



国联证券股份有限公司

GUOLIAN SECURITIES CO., LTD.

(a joint stock company incorporated in the People's Republic of China with limited liability)
Stock code: 1456

2016

Interim Report



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Company Information

COMPANY NAME

Chinese Name: 國聯證券股份有限公司
English Name: Guolian Securities Co., Ltd.

LEGAL REPRESENTATIVE

Mr. Yao Zhiyong

DIRECTORS

Executive Directors

Mr. Yao Zhiyong (Chairman of the Board)
Mr. Peng Yanbao (President)

Non-executive Directors

Mr. Hua Weirong
Mr. Zhou Weiping
Mr. Liu Hailin
Mr. Zhang Weigang

Independent Non-executive Directors

Mr. Wang Wei
Ms. Chen Qingyuan
Mr. Lee Pak Hay

SUPERVISORS

Mr. Chen Xingjun (Chairman)
Mr. Yang Xiaojun
Mr. Zhou Weixing
Ms. Shen Ying
Ms. Yu Lei

BOARD COMMITTEES

Strategy Committee

Mr. Yao Zhiyong (Chairman)
Mr. Peng Yanbao
Mr. Hua Weirong
Mr. Zhou Weiping
Mr. Lee Pak Hay

Remuneration and Nomination Committee

Mr. Lee Pak Hay (Chairman)
Mr. Hua Weirong
Ms. Chen Qingyuan

Audit Committee

Ms. Chen Qingyuan (Chairlady)
Mr. Zhou Weiping
Mr. Wang Wei

Risk Control Committee

Mr. Yao Zhiyong (Chairman)
Mr. Hua Weirong
Mr. Zhou Weiping
Mr. Liu Hailin
Ms. Chen Qingyuan

SECRETARY OF THE BOARD

Mr. Li Zhengquan

JOINT COMPANY SECRETARIES

Ms. Lin Fanyu
Ms. Leung Wing Han Sharon (resigned on August 5, 2016)

AUTHORIZED REPRESENTATIVES

Mr. Yao Zhiyong
Mr. Peng Yanbao

HEADQUARTERS IN THE PRC

Registered address of the Company:
No. 8 Jinrong One Street, Wuxi, Jiangsu Province, the PRC
Office address of the Company:
9th Floor, No. 8 Jinrong One Street,
Wuxi, Jiangsu Province, the PRC
Website of the Company: www.glsc.com.cn
E-mail: glsc-ir@glsc.com.cn

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

COMPLIANCE ADVISOR

BOCOM International (Asia) Limited

ACCOUNTANTS

Domestic: Deloitte Touche Tohmatsu
Certified Public Accountants LLP
International: Deloitte Touche Tohmatsu

LEGAL ADVISOR AS TO HONG KONG LAW

Orrick, Herrington & Sutcliffe

STOCK CODE

Hong Kong Stock Exchange
Stock Code of H Shares: 01456

SHARE REGISTRAR

For Domestic Shares:
China Securities Depository and Clearing Corporation Limited
For H Shares:
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 | Six months Ended 30 June 2016 | Six months Ended 30 June 2015 | Variance in comparison with the corresponding period of last year (%) |
|---|-------------------------------------|-------------------------------------|---|
| Operating results (RMB'000) | | | |
| Total revenue and other income | 1,167,950 | 2,193,061 | -46.74 |
| Profit before income tax | 468,944 | 1,283,138 | -63.45 |
| Interim profit-attributable to the Company's shareholders | 334,322 | 956,680 | -65.05 |
| Net cash inflows/(outflows) from operating activities | 943,257 | -824,965 | - |
| Earnings per share (RMB/share) | | | |
| Basic earnings per share | 0.18 | 0.64 | -71.88 |
| Diluted earnings per share | 0.18 | 0.64 | -71.88 |
| Profitability index | | | |
| - Return on equity ^(note 1) (%) | 4.46 | 21.25 | Decrease by 16.79 percentage points |

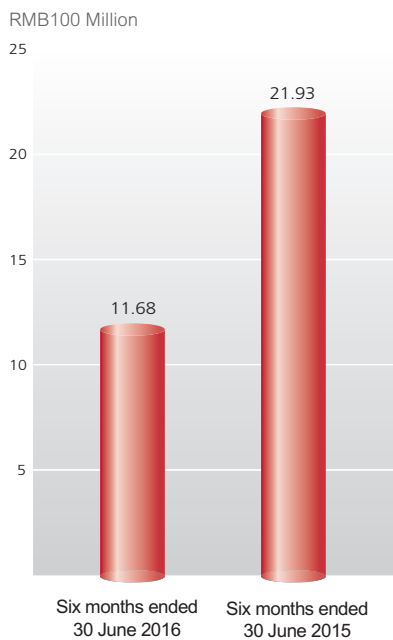
| Item | As at 30 June 2016 | As at 31 December 2015 | Variance in comparison with the end of last year (%) |
|--|--------------------------|------------------------------|---|
| Scale indicators (RMB'000) | | | |
| Total assets | 28,196,780 | 31,173,636 | -9.55 |
| Total liabilities | 20,638,415 | 23,144,867 | -10.83 |
| Accounts payable to brokerage clients | 12,289,285 | 13,557,301 | -9.35 |
| Equity attributable to the Company's shareholders | 7,250,564 | 7,735,283 | -6.27 |
| Share capital ('000 shares) | 1,902,400 | 1,902,400 | 0.00 |
| Net asset value per share attributable to the Company's shareholders (RMB/share) | 3.81 | 4.07 | -6.39 |
| Liability-asset ratio ^(note 2) (%) | 52.48 | 54.42 | Decrease by 1.94 percentage points |

Notes:

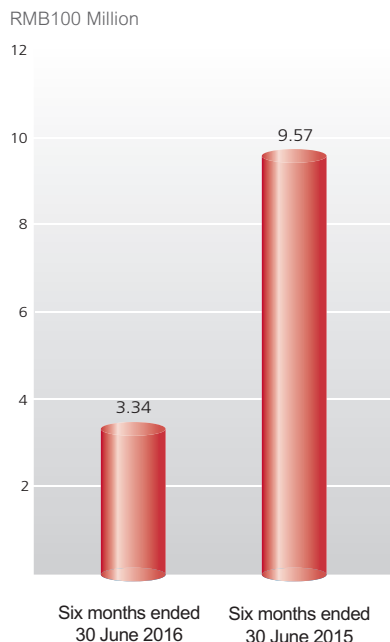
- Profit attributable to the Company's shareholders divided by the average balance of the equity attributable to the Company's shareholders as at the beginning and as at the end of the period
- Liability-asset ratio = (total liabilities – accounts payable to brokerage clients)/(total assets – accounts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

Financial Highlights

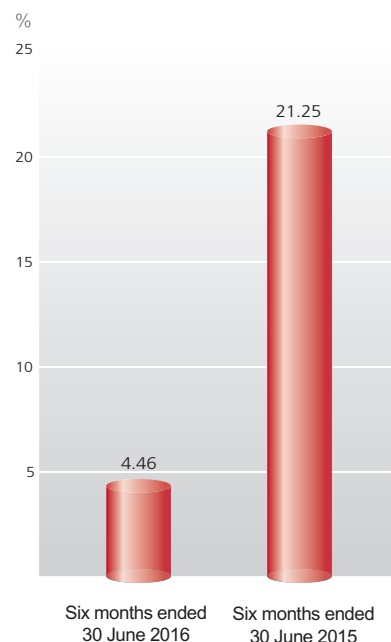
Total revenue and other income



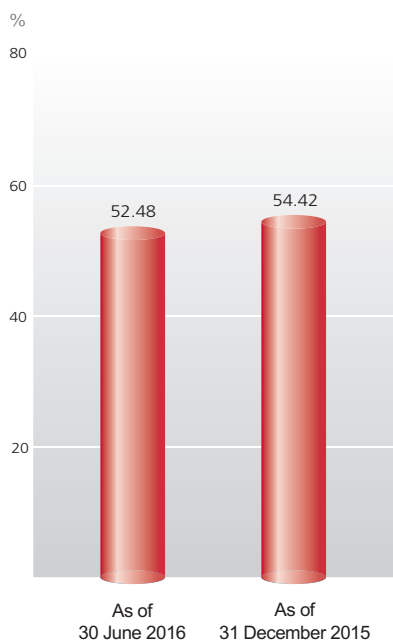
Interim profit-attributable to the Company's shareholders



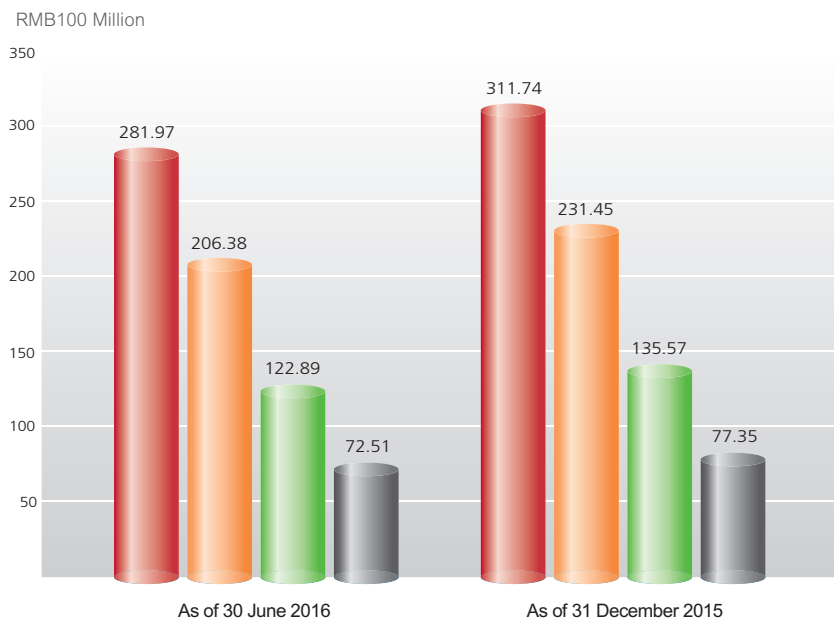
Return on equity



Liability-asset ratio



Scale indicators



Management Discussion and Analysis



I. ECONOMIC ENVIRONMENT AND MARKET CONDITIONS DURING THE REPORTING PERIOD

(1) Economic Environment

In the first half of 2016, with the frequently occurred geopolitical risks, global impact from the 'Brexit', intensifying financial market volatility, and global economic recovery remained slow and twisted, the growth forecast was adjusted downwards on several occasions. Affected by these factors, despite a prosperous and outstanding U.S. economy, its interest rate rise process was still cautious. Even though Japan is about to implement a negative interest rate policy, however, it is still unable to get rid of the negative impact caused by currency appreciation and deflation. Notwithstanding an upward growth in Eurozone's economy, its unemployment rate still remained over 10%, and at the same time, the 'Brexit' also intensified the economic uncertainties across Europe and even globally. The differentiations among the emerging countries were more obvious with the economic growth in India promising and leading the world. The pressure in the fiscal aspect and exchange rate depreciation in Russia were mitigated due to increase in oil price. The slowdown in pace of interest rate rise by Federal Reserve, increase in bulk merchandise pricing gave some breathing space for the Brazilian currency, however, the stagflation crisis was still not relived due to its unstable political situation and dual financial and trade deficits. Despite facing a slowdown in foreign trade and experiencing domestic de-capacity and de-leveraging, the China economy still recorded an increase of 6.7% in the first half of the year and still topped the world in terms of economic growth despite a slowdown. Meanwhile, entrepreneurial innovation grew vigorously, and towards changing from factor-driven growth to innovation-driven growth.

(2) Market Conditions

During the Reporting Period, the stock indices in Russia, Brazil and India performed well. The US index also reported positive performance, whilst those in the PRC, Japan, Germany and France were weak. SSE Composite Index declined by 22.65% in January, and subsequently recovered but at a slow pace. As at the end of the Reporting Period, SSE Composite Index closed at 2,929.61 points, with a decrease of 17.22% in the first half year. SZSE Component Index closed at 10,490.00 points, with a decrease of 17.17%. Affected by market downturn, in the first half of the year, the transaction volume of SSE Composite Index and SZSE Component Index were RMB23.90 trillion and 39.84 trillion respectively, with a decrease of 68.91% and 35.44% respectively as compared with the same period of last year.

Management Discussion and Analysis

During the Reporting Period, the balance of margin financing and securities lending on the Shanghai Stock Exchange and Shenzhen Stock Exchange showed an overall downward trend. According to the statistics of Wind Information (same as hereinafter referred below), as at the end of June, the balance of margin financing and securities lending was RMB853.584 billion, a decrease of 26.51% from the beginning of year. In the first half of the year, the daily average balance of margin financing and securities lending was RMB886.023 billion, representing a year-on-year decrease of 44.39%. In the first half of the year, a total of 68 companies were initially listed and issued their A shares and the actual proceeds raised amounted to RMB29.424 billion. A total of 359 companies conducted private placements and the actual proceeds raised was RMB757.697 billion. Due to the rapid development of the NEEQ, the number of newly listed companies on the NEEQ was 2,556 in the first half of 2016, representing an increase of 140.00% as compared with the same period of last year, and the number of companies listed on the NEEQ went up to 7,685 as at the end of June 2016.

II. GENERAL OPERATING SITUATION

During the Reporting Period, the Group recorded revenue and other income of RMB1.168 billion and net profit attributable to the Company's shareholders of RMB334 million, representing a decrease of 46.74% and 65.05% respectively.

As at the end of the Reporting Period, the Group's total assets amounted to RMB28.197 billion, representing a decrease of 9.55% from RMB31.174 billion at the beginning of year. Total liabilities were RMB20.638 billion, representing a decrease of 10.83% from RMB23.145 billion at the beginning of year. Equity attributable to the Company's shareholders amounted to RMB7.251 billion, representing a decrease of 6.27% from RMB7.735 billion at the beginning of year. The liability-asset ratio of the Group was 52.48%, representing a decrease of 1.94 percentage points from 54.42% at the beginning of year.



III. ANALYSIS OF THE PRINCIPAL BUSINESS LINES

The five business lines of our Group include brokerage business, investment banking business, asset management and investment business, credit transactions business and proprietary trading business.

(1) Brokerage Business

During the Reporting Period, the revenue and other income from our brokerage business was RMB543 million, representing a year-on-year decrease of 54.23%.

Management Discussion and Analysis

1. Securities Brokerage

During the Reporting Period, by focusing on the strategic objective of “enlarging our customer base and increasing our asset size”, always executing client-oriented strategy, exploring and equipping with high product quality to cater for customer needs, the Company gradually optimised its wealth management platform and continuously promoted the transition of brokerage business to comprehensive wealth management business.

According to the statistics of the comprehensive information system under the supervision of CSRC, in the first half of 2016, the net income from agency sales of securities of the Company was RMB293 million, representing a year-on-year decrease of 65%, which ranked 47th in the industry. According to the statistics of Wind Information, in the first half of 2016, the agency transaction volume from brokerage business of the Company (stocks and funds) was RMB932.099 billion, representing a year-on-year decrease of 42%, which ranked 38th in the industry.

