution in cash, and has adjusted the plan of cash dividends distribution to 50% of our distributable profits realised in a particular year from "plan to distribute not less than 10.0% of our distributable profits realised in the year as cash dividends in any fiscal year" as disclosed in the Prospectus. This was considered and approved at the 31th meeting of the 4th session of the Board of the Company.

II. INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ASSOCIATED CORPORATIONS

As of the end of the reporting period, based on the information acquired by the Company and to the knowledge of the Directors, none of the Directors, Supervisors and the senior management of the Company and their respective associates held or was deemed to hold any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO, same below) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange according to the Model Code.

III. DIRECTOR'S RIGHT TO PURCHASE SHARES OR DEBENTURES

As of the end of reporting period, none of the Directors, Supervisors or their respective spouses or children under the age of 18 was authorized to acquire benefits by buying shares or debentures of the Company or to exercise any of the said right; meanwhile, neither the Company nor its subsidiaries made any arrangement to enable the Directors, Supervisors or their spouses or children under the age of 18 to acquire any of the said right in any other body corporate.

IV. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at the end of reporting period, to the best knowledge of the Directors, apart from the Directors, Supervisors and senior management of the Company, the following persons held or were deemed to hold interests or short positions in the shares, underlying shares and debentures of the Company as recorded in the register of the Company (as referred to herein) required to be kept under Section 336 of the SFO:

Name	Class of shares	Nature of interests	Number of shares of the Company held (Share)	Approximate percentage of the total issued share capital of the Company (%)	Approximate percentage of Domestic Shares/ H Shares (%)	Long position/ short position
Henan Investment Group	Domestic Shares	Beneficial owner	870,963,022	33.10	44.13	Long position
Bohai Industrial Investment Fund	Domestic Shares	Beneficial owner	608,000,000	23.10	30.81	Long position
Bohai Industrial Investment Fund Management Co., Ltd. (Note)	Domestic Shares	Investment manager	608,000,000	23.10	30.81	Long position
Anyang Iron & Steel Group Co., Ltd.	Domestic Shares	Beneficial owner	187,861,855	7.14	9.52	Long position
China Reinsurance (Group) Corporation	H Shares	Interest of controlled corporation	58,000,000	2.20	8.82	Long position
So Hing Sang	H Shares	Beneficial owner	39,374,000	1.50	5.98	Long position
National Council for Social Security Fund	H Shares	Beneficial owner	90,610,000	3.44	13.77	Long position

Note:

According to the investment fund management agreement executed by and between Bohai Industrial Investment Fund Management Co., Ltd. and Bohai Industrial Investment Fund, Bohai Industrial Investment Fund Management Co., Ltd. holds shares of the Company on behalf of Bohai Industrial Investment Fund.

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

The Company and its subsidiaries did not purchase, sell or redeem any listed securities of the Company during the six months ended 30 June 2014.

VI. COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE

The Company works on maintaining a high-quality corporate governance to safeguard shareholders' interests and enhance enterprise value and accountability. From the listing date of the Company to the end of the reporting period, the Company has adopted and complied with all provisions of Code on Corporate Governance set out in Appendix 14 to the Listing Rules. The Company will continue to review and improve corporate governance practices to ensure it conforms to Code on Corporate Governance.

VII. COMPLIANCE WITH MODEL CODE

The Company has adopted Model Code set out in Appendix 10 to the Listing Rules on directors and supervisors conducting securities trading. The Company has particularly inquired all Directors and Supervisors on compliance with the Model Code, and all Directors and Supervisors confirmed that they had fully complied with the standards set out in the Model Code from the listing date of the Company to the end of the reporting period.

VIII. OPERATION OF THE BOARD AND SPECIALIZED COMMITTEES THEREUNDER

There has been no change in the membership of the Board from the listing date of the Company to the end of the reporting period. The Board currently comprises nine Directors: two executive Directors, three non-executive Directors, and four independent non-executive Directors, namely, Jian Mingjun (the chairman of the Company and executive Director), Zhou Xiaoquan (the president of the Company and executive Director), Li Xingjia, Zhang Qiang and Wang Jinian (non-executive Directors), Zhu Shanli, Yuan Dejun, Shi Dan and Yuen Chi Wai (independent non-executive Directors).

There are four special committees under the Board, including the Development Strategy Committee, the Risk Control Committee, Remuneration and Nomination Committee, and Audit Committee, which function efficiently on clearly assigned responsibilities and duties. Among them, Remuneration and Nomination Committee and Audit Committee consist of mostly independent non-executive Directors and have independent non-executive Directors act as their chairmen.

OTHER INFORMATION

Members of the specialized committees are:

- (1) Development Strategy Committee: Jian Mingjun (chairman), Zhou Xiaoquan, Li Xingjia, Zhang Qiang, and Wang Jinian;
- (2) Risk Control Committee: Jian Mingjun (chairman), Wang Jinian, and Zhu Shanli;
- (3) Remuneration and Nomination Committee: Yuan Dejun (chairman), Zhou Xiaoquan, and Zhu Shanli;
- (4) Audit Committee: Yuen Chi Wai (chairman), Shi Dan, and Li Xingjia.

All Directors performed their statutory duties diligently and honestly and protected the interests of the Company and minority shareholders in accordance with relevant provisions of laws, regulations and Articles of Association. In the reporting period, the Board duly convened and meticulously prepared five general meetings of the Company and considered 17 proposals. The Board actively organized and urged relevant institutions or persons to implement resolutions of the general meetings of the Company and followed up implementation of the resolutions. During the reporting period, the Board convened nine meetings and considered 45 proposals. All specialized committees put forward their professional advice, which served as important reference for the Board in its decision making and enabled it to make more scientific and forward-looking decisions.

In particular, the Audit Committee and the management of the Company have reviewed the accounting policies that the Company adopted, and discussed issues including internal control and financial report, and have fully reviewed consolidated interim financial information (including unaudited consolidated financial statements set out in this Interim Report) during the reporting period. The Audit Committee considered that such consolidated financial report was compiled in conformity with applicable accounting standards and provisions and has made appropriate disclosures. The audit institution engaged by the Company has reviewed interim financial information in accordance with International Standard on Review Engagements No. 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity.

IX. OPERATION OF THE SUPERVISORY COMMITTEE

In the reporting period, there has been no change in the membership of the Supervisory Committee. The Supervisory Committee has convened three meetings and considered nine proposals. Supervisors earnestly performed their duties and supervised standard operation of the Company and safeguarded the legal rights and interests of the Company, shareholders and investors in accordance with relevant provisions in the Company Law of the PRC and Securities Law of of the PRC and other relevant laws and regulations and the Articles of Association.

X. MAJOR LITIGATIONS

As of the end of the reporting period, there were no new developments in major litigations of the Company. For details, please refer to the session “Business – Legal and Regulatory – Legal Proceedings” in the Prospectus.

XI. MATERIAL CONTRACTS AND THEIR IMPLEMENTATION

The Company entered into the following material contracts during the reporting period:

- (1) *Non-competition Agreement* that the Company entered into with Henan Investment Group, the Company’s controlling shareholder, on 10 March 2014;
- (2) *Undertaking Letters* that Henan Investment Group issued to the Company on 10 March 2014 and 16 May 2014 respectively;
- (3) *Cornerstone Investment Agreement* dated 6 June 2014 that the Company entered into with Mao Yuan Capital Limited, Cao Junsheng, CCB International Capital Limited, ICBC International Capital Limited, The Hongkong and Shanghai Banking Corporation Limited, BOCOM International Securities Limited and DBS Asia Capital Limited;
- (4) *Cornerstone Investment Agreement* dated 6 June 2014 that the Company entered into with Sunny Empire Investment Limited, Zhang Junjie, CCB International Capital Limited, ICBC International Capital Limited, The Hongkong and Shanghai Banking Corporation Limited, BOCOM International Securities Limited and DBS Asia Capital Limited;
- (5) *Hong Kong Underwriting Agreement* that the Company entered into with Hong Kong underwriters and others on 10 June 2014; and
- (6) *International Underwriting Agreement* that the Company entered into with international underwriters and others on 17 June 2014.

Please refer to the Prospectus for details of the above material contracts. During the reporting period, the Company has been complying with terms of the above contracts without material default.

XII. CLASSIFICATION AND EVALUATION RESULT OF THE COMPANY BY SECURITIES REGULATORS

The Company was rated B-Class BBB-level in the 2014 classification and evaluation of securities companies by CSRC.

XIII. CHANGE OF PARTICULARS OF DIRECTORS AND SUPERVISORS AFTER THE LISTING DATE

According to Rule 13.51B of the Listing Rules, as of the end of the reporting period, information of the Directors and Supervisors has not been changed.

