

恒投证券

HENGTOU SECURITIES

(a joint stock company incorporated in the People's Republic of China with limited liability under the Chinese corporate name "恒泰证券股份有限公司" and carrying on business in Hong Kong as "恒投證券" (in Chinese) and "HENGTOU SECURITIES" (in English))

Stock Code: 1476

2016

INTERIM REPORT

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Important Notice

The Board, the Supervisory Committee, the Directors, the Supervisors and the senior management of the Company undertake that the content of the interim report is true, accurate, complete and without any false record, misrepresentation or material omission and are severally and jointly liable therefor.

This report has been considered and approved at the fifth meeting of the third session of the Board and the fourth meeting of the third session of the Supervisory Committee where all Directors and all Supervisors were present, respectively. No Directors or Supervisors declared that they could not guarantee nor had any objection to the truthfulness, accuracy and completeness of this report.

The interim financial information for the six months ended 30 June 2016 is prepared by the Company in accordance with the International Financial Reporting Standards, and has been reviewed by RSM Hong Kong in accordance with Hong Kong Standards on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. All amounts set out in this report are stated in RMB unless otherwise stated.

Mr. Pang Jiemin (the chairman of the Board), Mr. Niu Zhuang (the president), Mr. Wang Haibing (the chief financial officer) and Mr. Yang Liyang (the finance manager) declared that, they undertake the interim financial information in this report is true, accurate and complete.

The forward-looking statements including future plans and development strategies involved in this report do not constitute the Company's substantive commitment to investors. The investors are advised to pay attention to investment risks.

Definitions

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

Articles of Association	the articles of association of the Company, as amended from time to time
asset securitization	an act of converting less liquid assets into securities that can be traded freely in the financial market to have them become liquid and a direct way of financing through issuing securities in capital market and monetary market
Baotou Huazi	Baotou Huazi Industry Co., Ltd. (包頭華資實業股份有限公司), listed on the Shanghai Stock Exchange (stock code: 600191) and a substantial shareholder of the Company
Board	the board of directors of the Company
Company, Hengtou Securities or, Hengtai Securities	a company established as a limited liability company in the PRC on December 28, 1998 and converted into a joint stock company with limited liability under the PRC laws on November 3, 2008 under the corporate name “恒泰证券股份有限公司” (Hengtai Securities Co., Ltd), and carrying on business in Hong Kong as “恒投證券” (in Chinese) and “HENGTOU SECURITIES” (in English) as approved by and registered with the Registrar of Companies in Hong Kong on April 27, 2015, and whose H Shares are listed on the Main Board of the Hong Kong Stock Exchange
Corporate Governance Code	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
CSRC	the China Securities Regulatory Commission (中國證券監督管理委員會)
Director(s)	director(s) of the Company
Domestic Share(s)	ordinary share(s) issued by the Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in RMB
end of the Reporting Period	June 30, 2016
Finance Street Capital	Beijing Finance Street Capital Management Centre (北京金融街資本運營中心), which holds 100% equity interest in Huarong Infrastructure
Finance Street Investment	Beijing Finance Street Investment (Group) Co., Ltd. (北京金融街投資(集團)有限公司), formerly known as Beijing Finance Street Construction Group Co., Ltd. (北京金融街建設集團), a subsidiary of SASAC Xicheng District and a shareholder of the Company
Finance Street Xihuan Properties	Beijing Finance Street Xihuan Properties Co., Ltd. (北京金融街西環置業有限公司), formerly known as Beijing Xihuan Properties Co., Ltd. (北京西環置業有限公司), a subsidiary of SASAC Xicheng District and a shareholder of the Company
GDP	gross domestic product
Group	the Company and its subsidiaries

Definitions

H Share(s)	overseas listed foreign ordinary share(s) with a nominal value of RMB1.00 each in the share capital of the Company, which are listed on the Main Board of the Hong Kong Stock Exchange
Hangzhou Ruisi	Hangzhou Ruisi Industrial Co., Ltd. (杭州瑞思實業有限公司), which holds 97.08% equity interest in Shaanxi Tianchen
Hengtai Capital	Hengtai Capital Investment Co., Ltd. (恒泰資本投資有限責任公司), 100% equity interest of which is held by the Company
Hengtai Changcai	Hengtai Changcai Securities Co., Ltd. (恒泰長財證券有限責任公司), 100% equity interest of which is held by the Company
Hengtai Futures	Hengtai Futures Co., Ltd. (恒泰期貨股份有限公司), 80% and 20% equity interest of which are held by the Company and Hengtai Capital respectively
Hengtai Pioneer	Hengtai Pioneer Investment Co., Ltd. (恒泰先鋒投資有限公司), 100% equity interest of which is held by the Company
HK\$	Hong Kong dollars, the lawful currency of Hong Kong
Hong Kong	the Hong Kong Special Administrative Region of the PRC
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Hongzhi Huitong	Beijing Hongzhi Huitong Industrial Co., Ltd. (北京鴻智慧通實業有限公司), a shareholder of the Company
Huarong Infrastructure	Beijing Huarong Infrastructure Investment Co., Ltd. (北京華融基礎設施投資有限責任公司), a subsidiary of SASAC Xicheng District and a shareholder of the Company
Huarong Investment	Beijing Huarong Comprehensive Investment Company (北京華融綜合投資公司), which holds 90.00% equity interest in Finance Street Xihuan Properties
Huifa Investment	Tibet Dazi Huifa Investment Co., Ltd. (西藏達孜匯發投資有限公司), formerly known as Shenzhen City Huifa Investment Co., Ltd. (深圳市匯發投資有限公司), and a shareholder of the Company
Huijin Jiaye	Beijing Huijin Jiaye Investment Co., Ltd. (北京匯金嘉業投資有限公司), a shareholder of the Company
IB business	a business activity in which securities firms, as commissioned by futures companies, introduce clients to participate in futures transactions of the futures companies and provide other related services

Definitions

IPO	abbreviation for “Initial Public Offering”
Listing	H Shares listed on the Main Board of the Hong Kong Stock Exchange on October 15, 2015
Listing Date	October 15, 2015
Listing Rules	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
margin financing and securities lending	a collateral-backed operating activity in which securities firms provide clients with monies to buy listed securities or with listed securities for sale
Model Code	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
NEEQ	National Equities Exchange and Quotations
New China Fund	New China Fund Management Co., Ltd. (新華基金管理股份有限公司), 58.62% equity interest of which is held by the Company
Ningbo Shike	Ningbo Shike Trading Co., Ltd. (寧波實科商貿有限公司), which holds 70% equity interest in Qingyun Intercontinental
PRC or China	for the purpose of this report, the People’s Republic of China (excluding Hong Kong, Macau Special Administration Region of the PRC and Taiwan)
Prospectus	the H Shares prospectus of the Company dated September 30, 2015
Qingyun Intercontinental	Beijing Qingyun Intercontinental Technology Co., Ltd. (北京慶雲洲際科技有限公司), substantial shareholder of the Company
Reporting Period	for the six months ended June 30, 2016
RMB	Renminbi, the lawful currency of China, the basic unit of which is Yuan
SASAC Xicheng District	the State-owned Assets Supervision and Administration Commission of Xicheng District People’s Government of Beijing Municipality (北京市西城區人民政府國有資產監督管理委員會), which holds 100% equity interest in each of Huarong Investment, Finance Street Capital and Finance Street Investment, respectively
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Shaanxi Hongya	Shaanxi Hongya Ruijiu Trading Co., Ltd. (陝西弘雅瑞久商貿有限公司), which holds 99.60% equity interest in Ningbo Shike

Definitions

Shaanxi Tianchen	Shaanxi Tianchen Technology Trading Co., Ltd. (陝西天宸科貿有限公司), which holds 97.08% equity interest in Hongzhi Huitong
Shanghai Julu	Shanghai Julu Information Technology Co., Ltd. (上海巨祿信息科技有限公司), which holds 99.47% equity interest in Shenzhen Zhongxin
Shanghai Xishida	Shanghai Xishida Electronic Technology Co., Ltd. (上海喜仕達電子技術有限公司), which holds 99.99% equity interest in Huijin Jiaye
Shanghai Yida	Shanghai Yida Technology Investment Co., Ltd. (上海怡達科技投資有限責任公司), a substantial shareholder of the Company
Shenzhen Zhongxin	Shenzhen Zhongxin Tuoye Technology Co., Ltd. (深圳中新拓業科技有限公司), which holds 95% equity interest in Shanghai Xishida
stock pledged repurchase transaction	a transaction in which eligible funds receivers get financing from eligible funds givers by pledging the stocks or other securities they hold and agree to return the funds and cancel the pledge some day in the future
substantial shareholder(s)	has the meaning ascribed to it under the Listing Rules
Supervisor(s)	supervisor(s) of the Company
Supervisory Committee	the supervisory committee of the Company
Suzhou Bingtai	Suzhou Bingtai Trading Co., Ltd. (蘇州秉泰貿易有限公司), which holds 90.00% equity interest in Hangzhou Ruisi
this report	2016 interim report
Tomorrow Holding	Tomorrow Holding Limited Company (明天控股有限公司), which holds approximately 54% equity interest in Baotou Huazi, one of the substantial shareholders of the Company
Zhongchang Hengyuan	Zhongchang Hengyuan Holdings Limited (中昌恒遠控股有限公司), a substantial shareholder of the Company

Company Profile

1. NAME OF COMPANY

Chinese name: 恒泰證券股份有限公司, being the corporate name in the PRC (carrying on business in Hong Kong as “恒投證券”)

English name: HENGTAI SECURITIES CO., LTD, being English translation of the corporate name in the PRC (carrying on business in Hong Kong as “HENGTOU SECURITIES”)

2. LEGAL REPRESENTATIVE OF THE COMPANY

Mr. Pang Jiemin

3. BOARD OF DIRECTORS

Executive Directors

Mr. Pang Jiemin (*Chairman*)

Mr. Wu Yigang

Non-executive Directors

Mr. Zhang Tao

Mr. Chen Guanglei

Mr. Sun Chao

Independent Non-executive Directors

Mr. Peng Diyun

Ms. Zhou Jianjun

Dr. Lam Sek Kong

Special Committees of the Board

Strategy and Investment Committee

Mr. Pang Jiemin (*Chairman of the Committee*)

Mr. Sun Chao

Dr. Lam Sek Kong

Risk Control and Supervisory Committee

Mr. Zhang Tao

Mr. Wu Yigang

Company Profile

Audit Committee

Ms. Zhou Jianjun (*Chairman of the Committee*)

Mr. Zhang Tao

Dr. Lam Sek Kong

Remuneration and Nomination Committee

Mr. Peng Diyun (*Chairman of the Committee*)

Ms. Zhou Jianjun

4. SUPERVISORY COMMITTEE

Mr. Guo Liwen (*Chairman of the Supervisory Committee*)

Ms. Pei Jingjing

Mr. Wang Hui

5. SECRETARY OF THE BOARD

Mr. Zhang Wei

Tel: (86 471) 4913 858

Fax: (86 471) 4913 858

Email: zhangwei@cnht.com.cn

Correspondence Address: 18/F, Everbright Bank Building, Oriental Junzuo Block D, Chile Chuan Avenue, Saihan District, Hohhot, Inner Mongolia Autonomous Region, the PRC

6. JOINT COMPANY SECRETARIES

Mr. Zhang Wei, Ms. Leung Wing Han Sharon

7. AUTHORIZED REPRESENTATIVES

Mr. Pang Jiemin, Ms. Leung Wing Han Sharon

Company Profile

8. HEAD OFFICE IN CHINA

Registered address: 14–18/F, Everbright Bank Building, Oriental Junzuo Block D, Chile Chuan Avenue, Saihan District, Hohhot, Inner Mongolia Autonomous Region, the PRC (postcode: 010098)

Head office address of the Company: Room 509, Block C, Tongtai Building, No. 33 Finance Street, Xicheng District, Beijing, the PRC

Website of the Company: www.cnht.com.cn

Email: dongban@cnht.com.cn

9. PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

10. AUDITORS

International external auditor: RSM Hong Kong

Domestic external auditor: Ruihua Certified Public Accountants LLP

11. HONG KONG LEGAL ADVISOR

Orrick, Herrington & Sutcliffe

12. COMPLIANCE ADVISOR

Haitong International Capital Limited

13. H SHARE REGISTRAR IN HONG KONG

Computershare Hong Kong Investor Services Limited

14. STOCK CODE (H SHARES)

01476

Summary of Accounting Data and Financial Indexes

I. PRINCIPAL ACCOUNTING DATA AND FINANCIAL INDEXES

(Accounting data and financial indexes set out in this report are prepared in accordance with the International Financial Reporting Standards)

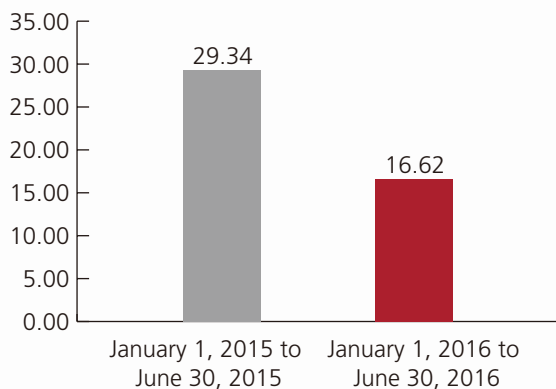
Item	January 1, 2016 to June 30, 2016	January 1, 2015 to June 30, 2015	Increase/ (decrease) from last period (%)
Operating results (RMB'000)			
Revenue and other income	1,661,844	2,933,747	(43%)
Profit before tax	280,190	1,516,973	(82%)
Profit for the period – attributable to ordinary shareholders of the Company	197,545	1,182,287	(83%)
Net cash generated from operating activities	185,848	174,665	6%
Earnings per share (RMB/share)			
Basic earnings per share ¹	0.06	0.54	(89%)
Diluted earnings per share ¹	0.06	0.54	(89%)
Profitability index			
Weighted average rate of return on net assets (%) ²	2.05%	20.54%	(90%)
Item	June 30, 2016	December 31, 2015	Increase/ (decrease) from the end of last period (%)
Scale indicators (RMB'000)			
Total assets	37,082,474	39,167,673	(5%)
Total liabilities	27,471,740	29,434,641	(7%)
Account payables to brokerage clients	12,942,105	13,977,558	(7%)
Equity attributable to ordinary shareholders of the Company and holders of perpetual capital securities	9,373,524	9,531,668	(2%)
Total share capital ('000 shares)	2,604,567	2,604,567	0%
Net assets value per share attributable to ordinary shareholders³ (RMB/share)	3.02	3.08	(2%)
Gearing ratio (%)⁴	60.19%	61.36%	(2%)