The Company obtained the business qualification of Southbound Trading in September 2014, and as at the end of the Reporting Period, the Company had accumulated 6,231 customers who had newly applied transaction permissions for Southbound Trading. During the Reporting Period, the trading volume from Southbound Trading business was RMB388 million.



2. Other Services

During the Reporting Period, the sales volume of financial products of the Company was RMB12.443 billion, representing a year-on-year decrease of 56.02%. Among others, the sales volume of our self-developed asset management products was RMB11.562 billion, representing a year-on-year decrease of 52.48%. The sales volume of third-party fund products was RMB677 million, representing a year-on-year decrease of 80.98%, and the sales volume of trust products was RMB204 million, representing a year-on-year decrease of 49.13%.

In order to satisfy the diversified wealth management needs of its customers, the Company continued to provide futures IB business. As at the end of the Reporting Period, the Company had 38 securities branches in total with futures IB business qualifications, and 1,479 existing customers of futures IB business. During the Reporting Period, there were 138 newly opened accounts of commodity futures and 31 newly opened accounts of financial futures.

Management Discussion and Analysis

(2) Investment Banking Business

The investment banking business of the Group is conducted by its controlling subsidiary, Hua Ying Securities. Meanwhile, the Company provides listing and referral, market-making and financial consultancy services as chief agency broker to help companies enter into the NEEQ. During the Reporting Period, the revenue and other income from our investment banking business was RMB234 million, representing a year-on-year growth of 25.85%.

1. Equity Financing

During the Reporting Period, Hua Ying Securities completed 2 follow-on-financing projects of listed companies (including 1 joint lead-underwriting project), underwriting an aggregate amount of RMB489 million. As at the end of the Reporting Period, 3 IPO projects and 4 follow-on-financing projects of listed companies of Hua Ying Securities were under review by the regulatory authorities.



2. Debt Financing

During the Reporting Period, Hua Ying Securities completed 15 bonds lead-underwriting projects (including 3 joint lead-underwriting projects), underwriting an aggregate amount of RMB15.150 billion. As at the end of the Reporting Period, 9 corporate bonds projects and 3 enterprise bonds projects of Hua Ying Securities were under review by the regulatory authorities.

3. Financial Advisory

During the Reporting Period, Hua Ying Securities completed 19 merger and acquisition and reorganization projects for listed companies and other various financial advisory projects in total, generating a net financial advisory income of RMB21.08 million.

4. NEEQ

During the Reporting Period, the Company completed 32 NEEQ listing and referral projects. As at the end of the Reporting Period, the Company completed 68 NEEQ listing and referral projects cumulatively. Another 26 NEEQ listing and referral projects of the Company were still under review by the regulatory authorities.

During the Reporting Period, the market-making business of the Company added 24 market-making trading stocks. As at the end of the Reporting Period, the Company provided market-making services for a total of 49 NEEQ-listed companies. During the Reporting Period, the investment revenue from market-making business of the Company earned was RMB8.03 million.

Management Discussion and Analysis

During the Reporting Period, the Company completed 13 NEEQ targeted issuance projects, financing an aggregate amount of RMB422 million. As at the end of the Reporting Period, 3 targeted issuance projects of the Company were still under review by the regulatory authorities. In addition, the Company also completed 4 NEEQ merger and acquisition and reorganization projects in the first half of the year.

(3) Asset Management and Investment Business

During the Reporting Period, revenue and other income from our asset management and investment business was RMB51 million, representing a year-on-year decrease of 35.86%.

1. Asset Management

In asset management business, the Company adhered to the direction of “serving real economic development” and the objective of “client-oriented”, and actively created more values for customers and shareholders. During the Reporting Period, the asset management business of the Company continued the layout setting of capital market, bonds investment and structured financing business, focused on risk control and actively established its branded business line and star-rated wealth management products. The Company strengthened its products research and development innovation constantly, strived to comply with the changes of market environment, and timely launched the first private FOF product. The Company also strengthened talents recruitment and training through the investment research business layout setup, kept on improving active investment management abilities and enhanced the core competitiveness of asset management business.

As at the end of the Reporting Period, the cumulative entrusted customers of asset management business was RMB22.45 billion, representing a year-on-year growth of 6.57%, among others, the collective asset management scheme was 43, representing RMB7.393 billion in size, the targeted asset management scheme was 54, representing RMB13.857 billion in size and the specialized asset management scheme was 1, representing RMB1.2 billion in size.

2. Direct Investment

The direct investment business of the Group is conducted by our wholly-owned subsidiary, Guolian Capital. During the Reporting Period, Guolian Capital promoted the equity investment business on NEEQ and actively explored business channels and completed the project investment amount of RMB20.00 million. In addition, Guolian Capital cooperated with Shanghai Manfeng Asset Management Company Limited* (上海滿風資產管理有限公司), to jointly establish Jiaxing Baoman Investment Partnership (limited partnership)* (嘉興寶滿投資合夥企業(有限合夥)) on 22 January 2016, the subscribed capital contribution was RMB72.00 million, of which Guolian Capital holds its 29.17% equity interests with a capital contribution of RMB21.00 million. As at the end of the Reporting Period, such fund completed a total investment amount of RMB10.00 million.

Management Discussion and Analysis

(4) Credit Transactions Business

During the Reporting Period, the revenue and other income from our credit transactions business was RMB233 million, representing a year-on-year decrease of 20.21%.

1. Margin Financing and Securities Lending

During the Reporting Period, with the domestic securities market fluctuating, the Company adopted sound risk management measures and had effectively resisted the liquidity risk brought by speedy downward market trend, preventing the occurrence of greater risk. The decline in the balance of margin financing and securities lending was also lower than overall industry standard.

As at the end of the Reporting Period, the total number of credit accounts of the Company was 15,592, representing a year-on-year increase of 8.27%. The total credit amount of margin financing and securities lending of customers was RMB38.42 billion, representing a year-on-year increase of 14.36%. The total balance of margin financing and securities lending was RMB4.172 billion (among which, the balance of margin financing was RMB4.137 billion and the balance of securities lending was RMB35 million), representing a year-on-year decrease of 47.46%, the decline was 10.89% lower than the overall market standard.

2. Securities-backed Lending and Securities Repurchase

During the Reporting Period, the Company fully promoted the development of bulk securities-backed lending business to offset the adverse effects on credit transactions business caused by the decline in margin financing and securities lending business size. As at the end of June in 2016, the accumulated number of clients opened for securities-backed lending business trading permissions (excluding “Xiaorongbao (小融寶)”) was 84, representing an increase of 47.36% as compared with that at the end of 2015. The initial transaction amount to be repurchased on the exchanges at the end of the period (excluding “Xiaorongbao (小融寶)”) was RMB6.516 billion (of which, RMB1.326 billion was from the Company’s own funds and RMB5.190 billion were from asset management products), representing an increase of 49.11% as compared to the RMB4.370 billion at the end of 2015. In addition, as at the end of the period, the accumulated number of clients opened of business permissions for “Xiaorongbao (小融寶)” business of the Company was 4,253. The size of the financing balance was RMB41.61 million, representing a year-on-year decrease of 13.03%.

During the Reporting Period, the Company did not commence any securities repurchase business.

Management Discussion and Analysis

3. Options

As approved by the Shanghai Stock Exchange, the Company obtained the qualifications as a stock options trading participant on 16 January 2015. During the Reporting Period, the actual number of options accounts of the Company opened on the Shanghai Stock Exchange was 143, representing a year-on-year increase of 130.65%, and the accumulated number of clients opened was 566; the total number of transactions was 120,100, representing an increase of 1,223.42%.

(5) Proprietary Trading Business

During the Reporting Period, revenue and other income generated from the proprietary trading business of the Group amounted to RMB76 million, representing a year-on-year decrease of 82.82%.

During the Reporting Period, for equity proprietary trading business, the Company adhered to its principle of value investment, closely kept up the pace with the market, enhanced value analysis and mainly focused on exploring investment portfolios with high certainty of performance growth and comparative valuation advantages. At the same time, a layout was made for its investment portfolios that have stable performance and high dividends yield. For fixed-income securities investment business, the Company implemented a flexible operation strategy with mid-to-long term and moderate leverage under the risk controllable premise and mainly focused on bonds with mid-high credit rating.

IV. PROSPECTS AND FUTURE PLANS

In the first half of 2016, the overall domestic securities market presented a weak sentiment. In the second half of the year, in light of the unfavorable market conditions, the commission rate and transaction volume will decline, the shortage of the high on return of assets will continue, risk concentration exposure and tightening of supervision and control will be expected and the securities industry will face tremendous pressure in the short run. But in the long run, with the development tendency such as the transformation and upgrading of industrial structure, growth of residents' wealth, financial marketization and construction of multi-level capital market, market demand will become a driving force for securities dealers to make innovation and reform. With the on-going strengthening of capital intermediary properties of the securities industry and the tremendous potential for business development, securities firms are stepping into a strategic development period where challenges and opportunities coexist.

Management Discussion and Analysis

In the future, the Group will adhere to the operation philosophy of “integrity, prudence, openness and innovation” and position customer demand precisely to provide comprehensive financial solutions. On the basis of a complete business system, the Group will comprehensively integrate various business segments of investing and financing activities and deploy superior resources under a scientific approach, aiming at providing customized services for customers and assisting individual customer in achieving wealth appreciation and corporate customer in realizing transformation and development. Not only will the Group commit to meeting the current investing and financing requirements of customers, it will also focus on their medium and long-term development. By relying on the perfect risk control system and the tremendous investment research capability, through continuous analyzing and exploring customer demand at different development stages, the Group will provide financial solutions covering the whole life cycle and the entire industrial chain and grow together with customers.

V. LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2016, the equity attributable to the Company’s shareholders amounted to RMB7.251 billion, representing a decrease of 6.27% from RMB7.735 billion at the end of 2015. As compared with the end of 2015, the Group’s net assets dropped by 5.86%, which was mainly due to high dividends paid during the Reporting Period.

During the Reporting Period, the securities market was miserable overall, trade volumes on Shanghai Stock Exchange and Shenzhen Stock Exchange fell sharply year-on-year, business scale shrunk significantly and total assets of the Group slightly declined, while the quality of assets and liquidity remained sound. Due to strong liquidity of the business of the Group, the balance sheet mainly includes current assets and current liabilities. At the end of the Reporting Period, the Group’s total self-owned assets (total assets less accounts payables to brokerage client) was RMB15.907 billion, representing a decrease of RMB1.709 billion, or 9.70%, as compared with the end of 2015. Specifically, of the total self-owned assets, cash and bank balance accounted for 20.58%; investment assets (including investment in associated companies and financial assets, especially investment in financial assets with strong liquidity) accounted for 32.60%; the funds lent in margin financing and securities lending business slightly decreased, the receivables in the margin account accounted for 25.94%; and property, plant and equipment of the non-current assets and intangible assets accounted for 0.66% and 0.13%, respectively.

Management Discussion and Analysis

The overall liability-asset ratio of the Group remained stable. As at the end of the Reporting Period, the self-owned liability-asset ratio of the Group (both total assets and total liabilities less accounts payables to brokerage clients) was 52.48%, representing a decrease of 1.94 percentage points as compared with 54.42% at the end of 2015. The Group's degree of operating leverage (total assets less accounts payables to brokerage clients divided by equities attributable to the Company's shareholders) was 2.19 times, compared to the 2.28 times at the end of 2015. The Group will continue to energetically develop innovative businesses and further improve the leverage ratio. The Group has developed strict risk management measures for net capital and other risk control indicators. A stress test will be conducted on the general liquidity and other financial indicators before making any material capital investment.

The Group has met its operating capital requirements through equity financing and debt financing. On 6 July 2015, the Company was listed on the Stock Exchange of Hong Kong, raising net proceeds of approximately HK\$3.097 billion with the initial public offering price fixed at HK\$8 per share. Debt financing of the Company included the issuance of short-term financing bonds, subordinated bonds, income certificates and refinancing, interbank borrowings as well as transfer of equity rights in margin financing and securities lending so as to meet capital demands for business development through various channels .

VI. ESTABLISHMENT OF OUR BRANCHES

As at the end of the Reporting Period, the Company had 8 branch offices and 59 securities branches. During the Reporting Period, pursuant to a Reply on the Approval of the Establishment of One Branch of Guolian Securities Co., Ltd. (SZJJGZ {2016} No.21) (《關於核准國聯證券股份有限公司設立1家分支機構的批覆》) issued by the CSRC's local bureau in Jiangsu Province on 26 January 2016, the Company has completed the establishment of one branch office, details of which are set out below:

| No. | Province/city | Name of branch | Address |
|-----|-------------------------------------|--|---|
| 1 | Shenzhen, Guangdong Province | Shenzhen Branch Office Guolian Securities Co., Ltd | 4504 · 4403-A (two floors duplex) and 4501-A, New World Center, No.6009, Yitian Road, Lianhua Street, Futian District, Shenzhen |

In addition, pursuant to a Reply on the Approval of the Establishment of Four Securities Branches of Guolian Securities Co., Ltd in Jiangsu Province (SZJJGZ {2016} No.187) (《關於核准國聯證券股份有限公司在江蘇設立4家證券營業部的批復》) issued by the CSRC's local bureau in Jiangsu Province on 22 June 2016, it approved the Company to establish one new securities branch in each of the cities in Jiangyin, Yixing, Changzhou and Kunshan of Jiangsu Province . As at the end of the Reporting Period, the construction of the above branches is under close preparation.

Management Discussion and Analysis

VII. MAJOR INVESTMENT AND FINANCING EVENTS

(1) Major Investment Events

During the Reporting Period, the Company had no major investment events.

(2) Major Financing Events

The Company adopted the Proposal on Application for Issuance of Short-term Financing Bonds of Securities Companies (《關於申請發行證券公司短期融資券的議案》) in the 9th meeting of the 2nd session of the Board and the second extraordinary general meeting of 2014 held on 4 August 2014. The issuance of the first tranche of short-term financing bonds was completed on 13 January 2016, with the size of issuance of RMB0.6 billion, a term of 91 days and the coupon rate of 2.65%. The proceeds raised were used as additional working capital. The principal and interest of the short-term financing bonds was redeemed on 13 April 2016.

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

During the Reporting Period, there was no material acquisition, disposal or replacement of the Company's material assets and 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 PROGRAMS

As at the end of the Reporting Period, the Group had a total of 1,379 employees, including 1,221 from the Company and 158 from its subsidiaries.

Under the Company's overall strategic development framework, the Company keeps on improving its remuneration and incentive mechanism and formulates an overall remuneration policy in strict compliance with the principles of position-based salary, capabilities and performance-oriented salary payment. By following the principle of integrating with the market to gradually establish a market-competitive remuneration mechanism, the Company facilitates the implementation of MD position system in an orderly manner. In this process, emphasis will be placed to make the remuneration resource be inclined moderately to core and key personnel while maintaining an internal impartiality.

Management Discussion and Analysis

The Company keeps on improving its performance assessment work. In conducting a comprehensive assessment on the annual work performance of the Company's staff and important tasks fulfillment, the objective assessment is based on key performance indicators and supplemented by an all-round assessment and evaluation. Compliance risk control implementation results are evaluated simultaneously.