DEFINITIONS

“A shares”	:	the shares traded on SSE or Shenzhen Stock Exchange in RMB
“Articles of Association”	:	articles of association of the Company, as amended from time to time
“Ashmore-CCSC”	:	Ashmore-CCSC Fund Management Company Limited, a limited liability company incorporated in the PRC in which the Company holds 51% equity
“Board”	:	the board of Directors of the Company
“Central China Futures”	:	Central China Futures Co., Ltd., a limited liability company incorporated in the PRC in which the Company holds 92.55% equity
“China” or “PRC”	:	the People’s Republic of China, not including Hong Kong, Macao Special Administrative Region and Taiwan for the purpose of this Interim Report
“Company”	:	Central China Securities Holdings Co., Ltd., a joint stock company incorporated on 8 November 2002 in Henan, China and carrying on business in Hong Kong in the name of “中州证券”, with its H Share listed on the Main Board of the Stock Exchange (stock code: 01375)
“CSRC”	:	the China Securities Regulatory Commission
“Directors”	:	directors of the Company
“Domestic Shares”	:	the issued ordinary shares of the Company with par value per share of RMB1, which shall be subscribed for in Renminbi or credited as fully paid
“end of last year”	:	31 December 2013
“end of the reporting period” or “end of this period”	:	30 June 2014
“Futures IB Business”	:	the business activities in which securities firms, as commissioned by futures companies, introduce customers to futures companies to provide futures brokerage and related services

DEFINITIONS

“GDP”	:	Gross Domestic Product
“Group” or “we”	:	the Company and its subsidiaries
“H Shares”	:	overseas listed foreign shares (par value per share RMB1.00) in share capital of the Company, which shall be subscribed for in HK dollars and listed on the Main Board of the Stock Exchange
“Henan Investment Group”	:	Henan Investment Group Co., Ltd., a limited liability company incorporated in the PRC and the controlling shareholder of the Company
“HK dollar” or “HK\$”	:	refers to the legal tender of Hong Kong
“Hong Kong”	:	Hong Kong Special Administrative Region, the PRC
“IFRS”	:	International Financial Reporting Standards, including standards, revisions and interpretations promulgated by International Accounting Standards Board, and International Accounting Standards and Interpretations promulgated by International Accounting Standards Committee
“last period” or “same period last year”	:	the six-month period ended 30 June 2013
“Listing date”	:	the date when the H Shares were listed on the Main Board of the Stock Exchange, i.e. 25 June 2014
“Listing Rules”	:	the Rules Governing the Listing of Securities on the Stock Exchange
“New National Nine Guidelines”	:	the Opinions of the General Office of the State Council on Further Strengthening the Protection of Legitimate Rights and Interests of Small and Medium Investors in Capital Market which was released by the State Council of the PRC on 27 December 2013
“New OTC Board”	:	pilot transaction board set up to provide over-the-counter market for unlisted joint stock companies registered in Beijing Zhongguancun Science Park, Shanghai Zhangjiang High-tech Industrial Development Zone, Wuhan East Lake High-tech Development Zone and Tianjin Binhai Hi-tech Industrial Development Area to make quotation and transfer ownership of shares. In the end of 2013, the New OTC Board exceeded the limitations of restricting in the national pilot high-tech area and expanded to include all enterprises which fulfil the requirements under the New OTC Board

“OECD composite leading indicators”	:	the indicators of economy, finance, education and hygiene, etc. regularly released by OECD to reflect economic and social development of all countries comprehensively and accurately. (OECD: Organization for Economic Co-operation and Development, established in 1960, consisting of 30 developed member countries including the U.S., Germany, France and Japan, committing itself to research of all fields of national economy, serving policymakers of all countries from strategic perspectives, promoting cooperation among governments and promoting market economy)
“Prospectus”	:	the prospectus dated 11 June 2014 that the Company published for the IPO of its H Shares on the Main Board of the Stock Exchange
“Refinancing”	:	the business where securities firms borrow funds or securities from China Securities Finance Corporation Limited and lend such funds or securities to clients (including the refinancing of funds and refinancing of securities)
“reporting period” or “this period”	:	the six-month period ended 30 June 2014
“RMB”	:	Renminbi, the lawful currency of the PRC
“RQFII”	:	RMB Qualified Foreign Institutional Investors
“SFO”	:	the Securities and Futures Ordinance, Chapter 571 of Laws of Hong Kong (as amended, supplemented or otherwise modified from time to time)
“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 SSE and the 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)
“Short-term financing bonds”	:	negotiable securities that enterprises issue and trade in the inter-bank bond market and agree to repay capital and interest within a year
“SSE”	:	Shanghai Stock Exchange
“SSE Composite Index”	:	composite stock price index of the SSE

DEFINITIONS

“Stock Exchange”	:	The Stock Exchange of Hong Kong Limited
“Supervisors”	:	supervisors of the Company
“Supervisory Committee”	:	the supervisory committee of the Company
“Treasury bonds”	:	debt securities that the Ministry of Finance of China issued on behalf of the government of China
“ZDKY Venture Capital”	:	Zhongding Kaiyuan Venture Capital Management Co., Ltd., a limited liability company incorporated in the PRC in which the Company holds 100% equity

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

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



羅兵咸永道

**REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION
TO THE BOARD OF DIRECTORS OF CENTRAL CHINA SECURITIES CO., LTD.**
(Incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 33 to 94, which comprises the interim condensed consolidated statement of financial position of Central China Securities Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2014 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

OTHER MATTER

The condensed consolidated interim financial information includes comparative information as required by International Accounting Standard 34, "Interim financial reporting". The comparative information for the interim condensed consolidated statement of financial position is based on the audited financial statements as at 31 December 2013. The comparative information for the interim condensed consolidated statements of comprehensive income, changes in equity and cash flows, and related explanatory notes, for the period ended 30 June 2013 has not been audited or reviewed.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 August 2014

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014
(All amounts in RMB'000 unless otherwise stated)

		Six months ended 30 June	
	Notes	2014 (Unaudited)	2013 (Unaudited)
Revenue			
– Commission and fee income	4	383,352	415,909
– Interest income	5	226,034	97,877
– Net investment gains	6	158,236	119,428
		767,622	633,214
Other income and gains	7	31,607	24,674
Total revenue and other income		799,229	657,888
Commission and fee expenses	8	56,907	49,189
Interest expenses	9	129,449	42,464
Staff costs		210,722	228,960
Depreciation and amortisation		32,784	31,746
Other operating expenses	10	124,416	122,350
Impairment losses	11	7,945	6,079
Total expenses		562,223	480,788
Profit before income tax		237,006	177,100
Income tax expense	12	64,836	49,159
Profit for the period		172,170	127,941
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Available-for-sale financial assets			
– Changes in fair value		(5,257)	(12,017)
– Income tax effect on changes in fair value		1,314	3,004
– Reclassification adjustments for gains included in the consolidated income statement, net		7,511	11,205
Other comprehensive income for the period, net of tax		3,568	2,192
Total comprehensive income		175,738	130,133

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014
(All amounts in RMB'000 unless otherwise stated)

	Notes	Six months ended 30 June	
		2014 (Unaudited)	2013 (Unaudited)
Profit attributable to:			
– Shareholders of the Company		179,324	133,840
– Non-controlling interests		(7,154)	(5,899)
		172,170	127,941
Comprehensive income attributable to:			
– Shareholders of the Company		182,892	136,032
– Non-controlling interests		(7,154)	(5,899)
		175,738	130,133
Earnings per share attributable to shareholders of the Company for the period (expressed in RMB per share)			
Basic/Diluted	13	0.09	0.07
Dividends		–	–

The notes on pages 41 to 94 form an integral part of this interim consolidated financial information.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

(All amounts in RMB'000 unless otherwise stated)

	Notes	30 June 2014 (Unaudited)	31 December 2013 (Audited)
Assets			
Non-current assets			
Property and equipment	14	222,026	225,808
Investment properties		22,536	30,819
Goodwill		7,269	7,269
Intangible assets		43,136	46,805
Investment in an associate	15	50,000	–
Other non-current assets		30,136	37,881
Available-for-sale financial assets	16	508,811	40,096
Loans and receivables	17	18,890	–
Deferred income tax assets	18	50,803	71,237
Refundable deposits	19	308,149	412,988
Total non-current assets		1,261,756	872,903
Current assets			
Other current assets	20	156,144	154,749
Loans and receivables	17	270,370	101,325
Margin accounts receivable	21	2,701,982	2,259,463
Available-for-sale financial assets	16	312,007	391,074
Financial assets held under resale agreements	22	1,313,971	793,086
Derivative financial assets	23	–	–
Financial assets held for trading	24	3,989,312	3,438,994
Clearing settlement funds	25	943,889	1,104,844
Cash held for brokerage clients		4,580,502	3,962,749
Cash and bank balances	26	1,442,402	570,418
Total current assets		15,710,579	12,776,702
Total assets		16,972,335	13,649,605
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital	27	2,631,616	2,033,516
Capital reserve	28	504,649	–
Surplus reserve		314,845	314,845
General reserve		314,845	314,845
Transaction risk reserve		310,091	310,091
Available-for-sale financial assets revaluation reserve		(13)	(3,581)
Retained earnings		1,300,950	1,121,626
Total equity attributable to shareholders of the Company		5,376,983	4,091,342
Non-controlling interests		76,786	83,940
Total equity		5,453,769	4,175,282

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

(All amounts in RMB'000 unless otherwise stated)

	Notes	30 June 2014 (Unaudited)	31 December 2013 (Audited)
Liabilities			
Non-current liabilities			
Bonds payable	29	1,489,031	–
Deferred income tax liabilities	18	6,175	252
Total non-current liabilities		1,495,206	252
Current liabilities			
Other current liabilities		292,697	388,322
Financial liabilities designated at fair value through profit or loss	30	1,077,856	707,437
Tax payable	31	29,154	87,953
Due to other financial institutions	32	310,000	400,000
Financial assets sold under repurchase agreements	33	1,859,112	2,096,288
Short-term notes payable	34	800,000	800,000
Derivative financial liabilities	23	–	–
Accounts payable to brokerage clients	35	5,654,541	4,994,071
Total current liabilities		10,023,360	9,474,071
Total liabilities		11,518,566	9,474,323
Total equity and liabilities		16,972,335	13,649,605
Net current assets		5,687,219	3,302,631
Total assets less current liabilities		6,948,975	4,175,534

The notes on pages 41 to 94 form an integral part of this interim consolidated financial information.