Summary of Accounting Data and Financial Indexes

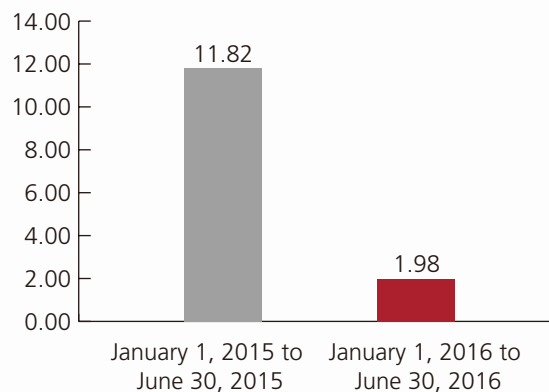
1. The index is calculated based on the assumption of deducting the dividends of the accumulated perpetual capital securities holders
2. Weighted average rate of return on net assets (%) = $P / (E_o + P \div 2 + E_i \times M_i \div M_o - E_j \times M_j \div M_o)$, in which P represents net profit attributable to ordinary shareholders of the Company; E_o represents net assets at the beginning of the period attributable to ordinary shareholders of the Company; E_i represents additional net assets from issuance of new shares or from debt to equity during the Reporting Period attributable to ordinary shareholders of the Company; E_j represents reduced net assets from repurchase or from cash dividend during the Reporting Period attributable to ordinary shareholders of the Company; M_o represents number of months of the Reporting Period; M_i represents number of months calculated from the month following the additional net assets to the end of the Reporting Period; M_j represents number of months calculated from the month following the reduced net assets to the end of the Reporting Period
3. Net assets value per share attributable to ordinary shareholders = (equity attributable to ordinary shareholders and holders of perpetual capital securities – perpetual capital securities) divided by total share capital
4. Gearing ratio (%) = (total liabilities – account payables to brokerage clients)/(total assets – account payables to brokerage clients)

Summary of Accounting Data and Financial Indexes

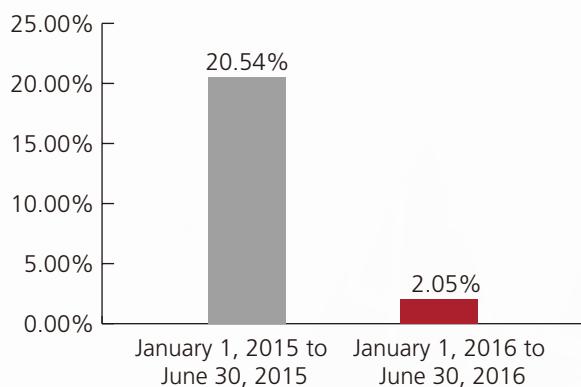
**Revenue and other income
(RMB100 million)**



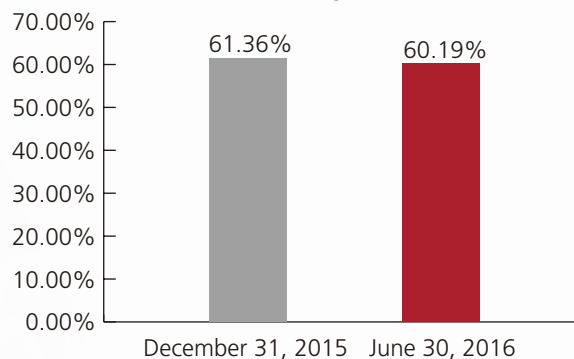
**Profit for the period – attributable to ordinary
shareholders of the Company
(RMB100 million)**



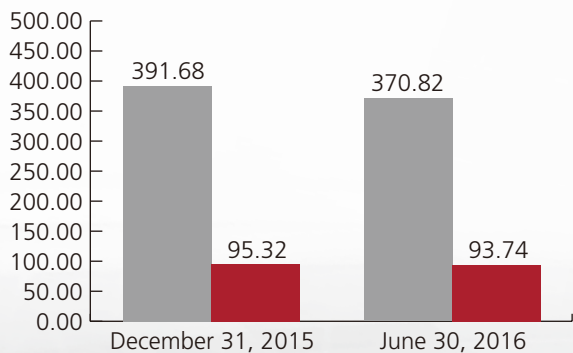
**Weighted average return
on net assets**



Gearing ratio



**Scale indicators
(RMB100 million)**



■ Total assets
■ Equity attributable to ordinary shareholders of the Company and holders of perpetual capital securities

Summary of Accounting Data and Financial Indexes

II. NET CAPITAL AND RISK CONTROL INDEXES OF THE COMPANY

As at June 30, 2016, the Company's net capital amounted to RMB5,785.43 million, representing a decrease of RMB656.77 million as compared with RMB6,442.20 million as at the end of 2015. During the Reporting Period, the net capital and related risk control indexes of the Company met the regulatory requirements.

Unit: in RMB'000

Item	As at June 30, 2016	As at December 31, 2015	Regulatory standard
Net capital	5,785,434	6,442,197	–
Net assets	9,180,786	9,468,951	–
Net capital/sum of risk provisions (%)	452.17%	548.07%	>100%
Net capital/net assets (%)	63.02%	68.03%	>40%
Net capital/liabilities (%)	49.41%	52.25%	>8%
Net assets/liabilities (%)	78.41%	76.80%	>20%
Proprietary equity securities and securities derivatives/net capital (%)	40.60%	47.90%	<100%
Proprietary fixed income securities/net capital (%)	126.80%	100.13%	<500%

Management Discussion and Analysis

I. ECONOMIC AND MARKET ENVIRONMENT DURING THE REPORTING PERIOD

During the Reporting Period, China's macro-economy was running smoothly. In the first half of 2016, China's GDP grew by 6.7% year on year, 0.3 percentage points lower than that of the same period of 2015. Against the slowdown in fixed asset investment growth and pull-back in exports, domestic consumption continued to enjoy relatively rapid growth and became the key to maintaining stable macro-economic development in the first half of the year. During the Reporting Period, under the pressure from depreciating Reminbi and shrinking foreign exchange reserves, market liquidity basically remained stable. In the first half of 2016, newly-added social financing totaled RMB9.75 trillion, with broad money and narrow money grew by 11.8% and 24.6% year on year respectively.

China's stock market dropped sharply at the beginning of 2016 and then entered into a consolidation period. During the Reporting Period, the Shanghai Composite Index and Shenzhen Component Index fell by 17.22% and 17.17%, respectively. The total turnover of stock and funds on the Shanghai and Shenzhen stock markets for the first half of 2016 slumped by 52.89% from the same period of 2015 to RMB69,240.228 billion, of which the turnover of stocks and funds on Shanghai Stock Exchange decreased by 65.72% to RMB28,135.9 billion while the turnover of stocks and funds on Shenzhen Stock Exchange decreased by 36.68% to RMB41,104.328 billion as compared with the same period of 2015.

II. ANALYSIS OF PRINCIPAL BUSINESS

During the Reporting Period, China's stock market was in the doldrums with falling stock prices and trading volumes. As a result, the Group's revenue from brokerage, wealth management, proprietary trading and asset management business decreased drastically. During the Reporting Period, the Group recorded revenue and other income of RMB1,661.84 million and a net profit of RMB228.14 million, representing a decrease of 43.35% and 80.70% as compared with the same period of 2015, respectively.

(I) Brokerage and Wealth Management Business

During the Reporting Period, the revenue and other income from brokerage and wealth management business amounted to RMB904.60 million, representing a decrease of 48.50% as compared with the same period of 2015.

1. Securities brokerage

During the Reporting Period, facing the sluggish stock market in China, the Company promoted business development through multiple channels such as online business expansion, increase of offline branches and devoting more efforts in development of institutional clients. At the end of the Reporting Period, the number of clients reached 1,920,100, representing an increase of 225,200 clients or 13.29% as compared with the end of 2015; the total assets under custody for clients reached RMB124,432 million, representing a decrease of 3.59% as compared with the end of 2015; the turnover of stocks and funds reached RMB732,198 million, representing a decrease of 37.41% as compared to the same period of 2015.

Management Discussion and Analysis

2. Futures brokerage

During the Reporting Period, Hengtai Futures grasped opportunities to conduct innovative business and promote business development. To this end, it sought breakthroughs with IB business, advanced internet business, and strengthened development of financial institution and industry clients. Furthermore, it deepened management of IB service areas and intensified cooperation with Internet financial platform. During the Reporting Period, the number of newly-added clients of Hengtai Futures reached 1,954.

3. Wealth management

During the Reporting Period, the Company further optimized the sale of financial products based on the overall performance of the securities market and macro-economy as well as its own business development requirements, so as to constantly improve its wealth management level and asset allocation capability from the perspective of investors. Meanwhile, the Company strengthened risk control, enhanced risk awareness and improved compliance-based operation. During the Reporting Period, the Company sold 42 financial products and recorded a sales amount of RMB3,430 million, representing a decrease of 28.75% as compared to the same period of 2015.

4. Capital-based intermediary business

During the Reporting Period, as impacted by the factors such as declining stock markets, both margin financing and securities lending was decreased continually on the market. Facing the declining trend of its business, the Company actively sought breakthroughs while strengthening control of business risks. As at the end of the Reporting Period, the number of accounts opened for small-amount stock-pledged repo amounted to 26,400 and the size of margin financing and securities lending of the Company reached RMB4,684 million, representing a decrease of 25.08% as compared with the end of 2015.

Management Discussion and Analysis

(II) Investment Banking Business

During the Reporting Period, the revenue and other income from investment banking business amounted to RMB255.98 million, representing an increase of 114.28% as compared to the same period of 2015.

During the Reporting Period, Hengtai Changcai proactively innovated in investment banking business. While steadily developing traditional advantageous businesses including IPO, refinancing and enterprise bonds, it vigorously developed innovative projects such as corporate bonds, asset securitization, merger and reorganization. All these businesses achieved significant growth.

1. Equity financing

During the Reporting Period, Hengtai Changcai completed two projects, a merger and reorganization project and an IPO project, with the total financing amount of RMB3,722.40 million, representing an increase of 538% as compared with the same period of 2015.

2. Debt financing

During the Reporting Period, Hengtai Changcai, acting as the lead underwriter, completed 15 projects in total, including 11 enterprise bonds projects and 4 corporate bonds projects, with the total financing amount of RMB13,290 million, representing an increase of 285% as compared with the same period of 2015.

3. Business of listing on the NEEQ

During the Reporting Period, relevant policies, regulations and business rules were promulgated successively, which greatly improved the standardization of the business and also intensified competition in the industry. The Company maintained admirable business growth in face of the intensifying competition by proactively adjusting strategies, enhancing system construction and exploring market. During the Reporting Period, it completed 17 listing projects and had 24 project applications under review by regulatory authorities, representing an increase of 1,600% and 1,100% as compared with the same period of 2015, respectively.

Management Discussion and Analysis

(III) Investment Management Business

During the Reporting Period, the revenue and other income from investment management business amounted to RMB389.12 million, representing an increase of 10.63% as compared to the corresponding period of 2015.

1. Assets management

During the Reporting Period, the downward pressure on domestic economy increased and financial regulations became tighter. With the introduction of a number of policies aiming at risk control, crack down on illegal margin financing as well as deleveraging became the main trend in the PRC securities market in the first half of 2016, resulting in a significant decrease in the securities market indices. Among the asset management business of the Company, those segments mainly engaged in investing in various equity-based products were negatively impacted and suffered significant decrease in income.

As at the end of the Reporting Period, the total size of asset management business was RMB38,954 million, of which the size of collective scheme amounted to RMB2,507 million; the size of targeted scheme amounted to RMB10,394 million; the size of asset securitization amounted to RMB25,223 million; and the size of asset management scheme of Hengtai Futures and Shanghai Yingwo Investment Management Co., Ltd amounted to RMB830 million.

During the Reporting Period, 12 collective schemes and 8 targeted schemes terminated upon expiry, resulting in a substantial decrease in the total management size. As at the end of the Reporting Period, there were still 11 collective schemes and 26 targeted schemes.

During the Reporting Period, the Company was engaged in 4 new issue projects of enterprise assets securitization with the total issue size of RMB2,381 million as the manager/promoter.

2. Fund management

During the Reporting Period, New China Fund continued to maintain its core advantages in respect of investment research and strengthen the construction of an investment research team to promote stable investment results while keeping channel expansion and maintenance as well as promotion of product sales.

During the Reporting Period, New China Fund had 36 publicly-raised funds with total management size amounting to RMB30,580 million, representing a decrease of RMB3,780 million or 11% as compared to the end of 2015. The size of asset management with special accounts reached RMB8,600 million, representing a decrease of RMB1,200 million or 12% as compared to the end of 2015. During the Reporting Period, the decrease in the net value and size of assets of New China Fund was mainly due to the plunge in the A share market in the PRC.

Management Discussion and Analysis

3. Private equity investment business

During the Reporting Period, Hengtai Capital continued to increase its size of direct investment business, proactively promoted the development of equity investment business and consolidated post-investment management of projects invested and investment management of direct investment funds.

During the Reporting Period, Hengtai Capital utilized its own funds to invest in 16 direct investment projects with the total investment size of RMB961 million and managed 3 direct investment funds with the total size of RMB263 million.

4. Alternative investment

During the Reporting Period, HengTai Pioneer kept on promoting business transformation. Its investment fields were changed from real estate and cultural artworks into internet finance and sports, while its business model was changed from direct investment and financing into the platform-based management of the investment of the Company's subsidiaries.