The staff remuneration of the Company comprises position-based wage, performance-based wage as well as social security and welfare. The position-based wage is measured based on the Company's position-based wage system and is determined after taking a comprehensive consideration of factors such as responsibility, importance and market standard of the employees' position. The performance-based wage is determined after taking a comprehensive consideration of factors such as the Company's operating conditions and market standard and also the assessment results of employee's work performance. The Company provided employees with statutory social insurance and provident fund according to relevant provisions of state laws and regulations, aiming at effectively mobilizing the initiatives and creativity of its staff and hence facilitating the sustained and rapid development of the Company's business.

The Company has developed and carried out an annual training plan to enhance the core competitiveness of its cadre staff at the beginning of 2016 based on the business development requirements and departments training demands in line with latest trend of financial innovation and development. In the first half of the year, the Company organized a series of new managerial trainings, middle-level cadres management quality promotion trainings jointly organized with well-known universities, face-to-face training session for first batch of new staff, special business training for investment research department and micro course learning for all staff. At the same time, the Company also organized its staff to actively take part in comprehensive financial training and the many business learning courses run by the Company.

X. RISK CONTROL

(I) Major risks affecting the Company's operations

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

1. Credit Risk

Credit risk refers to the risk that may cause economic losses to the Company due to the failure of customers of margin financing, transaction counterparty or issuers holding the securities of the Company in performing the obligations as agreed in the deeds for various reasons. It mainly includes credit risk, collateral risk and concentration risk of transaction counterparty.

Management Discussion and Analysis

Transaction counterparty credit risks refer to the risk that may cause economic losses to the Company due to the failure of transaction counterparty to perform the obligations as agreed in the deeds. Bonds investment and derivatives transactions of the Company may expose to such risk. Collateral risk refers to the payment capability of the collateral relevant to the pledged security is unable to cover the losses, when at default, that is required to be assumed for such project. The financing transactions businesses like margin financing and securities lending, securities-backed lending business and securities repurchase businesses developed by the Company may expose to such risk. In addition, there is some relevance between market risk and credit risk. Under a volatile market, the exposure of credit risk changes accordingly.

The Company focuses on investment diversification, and closely monitors the changes of credit rating for investees. In the aspect of margin financing and securities lending, securities repurchase and securities-backed lending business, the Company focuses on strengthening the eligibility management of customers, and implements effective cap management through setting threshold value at different levels to control concentration risk and conducts stress tests regarding the effectiveness of risk control indicators regularly.

2. Concentration Risk

Concentration risk refers to the risk resulting from the excessive risks exposure from the same source. Specifically speaking, excessive funds occupying on the same project, excessive bonds held for the same object and excessive transactions with the same client may result in concentration risk.

During the Reporting Period, the Company showed proactive concern on the concentration management of related risk information from the same business and same client and launched the risk concentration control modules of the same client on the risk control platform. Such move enables the effective supervision on the same client who participates in margin financing and securities lending, stock pledged and securities repurchase, and has performed the systematic management on the concentration of single securities pledged.

3. Market Risk

Market risk refers to the risk of unexpected losses resulting from the uncertainty of future market price (interest rates, exchange rates, stock prices and commodity prices). The current market risk of the Company mainly comes from the securities investment, assets management and market-making businesses, which are specifically reflected in the fluctuation risk of securities prices, interest rates risks and exchange rates risks.

Management Discussion and Analysis

During the Reporting Period, in order to control market risk, the Company implemented stringent method for risk limit management, formulate indexes like exposure size, concentration and loss limit, and make timely adjustments according to the changes of the development conditions of the market and business and the risk that the Company can take up; established a quantifying index system to measure and evaluate by quantifying tools like stock beta value, duration and convexity of bonds, price value of bond basis point and investment portfolio VaR value; periodically conducted and conducted ad hoc testing the ability of undertaking risk of the Company by sensitivity analysis, concentration control and stress test to improve and implement the system of authorization management and take profit and stop loss; the Company gave close attention in relation to the reporting of exchange rates risk due to fluctuation, make rational decision, and controls the size of foreign exchange appropriately.

4. Liquidity Risk

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

During the Reporting Period, in order to cope with and manage the liquidity risk effectively, the Company enforces stringently the threshold value control of every risk, enhances monitoring principle businesses, increases the measuring frequency and exercises stringent control over leverage operation through measures like special liquidity stress tests, whereby to conduct the frontend control against the liquidity risk of the principle businesses of the Company.

5. Operational Risk

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

Management Discussion and Analysis

As for operational risk, the Company adheres to continuously perfect its internal control mechanism, improve operation process, strengthens check efforts, intensifies accountability system, handles adverse effects actively and properly; arranges special staff of operational risk management to standardize and optimize related business processes; reorganizes the statistics of the operational risk event occurrence frequency and corresponding losses for the purpose of establishing loss database. Furthermore, the Company constantly strengthens behavior adequacy and normative operation of staff from each position through various means, such as internal training and annual assessment; and prepares emergency risk management plan with regular drills to ensure the security of equipment, data and system, thereby in preventing the outbreak of large-scale operational risk caused by information system failure.

6. Compliance Risk

Compliance risk refers to the risk that a securities company may be exposed to legal sanction, regulatory measures, property damages or reputation losses as a result of its operations and management or the practice conduct of its employees in violation of the laws, regulations or rules.

During the Reporting Period, the Company continued to improve its compliance management system, firmly adheres to the basic principles of “creating value with compliance, everyone is responsible, proactive in compliance, including senior management”. The Company conducts effective control over compliance risk by leveraging on the measures of compliance consulting, compliance investigation, compliance inspection, compliance monitoring, compliance training, compliance reporting, regulatory communication and coordination. Specifically, compliance review is conducted prudently, timely identify compliance problems or defects, propose compliance recommendations, and facilitate the compliance operation of relevant businesses or products. We will put more efforts on compliance inspection, especially the magnitude of project inspection, take problems and risks as directions, carry out repetitive inspections on respective key areas, and put forward improving requirements timely for the problems discovered, track the implementation status of rectification measures; launch the customer risk rating system of anti-money laundering and improve compliance management efficiency.

Management Discussion and Analysis

7. Reputational Risk

Reputation risk refers to the risks of negative comments to the Company from relevant stakeholders as a result of our operations, management and other activities or external events. Currently, the Company assigned an office that is responsible for monitoring and managing the overall company reputation risks, appoints dedicated staff to be in charge of supervising public opinions and conduct corresponding analysis, and develops corresponding management measures in relation to information disclosure.

(II) Strategies and Measures Adopted or to be Adopted by the Company

1. Strengthening comprehensive risk management

The management models of the Company consist of stratified management, centralized and decentralized model. The Company has also set up a comprehensive risk management organization structure, which includes four levels: the board of directors, senior management, risk management department, business department and internal risk management positions of branch companies, to further establish and perfect substantive risk management rules for managing credit risk, market risk, operational risk, liquidity risk, reputational risk and other categories.

2. Improving the risk control indicators monitoring system that takes net capital and liquidity as the core

Launch and update the net capital monitoring system, improve the risk control indicators monitoring system that takes net capital and liquidity as a core in order to prevent and resolve liquidity risk. Strengthen the application of sensitivity analysis and stress testing tools and, timely provide risk assessment support for principal businesses development and important decisions.

3. Building an effective risk management information system

The Company has launched a comprehensive risk management system to consummate risk management information, establish a unified risk management framework, support risk management team to conduct risk measurement, analysis and monitor works from an overall perspective, help the Company to timely master the risk conditions of the Company, and provide important reference to the Company for risk management decisions.

Management Discussion and Analysis

4. Strengthening compliance risk management

The Company will continue to improve the compliance management functions to further intensify the anti-money laundering and the Chinese wall system and strengthen compliance monitoring in order to prevent insider trading, conflicts of interest and transfer of benefits and other non-compliance behaviours. The Company focuses particularly on new products and new business risk identification and compliance management works, regulates business operation procedures, strengthens the checking on different businesses, and ensures an effective system, procedure and management measure implementation. To build a corporate culture with lawful and compliance operation, the Company strengthens the compliance training on employees, propagandizes and develops the compliance culture with all employees' compliance and proactive compliance, and improves their compliance awareness.

5. Strengthening investor education and eligibility management

The Company insists on investor education, works on customer and product management at different levels, reveals the risks to investors in a timely manner, and devotes to appropriate investor management and provides appropriate products and services to all types of customers.

6. Further improvement of ability and standard in quantitative analysis on risk management

The Company strengthens its research and investment in quantitative analysis on risk management, pays significant attention to the collection and reorganization of the quantitative index information and data, as well as conducts analysis on data of key segments. It intensifies the research and development of risk measurement model and selects 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 to make timely adjustment and improvement according to the testing results.

I. DIVIDENDS

Pursuant to the resolution passed at the annual general meeting held on 16 June 2016, the Company declared a final cash dividend of RMB4.00 (including tax) for every 10 shares, or RMB760.96 million (including tax) in aggregate, for the year ended 31 December 2015.

Such dividends are paid in RMB to domestic shareholders and in Hong Kong dollars to the holders of H Shares. The actual amount of H Share dividends paid in Hong Kong dollars will be converted based on the average benchmark exchange rate of RMB to Hong Kong dollars (i.e. HK\$1=RMB0.846976) as announced by the PBOC five business days before the date of the annual general meeting of the Company. The Company has completed the distribution of 2015 final cash dividends.

The Company does not intend to distribute any interim dividend to the Shareholders.

II. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the end of the Reporting Period, none of the Directors, Supervisors or chief executive of the Company had any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

III. DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES

As at the end of the Reporting Period, none of the Directors, Supervisors or their respective spouse or children under the age of 18 were granted any rights or had exercised such rights to acquire benefits by means of acquisition of shares or debentures of the Company. The Company or any of its subsidiaries was not a party to any arrangement to enable the Directors, Supervisors or their respective spouse or children under the age of 18 to acquire such rights from any other body corporate.

Other Information

IV. SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at the end of the Reporting Period, to the best of the knowledge of the Company and the Directors, the following persons (other than a Director, Supervisor or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be entered in the register under section 336 of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

| Name of Shareholders | Class of shares | Nature of interest | Number of shares (Note 1) | Percentage of total number of issued shares of the Company (Note 7) | Percentage of total number of issued shares in the relevant class of shares of the Company (Note 7) |
|--|-----------------|---|------------------------------|--|--|
| Guolian Group (Note 2) | Domestic shares | Beneficial owner and interest in controlled corporation | 1,376,336,123 (L) | 72.347% | 94.29% |
| Guolian Trust | Domestic shares | Beneficial owner | 390,137,552 (L) | 20.508% | 26.73% |
| Guolian Industrial (Note 3) | Domestic shares | Interest in controlled corporation | 266,899,445 (L) | 14.030% | 18.28% |
| Wuxi Electric | Domestic shares | Beneficial owner | 266,899,445 (L) | 14.030% | 18.28% |
| Guolian Financial Investment (Note 4) | Domestic shares | Interest in controlled corporation | 73,500,000 (L) | 3.864% | 5.04% |
| Minsheng Investment (民生投資) | Domestic shares | Beneficial owner | 73,500,000 (L) | 3.864% | 5.04% |
| Jiangsu Coastal Innovative Capital Management Co., Ltd. (江蘇沿海創新資本管理有限公司) (Note 5) | H shares | Interest in controlled corporation | 28,999,500 (L) | 1.524% | 6.55% |
| Shanghai Chuang Ji Investment Centre (Limited Partnership) (上海創驥投資中心(有限合夥)) (Note 6) | H shares | Interest in controlled corporation | 28,999,500 (L) | 1.524% | 6.55% |
| Coastal Capital Limited | H shares | Beneficial owner | 28,999,500 (L) | 1.524% | 6.55% |

Notes:

- (1) (L) denotes long positions.
- (2) Guolian Group is the beneficial owner of 543,901,329 domestic shares of the Company, and is deemed to be interested in the following shares in controlled corporations: (i) 390,137,552 domestic shares of the Company held by Guolian Trust; (ii) 266,899,445 domestic shares of the Company held by Wuxi Electric; (iii) 73,500,000 domestic shares of the Company held by Minsheng Investment; (iv) 72,784,141 domestic shares of the Company held by Yimian Textile; and (v) 29,113,656 domestic shares of the Company held by Guolian Environmental.
- (3) Guolian Industrial is deemed to be interested in the 266,899,445 domestic shares of the Company held by Wuxi Electric, its wholly-owned subsidiary.

Other Information

- (4) Guolian Financial Investment is deemed to be interested in the 73,500,000 domestic shares of the Company held by Minsheng Investment, its wholly-owned subsidiary.
- (5) Jiangsu Coastal Innovative Capital Management Co., Ltd. is deemed to be interested in the 28,999,500 H shares of the Company held by Coastal Capital Limited.
- (6) Shanghai Chuang Ji Investment Centre (Limited Partnership) is deemed to be interested in the 28,999,500 H shares of the Company held by Coastal Capital Limited, its wholly-owned subsidiary.
- (7) As at the end of the Reporting Period, the Company issued 1,459,760,000 domestic shares and 442,640,000 H shares, a total of 1,902,400,000 shares.

Save as disclosed in the paragraphs headed “Directors’, Supervisors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures” and “Substantial Shareholders’ and Other Persons’ Interests and Short Positions in Shares and Underlying Shares” above, as at the end of the Reporting Period, the Company was not aware of any other person (other than the Directors, Supervisors and chief executive of the Company) who held interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.

V. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDER IN ASSOCIATED CORPORATION OF THE COMPANY

As at the end of the Reporting Period, to the best of the knowledge of the Company and the Directors, the following person was interested in 10% or more of the nominal value of any class of share capital carrying the right to vote in all circumstances at general meetings of the following associated corporation of our Company:

Long Position

Hua Ying Securities

| Name of shareholder | Capacity/Nature of interest | Amount of registered capital interests owned | Approximate percentage of shareholdings |
|--------------------------------|-----------------------------|--|---|
| The Royal Bank of Scotland plc | Beneficial owner | RMB266.4 million | 33.3% |

Other Information

VI. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

VII. CORPORATE GOVERNANCE

The Company has operated in strict compliance with the laws, regulations and normative documents at the jurisdictions of establishment and listing, and kept committed to maintaining and improving its sound social image. Pursuant to the Company Law, the Securities Law and other applicable laws, regulations and regulatory provisions, the Company has formed a corporate governance structure under which the general meeting, the Board, the Supervisory Committee, and the management have their respective authorities and duties, so as to ensure the regulated operation of the Company. The convening and voting procedures for general meetings and meetings of the Board and the Supervisory Committee are legal and valid; the information disclosed by the Company is true, accurate and is disclosed in time and completely; the management of investor relations is efficient and practical; and the corporate governance is based on scientific, rigorous and normative procedures. During the Reporting Period, the Company has strictly complied with and observed most of the requirements of the CG Code for the recommended best practices specified in the CG Code.