JIAN Mingjun

Chairman of the Board and Executive Director

ZHOU Xiaoquan

Executive Director and President

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014
(All amounts in RMB'000 unless otherwise stated)

	Attributable to shareholders of the Company								
	Share capital (Note 27)	Capital reserve (Note 28)	Surplus reserve	General reserve	Transaction risk reserve	Available-for-sale financial assets revaluation reserve	Retained earnings	Non-controlling interests	Total equity
Balance at 1 January 2014 (Audited)	2,033,516	-	314,845	314,845	310,091	(3,581)	1,121,626	83,940	4,175,282
Profit for the period	-	-	-	-	-	-	179,324	(7,154)	172,170
Other comprehensive income for the period	-	-	-	-	-	3,568	-	-	3,568
Total comprehensive income for the period	-	-	-	-	-	3,568	179,324	(7,154)	175,738
Issuance of shares, net	598,100	504,649	-	-	-	-	-	-	1,102,749
Balance at 30 June 2014 (Unaudited)	2,631,616	504,649	314,845	314,845	310,091	(13)	1,300,950	76,786	5,453,769

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

(All amounts in RMB'000 unless otherwise stated)

	Attributable to shareholders of the Company							
	Share capital (Note 27)	Surplus reserve	General reserve	Transaction risk reserve	Available-for-sale financial assets revaluation reserve	Retained earnings	Non-controlling interests	Total equity
Balance at 1 January 2013 (Audited)	2,033,516	288,019	288,019	283,265	(16,486)	949,167	13,157	3,838,657
Profit for the period	-	-	-	-	-	133,840	(5,899)	127,941
Other comprehensive income for the period	-	-	-	-	2,192	-	-	2,192
Total comprehensive income for the period	-	-	-	-	2,192	133,840	(5,899)	130,133
Net capital contribution for subsidiaries by non-controlling shareholders	-	-	-	-	-	-	60,960	60,960
Balance at 30 June 2013 (Unaudited)	2,033,516	288,019	288,019	283,265	(14,294)	1,083,007	68,218	4,029,750

The notes on pages 41 to 94 form an integral part of this interim consolidated financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014
(All amounts in RMB'000 unless otherwise stated)

	Six months ended 30 June	
	2014 (Unaudited)	2013 (Unaudited)
Cash flows from operating activities		
Profit before income tax	237,006	177,100
Adjustments for:		
Depreciation and amortization	32,784	31,746
Impairment losses	7,945	6,079
Net losses/(gains) on disposal of property and equipment	92	(23)
Foreign exchange (gains)/losses	(1,246)	5,430
Interest expenses of short-term notes	25,991	–
Interest expenses of bonds	18,905	–
Net gains on disposal of available-for-sale financial assets	(2,655)	(4,140)
Dividends and interest income from available-for-sale financial assets	(14,620)	(1,240)
Changes in fair value of financial instruments at fair value through profit or loss	(34,562)	(33,224)
	269,640	181,728
Net decrease/(increase) in operating assets:		
Financial assets held under resale agreements	(520,885)	233,562
Cash held for brokerage clients	(617,753)	144,814
Other assets	(810,405)	(1,333,347)
Net (decrease)/increase in operating liabilities:		
Accounts payable to brokerage customers	660,470	(83,922)
Financial liabilities designated at fair value through profit or loss	338,945	671,659
Other liabilities	(637,772)	(197,813)
Income tax paid	(62,613)	(43,962)
Net cash outflow from operating activities	(1,380,373)	(427,281)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014
(All amounts in RMB'000 unless otherwise stated)

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
Cash flows from investing activities		
Dividends and interest received from available-for-sale financial assets	14,620	1,240
Net cash flows from purchase and disposal of property and equipment, intangible assets and other long-term assets	(9,655)	(18,862)
Capital injection to an associate company	(50,000)	–
Net cash flows from disposal or purchase of available-for-sale financial assets	(391,350)	(64,167)
Net cash outflow from investing activities	(436,385)	(81,789)
Cash flows from financing activities		
Cash received from issuance of short-term notes	1,700,000	–
Net cash received from issuance of bonds	1,492,000	–
Net proceeds from issue of H shares	1,128,175	–
Capital injection of subsidiaries from non-controlling shareholders	–	98,000
Repayment of short-term notes	(1,725,932)	–
Net cash inflow from financing activities	2,594,243	98,000
Net increase/(decrease) in cash and cash equivalents	777,485	(411,070)
Cash and cash equivalents at the beginning of the period	755,452	1,033,210
Effect of exchange rate changes on cash and cash equivalents	1,246	(5,430)
Cash and cash equivalents at the end of the period (Note 36)	1,534,183	616,710

The notes on pages 41 to 94 form an integral part of this interim consolidated financial information.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

1 GENERAL INFORMATION

Central China Securities Co., Ltd. (the "Company") is a joint-stock financial institution incorporated in Henan Province, the People's Republic of China (the "PRC"). The Company was incorporated on 8 November 2002, pursuant to the approvals by China Securities Regulatory Commission (the "CSRC") and the People's Government of Henan Province. The Company completed the relevant registration with Henan Provincial Administration of Industry and Commerce (the "HAIC") on 8 November 2002. The CSRC and the HAIC have granted the securities institution license No. Z30574000 and business licence No. 410000100009831 to the Company, respectively. The registered address of the Company is No. 10 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan Province.

The Company and its subsidiaries (the "Group") principally engage in the business set out on the Company's business license, which includes: securities and futures brokerage, investment consultancy and financial advisory, securities underwriting and sponsorship, proprietary trading, asset management, fund management and direct investment, agency sale of funds, introducing broker for futures companies, margin financing and securities lending and agency sale of financial products.

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 25 June 2014. Under this offering, the Company issued a total of 598,100,000 shares with a nominal value of RMB1.00 per share. After this public offering, total share capital of the Company increased to RMB2,631,615,700. The capital increase has been verified by PricewaterhouseCoopers Zhong Tian LLP which issued the capital verification report PwC Zhong Tian (Yan) Zi (2014) No.421.

The condensed interim financial information is presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The condensed interim financial information has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

(b) Principal accounting policies

Except for certain number of financial instruments measured at fair value, the interim financial information has been prepared under the historical cost convention. The accounting policies and methods of computation used in the condensed interim financial information for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's consolidated financial statements for the three years ended 31 December 2011, 2012 and 2013 underlying the preparation of the accountants report included in the prospectus of the Group in connection with the initial public offering of H shares of the Group on the Main Board of the Hong Kong Stock Exchange. The condensed interim financial information should be read in conjunction with the above-mentioned accountants' report.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(c) Standards, amendments and interpretations that are adopted in 2014

Standards, amendments and interpretations that have been adopted by the Group since 1 January 2014 are as follows:

Standards	Key requirements
Amendment to IAS 32 'Financial instruments: Presentation' on asset and liability offsetting	These amendments are to the application guidance in IAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.
Amendments to IFRS 10, 12 and IAS 27 "Consolidation for investment entities"	These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made IFRS 12 to introduce disclosures that an investment entity needs to make.
Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosure	This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.
Amendment to IAS 39 'Financial Instruments: Recognition and Measurement' – 'Novation of derivatives	This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria.
IFRIC 21 'Levies'	This is an interpretation of IAS 37, 'Provisions, contingent liabilities and contingent assets'. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

The above standards, amendments and interpretations adopted by the Group have no significant impact on operating results, financial position or comprehensive income.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(d) Standards, amendments and interpretation that are not yet effective and have not been adopted by the Group

Standards	Key requirements	Effective for annual period beginning on or after
Amendment to IFRS 19 (revised)	Employee benefits on defined benefit plans	1 July 2014
IFRS (revised) 2010-2012 Cycle	Annual Improvements to IFRSs	1 July 2014
IFRS (revised) 2011-2013 Cycle	Annual Improvements to IFRSs	1 July 2014
IFRS 9	Financial instruments	1 January 2018
Amendment to IFRS 9	A set of amendments to requirement of financial instruments measurement	1 January 2018
IFRS 14	Regulatory deferral accounts	1 January 2016
IFRS 15	Revenue from contracts with customers	1 January 2016

Amendment to IAS 19 (revised), Employee benefits – To plans that require employees or third parties to contribute towards the cost of benefits

The amendment to IAS 19 (revised) – Employee Benefits will affect any postemployment benefit plans where employees or third parties are required to bear some of the cost of the plan. The amendment clarifies the accounting by entities with plans that require contributions linked only to service in each period. Entities with plans that require contributions that vary with service will be required to recognize the benefit of those contributions over employees' working lives.

Annual Improvements to IFRSs 2010-2012 Cycle

The annual improvements to IFRSs 2010 – 2012 Cycle include amendments to IFRSs include the amendments to IFRS 2 – Share-Based Payment, the amendments to IFRS 3 – Business Combinations, the amendments to IFRS 8- Operating Segments, the amendments to IFRS 13 – Fair Value Measurement, the amendments to IAS 24 – Related Party Disclosures, the amendments to IAS 16 – Property, Plant and Equipment, and the amendments to IAS 38 – Intangible Assets.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(d) Standards, amendments and interpretation that are not yet effective and have not been adopted by the Group (continued)

Annual Improvements to IFRSs 2011-2013 Cycle

The annual improvements to IFRSs 2011-2013 Cycle include amendments to IFRSs include the amendments to IFRS 1 – First-time Adoption of International Financial Reporting Standards, the amendments to IFRS 3 – Business Combinations, the amendments to IFRS 13 – Fair Value Measurement, and the amendments to IAS 40 – Investment Property.

IFRS 9 Financial Instruments

IFRS 9 – Financial Instruments is the first standard issued as part of a wider project to replace IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 retains, but simplifies, the mixed measurement model for financial instruments. The basis of classification will depend on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets continues to apply. The IASB completed a package of amendments to IFRS 9 on 19 November 2013, which are described in the section below.

Amendments to IFRS 9

The amendments bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements; allow the changes to address the so-called "own credit" issue that were already included in IFRS 9 to be applied in isolation without the need to change any other accounting for financial instruments; and remove the 1 January 2015 mandatory effective date of IFRS 9, to provide sufficient time for preparers of financial statements to make the transition to the new requirements.

IFRS 14 Regulatory deferral accounts

This standard as transition rules specifies the accounting for certain balances that arise from rate – regulated activities (regulatory deferral accounts). This standard is only applicable to entities that apply IFRS 1 as first-time adopters of IFRS. It permits such entities, on adoption of IFRS, to continue to apply their previous GAAP accounting policies for the recognition, measurement, and impairment and de-recognition of regulatory deferral accounts. The interim standard also provides guidance on selecting and changing accounting policies (on first-time adoption or subsequently) and on presentation and disclosure.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(d) Standards, amendments and interpretation that are not yet effective and have not been adopted by the Group (continued)

IFRS 15 Revenue from contracts with customers

The standard moves away from a revenue recognition model based on an earnings processes to an “asset-liability” approach based on transfer of control. Performance obligations are the building blocks in the new revenue recognition model. The amount and timing of revenue recognition are determined at the performance obligation level. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to the customer. It replaces the separate models for goods, services and construction contracts under current IFRS.

The Group is in the process of assessing the impact on the Group’s financial statements from these new standards.