(IV) Proprietary Trading Business

During the Reporting Period, the revenue and other income from the proprietary trading business amounted to RMB78.34 million, representing a decrease of 88.50% as compared to the corresponding period of 2015.

During the Reporting Period, in terms of stock investment business, the Company adhered to the principle of prudent investment. It took measures such as reducing overall positions according to the market changes to control the overall business risks. However, the trial implementation of circuit breaker mechanism at the beginning of 2016 gave rise to the plummet in the A share market in the PRC, bringing adverse impact on the Company's stock investment business. In terms of share transfer market-making business, market-making indices accumulatively dropped by 20.40% during the Reporting Period due to the sluggish performance of NEEQ market, which, together with the poor liquidity of NEEQ market, resulted in adverse influence on share transfer market-making business of the Company. In terms of fixed income business, the Company seized opportunities to enhance portfolio income, strictly control credit risk and reduce financing costs, thus achieving admirable investment gains.

(V) International Business

During the Reporting Period, the Company took the initiative to conduct related research and exploration of its international business while making contacts with overseas institutions to understand and match clients' overseas investment demands, and extensively acquire various overseas investment project resources, which laid a sound foundation for future development of international business.

Management Discussion and Analysis

III. PROSPECTS AND FUTURE PLANS

(I) Development prospect of the industry

In the first half of 2016, with ongoing reforms in the capital market and the further optimised regulatory regimes for operation of the capital market, the capital market has enhanced its capability in serving the real economy. Thanks to the implementation of the hierarchical NEEQ system, significant progress has been made in the construction of the multi-tiered capital market system in China.

In respect of the regulation of the industry, CSRC officially promulgated the revised Management Measures for the Risk Control Indexes of Securities Companies and its supporting rules on June 16, 2016, which will be officially put into effect on October 1, 2016. According to the revised Management Measures for the Risk Control Indexes of Securities Companies, a reasonable and effective risk control indexes system will be constructed by virtue of four core indexes, namely, risk coverage ratio, capital leverage ratio, liquidity coverage ratio and net stable funding ratio. Meanwhile, overall risk management requirements for securities companies were intensified in the management measures. Under the new regulatory environment, securities companies with stronger risk control capability will be provided with ampler room for development.

In respect of operation of the industry, it is expected that in the second half of 2016, the securities market is very likely to maintain fluctuation within certain range, and the brokerage business and margin financing and securities lending business may remain under pressure due to the low turnover of the securities market. Investment banking business is expected to maintain its steady growth momentum and thus contribute more to the performance of securities companies. Investment management business will witness an obvious differentiation in the industry, while the securities companies with active management capacity are expected to maintain steady growth. As uncertainties exist with respect to the proprietary business amid the fluctuating market, the securities companies in the industry may differ significantly from each other in terms of investment performance.

(II) Development plan of the Company

The Company will continue to enhance risk control and compliance management as it always does so as to create a favorable environment for the business development of the Company.

The Company will accelerate the business transformation of its brokerage business, pay close attention to the input and output efficiency of business development and concentrate on capital-based intermediary business. Meanwhile, it will continually intensify its active management capability in asset management so as to improve its competitiveness in the market. In regard to public-raised funds, the Company will steadily expand the management size and enrich and improve types of its fund products. In regard to investment banking business, the Company will focus on cultivation of the business capability in the capital market, and enhance quality control and kernel quality, striving for a new breakthrough. In regard to asset securitisation business, the Company will continue to consolidate its leading position in the market.

Management Discussion and Analysis

The Company will speed up the building of three business eco-systems. Firstly, the internet finance business will gradually step into performance-enhancing phase from the input phase while the building and advancement of both internal and external eco-systems will be improved; secondly, the private fund management business will carry out corresponding ecological layout focusing on buyout fund businesses; thirdly, centered on NEEQ business, the Company will seek better development opportunities through building an eco-system among listing, capital market, market making, equity investment, asset management and private fund business.

The Company will continue to keep close eyes on the development of international business and will start such business at appropriate time and through a variety of forms.

The Company will take advantage of management measures such as recruitment of excellent market team and internal eco-system building to promote the overall business development of the Company.

IV. FINANCIAL STATEMENTS ANALYSIS

(I) Analysis on the profitability during the Reporting Period

During the Reporting Period, the Group recorded revenue and other income of RMB1,661.84 million in aggregate, representing a decrease of 43.35% as compared to the corresponding period of 2015. Net profit attributable to shareholders of the Company amounted to RMB197.55 million, representing a decrease of 83.29% as compared to the corresponding period of 2015. Earnings per share amounted to RMB0.06, representing a decrease of 88.89% as compared to the corresponding period of 2015. Weighted average return on net assets was 2.05%, representing a decrease of 90% as compared to the corresponding period of 2015.

(II) Asset structure and asset quality

As at the end of the Reporting Period, total assets of the Group amounted to RMB37,082.47 million, representing a decrease of 5.32% as compared to RMB39,167.67 million as at the end of 2015. Total liabilities amounted to RMB27,471.74 million, representing a decrease of 6.67% as compared to RMB29,434.64 million as at the end of 2015. Equity attributable to ordinary shareholders of the Company and holders of perpetual capital securities amounted to RMB9,373.52 million, representing a decrease of 1.66% as compared to RMB9,531.67 million as at the end of 2015.

The Group's asset structure remained stable with sound asset quality and liquidity. As at the end of the Reporting Period, the total assets of the Group comprised of: cash assets, which primarily included cash and bank balances (including cash held on behalf of brokerage clients), clearing settlement funds and refundable deposits, amounted to RMB17,112.01 million, representing 46% of the Group's total assets; margin assets, which primarily included margin account receivables and financial assets held under resale agreements, amounted to RMB5,758.91 million, representing 16% of the Group's total assets; financial investment assets, which primarily included investments in associates and investments in financial assets, amounted to RMB12,558.44 million, representing 34% of the Group's total assets; property equipment and other operating assets, which primarily included property and equipment, investment properties, intangible assets and others, amounted to RMB1,653.11 million, representing 4% of the Group's total assets.

Management Discussion and Analysis

The Group's gearing ratio and financial leverage ratio remained relatively stable. As at the end of the Reporting Period, liabilities after deducting account payable to brokerage clients amounted to RMB14,529.64 million, representing a decrease of RMB927.45 million or 6% as compared to the end period of 2015. The gearing ratio of the Group was 60.19%, representing a decrease of 1.17 percentage points from 61.36% as at the end of 2015 (Note: gearing ratio = (total liabilities-account payable to brokerage clients)/(total assets-account payable to brokerage clients)). Financial leverage ratio was 2.58 folds, representing a decrease of 2.27% from 2.64 folds as at the end of 2015 (Note: financial leverage ratio = (total assets-account payable to brokerage clients)/equity attributable to ordinary shareholders of the Company).

(III) Financing channels and financing ability

During the Reporting Period, the Company has met its operating capital requirement through debt financing. Debt financing of the Company included the issuance of corporate bonds, refinancing of funds as well as transfer of rights and interests in margin financing.

During the Reporting Period, the Company raised proceeds of RMB1,500 million from the 3-year corporate bonds. Accumulated placements from China Securities Finance Co., Ltd. amounted to RMB290 million. Accumulated capital inflow from transfer of rights and interests in margin financing amounted to RMB2,000 million. Meanwhile, the Company received comprehensive credit line with greater limit granted by several banks.

(IV) Liquidity management

The Company focuses on its liquidity management. It has established a specific department responsible for liquidity management. The Company's liquidity management focused on the organic combination of the security, liquidity and profitability of capital. As requested by the CSRC, the Company has established sound management system and contingency measure for liquidity risk. The Company has prepared monthly liquidity monitor statement. The liquidity monitor index of the Company in each month during the Reporting Period complied with the regulatory requirements.

(V) Cash flow

Net cash flow of the Group arising from operating activities during the Reporting Period amounted to RMB185.85 million, representing an increase of RMB11.18 million from RMB174.67 million as compared with the corresponding period of 2015. Net cash flow arising from investment activities during the Reporting Period amounted to RMB-243.60 million, representing a decrease of RMB360.37 million from RMB116.77 million as compared with the corresponding period of 2015. Net cash flow arising from financing activities during the Reporting Period amounted to RMB727.92 million, representing a decrease of RMB2,113.45 million from RMB2,841.37 million as compared with the corresponding period of 2015. Net increase in cash and cash equivalents including impact from change in exchange rate during the Reporting Period amounted to RMB671.09 million, representing a decrease of RMB2,461.72 million from RMB3,132.81 million as compared with the corresponding period of 2015.

(VI) Changes in significant accounting policies and estimates

During the Reporting Period, there is neither material change in the significant accounting policies and estimates of the Company, nor the correction of material accounting errors.

Management Discussion and Analysis

V. BRANCHES AND SUBSIDIARIES

(I) Establishment and Disposal of Branch Offices and Securities Branches

As at the end of the Reporting Period, the Company had 2 branch offices and 137 securities branches.

1. Newly established securities branches

During the Reporting Period, the Company completed the establishment of 24 new securities branches, details of which are as follows:

No.	Name of branch	Region (PRC)
1	Hengtai Securities Co., Ltd Shaoxing Shengli Road Securities Branch (恒泰證券股份有限公司紹興勝利路證券營業部)	Shaoxing, Zhejiang
2	Hengtai Securities Co., Ltd Huizhou Bailuhu Securities Branch (恒泰證券股份有限公司惠州白鷺湖證券營業部)	Huizhou, Guangdong
3	Hengtai Securities Co., Ltd Tianjin Hedong Shiyijing Road Securities Branch (恒泰證券股份有限公司天津河東十一經路證券營業部)	Tianjin
4	Hengtai Securities Co., Ltd Shenzhen Wenjing Road Securities Branch (恒泰證券股份有限公司深圳文錦路證券營業部)	Shenzhen, Guangdong
5	Hengtai Securities Co., Ltd Changsha Jinxing Road Securities Branch (恒泰證券股份有限公司長沙金星路證券營業部)	Changsha, Hunan
6	Hengtai Securities Co., Ltd Shanghai Xinjinqiao Road Securities Branch (恒泰證券股份有限公司上海新金橋路證券營業部)	Shanghai
7	Hengtai Securities Co., Ltd Shanghai Jiangning Road Securities Branch (恒泰證券股份有限公司上海江寧路證券營業部)	Shanghai
8	Hengtai Securities Co., Ltd Shenzhen Qianhai Securities Branch (恒泰證券股份有限公司深圳前海證券營業部)	Shenzhen, Guangdong
9	Hengtai Securities Co., Ltd Shangyu Civic Blvd Securities Branch (恒泰證券股份有限公司上虞市民大道證券營業部)	Shaoxing, Zhejiang
10	Hengtai Securities Co., Ltd Zhengzhou Nanyang Road Securities Branch (恒泰證券股份有限公司鄭州南陽路證券營業部)	Zhengzhou, Henan
11	Hengtai Securities Co., Ltd Linyi Fuqian Road Securities Branch (恒泰證券股份有限公司臨沂府前路證券營業部)	Linyi, Shandong
12	Hengtai Securities Co., Ltd Dalian Huizhan Road Securities Branch (恒泰證券股份有限公司大連會展路證券營業部)	Dalian, Liaoning

Management Discussion and Analysis

No.	Name of branch	Region (PRC)
13	Hengtai Securities Co., Ltd Xi'an Qujiangchi North Road Securities Branch (恒泰證券股份有限公司西安曲江池北路證券營業部)	Xi'an, Shaanxi
14	Hengtai Securities Co., Ltd Shenzhen Xianglin Road Securities Branch (恒泰證券股份有限公司深圳香林路證券營業部)	Shenzhen, Guangdong
15	Hengtai Securities Co., Ltd Dongguan Humen Town Humen Blvd Securities Branch (恒泰證券股份有限公司東莞虎門鎮虎門大道證券營業部)	Dongguan, Guangdong
16	Hengtai Securities Co., Ltd Xianyou 825 Street Securities Branch (恒泰證券股份有限公司仙遊八二五大街證券營業部)	Putian, Fujian
17	Hengtai Securities Co., Ltd Zibo Jinjing Road Securities Branch (恒泰證券股份有限公司淄博金晶路證券營業部)	Zibo, Shandong
18	Hengtai Securities Co., Ltd Shenzhen Gaoxinnan No. 1 Road Securities Branch (恒泰證券股份有限公司深圳高新南一道證券營業部)	Shenzhen, Guangdong
19	Hengtai Securities Co., Ltd Wenzhou Haichuan Road Securities Branch (恒泰證券股份有限公司溫州海川路證券營業部)	Wenzhou, Zhejiang
20	Hengtai Securities Co., Ltd Beijing Jiancaicheng West Road Securities Branch (恒泰證券股份有限公司北京建材城西路證券營業部)	Beijing
21	Hengtai Securities Co., Ltd Fuzhou North Ring Middle Road Securities Branch (恒泰證券股份有限公司福州北環中路證券營業部)	Fuzhou, Fujian
22	Hengtai Securities Co., Ltd Guangzhou Tianhe North Road Securities Branch (恒泰證券股份有限公司廣州天河北路證券營業部)	Guangzhou, Guangdong
23	Hengtai Securities Co., Ltd Shenzhen Longxiang Blvd Securities Branch (恒泰證券股份有限公司深圳龍翔大道證券營業部)	Shenzhen, Guangdong
24	Hengtai Securities Co., Ltd Beijing Qingnian Road Securities Branch (恒泰證券股份有限公司北京青年路證券營業部)	Beijing

Management Discussion and Analysis

2. Relocation of securities branches

During the Reporting Period, 6 securities branches of the Company were relocated, details of which are as follows:

No.	Name of branch before relocation	Name of branch after relocation	Address after relocation (PRC)
1	Hengtai Securities Co., Ltd Baotou Wulan Road Securities Branch (恒泰證券股份有限公司包頭烏蘭道證券營業部)	Hengtai Securities Co., Ltd Baotou Youyi Street Securities Branch (恒泰證券股份有限公司包頭友誼大街證券營業部)	No. 126 Culture Creativity Park, No. 67 Youyi Street, Qingshan District, Baotou, Inner Mongolia (內蒙古自治區包頭市青山區友誼大街67號文化創意園-126號)
2	Hengtai Securities Co., Ltd Beijing Ande Road Securities Branch (恒泰證券股份有限公司北京安德路證券營業部)	Hengtai Securities Co., Ltd Beijing Dongzhimennei North Alley Securities Branch (恒泰證券股份有限公司北京東直門內北小街證券營業部)	Rooms 101 & 201, Building No. 14 & No. 18, North Alley, Dongzhimennei, Dongcheng District, Beijing (北京東城區東直門內北小街14、18號樓101、201號)
3	Hengtai Securities Co., Ltd Baotou Salaqi Daxi Street Securities Branch (恒泰證券股份有限公司包頭薩拉齊大街證券營業部)	Hengtai Securities Co., Ltd Baotou Salaqi Zhenhua Street Securities Branch (恒泰證券股份有限公司包頭薩拉齊振華大街證券營業部)	Shop No. 4, Main Tower of Tumed Right Hotel, Tumed Right Banner, Baotou, Inner Mongolia (內蒙古自治區包頭市土默特右旗振華大街土右賓館主樓4號底店)
4	Hengtai Securities Co., Ltd Changchun Zhujiang Road Securities Branch (恒泰證券股份有限公司長春珠江路證券營業部)	Hengtai Securities Co., Ltd Changchun Renmin Street Redbuds Securities Branch (恒泰證券股份有限公司長春人民大街紫荊花證券營業部)	Southern Zone, 15/F, Redbuds Hotel, No. 5688 Renmin Street, Nanguan District, Changchun, Jilin (吉林省長春市南關區人民大街5688號紫荊花飯店十五層南區)
5	Hengtai Securities Co., Ltd Changchun Renmin Street Securities Branch (恒泰證券股份有限公司長春人民大街證券營業部)	Hengtai Securities Co., Ltd Changchun Xi'an Blvd Securities Branch (恒泰證券股份有限公司長春西安大路證券營業部)	15/F, No. 1077 Xi'an Blvd, Chaoyang District, Changchun, Jilin (吉林省長春市朝陽區西安大路1077號15層)
6	Hengtai Securities Co., Ltd Qianguo Hasaer Road Securities Branch (恒泰證券股份有限公司前郭哈薩爾路證券營業部)	Hengtai Securities Co., Ltd Qianguo Hasaer Road Securities Branch (恒泰證券股份有限公司前郭哈薩爾路證券營業部) ¹	2/F, No.18 & No.19 Zongshe Shangqi, Jinzuo Estate, Wenzhiwei District Hasaer, Qianguo County, Jilin (吉林省前郭縣哈薩爾文治委金座綜合商企18、19二層)

Note 1: Name of the securities branch remained unchanged after relocation.

Management Discussion and Analysis

3. Deregistration of securities branch

During the Reporting Period, 1 securities branch of the Company completed deregistration due to optimization of distribution of branches, details of which are as follows:

No.	Name of branch	Region (PRC)
1	Hengtai Securities Co., Ltd Tongliao Agula Street Securities Branch (恒泰證券股份有限公司通遼阿古拉大街證券營業部)	Tongliao, Inner Mongolia

(II) Establishment and Disposal of Subsidiaries

During the Reporting Period, changes in the Company's major subsidiaries are as follows:

- Hengtai Capital increased its registered capital from RMB0.2 billion to RMB1 billion and completed the change of business registration for such registered capital increase on January 29, 2016.
- Hengtai Futures set up a wholly-owned subsidiary, Hengtai Yingwo Assets Management Co., Ltd. (恒泰盈沃資產管理有限公司) with a registered capital of RMB50 million. Obtaining the enterprise business license on February 5, 2016, the subsidiary mainly engages in asset management, investment management, industry investment, venture investment, investment consultation, corporate management service, financial consultation, planning of corporate asset reorganization and merger and acquisition, marketing planning, business information consultancy.
- Hengtai Capital contributed RMB10 million to increase the registered capital of Hengtai Capital Equity Investment Fund Management Co., Ltd. (恒泰資本股權投資基金管理有限責任公司), one of its wholly-owned subsidiaries. Upon completion of the capital increase, the registered capital of Hengtai Capital Equity Investment Fund Management Co., Ltd. was increased from RMB10 million to RMB20 million. On May 17, 2016, such company completed the change of business registration for the capital increase.
- Hengtai Pioneer contributed RMB10 million to increase the registered capital of Shanghai Yingwo Investment Management Co., Ltd. (上海盈沃投資管理有限公司), one of its wholly-owned subsidiaries. Upon completion of the capital increase, the registered capital of Shanghai Yingwo Investment Management Co., Ltd. was increased from RMB10 million to RMB20 million. On June 27, 2016, such company completed the change of business registration for the capital increase.

Management Discussion and Analysis

VI. MAJOR FINANCING

(I) Equity Financing

Nil.

(II) Debt Financing

Pursuant to the Reply in Relation to the Approval of Issuance of Corporate Bonds by Hengtai Securities Co., Ltd (Zheng Jian Xu Ke [2015] No. 2213) (《關於核准恒泰證券股份有限公司發行債券的批覆》(證監許可[2015]2213號)), the Company issued corporate bonds on January 29, 2016, raising RMB1.5 billion in aggregate. Such corporate bonds were listed for trading on the Shanghai Stock Exchange on March 1, 2016, particulars of which are as follows:

Abbreviation	Size of the issuance (RMB'00 million)	Interest rate	Term (day)	Interest commencement date	Expiry date
14 Hengtai 05	15	3.42%	1,095	2016-1-29	2019-1-29

VII. MAJOR INVESTMENT

- On January 14, 2016, the resolution in relation to Capital Increase of the Wholly-owned Subsidiary Hengtai Capital was considered and approved at the 29th extraordinary meeting of the third session of the Board, pursuant to which, the Company agreed to made capital increase of RMB800 million in Hengtai Capital. Upon completion of the capital increase, the registered capital of Hengtai Capital was increased from RMB200 million to RMB1,000 million. On January 29, 2016, Hengtai Capital completed the change of business registration for the capital increase.

VIII. THE USE OF PROCEEDS

On October 15, 2015, the Company raised total proceeds of HK\$1,767,316,320 (equivalent to approximately RMB1.447 billion) through public issue of 450,846,000 H Shares on the Hong Kong Stock Exchange. The actual proceeds received by the Company (deducting the listing related expenses and the amount directly transferred into the national treasury pool due to share selling by the selling shareholders (namely reduction of state-owned shares)) was RMB1,260,497,124.36.

Management Discussion and Analysis

The funds raised as specified in the Prospectus shall be used as the following purposes:

1. about 50% of the funds will be used for the Company's capital-based intermediary business, including margin financing and securities lending and securities-backed lending and for the development of online margin financing and securities lending and securities-backed lending services.
2. about 30% of the funds will be used for the development of the NEEQ market-making business.
3. about 20% of the funds will be used for the development and enhancement of the internet-based finance business of the Company.

As at June 30, 2016, the Company had used RMB514 million of the proceeds cumulatively. The proceeds were all used for business development as specified in the Prospectus.

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

During the Reporting Period, there was no acquisition and sale of the Company's material assets and business merger, nor any major external guarantee, mortgage, pledge, material contingent liabilities that may affect the Company's financial position and operating results.

X. RISK MANAGEMENT

(I) Major Risks and Countermeasures relating to Operation of the Company

1. Credit risk

Credit risk refers to risk arising from a borrower or counterparty's failure to pay back debts as agreed in a timely manner. Credit risk of the Company is mainly generated from two aspects: (i) credit risk from financing business such as margin financing and securities lending and securities-backed lending, namely, risks of losses from failure to perform duties as agreed by customers; (ii) credit risk from credit product investment, namely, asset losses and changes in gains due to default or refusal to pay back principal and interests by the financier or issuer of the credit products.

Management Discussion and Analysis

Credit risk from financing activities can be controlled by (i) customer education, credit reference checks, credit approval, daily mark to market, risk reminders to clients and forced liquidation of client's positions; and (ii) conducting due diligence prior to approval of the projects, providing suggestions on risk control over key risks inherent in the project and maintaining constant risk monitoring over projects in performance to address problems once detected. Credit risks from credit product investment can be controlled by establishing pool access standards and caps of investment categories.

In addition, the Company has conducted stress test from time to time to define risk exposure of credit business of the Company.

2. Market risk

Market risk refers to the possibility of losses or reduced income due to overall or partial changes in the market. It consists of risk of price fluctuations of equity assets, interest risk and exchange rate risk. Risk of price fluctuations refers to the risk that the stock market may fluctuate and cause the prices of stocks and other securities products to change, which may incur losses for the Company. Interest risk refers to the risk arising from changes in market interest rates. Exchange rate risk refers to the possibility that the Company may incur losses due to changes in exchange rates during operating activities involving possession or use of foreign exchanges. The Company pays close attention to the foreign exchange market to study such market and make rational decisions. As a result, the changes in exchange rates only have a small impact on the Company. The Company has established a market management risk control system featured with regime, system, authorization mechanism, monitoring and reporting.

Regime: the Company formulated corresponding risk management regime over market risk management and market risk indicator monitoring. Besides, it established risk management rules over different business categories, mainly including market risk identification, assessment and monitoring.

System: the market risk management information system of the Company has been launched, which can monitor, calculate and analyse market risks.

Authorization mechanism: the Company has established a decision-making and authorization system with different authority levels having different investment authorization limits.

Monitoring and reporting: risk management department of the Company is in charge of monitoring the risk exposure of relevant business lines and sending risk warning to relevant business departments, and reporting to the Company's chief risk officer, risk management special committee and the Board when necessary; and the business department shall report the proposed risk response measures to the risk management department within time limits.

Management Discussion and Analysis

3. Liquidity risk

Liquidity risk refers to the risk where the Company fails to obtain sufficient funds in time at reasonable costs in order to repay mature debts, fulfill other payment obligations and satisfy the funding needs for carrying on normal business. To minimize liquidity risk, risk management department monitors the liquidity risk control indicator and conducts semi-annual liquidity risk stress tests to analyze the Company's ability to withstand short-term and long-term liquidity pressure. The Company's planning and financial department monitors and analyzes the matching of the Company's assets and liabilities from various time periods under both normal and stressed situations, the diversification and stability of the Company's capital resources, high-quality liquid assets and market liquidity and at the same time strengthens the management of the Company's liquidity during operating hours to maintain adequate liquidity position and related financing arrangements. The Company's planning and financial department establishes emergency plans for liquidity risks, taking into consideration the scale, nature, complexity, risk levels and results from stress tests, to ensure the Company is able to meet liquidity requirements in emergencies.

4. Compliance risk

Compliance risk refers to the risk of being subject to legal sanctions, regulatory measures, self-discipline penalties and loss of property or reputation among securities firms because the business activities or employee conduct violate laws, regulations or rules. The Company has established an effective sound compliance risk management system and compliance management organizational system. In order to promote the compliance management of the securities industry, the Company set up the legal and compliance department at an early stage, actively explored various models of compliance management and conducted effective management through compliance review, monitoring, examination, supervision and training. In addition, the Company has formulated and implemented comprehensive procedures for responding to and settling complaints and disputes. The Company has also established internal policies on engagement of external attorneys in the course of the Company's operation or dealing with disputes and legal proceedings when necessary.

5. Operational risk

Operational risk refers to the risk of financial loss resulting from the improper operation in transactional processes or the management system, mainly including internal policy and procedure, information system and inappropriate behavior of the staff. The Company formulated operational risk management system and the supporting process guidance. In addition, the Company established management system and operation guidance for different businesses in compliance with the latest requirements from domestic regulatory authorities and risk management demands of the Company while continuing to make improvements. The Company formulated management mechanism to select, debug, test and monitor the information system. Moreover, the Company conducted staff training through on-site and off-site means to sharpen their risk management awareness.

Management Discussion and Analysis

(II) Risk Management Measures (to be) Adopted by the Company

1. Establishing an appropriate risk management framework

The Company established a risk management framework led by the Board, which ensures implementation of all risk management measures of the Company by defining the risk management responsibilities at different levels including the Board, the Risk Control and Supervisory Committee, the Audit Committee, the management and the chief risk officer of the Company.

2. Further perfecting risk management institutional system

Pursuant to the relevant requirements of the Securities Law of the People's Republic of China, Regulations on Supervision and Management of Securities Companies, Measures for Managing the Risk Control Indexes of Securities Companies, Norms for the All-rounded Risk Management of Securities Companies, Management Measures on Liquidity Risk Management of Securities Companies and other laws, regulations and regulatory provisions and Articles of Association of Hengtai Securities Co., Ltd and other internal rules and regulations, the Company established Risk Management Measures, Administrative Measures for Liquidity Risk Management, Market Risk Management Provisions, Credit Risk Management Provisions, Regulations for Operation Risk Management and other specific risk management regulations. The Company has completed the amendments and modifications to six special risk management provisions concerning net capital, stress tests and real-time monitoring and formulated risk management stipulations in relation to the standards of entry into the asset pool for non-standard businesses, due diligence, post-investment management, risk review and NEEQ market-making. According to the changes of the market environment and regulatory policies, the Company completed the revision of systems in respect of business risk management including margin financing and securities lending business, securities-backed lending so as to form a relatively sound institutional system.

3. Further improving risk management information system

The Company has kept upgrading the internal control system covering various businesses, comprehensive risk management system and risk management modules embedded in various business systems while continuing to make supplements to the comprehensive risk management system modules from the perspective of internal credit-rating, liquidity risk management and risk preferences based on needs for risk management. The Company has rudimentarily realized the quantitative management of credit risk and liquidity risk as well as the establishment and improvement of the risk preference system. The Company has completed the consulting, system development and the launching deployment of credit risk; the consulting and system development of liquidity risk and FTP, which is now under system test; and the preliminary consulting and low-rank indicator determination of the risk preference system, which is now in the course of development.

In the meantime, the Company has devoted significant efforts in functional upgrade and optimization of the existing risk management information system: firstly, the Company launched the Net Capital System Version 4.0, which increased the promptness and accuracy of monitoring of risk management indicators; secondly, according to the needs of business implementation and risk management, certain risk monitoring functions were added to the real-time monitoring system in order to match up the application of new business qualifications.