During the Reporting Period, Mr. Lei Jianhui, the president, managed the business operations of the Company, organized the execution of the Board's resolutions, and reported the relevant work to the Board. Mr. Lei Jianhui resigned as the president on 15 March 2016. In order to ensure an orderly running of the operation and management of the Company, as approved by the Board, Mr. Yao Zhiyong is served as the president provisionally, resulting that the chairman and president of the Company are acted as by the same individual. According to the code provision A.2.1 of the CG Code, the role of the chairman and president shall be separate, and shall not be performed by the same individual. Since his joining in the Group, Mr. Yao Zhiyong has always been one of the core leaders of the Group, who is mainly responsible for the development of business strategy and overall development direction of the Group, and is also familiar with the operations of the Group. As such, the Board believes that this temporary arrangement will not impair the balance of power and authority between the Directors and the management of Group, nor will it affect the benefits of the Group and the shareholders. The Company had appointed Mr. Peng Yanbao as the new president of the Company on 16 May 2016 and Mr. Yao Zhiyong ceased to perform the duties of the president of the Company with effect from that date.

VIII. SECURITIES TRANSACTIONS OF DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code as its own code of conduct regarding Directors and Supervisors' securities transactions. Having made specific enquiries with all Directors and Supervisors, all of them confirmed that they have complied with the required standard of dealings as set out in the Model Code during the Reporting Period.

IX. OPERATING OF THE BOARD AND THE BOARD COMMITTEES

(1) Composition of the Board

As at the end of the Reporting Period, as considered and approved in the annual general meeting of the Company on 16 June 2016, the third session of Board comprised nine Directors, including two executive Directors, namely Mr. Yao Zhiyong (Chairman) and Mr. Peng Yanbao (President), four non-executive Directors, namely Mr. Hua Weirong, Mr. Zhou Weiping, Mr. Liu Hailin and Mr. Zhang Weigang, and three independent non-executive Directors, namely Mr. Wang Wei, Ms. Chen Qingyuan and Mr. Lee Pak Hay.

During the Reporting Period, as considered and approved by the extraordinary general meeting of the Company convened on 28 January 2016, Mr. Zhang Weigang was appointed as the non-executive Director of the Company with his term of office commenced on 14 February 2016 upon obtaining the qualification approval for the appointment as a Director of the securities company from the CSRC and will end on the expiry of the second session of Board. Mr. Lei Jianhui, the executive Director and the president, tendered his resignation in writing and his resignation was formally effective on 15 March 2016. The term of office of Mr. Jiang Zhijian, non-executive Director, expired and ceased to be the non-executive Director of the Company as from 16 June 2016. The term of office of Mr. Fan, Yan Hok Philip, independent non-executive Director, was expired and ceased to be the independent non-executive Director of the Company from the date that Mr. Lee Pak Hay obtained the qualification approval for the appointment as an Independent Director of the securities company from the CSRC.

During the Reporting Period, all Directors performed their statutory duties diligently and honestly and protected the interests of the shareholders of the Company as a whole, especially the interests of minority shareholders, in accordance with the relevant provisions of laws, regulations and articles of association of the Company. During the Reporting Period, the Board convened a total of 2 general meetings for its shareholders to consider and approve 14 proposals, and convened 6 Board meetings and considered and approved 46 proposals.

Other Information

(2) Board Committees

There are four committees established under the Board, namely, the Strategy Committee, the Remuneration and Nomination Committee, the Audit Committee and the Risk Control Committee. The responsibilities of each committee are clearly divided and defined. The committees assist the Board in conducting work within the terms of reference as specified in the procedural rules of meetings, and are accountable to and report to the Board. The majority of the members of the Nomination and Remuneration Committee and the Audit Committee are independent non-executive Directors, and the chairman of each of these two committees is an independent non-executive Director. As at the end of the Reporting Period, the list of the members of the Board committees is as follows:

| Board Committees | Chairman/Chairlady | Members |
|---------------------------------------|--------------------|--|
| Strategy Committee | Yao Zhiyong | Peng Yanbao, Hua Weirong, Zhou Weiping, Lee Pak Hay |
| Audit Committee | Chen Qingyuan | Zhou Weiping, Wang Wei |
| Remuneration and Nomination Committee | Lee Pak Hay | Hua Weirong, Chen Qingyuan |
| Risk Control Committee | Yao Zhiyong | Hua Weirong, Zhou Weiping, Liu Hailin, Chen Qingyuan |

During the Reporting Period, the term of office of Mr. Fan, Yan Hok Philip, independent non-executive Director, was expired and ceased to be the independent non-executive Director of the Company, chairman of Remuneration and Nomination Committee and member of Strategy Committee from the date that Mr. Lee Pak Hay obtained the qualification approval for the appointment as an Independent Director of the securities company from the CSRC.

During the Reporting Period, the Strategy Committee convened a total of 3 meetings, which considered and approved 3 proposals. The Audit Committee convened a total of 3 meetings, which considered and approved 4 proposals. The Remuneration and Nomination Committee convened a total of 3 meetings, which considered and approved 3 proposals. The Risk Control Committee convened a total of 1 meeting, which considered and approved 3 proposals.

Of which, the Audit Committee and the management of the Company had reviewed the accounting policies adopted by the Company, and discussed issues including internal control, risk management and financial report, and had fully reviewed the consolidated interim financial information (including unaudited consolidated financial statements set out in this Interim Report during the Reporting Record). The Audit Committee considered that the preparation of such consolidated financial report was compiled in conformity with the applicable accounting standards and provisions and has made appropriate disclosures. The auditor of the Company, Deloitte Touche Tohmatsu, has reviewed the 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.

X. OPERATION OF THE SUPERVISORY COMMITTEE

As at the end of Reporting Period, as approved by the Annual General Meeting of the Company held on 16 June 2016 and the Workers Congress Meeting of the Company held on 18 May 2016, the third session of Supervisory Committee, comprising 5 supervisors, was set up, among which there are three shareholder representative supervisors (namely, Mr. Chen Xingjun (Chairman of Supervisory Committee), Mr. Yang Xiaojun and Mr. Zhou Weixing) and two Employee Representative Supervisors (namely, Ms. Shen Ying and Ms. Yu Lei).

During the Reporting Period, the terms of office of Ms. Yin Zhuowei and Mr. Shan Xudong were expired and ceased to be Supervisors of the Company as from 16 June 2016. Due to expiry of his term, Mr. Jin Guoxiang, a shareholder representative supervisor, ceased to be a shareholder representative supervisor of the Company since the day that Mr. Chen Xingjun obtained the qualification of acting as a chairman of Supervisory Committee in a securities company approved by CSRC. Mr. Chen Xingjun obtained the qualification of acting as a chairman of Supervisory Committee in a securities company on 28 June 2016.

During the Reporting Period, the Supervisory Committee has convened 5 meetings and considered 7 proposals. The Supervisors earnestly performed their duties and supervised the standard operation of the Company and safeguarded the legal rights and interests of the Company, shareholders and investors in accordance with the relevant provisions of the Company Law and Securities Law and other relevant laws and regulations and the articles of association of the Company.

Other Information

XI. NEW BUSINESS QUALIFICATIONS OBTAINED DURING THE REPORTING PERIOD

During the Reporting Period, the Company obtained a certificate of membership issued by Asset Management Association of China (Certificate No.:00011683).

XII. EVALUATION RESULTS OF THE COMPANY BY SECURITIES REGULATORY AUTHORITY

In the evaluation of securities companies of 2016 carried out by the CSRC, the Company was assigned an A rating in A class. It is three years in a row that the Company is being awarded such rating.

XIII. MAJOR LITIGATIONS

On 6 June 2016, the Company received a notice of arbitration issued by Wuxi Arbitration Commission. Mr. Hu Xucang has submitted an arbitration application to Wuxi Arbitration Commission dated 13 May 2016 in relation to the disputes arising from an Asset Management Agreement entered into with the Company in 2014.

In the opinion of the Company, the outcome of dispute would not have a material adverse effect on the Company's financial conditions.

XIV. INFORMATION RELATING TO THE COMPANY'S CONTROLLING SHAREHOLDERS

During the Reporting Period, the independent non-executive Directors had reviewed the decisions made by the investment decision committee of Guolian Capital in relation to the direct investment business opportunity noticed by or offered to the Controlling Shareholders or their controlled entities ("New Direct Investment Business Opportunities") pursuant to the written notice given by them. The independent non-executive Directors considered the factors that gave judgments by the investment decision committee of Guolian Capital, including the business development of the Company and the best interest of the Shareholders and the written declaration of the Controlling Shareholders. Upon the completion of such review, the independent non-executive Directors (i) did not have different views from that of the investment decision committee of Guolian Capital; and (ii) were of the view that the Controlling Shareholders has complied with the Non-competition Agreement.

During the Reporting Period, the independent non-executive Directors also considered the option to acquire any or all of the equity interests in Guolian Futures held by Guolian Group or indirectly by its subsidiaries (“Option for Acquisition”) and decided that given the business development of the Company and the best interest of the Shareholders, it was not yet an appropriate time for the Company to exercise the Option for Acquisition.

Each of our Controlling Shareholders has made a written declaration to the Company and the independent non-executive Directors, the investment decision committee of Guolian Capital and the Company’s auditor that, during the Reporting Period, it had complied with the Non-competition Agreement (including but not limited to the relevant requirements in relation to the options of New Direct Investment Business Opportunities and the pre-emptive rights of the Company in connection with the selling notice).

During the Reporting Period, Guolian Capital received 9 letters of intent from the controlling shareholders of the Company or their controlled entities regarding the referral of its new direct investment business. After the evaluation by the investment decision committee of Guolian Capital, it unanimously agreed not to proceed with these new direct investment opportunities referred, the reasons of which mainly include the difficulty in controlling risks of these projects, these projects not complying with the internal system requirement of Guolian Capital or the industry of these projects being beyond the areas in which Guolian Capital usually invests.

XV. CHANGES TO INFORMATION IN RESPECT OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES

As at the end of Reporting Period, there is no change regarding the biographical information related to Directors, Supervisors and chief executive required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules as compared with those disclosed in the 2015 annual report.

XVI. EVENTS AFTER THE REPORTING PERIOD

Mr. Lee Pak Hay obtained the qualification of acting as independent Director in a securities company approved by CSRC on 5 July 2016, whose terms of office was commenced from 5 July 2016 until the expiry of the term of the third session of the Board. The former independent non-executive Director, Mr. Fan, Yan Hok Philip, ceased to be an independent non-executive Director of the Company, chairman of Remuneration and Nomination Committee and a member of Strategy Committee.

Definitions

| | |
|--------------------------------------|--|
| “Board” | the board of director(s) of the Company |
| “CG Code” | the Corporate Governance Code contained in Appendix 14 of the Listing Rules |
| “China”, “PRC” | the People’s Republic of China |
| “collective asset management scheme” | an asset management contract entered into with multiple clients by a securities firm, pursuant to which the clients’ assets are placed in the custody of commercial banks or in other institutions approved by the CSRC which are qualified to hold client transaction settlement funds, and the securities firm provides asset management services to the clients through designated accounts |
| “Company”, “our Company” | Guolian Securities Co., Ltd. (國聯證券股份有限公司), a joint stock company incorporated on 19 November 1992 in the PRC, with its H shares listed on the Hong Kong Stock Exchange (stock code: 01456) |
| “Company Law” | the Company Law of the PRC |
| “Controlling Shareholders” | has the meaning ascribed to it under the Listing Rules and unless the context requires otherwise, refers to the controlling shareholders of the Company, namely, Guolian Group, Guolian Trust, Wuxi Electric, Min Sheng Investment, Yimian Textile, Guolian Environmental, Guolian Industrial and Guolian Financial Investment |
| “CSRC” | China Securities Regulatory Commission (中國證券監督管理委員會) |
| “CSRC Jiangsu Bureau” | Jiangsu Regulatory Bureau of the China Securities Regulatory Commission |
| “Direct Investment Business” | a business in which the subsidiary for private equity business set up by the securities firm leverages on its own professional advantage to search for and find quality investment projects and make equity or debt investment with their own or raised funds, so as to obtain income from equity interest or debts |
| “Director(s)” | the director(s) of the Company |

Definitions

| | |
|--------------------------------|--|
| “End of the Reporting Period” | 30 June 2016 |
| “Federal Reserve” | The Federal Reserve System |
| “FOF” | Fund of Fund |
| “Futures IB” | the business activities in which securities firms, as commissioned by futures companies, introduce clients to participate in futures transactions for the futures companies and provide other related services |
| “GDP” | gross domestic product |
| “Group”, “our Group” | our Company and its subsidiaries which are Guolian Capital Co., Ltd. and Hua Ying Securities Co., Ltd. |
| “Guolian Capital” | Guolian Capital Co., Ltd. (國聯通寶資本投資有限責任公司), a limited liability company established in the PRC on 18 January 2010 and a direct wholly-owned subsidiary of our Company |
| “Guolian Environmental” | Wuxi Guolian Environmental Energy Group Co., Ltd. (無錫國聯環保能源集團有限公司) |
| “Guolian Financial Investment” | Wuxi Guolian Financial Investment Group Co., Ltd. (無錫國聯金融投資集團有限公司), a wholly-owned subsidiary of Guolian Group |
| “Guolian Group” | Wuxi Guolian Development (Group) Co., Ltd. (無錫市國聯發展(集團)有限公司) |
| “Guolian Industrial” | Wuxi Guolian Industrial Investment Group Co., Ltd. (無錫國聯實業投資集團有限公司) |
| “Guolian Trust” | Guolian Trust Co., Ltd. (國聯信託股份有限公司) |
| “Hua Ying Securities” | Hua Ying Securities Co., Ltd. (華英證券有限責任公司), a Sino-foreign joint venture company established in the PRC with limited liability on 20 April 2011, and a subsidiary owned as to 66.700% by our Company |

Definitions

| | |
|-----------------------------|--|
| “IFRS” | include standards, amendments and interpretations promulgated by the International Accounting Standards Board and the International Accounting Standards and interpretation issued by the International Accounting Standards Committee |
| “IPO” | initial public offering |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange |
| “MD” | a job management mechanism is designed based on the international investment banking practice and the actual condition of the company |
| “Min Sheng Investment” | Wuxi Min Sheng Investment Co., Ltd., a wholly-owned subsidiary of Guolian Financial Investment and holds 3.864% of the equity interest of the Company |
| “Model Code” | the Model Code for Securities Transactions by Directors of Listed Issuer contained in Appendix 10 of the Listing Rules |
| “NEEQ” | National Equities Exchange and Quotations (全國中小企業股份轉讓系統) |
| “Non-competition Agreement” | the non-competition agreement dated 15 June 2015 entered into among the Company and Guolian Group, Guolian Trust, Wuxi Electric, Guolian Textile, Guolian Environmental and Guolian Industrial |
| “Reporting Period” | the period for six months ended 30 June 2016 |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “Securities Law” | the Securities Law of the PRC |
| “SFO” | the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong |
| “Shareholders” | holders of the shares of the Company |
| “Southbound Trading” | a mechanism of trading and settlement under which the investors of Mainland China can buy or sell H shares directly via the securities companies (or brokers) of Mainland China |

Definitions

| | |
|---------------------------------------|---|
| “special asset management scheme” | an asset management contract entered into by a securities firm with client to specify the investment objectives that specifically cater for the special requirements and asset structure of each individual client and provides asset management service to client through a designated account |
| “specialized asset management scheme” | an asset management contract entered into by a securities firm with a single client, pursuant to which the securities firm provides asset management services to the client through the accounts under the client’s name |
| “SSE Composite Index” | Shanghai SE Composite Index, reflecting changes of price of shares listed on Shanghai Stock Exchange |
| “Supervisor(s)” | the Supervisor(s) of the Company |
| “Supervisory Committee” | the Supervisory Committee of the Company |
| “SZSE Composite Index” | Shenzhen SE Composite Index, reflecting changes of price of A and/or B shares listed on Shenzhen Stock Exchange |
| “Wind Information” | Wind Information Co., Ltd. (上海萬得信息技術股份有限公司), a joint stock limited liability company established in the PRC and a service provider of financial data, information and software |
| “Wuxi Electric” | Wuxi Municipal Electric Power Company* (無錫市地方電力公司), a wholly-owned subsidiary of Guolian Industrial, which holds 14.03% of the equity interest of the Company |
| “Xiaorongbao (小融寶)” | the small securities-backed financing service provided to the customers by the Group |
| “Yi Mian Textile” | Wuxi Yimian Textile Group Co., Ltd. (無錫一棉紡織集團有限公司), formerly known as Wuxi Guolian Textile Group Co., Ltd. (無錫國聯紡織集團有限公司) |

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 Condensed Consolidated Financial Statements

Deloitte.