3 SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES

The Group continually evaluates the significant accounting estimates and judgments applied based on historical experience and other factors, including reasonable expectations of future events. The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting period are outlined below. It is possible that actual results may be materially different from the estimates and judgments referred to below.

3.1 Impairment of available-for-sale financial assets

In determining whether there is any objective evidence that impairment has occurred on available-for-sale financial assets, the Group assesses periodically whether there has been a significant or prolonged decline in the fair value of the investments below its cost or carrying amount, or whether other objective evidence of impairment exists based on the investee’s financial conditions and business prospects, including industry outlook, technological changes as well as operating and financing cash flows. This requires a significant level of management judgment which would affect the amount of impairment losses.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

3.2 Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

3.3 Fair value of financial instruments

The fair value of financial instruments that are not traded in active markets are determined by using valuation techniques. These techniques include the use of discounted cash flow analysis model etc. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

3.4 Income taxes

There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Taxation matters such as tax deductions due to asset impairment loss are subject to the decision of taxation authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax and deferred tax assets and liabilities in the period in which such determination is made.

3.5 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 includes three elements: (i) power over the investee; (ii) exposure, or rights, to variable returns from involvement with the investee; and (iii) the ability to use power over the investee to affect the amount of investors' 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.

For asset management schemes where the Group involves as manager and also as investor, the Group assesses whether the combination of investments it holds together with its remuneration creates exposure to variability of returns from the activities of the asset management schemes that is of such significance indicating that the Group is a principal. The asset management schemes shall be consolidated if the Group acts in the role of principal.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

4 COMMISSION AND FEE INCOME

	Six months ended 30 June	
	2014 (Unaudited)	2013 (Unaudited)
Securities brokerage	282,914	300,830
Investment advisory	35,886	22,191
Underwriting and sponsorship	25,550	63,196
Financial advisory	17,080	800
Futures brokerage	16,353	23,110
Asset management and fund management	5,569	5,782
Total	383,352	415,909

5 INTEREST INCOME

	Six months ended 30 June	
	2014 (Unaudited)	2013 (Unaudited)
Margin financing and securities lending	110,499	31,501
Bank deposits	76,594	59,444
Financial assets held under resale agreements	36,080	5,069
Others	2,861	1,863
Total	226,034	97,877

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

6 NET INVESTMENT GAINS

	Six months ended 30 June	
	2014 (Unaudited)	2013 (Unaudited)
Realised gain from disposal of available-for-sale financial assets	2,655	4,140
Dividends and interest income from available-for-sale financial assets	14,620	1,240
Recycling of available-for-sale financial assets reserve upon consolidation of structured entities	–	(7,334)
Realised losses from disposal of financial assets held for trading	(9,778)	(17,452)
Dividends and interest income from financial assets held for trading	106,375	91,628
Net realised gains from derivative financial instruments	9,802	13,982
Unrealised fair value change of financial instruments at fair value through profit or loss ⁽¹⁾	34,562	33,224
Total	158,236	119,428

(1) The accrual for the obligation to compensate losses of “Yanhuang No.1’s” investors is included in financial liabilities designated at fair value through profit or loss in the consolidated financial statements of the Group.

7 OTHER INCOME AND GAINS

	Six months ended 30 June	
	2014 (Unaudited)	2013 (Unaudited)
Government grants ⁽¹⁾	28,729	21,891
Rental income	1,353	1,735
Others	1,525	1,048
Total	31,607	24,674

(1) This item consists of tax incentive and other grants from local governments.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

8 COMMISSION AND FEE EXPENSES

	Six months ended 30 June	
	2014 (Unaudited)	2013 (Unaudited)
Securities brokerage	46,367	41,114
Underwriting and sponsorship	5,920	6,599
Financial advisory	2,593	229
Asset and fund management	2,027	1,247
Total	56,907	49,189

9 INTEREST EXPENSES

	Six months ended 30 June	
	2014 (Unaudited)	2013 (Unaudited)
Financial assets sold under repurchase agreements	62,206	28,796
Short-term notes	25,991	–
Bonds	18,905	–
Due to other financial institutions	12,856	3,819
Accounts payable to brokerage clients	9,491	9,849
Total	129,449	42,464

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

10 OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2014 (Unaudited)	2013 (Unaudited)
Business tax and surcharges	38,240	27,495
Rental expenses	21,529	20,852
Securities investors protection fund	4,834	8,441
Communication costs	7,053	7,931
Business development expenses	5,536	8,079
Utilities	4,972	4,034
Electronic device operating costs	3,726	3,270
Consulting fees	3,364	2,103
Auditors' remuneration	790	600
Others	34,372	39,545
Total	124,416	122,350

11 IMPAIRMENT LOSSES

	Six months ended 30 June	
	2014 (Unaudited)	2013 (Unaudited)
Available-for-sale financial assets	8,129	9,556
Accounts receivable	(184)	(3,477)
Total	7,945	6,079

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

12 INCOME TAX EXPENSE

	Six months ended 30 June	
	2014 (Unaudited)	2013 (Unaudited)
Current		
– Mainland China	39,598	30,477
Deferred		
– Mainland China	25,238	18,682
Income tax	64,836	49,159

13 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit for the period attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2014 (Unaudited)	2013 (Unaudited)
Profit attributable to shareholders of the Company (in RMB thousands)	179,324	133,840
Weighted average number of ordinary shares in issue (in thousands)	2,053,343	2,033,516
Basic earnings per share (in RMB)	0.09	0.07

For the six months ended 30 June 2014 and 2013, there were no potential dilutive ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

14 PROPERTY AND EQUIPMENT

	Buildings	Motor vehicles	Electronics and other equipment	Total
(Unaudited)				
Cost				
1 January 2014	168,453	25,658	254,743	448,854
Additions	–	–	4,725	4,725
Transfer from investment properties	11,702	–	–	11,702
Disposals	–	(107)	(4,438)	(4,545)
30 June 2014	180,155	25,551	255,030	460,736
Accumulated depreciation				
1 January 2014	(25,681)	(16,985)	(180,380)	(223,046)
Additions	(2,329)	(949)	(12,850)	(16,128)
Transfer from investment properties	(3,864)	–	–	(3,864)
Disposals	–	102	4,226	4,328
30 June 2014	(31,874)	(17,832)	(189,004)	(238,710)
Carrying amount				
30 June 2014	148,281	7,719	66,026	222,026

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

14 PROPERTY AND EQUIPMENT (CONTINUED)

	Buildings	Motor vehicles	Electronics and other equipment	Total
(Audited)				
Cost				
1 January 2013	170,917	24,416	236,400	431,733
Additions	–	1,802	21,530	23,332
Transfer to investment properties	(2,464)	–	–	(2,464)
Disposals	–	(560)	(3,187)	(3,747)
31 December 2013	168,453	25,658	254,743	448,854
Accumulated depreciation				
1 January 2013	(22,082)	(15,680)	(151,931)	(189,693)
Additions	(4,411)	(1,837)	(31,435)	(37,683)
Transfer to investment properties	812	–	–	812
Disposals	–	532	2,986	3,518
31 December 2013	(25,681)	(16,985)	(180,380)	(223,046)
Carrying amount				
31 December 2013	142,772	8,673	74,363	225,808

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

15 INVESTMENT IN AN ASSOCIATE

	30 June 2014 (Unaudited)	31 December 2013 (Audited)
Investment in unlisted shares, at cost	50,000	–

Details of the associate at 30 June 2014 are as below:

Name	Place of incorporation	Equity interest held by the Group		Principal activities
		30 June 2014	31 December 2013	
Henan Zhongping Finance & Guaranty Co., Ltd. (“河南中平 融資擔保有限公司”)	Henan	50,000	–	Primarily engaging in financial guarantee business

In June 2014, the Group's subsidiary Zhongding Kaiyuan Entrepreneurial Investment Management Co., Ltd. (“ZDKY”) invested RMB50,000,000 in Henan Zhongping Finance & Guaranty Co. Ltd. (“Henan Zhongping”) for a 25% equity interest and voting right. The Group has accounted for its interest in Henan Zhongping as an associate.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

16 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Non-current assets

	30 June 2014 (Unaudited)	31 December 2013 (Audited)
At fair value		
Specified asset management schemes	449,723	–
Investments in unlisted companies	38,378	38,378
Collective asset management schemes	18,992	–
Subtotal	507,093	38,378
At cost		
Investments in unlisted companies	4,094	4,094
Less: impairment losses	(2,376)	(2,376)
Subtotal	1,718	1,718
Total	508,811	40,096
Analysed as		
Listed outside Hong Kong	449,723	–
Unlisted	59,088	40,096
Total	508,811	40,096

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

16 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

Current assets

	30 June 2014 (Unaudited)	31 December 2013 (Audited)
At fair value		
Trust schemes	257,300	257,300
Equity securities	33,356	49,537
Investment funds	17,426	8,184
Wealth management products	3,925	75,049
Collective asset management schemes	–	1,004
Total	312,007	391,074
Analysed as		
Listed outside Hong Kong	50,782	57,721
Unlisted	261,225	333,353
Total	312,007	391,074

As at 30 June 2014 and 31 December 2013, available-for-sale financial assets of the Group included securities lent to clients of RMB7,739,019 and RMB7,337,000 respectively.

As at 30 June 2014 and 31 December 2013, the fair value of securities of the Group which have been placed as collateral is RMB21,558,624 and RMB35,620,000 respectively.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

17 LOANS AND RECEIVABLES

Non-current assets

	30 June 2014 (Unaudited)	31 December 2013 (Audited)
Entrusted loans ⁽¹⁾	18,890	–

Current assets

	30 June 2014 (Unaudited)	31 December 2013 (Audited)
Interest receivable	138,164	80,757
Entrusted Loans ⁽¹⁾	70,675	–
Accounts receivable	62,346	21,139
Less: Impairment allowance	(815)	(571)
Total	270,370	101,325

(1) Entrusted loans represent the Group's lending to third parties via domestic commercial banks, with interest rates ranging from 12% to 18% per annum.

The above entrusted loans are either guaranteed or secured by tangible assets, borrower's own shares or other monetary assets.