Management Discussion and Analysis

4. **Establishing a working mechanism of stress test normalization**

On top of conducting a comprehensive stress test annually, the Company studied and established special stress test modes with respect to various business and special risk types so as to a relatively integrated tool library of stress test modes. In consideration of the specific market environment and the operation of the Company, the Company also carried out regular and occasional stress tests, aiming at prospectively analyzing the impacts of various risk factors on the profitability of the businesses and risk tolerance levels of the Company.

5. **Promoting the quantification level of risk assessment**

For market risks regarding securities investment, the Company increased the accuracy and practicality of quantitative assessment and thus provided certain support to the decision-making of business by continuously consummating the measurement model and system functions; for credit risks regarding non-standard businesses, the Company has kept perfecting the special risk appraisal mechanism while enhancing the capability of risk factors identification and analysis, the quantification level of assessment and the appraisal objectivity by means of on-site due diligence investigation, appraisal analysis and credit rating conducted by the risk management department.

Other Material Particulars

I. PROFIT DISTRIBUTION AND PROFIT DISTRIBUTION PLAN

(I) Implementation of the 2015 Profit Distribution Plan

The resolution in relation to the 2015 annual profit distribution plan was considered and approved at the 2015 annual general meeting of the Company held on May 27, 2016, according to which, cash dividend of RMB1.00 per 10 Shares (tax inclusive) and RMB260,456,741.20 in aggregate (tax inclusive) based on the total number of issued Shares of 2,604,567,412 Shares as at December 31, 2015 would be distributed to holders of Domestic Shares and H Shares whose names appear on the register of members of the Company as at close of business on June 7, 2016.

The 2015 final dividend was denominated and declared in RMB, and payable in RMB and in HK dollars to holders of Domestic Shares and H Shares, respectively. The amount distributed in HK dollars was calculated based on the average benchmark exchange rate of RMB against HK dollar (HK\$1.00 for RMB0.843834) announced by the People's Bank of China for the five working days prior to the date of the 2015 annual general meeting, and therefore the dividend payable per 10 H Shares was HK\$1.185067 (tax inclusive). The distribution of the 2015 final dividends of the Company was completed on July 25, 2016.

(II) The 2016 Interim Profit Distribution Plan

The Company did not have any profit distribution plan for the first half of 2016.

II. SHARE OPTION SCHEME AND EQUITY INCENTIVE SCHEME

During the Reporting Period, the Company did not adopt nor implement any share option scheme or equity incentive scheme.

III. SIGNIFICANT LAWSUITS

During the Reporting Period, the Company was not involved in any significant lawsuits or arbitration cases.

IV. SIGNIFICANT CONTRACTS AND CONTRACT FULFILLMENT

The Company entered into a property lease contract with China Everbright Bank, Hohhot Branch, leasing 14-18/F, Everbright Bank Building, Oriental Junzuo Block D, Chile Chuan Avenue, Saihan District, Hohhot, Inner Mongolia Autonomous Region, China. The rental during the Reporting Period was RMB3,001,500.

The Company entered into a property lease contract with China Life Real Estate Co., Limited, leasing Unit 1101, 11/F, China Life Centre, Financial Street, Xicheng District, Beijing, China. The rental during the Reporting Period was RMB7,992,800.

Other Material Particulars

V. ENGAGEMENT OF ACCOUNTING FIRMS

During the Reporting Period, the Company reappointed Ruihua Certified Public Accountants LLP as its external audit institution of 2016 for providing audit service based on China Accounting Standards for Business Enterprises. The Company also appointed RSM Hong Kong as its external audit institution of 2016 for providing relevant audit and review services based on the International Financial Reporting Standards.

VI. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company exerts its effort in maintaining high quality corporate governance in order to protect the interest of its shareholders and enhance its corporate value and accountability. During the Reporting Period, the Company has been in strict compliance with all the code provisions of Corporate Governance Code (if applicable). The Company will continue to review and enhance its corporate governance practice so as to ensure the compliance with the Corporate Governance Code.

VII. CORPORATE GOVERNANCE

(I) General Meeting

The Articles of Association and the Rules of Procedure for General Meetings have stipulated the rights and obligations of the Shareholders and the convocation, voting and proposal of general meetings. During the Reporting Period, the Company convened 1 general meeting.

(II) Operation of the Board and its Special Committees

The Board comprises 8 Directors, including 2 executive Directors (Mr. Pang Jiemin (Chairman) and Mr. Wu Yigang), 3 non-executive Directors (Mr. Zhang Tao, Mr. Chen Guanglei and Mr. Sun Chao) and 3 independent non-executive Directors (Mr. Peng Diyun, Ms. Zhou Jianjun and Dr. Lam Sek Kong).

The Board consists of 4 special committees, including Strategy and Investment Committee, Risk Control and Supervisory Committee, Audit Committee and Remuneration and Nomination Committee. The special committees of the Board shall, within their terms of reference specified in the rules of respective procedures, conduct work and be accountable to the Board.

Composition of Committees:

Strategy and Investment Committee:	Pang Jiemin (Chairman), Sun Chao and Lam Sek Kong
Risk Control and Supervisory Committee:	Zhang Tao and Wu Yigang
Audit Committee:	Zhou Jianjun (Chairman), Zhang Tao and Lam Sek Kong
Remuneration and Nomination Committee:	Peng Diyun (Chairman) and Zhou Jianjun

During the Reporting Period, the Board convened 8 meetings to consider 31 proposals; the Audit Committee, the Risk Control and Supervisory Committee and the Remuneration and Nomination Committee convened 1 meeting, 1 meeting and 2 meetings, respectively.

The Audit Committee has reviewed and confirmed this report.

Other Material Particulars

(III) Operation of the Supervisory Committee

Supervisory Committee consists of 3 members, namely, Mr. Guo Liwen, the chairman, Ms. Pei Jingjing, the shareholder representative Supervisor, and Mr. Wang Hui, the employee representative Supervisor. During the Reporting Period, the Supervisory Committee convened 2 meetings to consider 7 proposals. The Supervisors performed their duties diligently and supervised the operation of the Company in accordance with relevant laws and regulations and the relevant requirements of the Articles of Association, so as to protect the legitimate interests of the Company, the Shareholders and investors.

VIII. COMPLIANCE WITH MODEL CODE

The Company has also adopted the Model Code as its code of conduct regarding securities transactions by the Directors and Supervisors. The Company has made specific enquiry with all Directors and Supervisors, all Directors and Supervisors confirmed that they have complied with the required standards set out in the Model Code during the Reporting Period.

IX. DIRECTOR AND SUPERVISOR SERVICE CONTRACT

No Directors or Supervisors entered into any service contract with the Company or its subsidiaries which shall be compensated (except for statutory compensation) upon termination within one year.

X. DIRECTORS' AND SUPERVISORS' RIGHT TO PURCHASE SHARES OR DEBENTURES

During the Reporting Period, no Directors, Supervisors or their respective spouse or children under the age of 18 purchase the shares or debentures of the Company to obtain rights, or such persons exercise any such right; or no arrangements have been made by the Company or any of its subsidiaries to entitle such right to the Directors, Supervisors or their respective spouse or children under the age of 18 in any other body corporate.

XI. 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.

Changes in Shareholdings and Particulars about Shareholders

I. INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES IN THE COMPANY HELD BY SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

So far as Directors are aware after making all reasonable enquiries, as at June 30, 2016, the following persons (other than the Directors, Supervisors or chief executive of the Company) had interests or short positions in shares or underlying shares which are required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or which are recorded in the register required to be kept pursuant to Section 336 of the SFO:

Name of shareholders	Class of shares	Nature of interest	Number of shares held (shares)	Approximate percentage of total number of issued shares of the Company (%)	Approximate percentage of the Company's total issued Domestic Shares/ H Shares (%)		Long positions/ short positions/ shares available for lending
Huarong Infrastructure ¹	Domestic Shares	Beneficial owner	155,079,698	5.95	7.20		Long position
Finance Street Capital ¹	Domestic Shares	Interests of controlled corporation	155,079,698	5.95	7.20		Long position
Finance Street Investment ²	Domestic Shares	Beneficial owner	165,418,345	6.35	7.68		Long position
Finance Street Xihuan Properties ³	Domestic Shares	Beneficial owner	211,472,315	8.12	9.82		Long position
Huarong Investment ³	Domestic Shares	Interests of controlled corporation	211,472,315	8.12	9.82		Long position
SASAC Xicheng District ^{1, 2, 3}	Domestic Shares	Interests of controlled corporation	531,970,358	20.42	24.70		Long position
Baotou Huazi ⁴	Domestic Shares	Beneficial owner/parties acting in concert	443,868,000	17.04	20.61		Long position
Tomorrow Holding ⁴	Domestic Shares	Interests of controlled corporation/parties acting in concert	443,868,000	17.04	20.61		Long position
Zhongchang Hengyuan ⁴	Domestic Shares	Beneficial owner/parties acting in concert	443,868,000	17.04	20.61		Long position
Shanghai Yida ⁴	Domestic Shares	Beneficial owner/parties acting in concert	443,868,000	17.04	20.61		Long position
Huifa Investment ⁵	Domestic Shares	Beneficial owner	154,000,000	5.91	7.15		Long position

Changes in Shareholdings and Particulars about Shareholders

Name of shareholders	Class of shares	Nature of interest	Number of shares held (shares)	Approximate	Approximate	Long positions/ short positions/ shares available for lending
				percentage of total issued Shares/ H Shares (%)	percentage of total number of issued shares of the Company (%)	
Ms. Chen Shan ⁵	Domestic Shares	Interests of controlled corporation	154,000,000	5.91	7.15	Long position
Mr. Shen Weimin ⁵	Domestic Shares	Interests of controlled corporation	154,000,000	5.91	7.15	Long position
Huijin Jiaye ⁶	Domestic Shares	Beneficial owner	206,182,000	7.92	9.57	Long position
Shanghai Xishida ⁶	Domestic Shares	Interests of controlled corporation	206,182,000	7.92	9.57	Long position
Shenzhen Zhongxin ⁶	Domestic Shares	Interests of controlled corporation	206,182,000	7.92	9.57	Long position
Shanghai Julu ⁶	Domestic Shares	Interests of controlled corporation	206,182,000	7.92	9.57	Long position
Mr. Ci Penghui ⁶	Domestic Shares	Interests of controlled corporation	206,182,000	7.92	9.57	Long position
Qingyun Intercontinental ⁷	Domestic Shares	Beneficial owner	226,961,315	8.71	10.54	Long position
Ningbo Shike ⁷	Domestic Shares	Interests of controlled corporation	226,961,315	8.71	10.54	Long position
Shaanxi Hongya ⁷	Domestic Shares	Interests of controlled corporation	226,961,315	8.71	10.54	Long position
Mr. Duan Shuai ⁷	Domestic Shares	Interests of controlled corporation	226,961,315	8.71	10.54	Long position
Mr. Sun Yuanlin ⁷	Domestic Shares	Interests of controlled corporation	226,961,315	8.71	10.54	Long position
Hongzhi Huitong ⁸	Domestic Shares	Beneficial owner	154,000,000	5.91	7.15	Long position
Shaanxi Tianchen ⁸	Domestic Shares	Interests of controlled corporation	154,000,000	5.91	7.15	Long position
Hangzhou Ruisi ⁸	Domestic Shares	Interests of controlled corporation	154,000,000	5.91	7.15	Long position
Suzhou Bingtai ⁸	Domestic Shares	Interests of controlled corporation	154,000,000	5.91	7.15	Long position
Mr. Zhang Li ⁸	Domestic Shares	Interests of controlled corporation	154,000,000	5.91	7.15	Long position
Nice Hill International Limited ⁹	H Shares	Beneficial owner	39,540,000	1.52	8.77	Long position
Mason Investments Limited ⁹	H Shares	Interests of controlled corporation	39,540,000	1.52	8.77	Long position
Mason Assets Limited ⁹	H Shares	Interests of controlled corporation	39,540,000	1.52	8.77	Long position
Mason Financial Services Group Limited ^{9, 10}	H Shares	Interests of controlled corporation	39,540,000	1.52	8.77	Long position
Mason Financial Services Group Limited ^{9, 11}	H Shares	Interests of controlled corporation	39,540,000	1.52	8.77	Long position
Mason Financial Holdings Limited ⁹	H Shares	Interests of controlled corporation	39,540,000	1.52	8.77	Long position

Notes:

- Huarong Infrastructure is wholly-owned by Finance Street Capital, which is in turn wholly-owned by SASAC Xicheng District. Therefore, each of Finance Street Capital and SASAC Xicheng District is deemed to be interested in 155,079,698 Domestic Shares held by Huarong Infrastructure.
- Finance Street Investment is wholly-owned by SASAC Xicheng District. Therefore, SASAC Xicheng District is deemed to be interested in 165,418,345 Domestic Shares held by Finance Street Investment.