德勤

To the Board of Directors of Guolian Securities Co., Ltd.

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

Introduction

We have reviewed the condensed consolidated financial statements of Guolian Securities Co., Ltd. (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 35 to 82, which comprise the condensed consolidated statement of financial position as of 30 June 2016 and the related condensed consolidated statements of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

26 August 2016

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

| | Note | Six months ended 30 June | |
|---------------------------------------|------|--------------------------|---------------------|
| | | 2016 (Unaudited) | 2015 (Unaudited) |
| Revenue | | | |
| – Commission and fee income | 3 | 653,449 | 1,224,872 |
| – Interest income | 4 | 409,560 | 443,197 |
| – Net investment gains | 5 | 100,774 | 522,893 |
| Total Revenue | | 1,163,783 | 2,190,962 |
| Other income | 6 | 4,167 | 2,099 |
| Total revenue and other income | | 1,167,950 | 2,193,061 |
| Commission and fee expenses | 7 | (120,278) | (240,751) |
| Interest expenses | 8 | (154,626) | (229,323) |
| Staff costs | 9 | (244,110) | (243,173) |
| Depreciation and amortisation | | (26,021) | (21,105) |
| Other operating expenses | 10 | (130,377) | (203,885) |
| Impairment losses | 11 | (62,169) | – |
| Total expenses | | (737,581) | (938,237) |
| Share of profit of associates | 17 | 15,756 | 27,960 |
| Other gains, net | 12 | 22,819 | 354 |
| Profit before income tax | | 468,944 | 1,283,138 |
| Income tax expense | 13 | (120,307) | (317,115) |
| Profit for the period | | 348,637 | 966,023 |

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

| | Note | Six months ended 30 June | |
|---|------|--------------------------|---------------------|
| | | 2016 (Unaudited) | 2015 (Unaudited) |
| Other comprehensive income | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Share of other comprehensive income of investments in associates | | (3,320) | 1,948 |
| Available-for-sale financial assets | | | |
| – Changes in fair value | | (64,847) | 150,233 |
| – Income tax effect on changes in fair value | | 16,212 | (37,558) |
| – Amounts reclassified to profit or loss upon disposal or impairment provision of available-for-sale financial assets | | (6,126) | (127,504) |
| Other comprehensive income for the period, net of tax | | (58,081) | (12,881) |
| Total comprehensive income | | 290,556 | 953,142 |
| Profit attributable to: | | | |
| – Shareholders of the Company | | 334,322 | 956,680 |
| – Non-controlling interests | | 14,315 | 9,343 |
| | | 348,637 | 966,023 |
| Total comprehensive income attributable to: | | | |
| – Shareholders of the Company | | 276,241 | 943,799 |
| – Non-controlling interests | | 14,315 | 9,343 |
| | | 290,556 | 953,142 |
| Earnings per share attributable to shareholders of the Company for the period (expressed in RMB per share) | | | |
| Basic | 14 | 0.18 | 0.64 |

The notes on pages 42 to 82 form an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Financial Position

As at 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

| | Note | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|---|------|--------------------------------|----------------------------------|
| Assets | | | |
| Non-current assets | | | |
| Property and equipment | 16 | 104,662 | 103,640 |
| Goodwill | | – | – |
| Intangible assets | | 21,123 | 28,580 |
| Investments in associates | 17 | 221,934 | 203,498 |
| Other non-current assets | | 18,320 | 18,990 |
| Available-for-sale financial assets | 18 | 792,634 | 753,025 |
| Deferred income tax assets | 19 | 40,122 | 92 |
| Refundable deposits | 20 | 91,860 | 128,144 |
| Total non-current assets | | 1,290,655 | 1,235,969 |
| Current assets | | | |
| Other current assets | 21 | 314,871 | 239,346 |
| Available-for-sale financial assets | 18 | 681,861 | 819,400 |
| Margin accounts receivable | 22 | 4,126,241 | 6,085,353 |
| Financial assets held under resale agreements | 23 | 1,761,339 | 1,546,219 |
| Derivative financial assets | 24 | – | 57 |
| Financial assets at fair value through profit or loss | 25 | 3,488,912 | 2,594,049 |
| Clearing settlement funds | 26 | 2,300,012 | 4,359,730 |
| Cash held for brokerage clients | | 10,958,657 | 10,332,986 |
| Cash and bank balances | 27 | 3,274,232 | 3,960,527 |
| Total current assets | | 26,906,125 | 29,937,667 |
| Total assets | | 28,196,780 | 31,173,636 |
| Equity and liabilities | | | |
| Equity attributable to shareholders of the Company | | | |
| Share capital | 28 | 1,902,400 | 1,902,400 |
| Share premium | | 2,178,478 | 2,178,478 |
| Reserves | | 1,464,492 | 1,522,573 |
| Retained earnings | | 1,705,194 | 2,131,832 |
| Total equity attributable to shareholders of the Company | | 7,250,564 | 7,735,283 |
| Non-controlling interests | | 307,801 | 293,486 |
| Total equity | | 7,558,365 | 8,028,769 |

Condensed Consolidated Statement of Financial Position

As at 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

| | Note | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|--|------|--------------------------------|----------------------------------|
| Liabilities | | | |
| Non-current liabilities | | | |
| Deferred income tax liabilities | 19 | 26,773 | 30,186 |
| Bonds in issue | 29 | 1,800,000 | 1,800,000 |
| Total non-current liabilities | | 1,826,773 | 1,830,186 |
| Current liabilities | | | |
| Other current liabilities | 30 | 1,226,289 | 590,220 |
| Current income tax liabilities | | 78,871 | 95,001 |
| Bonds in issue | 29 | 1,750,000 | 3,850,000 |
| Derivative financial liabilities | 24 | 90 | 17 |
| Financial assets sold under repurchase agreements | 31 | 615,049 | 427,996 |
| Financial liabilities at fair value through profit or loss | 32 | 2,852,058 | 2,794,146 |
| Accounts payable to brokerage clients | | 12,289,285 | 13,557,301 |
| Total current liabilities | | 18,811,642 | 21,314,681 |
| Total liabilities | | 20,638,415 | 23,144,867 |
| Total equity and liabilities | | 28,196,780 | 31,173,636 |
| Net current assets | | 8,094,483 | 8,622,986 |
| Total assets less current liabilities | | 9,385,138 | 9,858,955 |

The notes on pages 42 to 82 form an integral part of these condensed consolidated financial statements.

Approved and authorized for issue by the Board of Directors on 26 August 2016.

Yao Zhiyong

Chairman of the Board and Executive Director

Peng Yanbao

Executive Director and President

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

| (Unaudited) | Attributable to shareholders of the Company | | | | Non-controlling interests | Total Equity |
|--|---|------------------|------------------|-------------------|---------------------------|------------------|
| | Share capital (Note 28) | Share premium | Reserves | Retained earnings | | |
| Balance at 1 January 2016 (audited) | 1,902,400 | 2,178,478 | 1,522,573 | 2,131,832 | 293,486 | 8,028,769 |
| Profit for the period | - | - | - | 334,322 | 14,315 | 348,637 |
| Other comprehensive income for the period | - | - | (58,081) | - | - | (58,081) |
| Total comprehensive income for the period | - | - | (58,081) | 334,322 | 14,315 | 290,556 |
| Dividends recognized as distribution (Note 15) | - | - | - | (760,960) | - | (760,960) |
| Balance at 30 June 2016 (unaudited) | 1,902,400 | 2,178,478 | 1,464,492 | 1,705,194 | 307,801 | 7,558,365 |
| Balance at 1 January 2015 (audited) | 1,500,000 | 135,638 | 1,264,407 | 1,181,965 | 266,637 | 4,348,647 |
| Profit for the period | - | - | - | 956,680 | 9,343 | 966,023 |
| Other comprehensive income for the period | - | - | (12,881) | - | - | (12,881) |
| Total comprehensive income for the period | - | - | (12,881) | 956,680 | 9,343 | 953,142 |
| Dividends recognized as distribution (Note 15) | - | - | - | (105,000) | - | (105,000) |
| Balance at 30 June 2015 (unaudited) | 1,500,000 | 135,638 | 1,251,526 | 2,033,645 | 275,980 | 5,196,789 |

The notes on pages 42 to 82 form an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2016

(All amounts in RMB'000 unless otherwise stated)

| | Six months ended 30 June | |
|--|--------------------------|---------------------|
| | 2016 (Unaudited) | 2015 (Unaudited) |
| Operating cash flows before movements in working capital | 578,417 | 1,142,334 |
| Net (increase)/decrease in operating assets: | | |
| Net decrease/(increase) in margin accounts receivable | 1,965,007 | (4,170,589) |
| Net (increase)/decrease in financial assets at fair value through profit or loss and derivative financial assets | (931,423) | 1,353,203 |
| Net (increase)/decrease in financial assets held under resale agreements | (216,440) | 310,525 |
| Net increase in refundable deposits | 36,284 | (204,248) |
| Net increase in cash held for brokerage clients | (625,671) | (12,963,478) |
| Net decrease/(increase) in clearing settlement funds | 1,519,316 | (1,808,556) |
| Net increase in other assets | (75,335) | (649,092) |
| Net (decrease)/increase in operating liabilities: | | |
| Net (decrease)/increase in accounts payable to brokerage customers | (1,268,016) | 15,065,171 |
| Net increase in financial assets sold under repurchase agreements | 187,053 | 799,002 |
| Net increase in due to other financial institutions | - | 50,000 |
| Net (decrease)/increase in other liabilities | (144,974) | 82,393 |
| Net increase in financial liabilities at fair value through profit or loss and derivative financial liabilities | 80,664 | 364,646 |
| Income tax paid | (161,625) | (196,276) |
| Net cash inflow/(outflow) from operating activities | 943,257 | (824,965) |
| Cash flows from investing activities | | |
| Dividends and interest received from investments | 6,224 | 7,802 |
| Proceeds on disposal of property and equipment, intangible assets and other long-term assets | 464 | 499 |
| Purchase of property and equipment, intangible assets and other long-term assets | (19,782) | (10,018) |
| Cash paid for purchase of available-for-sale financial assets and term deposit | (852,149) | (1,805,327) |
| Cash received from disposal of available-for-sale financial assets and term deposit | 670,231 | 1,637,050 |
| Proceeds from disposal of the investment in associate and dividend received from associates | - | 32,126 |
| Payment for investments in associates | (6,000) | - |
| Net cash outflow from investing activities | (201,012) | (137,868) |

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2016
(All amounts in RMB'000 unless otherwise stated)

| | Six months ended 30 June | |
|--|--------------------------|---------------------|
| | 2016 (Unaudited) | 2015 (Unaudited) |
| Cash flows from financing activities | | |
| Dividends paid (Note 15) | - | (105,000) |
| Cash received from additional bonds in issue | 600,000 | 3,650,000 |
| Cash paid from disposal of bonds in issue | (2,700,000) | (950,000) |
| Interest expense of bonds in issue | (104,174) | (114,999) |
| Net cash inflow/(outflow) from financing activities | (2,204,174) | 2,480,001 |
| Net increase in cash and cash equivalents | (1,461,929) | 1,517,168 |
| Effect of exchange rate changes on cash and cash equivalents | 20,231 | (7) |
| Cash and cash equivalents at beginning of period | 4,867,905 | 1,472,282 |
| Cash and cash equivalents at end of period (Note 33) | 3,426,207 | 2,989,443 |

The notes on pages 42 to 82 form an integral part of this condensed consolidated financial statement.

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

1 General information

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

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

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

As at 30 June 2016, the registered capital of the Company is RMB1,902,400 thousand. The Company holds the securities institution license No. Z23332000 and business licence No. 91320200135914870B. The registered address of the Company is No. 8 Jinrong One Street Wuxi, Jiangsu Province PRC.