As at 30 June 2014, these entrusted loans are neither past due nor impaired and have no recent history of default.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

18 DEFERRED INCOME TAX ASSETS AND LIABILITIES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The net movements on the deferred income tax account are as follows:

	Six months ended 30 June	
	2014 (Unaudited)	2013 (Audited)
Balance at beginning of the period	70,985	54,322
Income statement charge	(25,238)	20,966
Tax charge relating to components of other comprehensive income	(1,119)	(4,303)
Total	44,628	70,985

The movements in deferred income tax assets during the year/period are as follows:

	Provision for asset impairment	Employee benefits payable	Changes in fair value of available-for-sale financial assets	Changes in fair value of financial assets held for trading	Changes in fair value of derivatives	Accrual and others	Total
(Audited)							
As at 1 January 2013	9,268	34,871	5,495	-	2,467	4,975	57,076
Income statement charge	1,882	11,515	-	1,772	(2,467)	5,762	18,464
Tax charge relating to components of other comprehensive income	-	-	(4,303)	-	-	-	(4,303)
As at 31 December 2013	11,150	46,386	1,192	1,772	-	10,737	71,237
(Unaudited)							
As at 1 January 2014	11,150	46,386	1,192	1,772	-	10,737	71,237
Income statement charge	1,987	(23,977)	-	(1,772)	308	4,139	(19,315)
Tax charge relating to components of other comprehensive income	-	-	(1,119)	-	-	-	(1,119)
As at 30 June 2014	13,137	22,409	73	-	308	14,876	50,803

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

18 DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

The movements in deferred income tax liabilities during the year/period are as follows:

	Changes in fair value of financial assets held for trading	Changes in fair value of derivatives	Total
(Audited)			
As at 1 January 2013	(2,754)	–	(2,754)
Income statement charge	2,754	(252)	2,502
As at 31 December 2013	–	(252)	(252)
(Unaudited)			
As at 1 January 2014	–	(252)	(252)
Income statement charge	(6,175)	252	(5,923)
As at 30 June 2014	(6,175)	–	(6,175)

19 REFUNDABLE DEPOSITS

	30 June 2014 (Unaudited)	31 December 2013 (Audited)
Deposits to Stock Exchanges		
– Shanghai Stock Exchange	11,007	10,390
– Shenzhen Stock Exchange	9,230	8,745
– Beijing Stock Exchange	400	–
Deposits to Futures and Commodities Exchanges		
– China Financial Futures Exchange	103,277	66,125
– Shanghai Futures Exchange	70,105	88,917
– Zhengzhou Commodities Exchange	42,496	20,879
– Dalian Commodities Exchange	35,965	49,474
Deposits to China Securities Finance Corporation Limited	35,669	168,458
Total	308,149	412,988

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

20 OTHER CURRENT ASSETS

	30 June 2014 (Unaudited)	31 December 2013 (Audited)
Prepayments and others ⁽¹⁾	137,118	137,710
Other receivables	39,243	37,698
Less: Impairment allowance	(20,217)	(20,659)
Total	156,144	154,749

(1) The Company entered into a contract to acquire a land use right in Zhengzhou and the consideration of RMB100,600,000 was fully paid in 2013. As of 30 June 2014, the land use right certificate had not been issued.

21 MARGIN ACCOUNT RECEIVABLE

As at 30 June 2014 and 31 December 2013, no margin accounts receivable is overdue or impaired.

22 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	30 June 2014 (Unaudited)	31 December 2013 (Audited)
Analysed by asset type:		
– Equity securities	1,268,159	326,735
– Debt securities	45,812	466,326
– Investment funds	–	25
Total	1,313,971	793,086
Analysed by market:		
– Shenzhen Stock Exchange	976,156	242,344
– Shanghai Stock Exchange	337,815	251,516
– Interbank market	–	299,226
Total	1,313,971	793,086

Collateral held by the Group as part of certain resale agreements may be placed again as collateral in the absence of default by any party involved, and the Group is obligated to return the assets to its counterparties upon maturity of the contracts. As at 30 June 2014 and 31 December 2013 the fair value of securities of the Group which have been placed as collateral were nil and RMB293,955,000 respectively.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

23 DERIVATIVE FINANCIAL INSTRUMENTS

The derivative financial assets 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, with the corresponding receipts and payments as at 30 June 2014 and 31 December 2013 included in “clearing settlement funds”.

	30 June 2014		31 December 2013	
	Contractual value (Unaudited)	Negative fair value (Unaudited)	Contractual value (Audited)	Negative fair value (Audited)
SIF	91,427	(1,252)	103,625	1,000
Less: Cash paid/(received) as settlement	–	1,252	–	(1,000)
Net position of SIF contracts	91,427	–	103,625	–

24 FINANCIAL ASSETS HELD FOR TRADING

	30 June 2014 (Unaudited)	31 December 2013 (Audited)
Debt securities	3,425,845	2,906,360
Equity securities	377,439	205,746
Investment funds	186,028	326,888
Total	3,989,312	3,438,994
Analysed as:		
Listed outside Hong Kong	3,810,154	3,136,845
Unlisted	179,158	302,149
	3,989,312	3,438,994

As at 30 June 2014 and 31 December 2013, the fair value of securities of the Group which have been placed as collateral were RMB2,664,484,185 and RMB2,349,679,000 respectively.

Those “listed outside Hong Kong” include securities and investment funds traded over PRC’s interbank bond markets, and Shanghai and Shenzhen Stock Exchanges.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

25 CLEARING SETTLEMENT FUNDS

	30 June 2014 (Unaudited)	31 December 2013 (Audited)
Clearing settlement funds held for clients	852,109	919,810
Proprietary clearing settlement funds	91,780	185,034
Total	943,889	1,104,844

26 CASH AND BANK BALANCES

	30 June 2014 (Unaudited)	31 December 2013 (Audited)
Cash	523	637
Bank balances	1,441,879	569,781
Total	1,442,402	570,418

As at 30 June 2014 and 31 December 2013, the Group had no restricted cash and bank deposits.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

27 SHARE CAPITAL

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

	30 June 2014 (Unaudited)	31 December 2013 (Audited)
Issued and fully paid ordinary shares of RMB1 each (in thousands)		
– Domestic shares	1,973,706	2,033,516
– H shares	657,910	–
Total	2,631,616	2,033,516
Share Capital (in RMB'000)		
– Domestic shares	1,973,706	2,033,516
– H shares	657,910	–
Total	2,631,616	2,033,516

On 25 June 2014, the Group completed its initial public offering of 598,100,000 H shares on the Main Board of Hong Kong Stock Exchange.

The capital increase has been verified by PricewaterhouseCoopers Zhong Tian LLP which issued the capital verification report Pu Hua Yong Dao Zhong Tian (Yan) Zi (2014) No.421.

According to the relevant PRC requirements, existing shareholder of the state-owned shares of the Company have transferred an aggregate number of 59,810,000 state-owned shares of the Company to the National Social Security Fund of the PRC, and such shares were then converted into H shares on a one-for-one basis.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

28 CAPITAL RESERVE

	Six Months ended 30 June 2014 (Unaudited)	Year ended 31 December 2013 (Audited)
At beginning of the period/year	–	–
Shares issuance pursuant to the initial public offering	504,649	–
At end of the period/year	504,649	–

The Group was listed on the Main Board of the Hong Kong Stock Exchange on 25 June 2014. The excess of the proceeds over the nominal value of the total number of shares issued amounted to RMB504,648,654 was credited to the capital reserve.

29 BONDS PAYABLE

On 25 April 2014, the Company issued RMB1.5 billion five – year corporate bonds at par value, paying annual interest at 6.2%. As approved by the Shareholders' General Meeting, and as stipulated in the issuance documents, the Company will appropriate 5% from its annual net profit to discretionary surplus reserve; and 11% from its annual net profit to a general risk reserve during the term of the corporate bonds. The Company has also committed to further increase the appropriation to a discretionary surplus reserve and general risk reserve to 10% and 12% respectively when the Company cannot or expects it cannot honour any interest or principal payments of the corporate bonds.

30 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

In the consolidated financial statements, the financial liabilities arising from consolidation of structured entities (the "SEs") are designated at fair value through profit or loss as the Group has the obligation to pay other investors upon maturity dates of the SEs based on net book value and the related terms of those schemes.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

31 TAX PAYABLE

	30 June 2014 (Unaudited)	31 December 2013 (Audited)
Individual income tax withheld	11,746	48,651
Business tax and surcharges	10,512	8,901
Corporate income tax	6,450	29,377
Others	446	1,024
Total	29,154	87,953

32 DUE TO OTHER FINANCIAL INSTITUTIONS

	30 June 2014 (Unaudited)	31 December 2013 (Audited)
Placements from China Securities Finance Corporation Limited	260,000	400,000
Rural Credit Cooperatives of Zhongjiang, Deyang City, Sichuan Province	50,000	–
Total	310,000	400,000

As at 30 June 2014, placements were obtained from China Securities Finance Corporation Limited with interest rates at 7.1% per annum and are repayable within three months.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

33 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	30 June 2014 (Unaudited)	31 December 2013 (Audited)
Analysed by asset type:		
– Debt securities	1,687,712	2,096,288
– Margin accounts receivable	171,400	–
Total	1,859,112	2,096,288
Analysed by market:		
– Interbank market	1,081,159	1,424,641
– Shanghai Stock Exchange	606,553	671,647
– Others	171,400	–
Total	1,859,112	2,096,288
Analysed by transaction type:		
– Pledged	1,682,353	1,975,927
– Sold	176,759	120,361
Total	1,859,112	2,096,288

34 SHORT-TERM NOTES PAYABLE

On 4 April 2014, the Group issued 90-day short-term notes of RMB800 million paying interest at 5% per annum.

35 ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

As at 30 June 2014 and 31 December 2013, cash collateral received from clients for margin financing and securities lending arrangements amounted to RMB209.6 million and RMB142.3 million respectively, and are included in the Group's accounts payable to brokerage clients.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

36 CASH AND CASH EQUIVALENTS

For the purpose of statements of cash flows, cash and cash equivalents include amounts that can be used to meet short-term cash commitments.