Changes in Shareholdings and Particulars about Shareholders

3. 90.00% of the equity interest in Finance Street Xihuan Properties is held by Huarong Investment, which is in turn wholly-owned by SASAC Xicheng District. Therefore, each of Huarong Investment and SASAC Xicheng District is deemed to be interested in 211,472,315 Domestic Shares held by Finance Street Xihuan Properties.
4. Tomorrow Holding, Zhongchang Hengyuan and Shanghai Yida have entered into an agreement to act in concert in respect of their shareholding in the Company. Therefore, each of Tomorrow Holding, Baotou Huazi (which is held by Tomorrow Holding as to approximately 54.32%), Zhongchang Hengyuan and Shanghai Yida is deemed to be interested in 443,868,000 Domestic Shares (being an aggregate of 308,000,000, 75,100,000 and 60,768,000 Domestic Shares held by Baotou Huazi, Zhongchang Hengyuan and Shanghai Yida, respectively).
5. Approximately 53.33% and 46.67% of the equity interest in Huifa Investment is held by Mr. Shen Weimin and Ms. Chen Shan, respectively. Therefore, each of Mr. Shen Weimin and Ms. Chen Shan is deemed to be interested in 154,000,000 Domestic Shares held by Huifa Investment.
6. 99.99% of the equity interest in Huijin Jiaye is held by Shanghai Xishida. 95.00% of the equity interest in Shanghai Xishida is held by Shenzhen Zhongxin. 99.47% of the equity interest in Shenzhen Zhongxin is held by Shanghai Julu. 35.00% of the equity interest in Shanghai Julu is held by Mr. Ci Penghui. Therefore, each of Shanghai Xishida, Shenzhen Zhongxin, Shanghai Julu, and Mr. Ci Penghui is deemed to be interested in 206,182,000 Domestic Shares held by Huijin Jiaye.
7. 70% of the equity interest in Qingyun Intercontinental is held by Ningbo Shike, which is in turn held by Shaanxi Hongya as to 99.60%. Shaanxi Hongya is held by Mr. Duan Shuai and Mr. Sun Yuanlin as to 49% and 51%, respectively. Moreover, 0.40% of the equity interest in Ningbo Shike is held by Mr. Sun Yuanlin. Therefore, each of Ningbo Shike, Shaanxi Hongya, Mr. Duan Shuai and Mr. Sun Yuanlin is deemed to be interested in 226,961,315 Domestic Shares held by Qingyun Intercontinental.
8. 97.08% of the equity interest in Hongzhi Huitong is held by Shaanxi Tianchen. 98.67% of the equity interest in Shaanxi Tianchen is held by Hangzhou Ruisi. 90.00% of the equity interest in Hangzhou Ruisi is held by Suzhou Bingtai. 81.82% of the equity interest in Suzhou Bingtai is held by Mr. Zhang Li. Therefore, each of Shaanxi Tianchen, Hangzhou Ruisi, Suzhou Bingtai and Mr. Zhang Li is deemed to be interested in 154,000,000 Domestic Shares held by Hongzhi Huitong.
9. Nice Hill International Limited is wholly-owned by Mason Investments Limited, which is in turn wholly-owned by Mason Assets Limited; while Mason Assets Limited is wholly-owned by Mason Financial Services Group Limited (which is located in the Marshall Islands); Mason Financial Services Group Limited (which is located in the Marshall Islands) is wholly-owned by Mason Financial Services Group Limited (which is located in the Cayman Islands), which is in turn wholly-owned by Mason Financial Holdings Limited. Therefore, each of Mason Investments Limited, Mason Assets Limited, Mason Financial Services Group Limited, Mason Financial Services Group Limited and Mason Financial Holdings Limited is deemed to be interested in 39,540,000 H Shares held by Nice Hill International Limited.
10. Mason Financial Services Group Limited referred is located in Marshall Islands.
11. Mason Financial Services Group Limited referred is located in Cayman Islands.

Save as disclosed above, as at June 30, 2016, the Company is not aware of any other persons (excluding the Directors, Supervisors and chief executives of the Company) having the interests or short positions in the Shares or underlying Shares required to be recorded in the register under Section 336 of the SFO.

Changes in Shareholdings and Particulars about Shareholders

II. INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ANY OF ITS ASSOCIATED CORPORATIONS

As at June 30, 2016, based on the information acquired by the Company and to the knowledge of the Directors, the Directors, Supervisors and chief executives of the Company have no (i) interests and short positions (including the interests or short positions considered or deemed to have according to such provisions of the SFO) which shall be notified to the Company and the Hong Kong Stock Exchange in accordance with Sections 7 and 8 of Part XV under the SFO, or (ii) interests or short positions which shall be recorded in the interests register in accordance with section 352 of the SFO, or (iii) interests or short positions which shall be notified to the Company and the Hong Kong Stock Exchange in accordance with the requirements of the Model Code in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO), save as disclosed as follows:

Name	Class of shares	Nature of interest	Number of shares held (Shares)	Approximate percentage of total number of issued shares of the Company (%)	Approximate	Long positions/ short positions/ shares available for lending
					percentage of the Company's total issued Domestic Shares/ H Shares (%)	
Supervisor						
Ms. Pei Jingjing ¹	Domestic Shares	Interests of controlled corporation	206,182,000	7.92	9.57	Long position

Note 1: 99.99% and 0.01% of the equity interest in Huijin Jiaye are held by Shanghai Xishida and Ms. Pei Jingjing, who is a Supervisor of the Company, respectively. 95% and 2% of the equity interest in Shanghai Xishida are held by Shenzhen Zhongxin and Ms. Pei Jingjing, respectively. Approximately 99.47% of the equity interest in Shenzhen Zhongxin is held by Shanghai Julu. 35% and 35% of the equity interest in Shanghai Julu are held by Ms. Pei Jingjing and Mr. Ci Penghui, respectively. Therefore, Ms. Pei Jingjing is deemed to be interested in 206,182,000 Domestic Shares held by Huijin Jiaye.

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

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the Reporting Period.

Directors, Supervisors, Senior Management and Employees

I. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at the end of the Reporting Period, there was no change in details of Directors and Supervisors which are required to be disclosed pursuant to Rule 13.51B of the Listing Rules as compared with those disclosed in the 2015 annual report, save for the followings:

(I) Changes in Directors

Mr. Ju Jin has tendered his resignation as a non-executive Director, the chairman and a member of the Risk Control and Supervisory Committee and a member of the Remuneration and Nomination Committee of the Company with effect from April 25, 2016 to focus on his other engagements.

(II) Changes in Supervisors

Nil.

(III) Changes in Senior Management

On May 31, 2016, the proposal in relation to Mr. Deng Hao's resignation as the vice president of the Company was considered and approved at the 34th extraordinary meeting of the 3rd session of the Board. Mr. Deng Hao resigned as the vice president of the Company due to focus on his other engagements.

On May 31, 2016, the proposal for the appointment of Mr. Liu Quansheng as the vice president of the Company was considered and approved at the 34th extraordinary meeting of the 3rd session of the Board, at which the appointment of Mr. Liu Quansheng as the vice president of the Company was approved. The term of Mr. Liu to perform his responsibilities as the vice president of the Company is subject to the verification and approval of the relevant regulatory authority. On July 7, 2016, the Company received the Approval of the Qualification of a Senior Management Members of Hengtai Securities Co., Ltd (Nei Zheng Jian Xu Ke [2016] No. 9) (關於核准恒泰證券股份有限公司經理層高級管理人員任職資格的批覆) (內證監許可[2016] 9號) issued by the Inner Mongolia Regulatory Bureau of CSRC, which approved the qualification of Mr. Liu Quansheng as the senior management of the Company.

(IV) Other Information

Mr. Pang Jiemin (the chairman of the Board) has served as the president of Inner Mongolia Securities & Futures Association in China since April 22, 2016, with a term of three years.

Directors, Supervisors, Senior Management and Employees

II. EMPLOYEES, REMUNERATION POLICY AND TRAINING

As at the end of the Reporting Period, the Group had 1,811 employees in total, including 1,446 employees of the Company and 365 employees of its subsidiaries.

The remuneration of employees comprises of basic wage, allowances, benefits and others. The Company has made contributions to include, but not limited to, social insurance and housing provident fund on behalf of employees in accordance with relevant requirements of the PRC. The Company has strictly complied with the Labor Law, Labor Contract Law and other external laws and regulations, and established a sound human resources management system and process, standardized employment procedures, so as to effectively protect the rights and interests of the employees.

The Company has always paid special attention to staff training. The Company made surveys and analysis in respect of training needs at the beginning of the year and compiled the annual training plan upon consolidation, statistics and analysis of the data collected. During the Reporting Period, 28 external trainings and 7 internal on-site trainings were organized, providing trainings for 119 employees and 537 employees respectively.

Independent Review Report



TO THE BOARD OF DIRECTORS OF HENGTOU SECURITIES

(a joint stock company incorporated in the People's Republic of China with limited liability under the Chinese corporate name "恒泰证券股份有限公司" and carrying on business in Hong Kong as "恒投證券" (in Chinese) and "HENGTOU SECURITIES" (in English))

INTRODUCTION

We have reviewed the interim financial information set out on pages 42 to 80 which comprises the condensed consolidated statement of financial position of the Company as at 30 June 2016 and the related condensed consolidated statement of profit or loss, condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by International Accounting Standards Board. The directors are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

OTHER MATTER

The comparative condensed consolidated financial information for the six months ended 30 June 2015 has not been reviewed in accordance with standards applicable to review engagements issued by the Hong Kong Institute of Certified Public Accountants.

RSM Hong Kong
Certified Public Accountants

Hong Kong
25 August 2016

Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June	
		2016 (unaudited)	2015 (unaudited)
Revenue			
Fees and commission income	3	1,086,769	1,566,108
Interest income	4	400,071	453,760
Net investment income	5	159,980	910,782
Total revenue		1,646,820	2,930,650
Other income and gains	6	15,024	3,097
Total revenue and other income		1,661,844	2,933,747
Fees and commission expenses	7	(80,384)	(153,419)
Interest expenses	8	(362,735)	(344,791)
Staff costs	9	(533,648)	(580,174)
Depreciation and amortisation	10	(38,539)	(29,597)
Business tax and surcharge		(62,183)	(128,627)
Other operating expenses	11	(309,311)	(194,672)
Reversal/(provision) of impairment losses	12	6,196	(19,817)
Total operating expenses		(1,380,604)	(1,451,097)
Operating profit		281,240	1,482,650
Share of (loss)/profit of associates		(1,050)	34,323
Profit before tax		280,190	1,516,973
Income tax expense	13	(52,049)	(334,686)
Profit for the period		228,141	1,182,287
Attributable to:			
Ordinary shareholders of the Company		197,545	1,182,287
Non-controlling interests		30,596	–
		228,141	1,182,287
Earnings per share			
Basic and diluted	15	RMB0.06	RMB0.54

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June	
		2016 (unaudited)	2015 (unaudited)
Profit for the period		228,141	1,182,287
Other comprehensive income:			
<i>Items that will be reclassified to profit or loss:</i>			
Available-for-sale financial assets:			
Net movement in the investment revaluation reserve		4,668	(112,826)
Share of other comprehensive income of associates		—	(69)
Other comprehensive income for the period, net of tax	14	4,668	(112,895)
Total comprehensive income for the period		232,809	1,069,392
Attributable to:			
Ordinary shareholders of the Company		204,313	1,069,392
Non-controlling interests		28,496	—
		232,809	1,069,392

Condensed Consolidated Statement of Financial Position

As at 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	30 June 2016 (unaudited)	31 December 2015 (audited)
Non-current assets			
Property and equipment	17	493,941	445,455
Investment properties		19,528	19,941
Goodwill		43,739	43,739
Intangible assets		77,794	87,838
Interest in associates		8,950	10,000
Available-for-sale financial assets	18	2,425,999	2,187,322
Financial assets held under resale agreements	19	119,400	119,400
Refundable deposits		717,879	875,415
Deferred tax assets		48,954	103,819
Other non-current assets	20	294,386	290,886
Total non-current assets		4,250,570	4,183,815
Current assets			
Margin account receivables	21	4,657,800	6,217,332
Other current assets	22	674,771	639,762
Available-for-sale financial assets	18	547,699	557,186
Financial assets held under resale agreements	19	981,711	164,215
Financial assets at fair value through profit or loss	23	9,575,792	9,871,588
Cash held on behalf of brokerage clients	24	12,648,490	13,784,064
Clearing settlement funds		928,646	868,540
Cash and bank balances		2,816,995	2,881,171
Total current assets		32,831,904	34,983,858
TOTAL ASSETS		37,082,474	39,167,673
Current liabilities			
Debt instruments issued	26	2,182,253	2,043,460
Placement from other financial institutes		290,000	565,000
Account payables to brokerage clients	27	12,942,105	13,977,558
Employee benefit payables		384,870	749,435
Other current liabilities	28	2,763,347	2,487,577
Current tax liabilities		72,353	210,457
Financial assets sold under repurchase agreements	29	5,295,698	6,732,913
Financial liabilities at fair value through profit or loss	30	-	22,276
Total current liabilities		23,930,626	26,788,676
Net current assets		8,901,278	8,195,182
Total assets less current liabilities		13,151,848	12,378,997

Condensed Consolidated Statement of Financial Position

As at 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	30 June 2016 (unaudited)	31 December 2015 (audited)
Non-current liabilities			
Debt instruments issued	26	3,519,264	2,629,093
Deferred revenue		1,876	2,472
Deferred tax liabilities		19,974	14,400
Total non-current liabilities		3,541,114	2,645,965
Net assets			
		9,610,734	9,733,032
Equity			
Share capital	31	2,604,567	2,604,567
Share premium		1,661,236	1,661,236
Perpetual capital securities	32	1,500,000	1,500,000
Reserves		3,607,721	3,765,865
Total equity attributable to ordinary shareholders of the Company and holders of perpetual capital securities		9,373,524	9,531,668
Non-controlling interests		237,210	201,364
TOTAL EQUITY		9,610,734	9,733,032

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

(Unaudited)												
Attributable to ordinary shareholders of the Company and holders of perpetual capital securities												
	Share capital	Share premium	Perpetual capital securities	Surplus reserve	General risk reserve	Transactions risk reserve	Investment revaluation reserve	Share of other comprehensive income of associates	Retained profits	Total	Non-controlling interests	Total equity
At 1 January 2015	2,194,707	813,953	-	243,383	345,687	333,481	255,001	567	1,088,218	5,274,997	-	5,274,997
Total comprehensive income for the period	-	-	-	-	-	-	(112,826)	(69)	1,182,287	1,069,392	-	1,069,392
Issuance of perpetual capital securities	-	-	1,500,000	-	-	-	-	-	-	1,500,000	-	1,500,000
Changes in equity for the period	-	-	1,500,000	-	-	-	(112,826)	(69)	1,182,287	2,569,392	-	2,569,392
At 30 June 2015	<u>2,194,707</u>	<u>813,953</u>	<u>1,500,000</u>	<u>243,383</u>	<u>345,687</u>	<u>333,481</u>	<u>142,175</u>	<u>498</u>	<u>2,270,505</u>	<u>7,844,389</u>	<u>-</u>	<u>7,844,389</u>
At 1 January 2016	<u>2,604,567</u>	<u>1,661,236</u>	<u>1,500,000</u>	<u>425,812</u>	<u>537,026</u>	<u>518,253</u>	<u>54,324</u>	<u>-</u>	<u>2,230,450</u>	<u>9,531,668</u>	<u>201,364</u>	<u>9,733,032</u>
Total comprehensive income for the period	-	-	-	-	-	-	6,768	-	197,545	204,313	28,496	232,809
Dividend paid (Note 16)	-	-	-	-	-	-	-	-	(362,457)	(362,457)	-	(362,457)
Capital contribution by non-controlling shareholders of a subsidiary	-	-	-	-	-	-	-	-	-	-	7,350	7,350
Changes in equity for the period	-	-	-	-	-	-	6,768	-	(164,912)	(158,144)	35,846	(122,298)
At 30 June 2016	<u>2,604,567</u>	<u>1,661,236</u>	<u>1,500,000</u>	<u>425,812</u>	<u>537,026</u>	<u>518,253</u>	<u>61,092</u>	<u>-</u>	<u>2,065,538</u>	<u>9,373,524</u>	<u>237,210</u>	<u>9,610,734</u>