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

2 Basis of preparation and principal accounting policies

(a) Basis of preparation

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

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

2 Basis of preparation and principal accounting policies (continued)

(b) Principal accounting policies

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

Except as describe below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied, for the first time, the following amendments to International Accounting Standards ("IASs"), International Financial Reporting Standards, amendments and the related Interpretations (herein collectively referred to as the "IFRSs") that are relevant for the preparation of the Group's condensed consolidated financial statements:

| | |
|---|--|
| Amendments to IFRS 11 | Accounting for Acquisitions of Interests in Joint Operations |
| Amendments to IAS 1 | Disclosure Initiative |
| Amendments to IAS 16 and IAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation |
| Amendments to IFRSs | Annual Improvements to IFRSs 2012-2014 Cycle |
| Amendments to IAS 16 and IAS 41 | Agriculture: Bearer Plants |
| Amendments to IFRS 10, IFRS 12 and IAS 28 | Investment Entities: Applying the Consolidation Exception |

The application of the above amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

3 Commission and fee income

| | Six months ended 30 June | |
|---|--------------------------|-------------|
| | 2016 | 2015 |
| | (Unaudited) | (Unaudited) |
| Securities brokerage | 426,620 | 1,056,719 |
| Underwriting and sponsorship | 148,389 | 130,879 |
| Investment consultancy and financial advisory | 48,967 | 6,430 |
| Asset management | 29,473 | 30,844 |
| | 653,449 | 1,224,872 |

4 Interest income

| | Six months ended 30 June | |
|--|--------------------------|-------------|
| | 2016 | 2015 |
| | (Unaudited) | (Unaudited) |
| Interest income from margin financing and securities lending | 189,835 | 247,299 |
| Interest income from bank deposits | 166,461 | 153,637 |
| Interest income from financial assets held under resale agreements | 53,264 | 42,261 |
| | 409,560 | 443,197 |

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

5 Net investment gains

| | Six months ended 30 June | |
|--|--------------------------|-------------|
| | 2016 | 2015 |
| | (Unaudited) | (Unaudited) |
| Net realised gains from disposal of available-for-sale financial assets | 74,349 | 219,577 |
| Dividends and interest income from available-for-sale financial assets | 6,224 | 7,323 |
| Realised gains from held-to-maturity financial assets | – | 315 |
| Net realised gains/(losses) from derivative financial instruments | 10,810 | (9,707) |
| Net realized (losses)/gains from disposal of financial assets at fair value through profit or loss | (3,460) | 447,255 |
| Dividends and interest income from financial assets at fair value through profit or loss | 88,837 | 80,595 |
| Dividends to interest holders of consolidated structured entities | (62,048) | (246,038) |
| Unrealised fair value change of financial instruments at fair value through profit or loss | | |
| – Financial liabilities at fair value through profit or loss | 22,752 | 18,666 |
| – Financial assets at fair value through profit or loss | (36,752) | 2,758 |
| – Derivative financial instruments | 62 | 2,149 |
| | 100,774 | 522,893 |

6 Other income

| | Six months ended 30 June | |
|---------------|--------------------------|-------------|
| | 2016 | 2015 |
| | (Unaudited) | (Unaudited) |
| Rental income | 3,985 | 2,099 |
| Others | 182 | – |
| | 4,167 | 2,099 |

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

7 Commission and fee expenses

| | Six months ended 30 June | |
|---|--------------------------|-------------|
| | 2016 | 2015 |
| | (Unaudited) | (Unaudited) |
| Securities brokerage | 109,565 | 217,530 |
| Underwriting and sponsorship | 7,640 | 23,221 |
| Investment consultancy and financial advisory | 92 | – |
| Asset management | 2,981 | – |
| | 120,278 | 240,751 |

8 Interest expenses

| | Six months ended 30 June | |
|--|--------------------------|-------------|
| | 2016 | 2015 |
| | (Unaudited) | (Unaudited) |
| Interest expenses of bonds in issue | 120,202 | 114,999 |
| Interest expenses of short-term notes | 3,953 | – |
| Interest expenses of financial assets sold under repurchase agreements | 6,586 | 60,250 |
| Interest expenses of due to other financial institutions | 12 | 28,916 |
| Interest expenses of accounts payable to brokerage clients | 23,873 | 25,158 |
| | 154,626 | 229,323 |

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

9 Staff costs

| | Six months ended 30 June | |
|--|--------------------------|-------------|
| | 2016 | 2015 |
| | (Unaudited) | (Unaudited) |
| Salaries and bonus | 187,577 | 207,015 |
| Pension | 31,115 | 19,744 |
| Other social security | 13,299 | 10,289 |
| Labor union funds and employee education funds | 2,486 | 2,283 |
| Other welfare | 9,633 | 3,842 |
| | 244,110 | 243,173 |

10 Other operating expenses

| | Six months ended 30 June | |
|--------------------------------------|--------------------------|-------------|
| | 2016 | 2015 |
| | (Unaudited) | (Unaudited) |
| Business tax and surcharges | 37,325 | 104,244 |
| Rentals | 26,311 | 26,443 |
| Marketing and distribution expenses | 9,669 | 16,945 |
| Office expenses | 11,103 | 11,794 |
| Travelling expenses | 10,684 | 9,076 |
| Securities investors protection fund | 9,222 | 8,609 |
| Professional service expenses | 4,636 | 5,958 |
| Consulting expenses | 3,268 | 2,642 |
| Electronic equipment operating costs | 5,795 | 1,951 |
| Others | 12,364 | 16,223 |
| | 130,377 | 203,885 |

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

11 Impairment losses/(reversal)

| | Six months ended 30 June | |
|---|--------------------------|-------------|
| | 2016 | 2015 |
| | (Unaudited) | (Unaudited) |
| Available-for-sale financial assets | 66,181 | – |
| Financial assets held under resale agreements | 1,320 | – |
| Accounts receivable | 563 | – |
| Margin accounts receivable | (5,895) | – |
| | 62,169 | – |

12 Other gains, net

| | Six months ended 30 June | |
|---------------------------------|--------------------------|-------------|
| | 2016 | 2015 |
| | (Unaudited) | (Unaudited) |
| Foreign exchange gains (losses) | 20,231 | (7) |
| Others | 2,588 | 361 |
| | 22,819 | 354 |

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

13 Income tax expense

| | Six months ended 30 June | |
|----------------------------|--------------------------|-------------|
| | 2016 | 2015 |
| | (Unaudited) | (Unaudited) |
| Current | | |
| – Mainland China | 145,494 | 312,419 |
| Deferred | | |
| – Mainland China (Note 19) | (25,187) | 4,696 |
| Income tax | | |
| – Mainland China | 120,307 | 317,115 |

The mainland China income tax provision is based on the statutory tax rate of 25% of the taxable income of the Group as determined in accordance with the relevant PRC income tax rules and regulations.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the taxation rate of 25%.

14 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 | |
|---|--------------------------|-------------|
| | 2016 | 2015 |
| | (Unaudited) | (Unaudited) |
| Profit attributable to shareholders of the Company (in RMB thousands) | 334,322 | 956,680 |
| Weighted average number of ordinary shares in issue (in thousands) | 1,902,400 | 1,500,000 |
| Basic earnings per share (in RMB) | 0.18 | 0.64 |

For the six months ended 30 June 2016 and 2015, 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 Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

15 Profit distribution

Pursuant to the resolution of the shareholders' meeting held on 16 June 2016, the Company declared a final cash dividend for the year ended 31 December 2015 of RMB0.4 per share, or RMB760,960 thousand in aggregate, which has not been paid to the shareholders of the Company in full by 30 June 2016 (for the year ended 31 December 2014: The Company declared a final cash dividend of RMB0.07 per share, or RMB105,000 thousand in aggregate).

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

16 Property and equipment

During the six months ended 30 June 2016, the Group acquired property and equipment with a cost of RMB11,081 thousand (unaudited) (six months ended 30 June 2015: RMB8,925 thousand (unaudited)).

17 Investments in associates

Set out below are the associates of the Group as at 30 June 2016 and 31 December 2015, which, in the opinion of the directors, are material to the Group. The associates as listed below have share capital consisting solely of ordinary shares, which are held directly or indirectly by the Group; the country of incorporation or registration is also their principal place of business.

| Name of Entity | Place of business/ country of incorporation | % of ownership interest as at 30 June 2016 | % of ownership interest as at 31 December 2015 | Measurement method |
|--|---|--|--|-----------------------|
| Zhonghai Fund Management Co., Ltd. ⁽¹⁾ | China | 33.41 | 33.41 | Equity |
| Wuxi Guolian Lingxiang SME Investment Company (L.P.) ⁽²⁾ | China | 33.33 | 33.33 | Equity |

(1) Zhonghai Fund Management Co., Ltd., held by the Company, provides funds distribution, asset management and other services authorised by the CSRC.

(2) Wuxi Guolian Lingxiang SME Investment Company (L.P.) is a limited partnership, held by Guolian Tongbao Capital Investment Co., Ltd., which mainly invests in small and medium enterprises.

All the entities are private companies and there are no quoted market prices available for their shares.

There are no contingent liabilities relating to the Group's interest in the associates.

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

17 Investments in associates (continued)

| | Six months ended 30 June | |
|-------------------------------------|--------------------------|---------------------|
| | 2016 (Unaudited) | 2015 (Unaudited) |
| At 1 January | 203,498 | 195,401 |
| Additional investments | 6,000 | – |
| Disposal of investments | – | (17,092) |
| Share of profit | 15,756 | 27,960 |
| Share of other comprehensive income | (3,320) | 1,948 |
| Dividend received | – | (15,034) |
| At 30 June | 221,934 | 193,183 |

18 Available-for-sale financial assets

Non-current assets

| | 30 June | 31 December |
|--|---------------------|-------------------|
| | 2016 (Unaudited) | 2015 (Audited) |
| At fair value | | |
| Investment in China Securities Finance Corporation Limited (“CSF”) | 498,805 | 504,859 |
| Investment in unlisted companies | 126,631 | 117,531 |
| Debt instruments | 72,305 | 72,305 |
| Collective asset management schemes | 94,893 | 58,330 |
| | 792,634 | 753,025 |
| Analyzed as | | |
| Listed outside Hong Kong | – | – |
| Unlisted | 792,634 | 753,025 |
| | 792,634 | 753,025 |

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

18 Available-for-sale financial assets (continued)

Current assets

| | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|--------------------------|--------------------------------|----------------------------------|
| At fair value | | |
| Equity securities | 611,550 | 590,835 |
| Debt instruments | – | 148,000 |
| Investment funds | 70,311 | 80,565 |
| | 681,861 | 819,400 |
| Analyzed as | | |
| Listed in Hong Kong | 205,893 | 162,748 |
| Listed outside Hong Kong | 459,977 | 490,455 |
| Unlisted | 15,991 | 166,197 |
| | 681,861 | 819,400 |

As at 30 June 2016 and 31 December 2015, available-for-sale financial assets of the Group included securities lent to clients of RMB36,121 thousand (unaudited) and RMB49,609 thousand respectively.

As at 30 June 2016 and 31 December 2015, no securities of the Group is placed as collateral.

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

19 Deferred income tax assets and liabilities

(1) The net movements on the deferred income tax account are as follows:

| | Six months ended 30 June | |
|---|--------------------------|-------------|
| | 2016 | 2015 |
| | (Unaudited) | (Unaudited) |
| Balance at beginning of the period | (30,094) | (115,048) |
| Credit/(charge) to profit or loss (Note 13) | 25,187 | (4,696) |
| Tax credit relating to components of other comprehensive income | 18,256 | 4,943 |
| Balance at end of the period | 13,349 | (114,801) |

(2) The gross movements in deferred income tax assets and liabilities during the period are as follows:

| | Impairment losses | Changes in fair value of financial assets at fair value through profit or loss | Changes in fair value of derivatives | Other | Total |
|--------------------------|-------------------|--|--------------------------------------|--------|--------|
| As at 1 January 2016 | 14,100 | - | - | 13,339 | 27,439 |
| Credit to profit or loss | 15,542 | 1,130 | - | 2,110 | 18,782 |
| As at 30 June 2016 | 29,642 | 1,130 | - | 15,449 | 46,221 |
| As at 1 January 2015 | 300 | - | 537 | 2,990 | 3,827 |
| Credit to profit or loss | 87 | - | (537) | - | (450) |
| As at 30 June 2015 | 387 | - | - | 2,990 | 3,377 |

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

19 Deferred income tax assets and liabilities (continued)

(2) The gross movements in deferred income tax assets and liabilities during the period are as follows: (continued)

| | Changes in fair value of available-for- sale financial assets | Changes in fair value of financial assets at fair value through profit or loss | Changes in fair value of derivatives | Other | Total |
|--|---|---|--|---------|----------|
| As at 1 January 2016 | 24,336 | 2,102 | 4 | 31,091 | 57,533 |
| Charge to profit or loss | – | (2,102) | 15 | (4,318) | (6,405) |
| Tax charge relating to components of other comprehensive income | (18,256) | – | – | – | (18,256) |
| As at 30 June 2016 | 6,080 | – | 19 | 26,773 | 32,872 |
| As at 1 January 2015 | 77,293 | 19,042 | – | 22,540 | 118,875 |
| Charge to profit or loss | – | 4,442 | – | (196) | 4,246 |
| Tax charge relating to components of other comprehensive income | (4,943) | – | – | – | (4,943) |
| As at 30 June 2015 | 72,350 | 23,484 | – | 22,344 | 118,178 |

20 Refundable deposits

| | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|---|--------------------------------|----------------------------------|
| Deposits to Stock Exchanges | | |
| – Shanghai Stock Exchange | 47,331 | 73,407 |
| – Shenzhen Stock Exchange | 42,396 | 53,852 |
| – China Beijing Equity Exchange | 1,010 | 885 |
| Deposits to Futures and Commodities Exchanges | | |
| – China Financial Futures Exchange | 1,123 | – |
| | 91,860 | 128,144 |

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

21 Other current assets

| | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|----------------------------|--------------------------------|----------------------------------|
| Accounts receivables | 49,434 | 27,130 |
| Interest receivables | 148,969 | 147,119 |
| Prepaid expenses | 15,435 | 4,871 |
| Other receivables | 105,971 | 64,601 |
| Less: Impairment allowance | (4,938) | (4,375) |
| | 314,871 | 239,346 |

22 Margin accounts receivable

| | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|----------------------------|--------------------------------|----------------------------------|
| Margin accounts receivable | 4,138,657 | 6,103,664 |
| Less: Impairment allowance | (12,416) | (18,311) |
| | 4,126,241 | 6,085,353 |

As at 30 June 2016 and 31 December 2015, the impairment allowance of margin accounts receivable is RMB12,416 thousand (unaudited) and RMB18,311 thousand respectively.

Margin accounts receivable as at 30 June 2016 and 31 December 2015 is secured by the customers' securities as collateral with undiscounted market value of approximately, RMB13,347,643 thousand (unaudited) and RMB18,027,976 thousand.

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

23 Financial assets held under resale agreements

| | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|---------------------------|--------------------------------|----------------------------------|
| Analyzed by asset type: | | |
| – Equity securities | 1,436,185 | 1,344,741 |
| – Debt securities | 329,199 | 204,203 |
| | 1,765,384 | 1,548,944 |
| Less impairment allowance | (4,045) | (2,725) |
| | 1,761,339 | 1,546,219 |
| Analyzed by market: | | |
| – Shenzhen Stock Exchange | 1,414,714 | 1,323,203 |
| – Interbank market | 218,198 | – |
| – Shanghai Stock Exchange | 128,427 | 223,016 |
| | 1,761,339 | 1,546,219 |

24 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 2016 included in “clearing settlement funds”.

| | 30 June 2016 | | 31 December 2015 | |
|-------------------------------|-----------------------|----------------------------|---------------------|--------------------------|
| | Assets (Unaudited) | Liabilities (Unaudited) | Assets (Audited) | Liabilities (Audited) |
| SIF | 98 | – | – | – |
| Less: Cash paid as settlement | (98) | – | – | – |
| Listed options | – | (90) | 57 | (17) |
| | – | (90) | 57 | (17) |

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

25 Financial assets at fair value through profit or loss

| | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|---|--------------------------------|----------------------------------|
| Financial assets held for trading | | |
| Debt securities | 2,859,551 | 1,679,583 |
| Equity securities | 96,957 | 155,830 |
| Investment funds | 144,522 | 257,795 |
| | 3,101,030 | 2,093,208 |
| Financial assets designated at fair value through profit or loss | | |
| Debt securities | 230,000 | 307,893 |
| Asset backed securities | 50,000 | 20,000 |
| Equity securities | 107,882 | 172,948 |
| | 387,882 | 500,841 |
| | 3,488,912 | 2,594,049 |
| Analyzed as: | | |
| Financial assets held for trading | | |
| Listed outside Hong Kong | 3,101,030 | 1,402,569 |
| Unlisted | - | 690,639 |
| | 3,101,030 | 2,093,208 |
| Analyzed as: | | |
| Financial assets designated at fair value through profit or loss | | |
| Listed outside Hong Kong | 337,882 | 450,841 |
| Unlisted | 50,000 | 50,000 |
| | 387,882 | 500,841 |
| | 3,488,912 | 2,594,049 |

As at 30 June 2016 and 31 December 2015, the fair value of securities of the Group which have been placed as collateral were RMB990,082 thousand (unaudited) and RMB607,670 thousand respectively.