	30 June 2014 (Unaudited)	31 December 2013 (Audited)
Cash	523	637
Bank deposits	1,441,879	569,781
Proprietary clearing settlement funds	91,781	185,034
Total	1,534,183	755,452

37 COMMITMENTS AND CONTINGENT LIABILITIES

(1) Capital commitments

	30 June 2014 (Unaudited)	31 December 2013 (Audited)
Contracted but not provided for	18,114	15,243

(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:

	30 June 2014 (Unaudited)	31 December 2013 (Audited)
Within 1 year	31,977	35,153
1 to 3 years	29,596	36,115
Over 3 years	14,646	19,411
Total	76,219	90,679

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

37 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 30 June 2014 and 31 December 2013, the Group was not involved in any material legal, arbitration or administrative proceedings which the Group expects would have significant adverse impact on their financial position and operating results.

38 RELATED PARTY TRANSACTIONS

38.1 Related parties

When the Group exercises control, common control over or has significant influence on another entity; or another entity exercises control, common control over or has significant influences on the Group; or the Group and another entity are under control, common control or significantly influenced by the same party, the Group and the entity are related parties. Related parties can be individuals or legal entities.

The below table lists the Group's significant related legal entities and the holdings of the Company's major shareholders as at 30 June 2014:

Significant related legal persons	The relationship with the Group	Stock holding percentage
Henan Investment Group	The controlling shareholder of the Company	33.10%
Bohai Industrial Investment Fund Management Co., Ltd. (representing Bohai Industrial Investment Fund)	Major shareholder holding over 5% shares of the Company	23.10%
Anyang Iron & Steel Group Co., Ltd. (hereinafter "Angang Group")	Major shareholder holding over 5% shares of the Company	7.14%
Henan Sky-Land Hotel Co., Ltd.	Controlled by the controlling shareholder of the Company	–
Commercial Bank of Kaifeng Co., Ltd.	Controlled by the controlling shareholder of the Company	–
Central China Trust Co., Ltd.	Controlled by the controlling shareholder of the Company	–

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

38 RELATED PARTY TRANSACTIONS (CONTINUED)

38.2 Related party transactions and balances

38.2.1 The Company's controlling shareholder – Henan Investment Group

Transactions during the period

	Six months ended 30 June	
	2014 (Unaudited)	2013 (Unaudited)
Income from providing securities brokerage services	21	15
Income from research services	–	8
Income from financial assets held for trading	7	132
	28	155

38.2.2 Enterprise controlled by the controlling shareholder of the Company

Transactions during the period

		Six months ended 30 June	
		2014 (Unaudited)	2013 (Unaudited)
Commercial Bank of Kaifeng.Co., Ltd.	Interest income	–	1,190
Central China Trust Co., Ltd.	Income from securities brokerage services and distribution of financial products	–	2,530
		–	3,720

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

38 RELATED PARTY TRANSACTIONS (CONTINUED)

38.2 Related party transactions and balances (Continued)

38.2.2 Enterprise controlled by the controlling shareholder of the Company (Continued)

Balances at the end of the period/year

		As at 30 June 2014 (Unaudited)	As at 31 December 2013 (Audited)
Henan Sky – Land Hotel Co., Ltd.	Prepayments	900	900

38.2.3 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.

		Six months ended 30 June 2014 (Unaudited)	2013 (Unaudited)
Key management compensation		7,260	7,805

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

39 SEGMENT INFORMATION

The Group manages 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) Futures brokerage: futures trading and brokering and futures information advisory and training services;
- (c) Margin trading and securities lending: margin trading and securities lending services;
- (d) Investment banking: corporate finance and financial advisory services to institutional clients;
- (e) Proprietary trading: trading in financial products;
- (f) Investments and asset management: direct investments and funds related businesses, in addition to portfolio management and maintenance, investment advisory and transaction execution services;
- (g) 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.

The Group mainly operates in Henan Province, the PRC.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

39 SEGMENT INFORMATION (CONTINUED)

	Six months ended 30 June 2014								
	Securities brokerage	Futures brokerage	Margin financing and securities lending	Investment banking	Proprietary trading	Investments and asset management	Other	Elimination	Total
(Unaudited)									
Total revenue and other income									
Commission and fee income	286,162	16,395	27,553	42,630	-	5,951	5,193	(532)	383,352
– external	285,630	16,395	27,553	42,630	-	5,951	5,193	-	383,352
– internal	532	-	-	-	-	-	-	(532)	-
Interest income	20	7,618	117,793	-	6,788	5,093	88,722	-	226,034
Net investment gains/(loss)	-	-	-	-	166,761	(8,567)	-	42	158,236
Other gains	2,522	8	28	1,760	98	2,383	25,058	(250)	31,607
– external	2,272	8	28	1,760	98	2,383	25,058	-	31,607
– internal	250	-	-	-	-	-	-	(250)	-
Total expenses	(213,621)	(18,458)	(61,517)	(39,438)	(103,376)	(29,879)	(96,674)	740	(562,223)
Profit/(Loss) before income tax	75,083	5,563	83,857	4,952	70,271	(25,019)	22,299	-	237,006

	Six months ended 30 June 2013								
	Securities brokerage	Futures brokerage	Margin financing and securities lending	Investment banking	Proprietary trading	Investments and asset management	Other	Elimination	Total
(Unaudited)									
Total revenue and other income									
Commission and fee income	307,398	23,815	11,898	63,996	1,360	7,727	850	(1,135)	415,909
– external	307,398	22,680	11,898	63,996	1,360	7,727	850	-	415,909
– internal	-	1,135	-	-	-	-	-	(1,135)	-
Interest income	27	5,681	33,043	-	3,868	3,595	51,663	-	97,877
Net investment gains/(losses)	-	-	-	-	131,193	(12,470)	-	705	119,428
Other gains/(losses)	1,753	123	-	-	116	7,882	15,013	(213)	24,674
– external	1,753	123	-	-	116	7,882	14,800	-	24,674
– internal	-	-	-	-	-	-	213	(213)	-
Total expenses	(213,851)	(24,597)	(12,450)	(56,851)	(71,618)	(19,856)	(82,208)	643	(480,788)
Profit/(Loss) before income tax	95,327	5,022	32,491	7,145	64,919	(13,122)	(14,682)	-	177,100

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

39 SEGMENT INFORMATION (CONTINUED)

	As at 30 June 2014								
	Securities brokerage	Futures brokerage	Margin financing and securities lending	Investment banking	Proprietary trading	Investments and asset management	Other	Elimination	Total
(Unaudited)									
Total assets	147,160	744,249	3,852,472	20,612	4,248,240	1,892,052	11,930,911	(5,863,361)	16,972,335
Total liabilities	66,910	607,689	3,956,598	12,267	4,155,596	1,588,316	6,581,984	(5,450,794)	11,518,566
	As at 31 December 2013								
	Securities brokerage	Futures brokerage	Margin financing and securities lending	Investment banking	Proprietary trading	Investments and asset management	Other	Elimination	Total
(Audited)									
Total assets	138,492	772,998	2,458,504	21,403	3,520,890	1,312,881	9,713,656	(4,289,219)	13,649,605
Total liabilities	104,959	640,610	3,296,788	32,004	3,513,047	975,231	4,763,272	(3,851,588)	9,474,323

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

40 FINANCIAL RISK MANAGEMENT

40.1 Overview

The Group's risk management objective is to maintain an appropriate balance between risks and rewards, and reduce the negative impact on the operating results of the Group, so as to maximise the shareholders' value. The Group's risk management strategy is to identify and analyse a variety of risks to which the Group is exposed to, set an appropriate risk tolerance level, measure and supervise risks in a timely and reliable manner so as to ensure that risks are controlled within acceptable limits.

Risks to which the Group is exposed to mainly include: credit risk, market risk and liquidity risk. The Group has adopted risk management policies and procedures to identify and analyse these risks and defined appropriate risk indicators, risk limits, risk policies and internal control procedures, and constantly monitors and manages risks through its IT systems.

The risk management framework is structured into four levels consisting of (i) Board and Supervisory Committee; (ii) Risk Control Committee, Audit Committee and Investment Decision Committee; (iii) Compliance Management (Legal Affairs) Department, Risk Management Department and Internal Audit Department; and (iv) Business and management departments and branch outlets.

Level 1: Board and Supervisory Committee

The Board is at the highest level of the Company's risk control framework and has the ultimate responsibility for establishing a compliant and effective risk control environment. The Board is responsible for developing the Company's overall risk control objectives, risk control policies and internal control system, improving the governance structure and tiered authority delegation system, and 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.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

40.1 Overview (continued)

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.

Level 3: Compliance Management (Legal Affairs) Department, Risk Management Department, and Internal Audit Department

At the third level of the Company's risk control framework is the collaborative comprehensive risk management arrangement through which the Compliance Management (Legal Affairs) Department, Risk Management Department, and Internal Audit Department work together to manage risks.

The Compliance Management (Legal Affairs) Department assists the Chief Compliance Officer to formulate compliance policies and compliance rules and procedures, supports the implementation of compliance policies and procedures, provides recommendations and advice on compliance to the management and business departments, business lines and branch outlets, 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 branch outlets 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.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

40.1 Overview (continued)

Level 3: Compliance Management (Legal Affairs) Department, Risk Management Department, and Internal Audit Department (continued)

Risk Management Department carries out risk control activities in accordance with risk control objectives and policies laid down by the Board of Directors; provides recommendations to the Risk Management Committee for improving the Company's risk control environment in terms of risk control policies, objectives, corporate governance structure and internal controls; formulates risk management rules and procedures for the Company, supports the review of risk management rules and procedures, measures, risk management processes and risk control indicators developed by each business and management departments, and continuously supplements, improves and updates risk control policies to help establish sound comprehensive corporate risk control mechanisms across the Company; identifies, assesses, and monitors various risks in business operations and transactions, and leverages the results to improve the end-to-end risk response process that covers every components of risk control, including policies, identification, assessment and measurement, control, monitoring, reporting and analysis; regularly tests, monitors and evaluates the implementation of risk control rules and procedures across the Company, and when necessary, conducts regular and ad hoc inspections on risk control results, follows up on issues identified and launches reporting procedures where appropriate; and establishes communications and cooperation with respect to risk control with various business lines, business departments, and branch outlets.

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, minimizing ethical and policy risks and assisting the investigation of emergencies.