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June	
		2016 (unaudited)	2015 (unaudited)
NET CASH GENERATED FROM OPERATING ACTIVITIES		185,848	174,665
Proceeds from disposal of property and equipment, investment properties, intangible assets and other non-current assets		66	5
Dividend income and interest income received from available-for-sale financial assets		11,913	36,239
Proceeds on disposal of available-for-sale financial assets		435,374	1,149,856
Purchases of available-for-sale financial assets		(617,828)	(1,060,260)
Purchases of property and equipment, investment properties, intangible assets and other non-current assets		(75,914)	(9,068)
Other net cash flows from investing activities		2,790	–
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES		(243,599)	116,772
Capital contribution by non-controlling shareholders of a subsidiary		7,350	–
Proceeds from issuance of perpetual capital securities		–	1,500,000
Proceeds from issuance of debt instruments		1,500,000	3,893,350
Repayment of debt instruments		(500,000)	(2,600,000)
Interest paid for financing activities		(45,881)	(32,977)
Dividends paid		(102,000)	–
Other net cash flows from financing activities		(131,546)	81,000
NET CASH GENERATED FROM FINANCING ACTIVITIES		727,923	2,841,373
NET INCREASE IN CASH AND CASH EQUIVALENTS		670,172	3,132,810
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		3,569,426	1,848,149
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		919	–
CASH AND CASH EQUIVALENTS AT END OF PERIOD	25	4,240,517	4,980,959

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

1. BASIS OF PREPARATION

These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” issued by International Accounting Standards Board and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These condensed consolidated financial statements should be read in conjunction with the 2015 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2015 except as stated below.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board that are relevant to its operations and effective for its accounting period beginning on 1 January 2016. IFRSs comprise International Financial Reporting Standards; International Accounting Standards; and Interpretations. The adoption of these new and revised IFRSs did not have any significant effect on the condensed consolidated financial statements.

3. FEES AND COMMISSION INCOME

	Six months ended 30 June	
	2016 (unaudited)	2015 (unaudited)
Fees and commission income arising from:		
– Securities and brokerage business	522,053	1,298,489
– Assets management business	280,573	123,752
– Underwriting and sponsoring business	185,422	87,514
– Future brokerage business	25,724	30,998
– Financial advisory business	60,416	23,621
– Investment advisory business	11,516	1,734
– Custody business	1,065	–
	<u>1,086,769</u>	<u>1,566,108</u>
Total		

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

4. INTEREST INCOME

	Six months ended 30 June	
	2016 (unaudited)	2015 (unaudited)
Interest income arising from:		
– Margin finance and securities lending	221,937	297,123
– Deposits in financial institutions	165,047	133,152
– Financial assets held under resale agreements	13,087	22,979
– Others	–	506
Total	<u>400,071</u>	<u>453,760</u>

5. NET INVESTMENT INCOME

	Six months ended 30 June	
	2016 (unaudited)	2015 (unaudited)
Net realised gain from disposal of available-for-sale financial assets	19,780	306,500
Dividend income and interest income from available-for-sale financial assets	9,139	26,352
Net gain from financial instruments at fair value through profit or loss	99,159	588,638
Net gain/(loss) from derivative financial instruments	17,723	(10,708)
Interest income from investments classified as receivables	14,179	–
Total	<u>159,980</u>	<u>910,782</u>

6. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2016 (unaudited)	2015 (unaudited)
Foreign exchange gain/(loss)	1,470	(22)
Rental income	1,504	2,983
Government grants	8,007	–
Loss on disposal of property and equipment and intangible assets	(17)	(60)
Others	4,060	196
Total	<u>15,024</u>	<u>3,097</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

7. FEES AND COMMISSION EXPENSES

	Six months ended 30 June	
	2016 (unaudited)	2015 (unaudited)
Expenses arising from:		
– Securities brokerage business	78,755	152,779
– Underwriting and sponsoring business	1,379	640
– Investment advisory business	250	–
Total	80,384	153,419

8. INTEREST EXPENSES

	Six months ended 30 June	
	2016 (unaudited)	2015 (unaudited)
Interest expenses arising from:		
– Account payables to brokerage clients	22,215	20,527
– Placement from other financial institutions	11,903	84,926
– Financial assets under repurchase agreements	138,938	83,418
– Debts instruments issued	157,454	104,035
– Other investors under the assets management schemes	32,081	51,885
– Others	144	–
Total	362,735	344,791

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

9. STAFF COSTS

	Six months ended 30 June	
	2016 (unaudited)	2015 (unaudited)
Short-term benefits	511,337	564,590
Defined contribution plan	22,311	15,584
Total	<u>533,648</u>	<u>580,174</u>

The Group is required to participate in pension schemes in the People's Republic of China ("PRC") whereby the Group is required to pay annual contributions for its employees at certain rates of the wages of employees. The Group has no other material obligations for payment of retirement benefits to its employees beyond the contributions described above.

10. DEPRECIATION AND AMORTISATION

	Six months ended 30 June	
	2016 (unaudited)	2015 (unaudited)
Depreciation of property and equipment	15,622	12,080
Depreciation of investment properties	413	413
Amortisation of intangible assets	13,311	8,051
Amortisation of leasehold properties and long term prepaid expenses	9,193	9,053
Total	<u>38,539</u>	<u>29,597</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

11. OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2016 (unaudited)	2015 (unaudited)
Electronic equipment operating expenses	44,653	25,597
Consulting fees	35,809	21,849
Rental expenses	54,757	26,282
Miscellaneous office expenses	17,218	19,524
Business travel expenses	22,927	19,664
Securities investor protection funds	8,944	20,257
Postal and communication expenses	7,669	5,854
Business entertainment expenses	9,245	5,015
Auditor's remuneration	4,342	1,191
Utilities and building management fees	7,111	5,456
Other commission expenses	34,151	–
Others	62,485	43,983
Total	309,311	194,672

12. (REVERSAL)/PROVISION OF IMPAIRMENT LOSSES

	Six months ended 30 June	
	2016 (unaudited)	2015 (unaudited)
(Reversal)/provision of margin financing and securities lending	(7,861)	15,052
Provision of available-for-sale financial assets	–	4,891
Provision of financial assets held under resale agreements	1,141	–
Provision/(reversal) of impairment losses against other current assets	524	(126)
Total	(6,196)	19,817

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

13. INCOME TAX EXPENSE

	Six months ended 30 June	
	2016 (unaudited)	2015 (unaudited)
Current tax	(6,833)	339,704
Deferred tax	58,882	(5,018)
Total	<u>52,049</u>	<u>334,686</u>

The provision for the PRC income tax is calculated based on the statutory income tax rate of 25%.

14. OTHER COMPREHENSIVE INCOME FOR THE PERIOD

Components of other comprehensive income, including reclassification adjustments.

	Six months ended 30 June	
	2016 (unaudited)	2015 (unaudited)
Fair value gain on available-for-sale financial assets	26,004	156,065
Less: Transfer to profit or loss upon disposal	(19,780)	(306,500)
Tax effect	(1,556)	37,609
Subtotal	4,668	(112,826)
Share of other comprehensive income of associates	—	(69)
Total	<u>4,668</u>	<u>(112,895)</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

15. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2016	2015
	(unaudited)	(unaudited)
Earnings		
Profit attributable to ordinary shareholders of the Company	197,545	1,182,287
Less: Dividends for cumulative perpetual capital securities required	(50,860)	(559)
	146,685	1,181,728
Number of shares		
Weighted average number of ordinary shares used in basic earnings per share calculation	2,604,567	2,194,707

For the six months ended 30 June 2016, there were no dilutive potential ordinary shares (2015: Nil), so the diluted earnings per share were the same as the basic earnings per share.

16. DIVIDENDS

	Six months ended 30 June	
	2016	2015
	(unaudited)	(unaudited)
Final dividend in respect of the financial year ended 31 December 2015, approved but not yet paid, of RMB0.1 (2015: Nil) per ordinary share	260,457	–
Dividend paid to holders of perpetual capital securities	102,000	–
Total	362,457	–

The directors do not recommend the payment of dividend for the six months ended 30 June 2016 (2015: Nil).

17. PROPERTY AND EQUIPMENT

During the six months ended 30 June 2016, the Group acquired property and equipment of approximately RMB64,532,000 (unaudited) (six months ended 30 June 2015: RMB8,291,000 (unaudited)).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30 June 2016 (unaudited)	31 December 2015 (audited)
Non-current		
At fair value:		
Debt securities	52,500	–
Assets management schemes	1,572,848	1,764,004
Investment funds	10,684	–
Equity securities	778,967	412,318
Subtotal	2,414,999	2,176,322
At cost:		
Equity securities	11,000	11,000
Total	2,425,999	2,187,322
Analysis into:		
Listed outside Hong Kong	190,358	122,000
Unlisted	2,235,641	2,065,322
Total	2,425,999	2,187,322
Current		
At fair value:		
Debt securities	67,721	213,091
Assets management schemes	34,452	176,415
Investment funds	168,004	56,833
Equity securities	277,522	110,847
Total	547,699	557,186
Analysis into:		
Listed outside Hong Kong	308,026	252,718
Unlisted	239,673	304,468
Total	547,699	557,186

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

19. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

Analysis by collateral type:

	30 June 2016 (unaudited)	31 December 2015 (audited)
Non-current		
Equity securities	120,000	120,000
Less: Impairment	(600)	(600)
Subtotal	119,400	119,400
Current		
Debt securities	635,604	45,200
Equity securities	347,846	119,613
Less: Impairment	(1,739)	(598)
Subtotal	981,711	164,215
Total	1,101,111	283,615

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

19. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (Continued)

Analysis by market:

	30 June 2016 (unaudited)	31 December 2015 (audited)
Non-current		
Shenzhen Stock Exchange	120,000	120,000
Less: Impairment	(600)	(600)
Subtotal	119,400	119,400
Current		
Inter-bank market	529,904	–
Shanghai Stock Exchange	311,406	54,430
Shenzhen Stock Exchange	142,109	110,383
Others	31	–
Less: Impairment	(1,739)	(598)
Subtotal	981,711	164,215
Total	1,101,111	283,615

As at 30 June 2016, the Group did not hold any collateral under resale agreements for which the Group was permitted to sell or repledge in the absence of default for the transactions (31 December 2015: Nil).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

20. OTHER NON-CURRENT ASSETS

	30 June 2016 (unaudited)	31 December 2015 (audited)
Leasehold improvement and long-term prepaid expenses (<i>note</i>)	35,707	37,231
Long-term receivables	8,679	3,655
Investments classified as receivables	250,000	250,000
Total	294,386	290,886

Note:

The movements of leasehold improvements and long-term prepaid expenses are as below:

	30 June 2016 (unaudited)	31 December 2015 (audited)
At beginning of the period/year	37,231	35,195
Acquisition through business combination	–	887
Additions	7,669	18,948
Amortisation	(9,193)	(17,799)
At the end of the period/year	35,707	37,231

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

21. MARGIN ACCOUNT RECEIVABLES

	30 June 2016 (unaudited)	31 December 2015 (audited)
Individuals	4,671,086	6,211,371
Institutions	13,326	40,434
Less: Impairment	(26,612)	(34,473)
Total	4,657,800	6,217,332

The fair value of collaterals for margin financing and securities lending business is analysed as follows:

	30 June 2016 (unaudited)	31 December 2015 (audited)
Equity securities	12,868,652	16,386,686
Cash	777,110	948,970
Total	13,645,762	17,335,656

The Group evaluates the collectability of receivable from margin clients based on management's assessment on the credit rating, collateral value and the past collection history of each margin clients.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

22. OTHER CURRENT ASSETS

	30 June 2016 (unaudited)	31 December 2015 (audited)
Fees and commission receivables (note a)	135,078	179,234
Interest receivables (note b)	429,638	294,862
Prepaid expenses	15,627	21,624
Other receivables	94,428	144,042
Total	<u>674,771</u>	<u>639,762</u>

Notes:

(a) Fees and commission receivables

As at the end of the period/year, the aging analysis of fees and commission receivables, based on the invoice date, is as follows:

	30 June 2016 (unaudited)	31 December 2015 (audited)
Within one year	134,371	177,775
Over one year	707	1,459
Total	<u>135,078</u>	<u>179,234</u>

(b) Interest receivables

	30 June 2016 (unaudited)	31 December 2015 (audited)
Available-for-sale financial assets	3,884	6,658
Financial assets at fair value through profit or loss	243,408	188,197
Margin financing and securities lending	164,625	95,813
Bank deposits	2,964	3,903
Financial assets held under resale agreements	1,244	666
Investments classified as receivables	14,199	-
Less: Impairment	(686)	(375)
Total	<u>429,638</u>	<u>294,862</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2016 (unaudited)	31 December 2015 (audited)
Held for trading:		
Debt securities	8,128,687	7,172,292
Equity securities	377,335	1,116,723
Investment funds	914,238	1,369,045
Asset management scheme	–	11,077
Financial assets designated at fair value through profit or loss:		
Debt securities	<u>155,532</u>	<u>202,451</u>
Total	<u>9,575,792</u>	<u>9,871,588</u>
Analysis into:		
Listed outside Hong Kong	4,667,952	5,233,790
Unlisted	<u>4,907,840</u>	<u>4,637,798</u>
Total	<u>9,575,792</u>	<u>9,871,588</u>