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

26 Clearing settlement funds

| | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|--|--------------------------------|----------------------------------|
| Clearing settlement funds held for clients | 1,933,037 | 3,452,353 |
| Proprietary clearing settlement funds | 366,975 | 907,377 |
| | 2,300,012 | 4,359,730 |

27 Cash and bank balances

| | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|---------------|--------------------------------|----------------------------------|
| Cash | 59 | – |
| Bank balances | 3,274,173 | 3,960,527 |
| | 3,274,232 | 3,960,527 |

28 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 2016 (Unaudited) | 31 December 2015 (Audited) |
|---|--------------------------------|----------------------------------|
| Registered, issued and fully paid share capital | 1,902,400 | 1,902,400 |

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

29 Bonds in issue

| | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|--|--------------------------------|----------------------------------|
| Subordinated bonds with fixed rate – 2016(a) | – | 1,500,000 |
| Subordinated bonds with fixed rate – 2017(b) | 1,500,000 | 1,500,000 |
| Income certificates (c) | 2,050,000 | 2,650,000 |
| | 3,550,000 | 5,650,000 |

- (a) On 20 January 2015, the Company issued RMB1,500,000 thousand of subordinated bonds on Shanghai Stock Exchange with a term of 1 year and a fixed coupon rate of 6.00% paid annually.
- (b) On 29 October 2014, the Company issued RMB1,500,000 thousand of subordinated bonds on Shanghai Stock Exchange with a term of 3 years and a fixed coupon rate of 6.20% paid annually.
- (c) As at 30 June 2016, income certificates were with terms ranging from 9 months to 24 months (31 December 2015: 3 months to 24 months) and bore interest rates ranging from 4.30% to 6.50% (31 December 2015: from 4.10% to 6.50%) per annum paid at maturity.

30 Other current liabilities

| | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|---|--------------------------------|----------------------------------|
| Interest payable | 191,465 | 171,473 |
| Accounts payable | 50,796 | 113,534 |
| Salaries, bonus, allowances and benefits payables | 150,277 | 227,284 |
| Taxes payable | 16,784 | 22,799 |
| Securities investor protection fund | 9,195 | 13,289 |
| Dividends payable | 760,960 | – |
| Others | 46,812 | 41,841 |
| | 1,226,289 | 590,220 |

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

31 Financial assets sold under repurchase agreements

| | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|-------------------------------|--------------------------------|----------------------------------|
| Analyzed by asset type: | | |
| – Debt securities | 615,049 | 427,996 |
| | 615,049 | 427,996 |
| Analyzed by market: | | |
| – Interbank market | 357,050 | 80,000 |
| – Shanghai Stock Exchange | 257,999 | 347,996 |
| | 615,049 | 427,996 |
| Analyzed by transaction type: | | |
| – Pledged | 615,049 | 427,996 |
| | 615,049 | 427,996 |

32 Financial liabilities at fair value through profit or loss

In the condensed consolidated financial statements, the financial liabilities arising from consolidation of the structured entities are designated at fair value through profit or loss as the Group has the obligation to pay other investors based on net asset value and the related terms of those structured entities.

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

33 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 2016 (Unaudited) | 30 June 2015 (Unaudited) |
|---|--------------------------------|--------------------------------|
| Cash | 59 | 20 |
| Bank balances | 3,274,173 | 1,961,765 |
| Proprietary clearing settlement funds | 366,975 | 1,237,658 |
| Less: Unrestricted term deposits with banks with original maturities over 3 months | 215,000 | 210,000 |
| | 3,426,207 | 2,989,443 |

34 Commitments and contingent liabilities

(1) Capital commitment

As at 30 June 2016 and 31 December 2015, the Group was not involved in any material capital commitments.

(2) Operating lease commitment

Considering the Group as a lessee, the total future minimum lease payments of buildings under irrevocable operating lease arrangements are as follows:

| | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|---------------|--------------------------------|----------------------------------|
| Within 1 year | 40,793 | 37,188 |
| 1 to 3 years | 53,570 | 40,316 |
| Over 3 years | 67,424 | 33,282 |
| | 161,787 | 110,786 |

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

34 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 2016 and 31 December 2015, the Group was not involved in any material legal, arbitration or administrative proceedings which the Group expected would have significant adverse impact on its financial position and operating results, should unfavorable rulings have been handed down.

35 Related party transactions

35.1 Transactions and balances with the Company's controlling shareholder

Wuxi Guolian Development (Group) Co., Ltd. (collectively referred to as "Guolian Group" together with its subsidiaries) is a wholly state-owned company established in the PRC with a registered capital of RMB8,000,000 thousand. As at 30 June 2016, Guolian Group directly held 28.59% of the equity interest in the Company. In addition, Guolian Group also indirectly held equity interest in our Company through its subsidiaries of Guolian Trust Co., Ltd. ("Guolian Trust"), Wuxi Municipal Electric Power Company ("Wuxi Electric"), Wuxi Yi Mian Textile Group Co., Ltd. ("Yi Mian Textile"), Wuxi Guolian Environmental Energy Group Co., Ltd. ("Guolian Environmental") and Wuxi Min Sheng Investment Co., Ltd ("Min Sheng Investment").

Guolian Trust is the subsidiary of Guolian Group who directly held 65.85% of the equity interest. As at 30 June 2016, Guolian Trust held 20.51% of the equity interest in the Company.

Wuxi Electric is an indirectly wholly-owned subsidiary of Guolian Group. As at 30 June 2016, Wuxi Electric held 14.03% of the equity interest in the Company.

Yi Mian Textile is a direct wholly-owned subsidiary of Guolian Group. As at 30 June 2016, Yi Mian Textile held 3.83% of the equity interest in the Company.

Guolian Environmental is a direct wholly-owned subsidiary of Guolian Group. As at 30 June 2016, Guolian Environmental held 1.53% of the equity interest in the Company.

Minsheng Investment is an indirectly wholly-owned subsidiary of Guolian Groups. As at 30 June 2016, Minsheng Investment held 3.86% of the equity interest in the Company.

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

35 Related party transactions (continued)

35.1 Transactions and balances with the Company's controlling shareholder (continued)

Transactions during the period

| | Six months ended 30 June | |
|---|--------------------------|-------------|
| | 2016 | 2015 |
| | (Unaudited) | (Unaudited) |
| Income from providing securities brokerage services | 0 | 212 |
| Income from providing asset management services | 136 | 230 |
| Income from providing underwriting services | 7,850 | – |
| Rental expense | 502 | – |
| Interest expense of bonds in issue | – | 2,358 |

Balances at the end of the period/year

| | 30 June | 31 December |
|---------------------------------|-------------|-------------|
| | 2016 | 2015 |
| | (Unaudited) | (Audited) |
| Cash held for brokerage clients | 13,561 | 3,287 |

In addition to the above related party transactions, the Company provided asset management services to Guolian Group. As at 30 June 2016 and 31 December 2015, the assets under management for Guolian Group amounted to approximately RMB54,395 thousand (unaudited) and RMB295,500 thousand respectively. For the six months ended 30 June 2016 and 2015, the asset management fee income was RMB136 thousand (unaudited) and RMB230 thousand (unaudited) respectively.

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

35 Related party transactions (continued)

35.2 Other related party transactions and balances

The below table lists the Group's significant other related legal entities and the holdings of the Group's major shareholders as at 30 June 2016:

| Significant related legal entities | The relationship with the Group |
|--|--|
| Guolian Trust | Controlled by the controlling shareholder of the Company |
| Guolian Futures | Controlled by the controlling shareholder of the Company |
| Wuxi Guolian Xincheng Investment Co., Ltd. ("Guolian Xincheng") | Controlled by the controlling shareholder of the Company |
| Guolian Finance Co., Ltd. ("Guolian Finance") | Controlled by the controlling shareholder of the Company |
| Wuxi Guolian Property Management Co., Ltd. ("Guolian Property Management") | Controlled by the controlling shareholder of the Company |
| Zhonghai Fund Management Co., Ltd. | Associate invested by the Group |

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

35 Related party transactions (continued)

35.2 Other related party transactions and balances (continued)

Transactions during the period

| | Six months ended 30 June | |
|---|--------------------------|---------------------|
| | 2016 (Unaudited) | 2015 (Unaudited) |
| Income from providing securities brokerage services | | |
| – Guolian Futures | 360 | 1,842 |
| – Guolian Trust | 3,181 | 180 |
| – Zhonghai Fund | 1,918 | – |
| – Others | 253 | 440 |
| Income from providing asset management services | | |
| – Others | 196 | 1,359 |
| Rental income | | |
| – Guolian Futures | 338 | 203 |
| – Others | 2,178 | – |
| Rental expense | | |
| – Guolian Xincheng | 5,308 | 3,160 |
| – Others | 1,180 | 317 |
| Expense from receiving services | | |
| – Guolian Futures | 30 | 50 |
| – Others | 769 | – |
| Interest expense of borrowings | | |
| – Guolian Finance | – | 136 |

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

35 Related party transactions (continued)

35.2 Other related party transactions and balances (continued)

Balances at the end of the period/year

| | 30 June 2016 (Unaudited) | 31 December 2015 (Audited) |
|---------------------------------|--------------------------------|----------------------------------|
| Clearing settlement funds | | |
| – Guolian Futures | 14,432 | 13,085 |
| Cash held for brokerage clients | | |
| – Others | 7,102 | 520 |

In addition to the above related party transactions, the Company provided asset management services to other related parties. As at 30 June 2016 and 31 December 2015, the assets under investment management for other related parties amounted to approximately RMB175,815 thousand (unaudited) and RMB189,512 thousand respectively. For the six months ended 30 June 2016 and 2015, the asset management fee income was RMB196 thousand (unaudited) and RMB1,359 thousand (unaudited) respectively.

35.3 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 2016 (Unaudited) | 2015 (Unaudited) |
|------------------------------|---|---------------------|
| Short term employee benefits | 1,301 | 3,436 |
| Post-employment benefits | 362 | 484 |
| | 1,663 | 3,920 |

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

36 Segment analysis

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) Credit transaction: providing financial leverage for brokerage clients, securities-backed lending and securities repurchase businesses;
- (c) Investment banking: corporate finance and financial advisory services to institutional clients;
- (d) Proprietary trading: trading in financial products;
- (e) Asset management and investment: direct investments and funds related businesses, in addition to portfolio management and maintenance, investment advisory and transaction execution services;
- (f) Other businesses: including headquarters operations and interest income and expenses relating to working capital in general.

Inter-segment transactions, if any, are conducted with reference to the prices charged to third parties.

The Group mainly operates in Jiangsu Province, the PRC.

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

36 Segment analysis (continued)

| | Six months ended 30 June 2016 | | | | | | | Total |
|--|-------------------------------|--------------------|--------------------|---------------------|---------------------------------|-----------------|-------------|------------------|
| | Security brokerage | Credit transaction | Investment banking | Proprietary trading | Asset management and investment | Other | Elimination | |
| (Unaudited) | | | | | | | | |
| Total revenue and other income | | | | | | | | |
| Commission and fee income | | | | | | | | |
| – External | 426,620 | - | 197,356 | - | 29,473 | - | - | 653,449 |
| – Internal | - | - | - | - | - | - | - | - |
| Interest income | | | | | | | | |
| – External | 114,710 | 232,810 | 14,926 | 206 | 16,975 | 29,933 | - | 409,560 |
| – Internal | - | - | - | - | - | - | - | - |
| Net investment gains | | | | | | | | |
| – External | - | - | 20,148 | 75,371 | 4,789 | 466 | - | 100,774 |
| – Internal | - | - | - | - | - | - | - | - |
| Other income | | | | | | | | |
| – External | 1,431 | - | - | - | 32 | 2,704 | - | 4,167 |
| – Internal | - | - | - | - | - | 750 | (750) | - |
| Total expenses | (293,921) | (129,777) | (160,230) | (54,711) | (14,754) | (84,938) | 750 | (737,581) |
| Operating Profit | 248,840 | 103,033 | 72,200 | 20,866 | 36,515 | (51,085) | - | 430,369 |
| Other gains, net | | | | | | | | |
| – External | 36 | - | 2,050 | - | (89) | 20,822 | - | 22,819 |
| – Internal | - | - | - | - | - | - | - | - |
| Share of profit of investments in associates | - | - | - | - | - | 15,756 | - | 15,756 |
| Profit (Loss)/before income tax | 248,876 | 103,033 | 74,250 | 20,866 | 36,426 | (14,507) | - | 468,944 |

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

36 Segment analysis (continued)

| | Six months ended 30 June 2015 | | | | | | | Total |
|--|-------------------------------|--------------------|--------------------|---------------------|---------------------------------|------------------|--------------|------------------|
| | Security brokerage | Credit transaction | Investment banking | Proprietary trading | Asset management and investment | Other | Elimination | |
| (Unaudited) | | | | | | | | |
| Total revenue and other income | | | | | | | | |
| Commission and fee income | | | | | | | | |
| – External | 1,070,659 | – | 137,233 | – | 16,980 | – | – | 1,224,872 |
| – Internal | – | – | 3,450 | – | – | – | (3,450) | – |
| Interest income | | | | | | | | |
| – External | 114,307 | 291,796 | 13,043 | 193 | 11,904 | 11,954 | – | 443,197 |
| – Internal | – | – | – | – | – | – | – | – |
| Net investment gains | | | | | | | | |
| – External | – | – | 32,262 | 439,718 | 50,913 | – | – | 522,893 |
| – Internal | – | – | – | – | – | – | – | – |
| Other income | | | | | | | | |
| – External | 855 | – | – | – | – | 1,244 | – | 2,099 |
| – Internal | – | – | – | – | – | 1,500 | (1,500) | – |
| Total expenses | (377,504) | (137,299) | (147,923) | (31,863) | (19,813) | (228,785) | 4,950 | (938,237) |
| Operating Profit | 808,317 | 154,497 | 38,065 | 408,048 | 59,984 | (214,087) | – | 1,254,824 |
| Other gains, net | | | | | | | | |
| – External | – | – | 325 | – | – | 29 | – | 354 |
| – Internal | – | – | – | – | – | – | – | – |
| Share of profit of investments in associates | – | – | – | – | – | 27,960 | – | 27,960 |
| Profit (Loss)/before income tax | 808,317 | 154,497 | 38,390 | 408,048 | 59,984 | (186,098) | – | 1,283,138 |

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

36 Segment analysis (continued)

| 30 June 2016 | | | | | | | | |
|---------------------------------|-----------------------|-----------------------|-----------------------|------------------------|--|-----------|-------------|------------|
| | Security brokerage | Credit transaction | Investment banking | Proprietary trading | Asset management and investment | Others | Elimination | Total |
| (Unaudited) | | | | | | | | |
| Total assets | 11,251,776 | 6,950,373 | 1,316,941 | 1,603,846 | 3,309,029 | 4,503,415 | (738,600) | 28,196,780 |
| Total liabilities | 12,346,014 | 3,006,462 | 393,134 | 1,069 | 3,212,989 | 1,678,747 | - | 20,638,415 |
| Six months ended 30 June 2016 | | | | | | | | |
| (Unaudited) | | | | | | | | |
| Supplemental information | | | | | | | | |
| Depreciation and amortization | 14,170 | 110 | 1,453 | 413 | 97 | 9,778 | - | 26,021 |
| Impairment provision | 14,718 | (4,892) | 199 | 51,780 | 642 | (278) | - | 62,169 |
| Capital expenditure | 5,357 | 743 | 188 | - | 50 | 12,693 | - | 19,031 |
| 31 December 2015 | | | | | | | | |
| | Security brokerage | Credit transaction | Investment banking | Proprietary trading | Asset management and investment | Other | Elimination | Total |
| (Audited) | | | | | | | | |
| Total assets | 12,280,892 | 8,894,762 | 1,133,593 | 1,380,457 | 3,820,426 | 4,397,431 | (733,925) | 31,173,636 |
| Total liabilities | 10,632,633 | 3,000,000 | 199,733 | 7,244 | 3,228,705 | 6,076,552 | - | 23,144,867 |
| Six months ended 30 June 2015 | | | | | | | | |
| (Unaudited) | | | | | | | | |
| Supplemental information | | | | | | | | |
| Depreciation and amortization | 13,083 | 859 | 1,146 | 7 | 506 | 5,504 | - | 21,105 |
| Impairment provision | - | - | - | - | - | - | - | - |
| Capital expenditure | 3,128 | 88 | 1,006 | 5 | 361 | 6,031 | - | 10,619 |

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

37 Fair value of financial assets and liabilities

37.1 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 amortized cost in the statements of financial position approximate their fair values.