Level 4: Business and management departments and branch outlets

The fourth level of risk control is the front-line risk control systems by business and management departments and branch outlets, 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.

The Group adopts the above risk management framework and continuously improves its risk control to ensure that the risks are measurable and controlled within acceptable limits.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

40.2 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 held for trading, financial assets held under resale agreements, available-for-sale financial assets, margin accounts receivable, loans and receivables, other current assets and refundable deposits.

The Group's bank balances including the net proceeds of the initial public offering of the Company's shares, which is held in Hong Kong in interest earning deposit, are substantially 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. 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.

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 supervise finance trading accounts on an individual customer basis, and would require additional margin, cash collateral or securities if necessary. Margin accounts receivables are monitored based on collateral rates to ensure that the value of collateral is sufficient to cover the advance. As of 30 June 2014 and 31 December 2013, the Group's collateral value is sufficient to mitigate the credit risk in margin financing.

The Group's credit risk also arises from the securities and futures brokerage business. 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 it settles on behalf of customers, so as to mitigate and manage the credit risk properly.

The Group enters into entrusted lending business as part of the debt investments. Credit risk management approaches over those entrusted loans include project initiation, due diligence, internal assessment, decision-making and post-lending monitoring. The Group assesses both the borrowers' credit risk and the rewards and sets risk mitigation measures such as guarantee. Entrusted loans are approved by the authorised approvers. The Group constantly monitors the entrusted funds. Key negative indications that may have impact on the borrowers' solvency are reported timely, and the Group takes action accordingly to control the risks. In order to further constraints the borrowers through the credit rating system of the People's Bank of China, the Group enters into entrusted lending business via the banks with relatively better capability in risk management.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

40.2 Credit risk (continued)

The Group invests in the wealth management products with proper approval process.

(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:

	30 June 2014 (Unaudited)	31 December 2013 (Audited)
Refundable deposits	308,149	412,988
Other current assets	19,026	17,039
Loans and receivables	289,260	101,325
Margin accounts receivable	2,701,982	2,259,463
Available-for-sale financial assets		
– Securities lent to clients	7,739	7,337
– Wealth management products	3,925	75,049
– Trust scheme	257,300	257,300
– Specified assets management scheme	449,723	–
Financial assets held under resale agreements	1,313,971	793,086
Financial assets held for trading		
– Debt securities	3,425,845	2,906,360
Clearing settlement funds	943,889	1,104,844
Cash held for brokerage clients	4,580,502	3,962,749
Bank balances	1,441,879	569,781
Total	15,743,190	12,467,321

40.3 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 INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

40.3 Market risk (continued)

40.3.1 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 optimizing 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.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to the interest rate risks for interest-bearing assets and interest-bearing liabilities. A 100 basis points increase or decrease in the relevant interest rates will be applied in the sensitivity analysis as possible reasonable shift, assuming all other variables remain unchanged. A positive result below indicates an increase in net interest income, while a negative result indicates otherwise, and the impact attributable to other investors of the consolidated structured entities is eliminated.

	Six months ended 30 June	
	2014 (Unaudited)	2013 (Unaudited)
Net interest income		
Increases by 100bps	16,821	115
Decreases by 100bps	(16,821)	(115)

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(All amounts in RMB'000 unless otherwise stated)

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

40.3 Market risk (continued)

40.3.1 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-earning 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;
- Impact of interest rate changes on market prices not considered;
- Interest rate of demand deposits moving in the same direction and extent;
- Necessary measures that may be adopted by the Group and the Company in response to interest rate changes not considered

40.3.2 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates.

The Group's currency risk primarily relates to the Group's operating activities whose settlements and payments are denominated in foreign currencies different from the functional currency of the Group.

As at 30 June 2014, the foreign currency liabilities is not material compared to the total liabilities. With the completion of its initial public offering on the Hong Kong Stock Exchange in June 2014, the Group held approximately RMB1,144 million bank balances denominated in Hong Kong dollars as at 30 June 2014. The Group converted these bank balances to RMB in July 2014. In terms of the Group's revenue structure, the majority of the business transactions are denominated in RMB, with only insignificant revenue from foreign currency transactions. The Group considers that their currency risk is immaterial.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

40.3 Market risk (continued)

40.3.3 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, derivatives and collective asset management schemes whose values will fluctuate as a result of changes in market prices. These investments are all investments in the domestic capital markets. The 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 Company manages price risk by holding an appropriately diversified investment portfolio, setting limits for investments in different securities and closely monitoring the portfolio of investments to reduce the risk of concentration in any one specific industry or issuer. The 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 before income tax and other comprehensive income before income tax due to change in the prices of stocks, funds, convertible bonds, derivatives and collective asset management schemes by 10%, assuming all other variables remain unchanged. A positive result indicates an increase in profit before income tax and other comprehensive income before income tax, while a negative result indicates otherwise.

	Six months ended 30 June	
	2014 (Unaudited)	2013 (Unaudited)
Profit before income tax		
Increase by 10%	42,588	(9,259)
Decrease by 10%	(36,834)	(59,503)
Other comprehensive income before income tax		
Increase by 10%	5,078	8,065
Decrease by 10%	(5,078)	(8,065)

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

40.4 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.

The Group manages and controls their funds in a centralised manner. Through early warnings and focusing on individually large amounts of funds, the Group achieves the objective of centralised control and management of liquidity risk. By striking an appropriate balance between safety, liquidity and profitability, the Group adjusts and allocates asset sizes and structural provisions, so as to establish a multi-level liquidity reserve system and achieve liquidity risk management objectives by leveraging money market and capital market transactions in a timely manner.

The Group prepares funding plans and reports their implementation to the management to update the liquidity position periodically.

Surplus cash held by the operating outlets over and above balance required for working capital management are transferred to the Group. The Group invests surplus cash in time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity.

As at 30 June 2014 and 31 December 2013, the Group held cash and cash equivalents of approximately RMB1,534 million and RMB755 million respectively that are expected to readily generate cash flows for managing liquidity risk. In addition, the Group holds financial assets held for trading of RMB3,989 million and RMB3,439 million at each of the respective period end, which could be readily realised to provide a further source of cash if the need arose. Further the Group holds cash held for brokerage clients of RMB4,581 million and RMB3,963 million, client's clearing settlement funds of RMB852 million and RMB920 million, which could be used to settle the Group's account payable to brokerage clients whenever needed.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

40 FINANCIAL RISK MANAGEMENT (CONTINUED)

40.4 Liquidity risk (continued)

The tables below present the cash flows payable by the Group for non-derivative financial liabilities by remaining contractual maturities at 30 June 2014 and 31 December 2013. 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 period.

	On demand	Within 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total
(Unaudited)							
As at 30 June 2014							
Non-derivative financial liabilities							
Bonds payable	-	-	-	93,000	1,872,000	-	1,965,000
Due to other financial institutions	-	101,847	217,538	-	-	-	319,385
Short-term notes payable	-	809,863	-	-	-	-	809,863
Financial assets sold under repurchase agreements	-	1,690,008	178,406	-	-	-	1,868,414
Accounts payable to brokerage clients	5,654,541	-	-	-	-	-	5,654,541
Financial liabilities designated at fair value through profit or loss	-	13,344	429,356	673,260	-	-	1,115,960
Other current liabilities	154,930	-	-	-	-	-	154,930
Total	5,809,471	2,615,062	825,300	766,260	1,872,000	-	11,888,093

	On demand	Within 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total
(Audited)							
As at 31 December 2013							
Non-derivative financial liabilities							
Due to other financial institutions	-	-	407,141	-	-	-	407,141
Short-term notes payable	-	810,553	-	-	-	-	810,553
Financial assets sold under repurchase agreements	-	1,705,890	400,750	-	-	-	2,106,640
Accounts payable to brokerage clients	4,994,071	-	-	-	-	-	4,994,071
Financial liabilities designated at fair value through profit or loss	-	170,649	-	367,451	170,279	54,471	762,850
Other current liabilities	145,664	-	-	-	-	-	145,664
Total	5,139,735	2,687,092	807,891	367,451	170,279	54,471	9,226,919

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

41 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 participants at the measurement date.

41.1 Financial instruments not measured at fair value

The directors of the Group consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the statements of 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, loans and receivables, financial assets held under resale agreements, financial assets sold under repurchase agreements, due to other financial institutions, short-term notes payable and accounts payable to brokerage clients, their fair value approximate their carrying amounts.

The aggregate fair value of bond payable 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.

In accordance with the related regulations, the Group can place or redeem its refundable deposits with stock exchanges, Futures and Commodities Exchanges and China Securities Finance Corporation Limited. The fair value of refundable deposits approximates the carrying amount.

41.2 Financial instruments measured at fair value

The table below analyses financial instruments measured at fair value, by the level in the fair value hierarchy into which the fair value measurement is categorised.

- Level I – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level II – 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 III – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2014 and 31 December 2013.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

41 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

41.2 Financial instruments measured at fair value (continued)

	Level 1	Level 2	Level 3	Total
(Unaudited)				
As at 30 June 2014				
Financial assets held for trading				
– Equity securities	377,439	–	–	377,439
– Debt securities	1,840,185	1,585,660	–	3,425,845
– Investment funds	62,020	124,008	–	186,028
Available-for-sale financial assets				
– Equity securities	33,356	–	–	33,356
– Investment funds	17,426	–	–	17,426
– Collective asset management schemes	–	18,992	–	18,992
– Specified asset management schemes	–	449,723	–	449,723
– Wealth management products	–	–	3,925	3,925
– Trust schemes	–	–	257,300	257,300
– Investments in unlisted companies	–	–	38,378	38,378
Total assets:	2,330,426	2,178,383	299,603	4,808,412
Financial liabilities at fair value through profit or loss	–	–	(1,077,856)	(1,077,856)

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

41 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

41.2 Financial instruments measured at fair value (continued)

	Level 1	Level 2	Level 3	Total
(Audited)				
As at 31 December 2013				
Financial assets held for trading				
– Equity securities	205,746	–	–	205,746
– Debt securities	1,533,220	1,373,140	–	2,906,360
– Investment funds	74,739	252,149	–	326,888
Available-for-sale financial assets				
– Equity securities	49,537	–	–	49,537
– Investment funds	8,184	–	–	8,184
– Collective asset management schemes	–	1,004	–	1,004
– Wealth management products	–	–	75,049	75,049
– Trust schemes	–	–	257,300	257,300
– Investments in unlisted companies	–	–	38,378	38,378
Total assets:	1,871,426	1,626,293	370,727	3,868,446
Financial liabilities at fair value				
through profit or loss	–	–	(707,437)	(707,437)

For the six months ended 30 June 2014 and year ended 31 December 2013, there were no significant transfers between Level 1 and Level 2 of the fair value hierarchy of the Group.