37.2 Financial instruments measured at fair value

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

| | | |
|---------|---|--|
| Level 1 | – | Quoted prices (unadjusted) in active markets for identical assets or liabilities. |
| Level 2 | – | Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). |
| Level 3 | – | Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs). |

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

37 Fair value of financial assets and liabilities (continued)

37.2 Financial instruments measured at fair value (continued)

The following table presents the Group's financial assets and liabilities that are measured at fair value on a recurring basis at 30 June 2016 and 31 December 2015.

| Financial assets/liabilities | As at | As at | Fair value hierarchy | Valuation technique(s) and key input(s) |
|--|--------------|------------------|----------------------|---|
| | 30 June 2016 | 31 December 2015 | | |
| Financial assets at fair value through profit or loss | | | | |
| – Listed debt securities | 2,859,551 | 1,679,583 | Level 2 | Discounted future cash flows estimated based on contractual amounts and coupon rates at rates that reflects the credit risk of counterparty. |
| – Unlisted debt securities | 230,000 | 307,893 | Level 3 | Discounted future cash flows estimated based on expected recoverable amounts at rates that reflect management's best estimation of the expected risk level. |
| – Asset backed securities | 50,000 | 20,000 | Level 3 | Discounted future cash flow estimated based on expected recoverable amounts at rates that reflect management's best estimation of the expected risk level. |
| – Equity securities and funds traded on stock exchanges | 241,479 | 413,625 | Level 1 | Quoted bid price in an active market |
| – Equity securities traded on stock exchanges with lock-up periods | 107,882 | 172,948 | Level 3 | The fair value is determined with reference to the quoted market prices with an adjustment or discount for lack of marketability. |

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

37 Fair value of financial assets and liabilities (continued)

37.2 Financial instruments measured at fair value (continued)

| Financial assets/liabilities | As at 30 June 2016 | As at 31 December 2015 | Fair value hierarchy | Valuation technique(s) and key input(s) |
|--|--------------------------|------------------------------|-------------------------|---|
| Derivative financial instruments | | | | |
| – SIF (Note 1) | 98 | – | Level 1 | Quoted bid prices in an active market |
| – Listed options assets | – | 57 | Level 1 | Quoted bid prices in an active market |
| – Listed options liabilities | (90) | (17) | Level 1 | Quoted bid prices in an active market |
| Available-for-sale financial assets | | | | |
| – Equity securities traded on stock exchanges | 566,436 | 547,114 | Level 1 | Quoted bid prices in an active market |
| – Equity securities listed on National Equities Exchange and Quotation | 45,114 | 43,721 | Level 2 | Recent transaction prices |
| – Investment funds | 70,311 | 80,565 | Level 1 | Quoted bid prices in an active market. |
| – Collective asset management schemes | 94,893 | 58,330 | Level 3 | Calculated based on the fair value of the underlying investments which invest in listed shares with lock up periods in which the fair value is determined with reference to the quoted market prices with an adjustment or discount for lack of marketability |
| – Debt instrument | 72,305 | 220,305 | Level 3 | Discounted cash flow with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level. |

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

37 Fair value of financial assets and liabilities (continued)

37.2 Financial instruments measured at fair value (continued)

| Financial assets/liabilities | As at | As at | Fair value hierarchy | Valuation technique(s) and key input(s) |
|---|--------------|------------------|----------------------|---|
| | 30 June 2016 | 31 December 2015 | | |
| Available-for-sale financial assets | | | | |
| (continued) | | | | |
| – Investment in CSF | 498,805 | 504,859 | Level 2 | Calculated based on the fair value of the underlying investments which are debt securities and publicly traded equity investments listed in the PRC in each portfolio |
| – Investment in unlisted companies | 126,631 | 117,532 | Level 3 | Market comparable companies |
| Financial liabilities at fair value through profit or loss | (2,852,058) | (2,794,146) | Level 3 | Calculated based on the fair value of the underlying investments with fair value hierarchy categorized as level 3 for which an adjustment or discount for lack of marketability is applied. |

Note 1: Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in stock index futures were settled daily and the corresponding receipts and payments were included in "clearing settlement funds" as at 30 June 2016 and 31 December 2015. Accordingly, the net position of the stock index futures was nil at the end of the reporting periods. The above analysis only presents the fair value of derivative financial instruments.

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

37 Fair value of financial assets and liabilities (continued)

37.2 Financial instruments measured at fair value (continued)

| | Level 1 | Level 2 | Level 3 | Total |
|--|---------|-----------|-------------|-------------|
| (Unaudited) | | | | |
| As at 30 June 2016 | | | | |
| Financial assets at fair value through profit or loss | | | | |
| – Equity securities | 96,957 | – | 107,882 | 204,839 |
| – Debt securities | – | 2,859,551 | 230,000 | 3,089,551 |
| – Investment funds | 144,522 | – | – | 144,522 |
| – Asset Backed Securities | – | – | 50,000 | 50,000 |
| Derivative financial assets | | | | |
| – SIF | – | – | – | – |
| – Listed options | – | – | – | – |
| Available-for-sale financial assets | | | | |
| – Equity securities | 566,436 | 45,114 | – | 611,550 |
| – Investment funds | 70,311 | – | – | 70,311 |
| – Collective asset management schemes | – | – | 94,893 | 94,893 |
| – Debt instrument | – | – | 72,305 | 72,305 |
| – Investment in CSF | – | 498,805 | – | 498,805 |
| – Investment in unlisted companies | – | – | 126,631 | 126,631 |
| | 878,226 | 3,403,470 | 681,711 | 4,963,407 |
| Derivative financial liabilities | (90) | – | – | (90) |
| Financial liabilities at fair value through profit or loss | – | – | (2,852,058) | (2,852,058) |
| | (90) | – | (2,852,058) | (2,852,148) |

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

37 Fair value of financial assets and liabilities (continued)

37.2 Financial instruments measured at fair value (continued)

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------------------------|-----------|-----------|-------------|-------------|
| (Audited) | | | | |
| As at 31 December 2015 | | | | |
| Financial assets at fair value | | | | |
| through profit or loss | | | | |
| – Equity securities | 155,830 | – | 172,948 | 328,778 |
| – Debt securities | – | 1,679,583 | 307,893 | 1,987,476 |
| – Investment funds | 257,795 | – | – | 257,795 |
| – Asset Backed Securities | – | – | 20,000 | 20,000 |
| Derivative financial assets | | | | |
| – Listed options | 57 | – | – | 57 |
| Available-for-sale financial assets | | | | |
| – Equity securities | 547,114 | 43,721 | – | 590,835 |
| – Investment funds | 80,565 | – | – | 80,565 |
| – Collective asset management schemes | – | – | 58,330 | 58,330 |
| – Debt Instrument | – | – | 220,305 | 220,305 |
| – Investment in CSF | – | 504,859 | – | 504,859 |
| – Investments in unlisted companies | – | – | 117,532 | 117,532 |
| | 1,041,361 | 2,228,163 | 897,008 | 4,166,532 |
| Derivative financial liabilities | (17) | – | – | (17) |
| Financial liabilities at fair value | | | | |
| through profit or loss | – | – | (2,794,146) | (2,794,146) |
| | (17) | – | (2,794,146) | (2,794,163) |

For the six months ended 30 June 2016 and year ended 31 December 2015, there were no significant transfers between Level 1 and Level 2 of the fair value hierarchy of the Group.

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

37 Fair value of financial assets and liabilities (continued)

37.2 Financial instruments measured at fair value (continued)

The following table presents the changes in Level 3 instruments for the six months ended 30 June 2016 and 30 June 2015.

| | Available- for-sale financial assets | Financial assets at fair value through profit or loss |
|--|---|---|
| (Unaudited) | | |
| Balance at 1 January 2016 | 396,167 | 500,841 |
| Increase | 48,551 | 302,882 |
| Decrease | (150,889) | (415,841) |
| Balance at 30 June 2016 | 293,829 | 387,882 |
| 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" | - | 11,064 |
| Change in unrealized gains or losses for the period included in profit or loss/other comprehensive income for assets held at the end of the period | 20,308 | 7,884 |

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

37 Fair value of financial assets and liabilities (continued)

37.2 Financial instruments measured at fair value (continued)

| | Available- for-sale financial assets | Financial assets at fair value through profit or loss |
|--|---|---|
| (Unaudited) | | |
| Balance at 1 January 2015 | 104,655 | 392,671 |
| Increase | 104,373 | 72,154 |
| Decrease | (25,608) | (218,837) |
| Balance at 30 June 2015 | 183,420 | 245,988 |
| 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" | 395 | 6,747 |
| Change in unrealized gains or losses for the period included in profit or loss/other comprehensive income for assets held at the end of the period | 26,343 | – |

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

37 Fair value of financial assets and liabilities (continued)

37.2 Financial instruments measured at fair value (continued)

| | Financial liabilities at fair value through profit or loss |
|---|--|
| (Unaudited) | |
| Balance at 1 January 2016 | 2,794,146 |
| Consolidation of structured entities | 87,515 |
| Losses recognized in profit or loss | (39,296) |
| Purchase | 426,715 |
| Settlements | (417,022) |
| Balance at 30 June 2016 | 2,852,058 |
| Total gains or losses for the period included in profit or loss for liabilities held at the end of the period, under "Net investment gains" | (39,296) |
| Change in unrealized gains or losses for the period included in profit or loss for assets held at the end of the period | 22,752 |

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

37 Fair value of financial assets and liabilities (continued)

37.2 Financial instruments measured at fair value (continued)

| | Financial liabilities at fair value through profit or loss |
|---|--|
| (Unaudited) | |
| Balance at 1 January 2015 | 2,495,469 |
| Consolidation of structured entities | 164,070 |
| Losses recognized in profit or loss | (227,372) |
| Purchase | 977,664 |
| Settlements | (568,382) |
| <hr/> | |
| Balance at 30 June 2015 | 2,841,449 |
| <hr/> | |
| Total gains or losses for the period included in profit or loss for liabilities held at the end of the period, under "Net investment gains" | (227,372) |
| <hr/> | |
| Change in unrealized gains or losses for the period included in profit or loss for assets held at the end of the period | 18,666 |
| <hr/> | |

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

37 Fair value of financial assets and liabilities (continued)

37.2 Financial instruments measured at fair value (continued)

| Financial assets/ liabilities | Fair value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable input(s) | Relationship of unobservable input(s) to fair value |
|--|-------------------------|--|--|---|
| Financial assets at fair value through profit or loss – Debt Securities & ABS | Level 3 | <ul style="list-style-type: none"> Discounted cash flow with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level. | <ul style="list-style-type: none"> Expected future cash flow. Discount rates that correspond to the expected risk level. | <ul style="list-style-type: none"> The higher the future cash flow, the higher the fair value. The lower the discount rate, the higher the fair value |
| Financial assets at fair value through profit or loss – Equity securities traded on stock exchanges with lock-up periods | Level 3 | <ul style="list-style-type: none"> Calculated based on the fair value of the underlying investments which invest in listed shares with lock up periods in which the fair value is determined with reference to the quoted market prices with an adjustment or discount for lack of marketability. | <ul style="list-style-type: none"> Expected fair value of the underlying investments. Discount rates that correspond to lack of marketability. | <ul style="list-style-type: none"> The higher the fair value of the underlying investments, 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"> Calculated based on the fair value of the underlying investments with fair value hierarchy categorized as level 3 for which an adjustment or discount for lack of marketability is applied. | <ul style="list-style-type: none"> Expected fair value of the underlying investments. Discount rates that correspond to lack of marketability. | <ul style="list-style-type: none"> The higher the fair value of the underlying investments, the higher the fair value. |

Notes to the Condensed Consolidated Financial Statements

(All amounts in RMB'000 unless otherwise stated)

37 Fair value of financial assets and liabilities (continued)

37.2 Financial instruments measured at fair value (continued)

| Financial assets/ liabilities | Fair value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable input(s) | Relationship of unobservable input(s) to fair value |
|---|-------------------------|--|--|---|
| Available-for-sale financial assets – Debt instrument | Level 3 | <ul style="list-style-type: none"> Discounted cash flow with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level. | <ul style="list-style-type: none"> Expected future cash flow. Discount rates that correspond to the expected risk level. | <ul style="list-style-type: none"> The higher the future cash flow, the higher the fair value. The lower the discount rate, the higher the fair value |
| Available-for-sale financial assets – Collective asset management scheme | Level 3 | <ul style="list-style-type: none"> Calculated based on the fair value of the underlying investments which invest in listed shares with lock up periods in which the fair value is determined with reference to the quoted market prices with an adjustment or discount for lack of marketability. | <ul style="list-style-type: none"> Expected fair value of the underlying investments. Discount rates that correspond to lack of marketability. | <ul style="list-style-type: none"> The higher the fair value of the underlying investments, the higher the fair value. The lower the discount rate, the higher the fair value |
| Available-for-sale financial assets – Equity investments in unlisted companies | Level 3 | <ul style="list-style-type: none"> Market comparable companies with inputs of price to book ratio and discount for lack of marketability. | <ul style="list-style-type: none"> Price to book ratio. Discount rates that correspond to lack of marketability. | <ul style="list-style-type: none"> The higher P/B ratio of comparable enterprise, the higher the fair value The lower the discount rate, the higher the fair value |

38 Comparative figures

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