(a) Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the 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.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

41 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

41.2 Financial instruments measured at fair value (continued)

(b) 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.

(c) Valuation methods for specific investments

As at 30 June 2014 and 31 December 2013, the Group's valuation methods for specific investments are as follows:

- (1) 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, the market prices of the same shares listed on their respective exchanges are adopted as the fair values because restriction is a characteristic specific to the Group.
- (2) For closed-end investment funds, fair value is determined based on the closing price within bid-ask spread as at the reporting date or the most recent trading date. For open-end funds and collective asset management products, fair value is determined by trading price which is based on the net asset value as at the reporting date.
- (3) For debt securities listed through exchanges which include government bonds, corporate bonds, convertible bonds and financial bonds, fair values are determined based on the closing price within bid-ask spread of the debt securities at the date of statement of financial position. 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.
- (4) For debt securities traded through the inter-bank bond market and the over-the-counter ("OTC") market, including government bonds, corporate bonds, commercial papers, special financial bills, central bank bills, and other fixed income debt securities, fair values are determined using valuation techniques.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

41 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

41.2 Financial instruments measured at fair value (continued)

(d) Financial instruments in Level 3

The following table presents the changes in Level 3 instruments for the six months ended 30 June 2014 and for the year ended 31 December 2013.

	Available- for-sale financial assets
(Unaudited)	
Balance at 1 January 2014	370,727
Increase	58,382
Decrease	129,506
Balance at 30 June 2014	299,603
Total gains or losses for the period included in profit or loss for assets held at the end of the period, under "Net investment gains"	12,592
Change in unrealised gains or losses for the period included in profit or loss for assets held at the end of the period	12,592
	Available- for-sale financial assets
(Audited)	
Balance at 1 January 2013	20,000
Increase	350,727
Decrease	-
Balance at 31 December 2013	370,727
Total gains or losses for the year included in profit or loss for assets held at the end of year, under "Net investment gains"	49
Change in unrealised gains for the year included in profit or loss for assets held at the end of the year	49

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(All amounts in RMB'000 unless otherwise stated)

41 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

41.2 Financial instruments measured at fair value (continued)

(d) Financial instruments in Level 3 (continued)

	Financial liabilities at fair value through profit or loss
(Unaudited)	
Balance at 1 January 2014	707,437
Consolidation of SEs	476,808
Losses recognized in profit or loss	(32,480)
Purchase	2,551
Settlements	(76,460)
Balance at 30 June 2014	1,077,856
Total gains or losses for the period included in profit or loss for assets held at the end of the period, under "Net investment gains"	(32,480)
Change in unrealised gains or losses for the period included in profit or loss for assets held at the end of the period	(32,480)
	Financial liabilities at fair value through profit or loss
(Audited)	
Balance at 1 January 2013	–
Consolidation of SEs	837,426
Losses recognized in profit or loss	(26,321)
Purchase	3,390
Settlements	(107,058)
Balance at 31 December 2013	707,437
Total gains or losses for the year included in profit or loss for assets held at the end of year, under "Net investment gains"	(26,321)
Change in unrealised gains for the year included in profit or loss for assets held at the end of the year	(26,321)

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

41 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

41.2 Financial instruments measured at fair value (continued)

(d) Financial instruments in Level 3 (continued)

For financial instruments in Level 3, prices are determined using valuation methodologies such as discounted cash flow models and other similar techniques. Determinations to classify fair value measures within Level 3 of the valuation hierarchy are generally based on the significance of the unobservable inputs to the overall fair value measurement. The following table presents the related valuation techniques and inputs of the major financial instruments in Level 3.

Financial assets/ financial liabilities	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input(s) to fair value
Available-for-sale Financial assets – Wealth management products	Level 3	<ul style="list-style-type: none"> Discounted cash flows with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level 	<ul style="list-style-type: none"> Expected future cash flows Expected recovery date Discount rates that correspond to the expected risk level 	<ul style="list-style-type: none"> The higher the future cash flows, the higher the fair value The earlier the maturity date, the higher the fair value The lower the discount rate, the higher the fair value
Available-for-sale financial assets – Trust Schemes – Specifies asset management scheme	Level 3	<ul style="list-style-type: none"> Discounted cash flows with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level 	<ul style="list-style-type: none"> Expected future cash flows Expected recovery date Discount rates that correspond to the expected risk level 	<ul style="list-style-type: none"> The higher the future cash flows, the higher the fair value The earlier the maturity date, the higher the fair value The lower the discount rate, the higher the fair value
Financial liabilities designated at fair value through profit or loss	Level 3	<ul style="list-style-type: none"> Discounted cash flows with future cash flows that are estimated based on expected payable amounts, discounted at rates that reflect management's best estimation of the expected risk level 	<ul style="list-style-type: none"> Expected future cash flows Expected payment date Discount rates that correspond to the expected risk level 	<ul style="list-style-type: none"> The higher the future cash flows, the higher the fair value The earlier the payment date, the higher the fair value The lower the discount rate, the higher the fair value

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42 MATURITY PROFILE OF ASSETS AND LIABILITIES

An analysis of the maturity profile of certain assets and liabilities of the Group as at 30 June 2014 and 31 December 2013 based on the remaining contractual maturity is as follows:

	On demand	Within 1 year	1- 5 years	Over 5 years	Total
(Unaudited)					
As at 30 June 2014					
Assets					
Margin accounts receivable	-	2,701,982	-	-	2,701,982
Loans and receivables	-	270,370	18,890	-	289,260
Financial assets held under resale agreements	-	1,313,971	-	-	1,313,971
Financial assets held for trading – debt securities	-	423,571	1,274,403	1,727,871	3,425,845
Clearing settlement funds	943,889	-	-	-	943,889
Cash held for brokerage clients	4,580,502	-	-	-	4,580,502
Cash and bank balances	115,033	1,327,369	-	-	1,442,402
Total	5,639,424	6,037,263	1,293,293	1,727,871	14,697,851
Liabilities					
Due to other financial institutions	-	310,000	-	-	310,000
Financial assets sold under repurchase agreements	-	1,859,112	-	-	1,859,112
Short-term notes payable	-	800,000	-	-	800,000
Bonds payable	-	-	1,489,031	-	1,489,031
Accounts payable to brokerage clients	5,654,541	-	-	-	5,654,541
Total	5,654,541	2,969,112	1,489,031	-	10,112,684

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

42 MATURITY PROFILE OF ASSETS AND LIABILITIES (CONTINUED)

	On demand	Within 1 year	1- 5 years	Over 5 years	Total
(Audited)					
As at 31 December 2013					
Assets					
Margin accounts receivable	–	2,259,463	–	–	2,259,463
Loans and receivables	–	101,325	–	–	101,325
Financial assets held under resale agreements	–	763,086	30,000	–	793,086
Financial assets held for trading – debt securities	–	177,699	1,133,321	1,595,340	2,906,360
Clearing settlement funds	1,104,844	–	–	–	1,104,844
Cash held for brokerage clients	3,962,749	–	–	–	3,962,749
Cash and bank balances	297,196	273,222	–	–	570,418
Total	5,364,789	3,574,795	1,163,321	1,595,340	11,698,245
Liabilities					
Due to other financial institutions	–	400,000	–	–	400,000
Financial assets sold under repurchase agreements	–	2,096,288	–	–	2,096,288
Short-term notes payable	–	800,000	–	–	800,000
Accounts payable to brokerage clients	4,994,071	–	–	–	4,994,071
Total	4,994,071	3,296,288	–	–	8,290,359

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

43 UNCONSOLIDATED STRUCTURED ENTITIES

Unconsolidated structured entities of the Group mainly include collective and targeted asset management schemes, trust schemes, wealth management products and investment funds. Except for the consolidated structured entities, in the opinion of the directors of the Group, the variable returns of the other structured entities of the Group are not significant. The Group did not consider itself acting as principal and consequently did not consolidate these other structured entities.

The total assets of unconsolidated collective and targeted asset management schemes managed by the Group amounted to RMB2,071 million and RMB1,276 million as at 30 June 2014 and 31 December 2013 respectively. For the unconsolidated trust schemes, wealth management products and investment funds invested by the Group, there is no available public information on the size of those structured entities which are operated and managed by third parties.

As at 30 June 2014, the interests in unconsolidated structured entities held by the Group included investments classified as available-for-sale financial assets, and financial assets held for trading, and management fee, commission fee receivables recorded as other current assets. The related carrying amount and the maximum exposure were as follows:

	30 June 2014 (Unaudited)
Available-for-sale financial assets	808,651
Financial assets held for trading	186,028
Other current assets	16,774
Total	1,011,453

For the six months ended 30 June 2014, the income derived from these unconsolidated structured entities held by the Group was as follows:

	Six months ended 30 June 2014 (Unaudited)
Net investment gains	14,784
Fee and commission income	5,537
Total	20,321

As at 30 June 2014, the Group did not provide, nor intend to provide, any financial support to these unconsolidated structured entities.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION

(All amounts in RMB'000 unless otherwise stated)

44 SUBSEQUENT EVENTS

On 3 July 2014, the Company issued 60-day short-term notes of RMB900 million paying interest rate at 4.45% per annum.

On 7 July 2014, the Company repaid the short-term notes of RMB800 million (Note 34).

On 7 July 2014, the Board of Directors of the Company passed a resolution to complete the capital increment of ZDKY, a wholly owned subsidiary, from RMB200 million to RMB500 million before 31 December 2014.

45 APPROVAL OF THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The interim condensed financial information was approved and authorised for issue by the Board of Directors on 20 August 2014.