24. CASH HELD ON BEHALF OF BROKERAGE CLIENTS

The Group maintain segregated deposit accounts with banks and authorised institutions to hold clients' monies arising from its normal course of business. The Group has classified their brokerage clients' monies as cash held on behalf of brokerage clients under the current assets section of the condensed consolidated statement of financial position, and recognised the corresponding account payables to the respective brokerage clients on the grounds that the Group is liable for any loss or misappropriation of their brokerage clients' monies. Cash held for brokerage clients for their transaction and settlement purposes is subject to regulatory oversight by third-party depository institutions in accordance with China Securities Regulatory Commission ("CSRC") regulations.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

25. CASH AND CASH EQUIVALENTS

	30 June 2016 (unaudited)	30 June 2015 (unaudited)
Cash on hand	103	98
Bank balances with original maturity within three months	2,736,893	3,030,360
Clearing settlement funds	928,646	1,845,660
Financial assets held under resale agreements with original maturity within three months	691,749	104,841
Less: restricted bank deposits	(111,774)	–
Less: restricted clearing settlement funds	(5,100)	–
Total	4,240,517	4,980,959

26. DEBT INSTRUMENTS ISSUED

	30 June 2016 (unaudited)	31 December 2015 (audited)
Beneficiary certificates issued	1,701,517	2,172,553
Subordinated bonds issued	1,500,000	1,500,000
Short-term corporate bonds issued	1,000,000	1,000,000
Long-term corporate bonds issued	1,500,000	–
Total	5,701,517	4,672,553

Analysis by remaining maturity:

Within one year	2,182,253	2,043,460
Between one year and two years	519,264	1,129,093
Between two years and five years	3,000,000	1,500,000
Total	5,701,517	4,672,553

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

26. DEBT INSTRUMENTS ISSUED (Continued)

Beneficial certificates issued:

At 30 June 2016 (unaudited)

Name	Par value	Issuance date	Due date	Interest rate	Par value			Accrued Interest	Book value as at 30 June 2016	
					As at 1 January 2016	Issuance	Redemption			
Hengfu No. 1	244,830	02/04/2015	21/09/2016	6.90%	244,830	-	(200,000)	44,830	3,184	48,014
Hengfu No. 2	28,160	03/04/2015	21/09/2016	6.90%	28,160	-	-	28,160	2,427	30,587
Hengfu No. 3	36,720	09/04/2015	28/09/2016	6.90%	36,720	-	-	36,720	3,116	39,836
Hengfu No. 4	151,660	10/04/2015	28/09/2016	6.90%	151,660	-	-	151,660	12,844	164,504
Hengfu No. 5	29,740	15/04/2015	11/10/2016	6.90%	29,740	-	-	29,740	2,490	32,230
Hengfu No. 7	304,140	17/04/2015	11/10/2016	6.90%	304,140	-	-	304,140	25,355	329,495
Hengfu No. 9	300,000	06/05/2015	04/05/2017	6.55%	300,000	-	-	300,000	22,719	322,719
Hengfu No. 11	200,000	20/05/2015	07/11/2016	6.65%	200,000	-	-	200,000	14,867	214,867
Hengfu No. 12	300,000	30/06/2015	29/06/2017	6.00%	300,000	-	(300,000)	-	-	-
Hengfu No. 13	500,000	18/09/2015	18/09/2017	4.90%	500,000	-	-	500,000	19,265	519,265
Total					<u>2,095,250</u>	<u>-</u>	<u>(500,000)</u>	<u>1,595,250</u>	<u>106,267</u>	<u>1,701,517</u>

At 31 December 2015 (audited)

Name	Par value	Issuance date	Due date	Interest rate	Par value			Accrued Interest	Book value as at 31 December 2015	
					As at 1 January 2015	Issuance	Redemption			
Hengfu No. 1	244,830	02/04/2015	21/09/2016	6.90%	-	244,830	-	244,830	12,682	257,512
Hengfu No. 2	28,160	03/04/2015	21/09/2016	6.90%	-	28,160	-	28,160	1,456	29,616
Hengfu No. 3	36,720	09/04/2015	28/09/2016	6.90%	-	36,720	-	36,720	1,853	38,573
Hengfu No. 4	151,660	10/04/2015	28/09/2016	6.90%	-	151,660	-	151,660	7,626	159,286
Hengfu No. 5	29,740	15/04/2015	11/10/2016	6.90%	-	29,740	-	29,740	1,467	31,207
Hengfu No. 7	304,140	17/04/2015	11/10/2016	6.90%	-	304,140	-	304,140	14,891	319,031
Hengfu No. 8	200,000	22/04/2015	20/07/2016	7.10%	-	200,000	(200,000)	-	-	-
Hengfu No. 9	300,000	06/05/2015	04/05/2017	6.55%	-	300,000	-	300,000	12,921	312,921
Hengfu No. 11	200,000	20/05/2015	07/11/2016	6.65%	-	200,000	-	200,000	8,235	208,235
Hengfu No. 12	300,000	30/06/2015	29/06/2017	6.00%	-	300,000	-	300,000	9,123	309,123
Hengfu No. 13	500,000	18/09/2015	18/09/2017	4.90%	-	500,000	-	500,000	7,049	507,049
Total					<u>-</u>	<u>2,295,250</u>	<u>(200,000)</u>	<u>2,095,250</u>	<u>77,303</u>	<u>2,172,553</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

26. DEBT INSTRUMENTS ISSUED (Continued)

Subordinated bonds issued:

At 30 June 2016 (unaudited)

Name	Par value	Issuance date	Due date	Nominal interest rate	Book value as at 1 January 2016	Issuance	Book value as at 30 June 2016
14 恒泰债(123321)	1,000,000	11/11/2014 (with early redemption option on 11/11/2017)	11/11/2019	6.90%	1,000,000	–	1,000,000
14 恒泰债(123291)	300,000	16/12/2014 (with early redemption option on 16/12/2017)	16/12/2019	6.54%	300,000	–	300,000
14 恒泰债(123262)	200,000	30/01/2015 (with early redemption option on 30/01/2018)	30/01/2020	6.70%	200,000	–	200,000
Total					<u>1,500,000</u>	<u>–</u>	<u>1,500,000</u>

At 31 December 2015 (audited)

Name	Par value	Issuance date	Due date	Nominal interest rate	Book value as at 1 January 2015	Issuance	Book value as at 31 December 2015
14 恒泰债(123321)	1,000,000	11/11/2014 (with early redemption option on 11/11/2017)	11/11/2019	6.90%	1,000,000	–	1,000,000
14 恒泰债(123291)	300,000	16/12/2014 (with early redemption option on 16/12/2017)	16/12/2019	6.54%	300,000	–	300,000
14 恒泰债(123262)	200,000	30/01/2015 (with early redemption option on 30/01/2018)	30/01/2020	6.70%	–	200,000	200,000
Total					<u>1,300,000</u>	<u>200,000</u>	<u>1,500,000</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

26. DEBT INSTRUMENTS ISSUED (Continued)

As approved by CSRC, the Company issued 5-year subordinated bonds with a nominal value of RMB1 billion on 11 November 2014, RMB300 million on 16 December 2014 and RMB200 million on 30 January 2015. These subordinated bonds were listed at Shanghai Stock Exchange.

Short-term corporate bonds:

At 30 June 2016 (unaudited)

Name	Issuance date	Due date	Nominal interest rate	Book value as at 1 January 2016	Issuance	Book value as at 30 June 2016
恒泰短债D1	30/10/2015	28/10/2016	4.8%	500,000	–	500,000
恒泰短债D2	18/12/2015	16/12/2016	4.6%	500,000	–	500,000
Total				<u>1,000,000</u>	<u>–</u>	<u>1,000,000</u>

At 31 December 2015 (audited)

Name	Issuance date	Due date	Nominal interest rate	Book value as at 1 January 2015	Issuance	Book value as at 31 December 2015
恒泰短债D1	30/10/2015	28/10/2016	4.8%	–	500,000	500,000
恒泰短债D2	18/12/2015	16/12/2016	4.6%	–	500,000	500,000
Total				<u>–</u>	<u>1,000,000</u>	<u>1,000,000</u>

Long-term corporate bonds:

At 30 June 2016 (unaudited)

Name	Issuance date	Due date	Nominal interest rate	Book value as at 1 January 2016	Issuance	Book value as at 30 June 2016
14恒泰05(136215)	29/1/2016	29/1/2019	3.42%	–	1,500,000	1,500,000

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27. ACCOUNT PAYABLES TO BROKERAGE CLIENTS

	30 June 2016 (unaudited)	31 December 2015 (audited)
Clients' deposits for margin financing and securities lending	701,319	871,990
Clients' deposits for other brokerage business	12,240,786	13,105,568
Total	12,942,105	13,977,558

Account payables to brokerage clients represent the monies received from and repayable to brokerage clients. Account payables to brokerage clients are interest bearing at the prevailing interest rate.

The majority of the account payables balances are repayable on demand except where certain account payables to brokerage clients represent monies received from clients for their margin financing activities under normal course of business, such as margin financing and securities lending. Only the amounts in excess of the required amount of margin deposits and cash collateral are repayable on demand.

28. OTHER CURRENT LIABILITIES

	30 June 2016 (unaudited)	31 December 2015 (audited)
Payable to other investors of consolidated structure entities	2,108,498	1,957,479
Other payables	510,595	379,375
Interest payables	124,063	59,265
Business tax and other tax payables	20,191	91,458
Total	2,763,347	2,487,577

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For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

29. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

Analysis by collateral type:

	30 June 2016 (unaudited)	31 December 2015 (audited)
Debt securities	2,695,698	3,532,913
Rights and interest in margin financing	2,600,000	3,200,000
Total	<u>5,295,698</u>	<u>6,732,913</u>

Analysis by market:

	30 June 2016 (unaudited)	31 December 2015 (audited)
Inter-bank market	1,347,118	2,208,013
Shanghai Stock Exchange	1,152,350	1,324,900
Shenzhen Stock Exchange	196,230	–
Bank and other financial institutions	2,600,000	3,200,000
Total	<u>5,295,698</u>	<u>6,732,913</u>

Analysis by transaction type:

	30 June 2016 (unaudited)	31 December 2015 (audited)
Pledged	4,543,480	6,001,749
Sold	752,218	731,164
Total	<u>5,295,698</u>	<u>6,732,913</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

29. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS (Continued)

As at 30 June 2016, the carrying amount of the financial assets at fair value through profit or loss, available-for-sale financial assets and margin account receivables that had been placed as financial assets sold under repurchase agreements of the Group are listed as below:

	30 June 2016 (unaudited)	31 December 2015 (audited)
Financial assets at fair value through profit or loss	3,511,303	3,898,614
Available-for-sale financial assets	72,469	50,722
Margin account receivables	2,995,882	3,941,468
Total	6,579,654	7,890,804

30. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2016 (unaudited)	31 December 2015 (audited)
Debt securities	—	22,276

31. SHARE CAPITAL

All shares issued by the Company are fully paid ordinary shares. The par value per share is RMB1. The Company's number of shares issued and their nominal value are as follows:

At 1 January 2015	2,194,707
Issuance of H shares	409,860
At 31 December 2015 and 30 June 2016	2,604,567

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

31. SHARE CAPITAL (Continued)

In October 2015, a total of 356,400,000 H shares with a par value of RMB1 each were issued by the Company at a subscription price of HKD3.92 per share, through the H share initial public offering to Hong Kong and overseas investors. In November 2015, a total of 53,460,000 H shares with a par value of RMB1 each were issued by the Company at a subscription price of HKD3.92 per share, as a result of the exercise of the over-allotment option.

32. PERPETUAL CAPITAL SECURITIES

The Group issued a perpetual subordinated debt (the "Debt") with nominal value of RMB1,500 million on 29 June 2015. The Debt is undated and will carry a 6.80% coupon rate until the first redemption date on 29 June 2020. The coupon rate will be reset every five years if the Debt are not redeemed.

The Group does not have any contractual obligation to deliver cash or other financial assets to redeem the Debt. The redemption of the Debt is solely at the discretion of the Group.

33. COMMITMENTS

Capital commitments

Capital commitments outstanding at 30 June 2016 not provided for in the financial statements are as follows:

	30 June 2016 (unaudited)	31 December 2015 (audited)
Acquisition of property and equipment	360,341	407,858
Acquisition of intangible assets	65,850	15,000
Total	<u>426,191</u>	<u>422,858</u>

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For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

33. COMMITMENTS (Continued)

Operating lease commitments

As at 30 June 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	30 June 2016 (unaudited)	31 December 2015 (audited)
Within 1 year (inclusive)	74,865	46,178
1–2 years (inclusive)	58,100	26,184
2–3 years (inclusive)	35,708	17,669
After 3 years	9,718	13,275
Total	178,391	103,306

34. CONTINGENCIES

As at 30 June 2016, the Group is not involved in any material legal, arbitration or administrative proceedings which the Group expect would have significant adverse impact on their financial position and operating results, should unfavorable rulings have been handed down (31 December 2015: Nil).

35. RELATED PARTY TRANSACTIONS

(i) Transactions/balances between the Group and major shareholders:

	30 June 2016 (unaudited)	31 December 2015 (audited)
Balances at the end of the period/year		
Account payables to brokerage clients	44,743	6,227

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

35. RELATED PARTY TRANSACTIONS (Continued)

- (i) Transactions/balances between the Group and major shareholders: (Continued)

	Six months ended 30 June	
	2016 (unaudited)	2015 (unaudited)
Transactions during the period		
Fees and commission income	16	493
Interest expenses	29	35
Rental expenses	4,627	4,369
Other operating expenses	175	318
	<u>175</u>	<u>318</u>

- (ii) Transactions between the Group and associates:

	Six months ended 30 June	
	2016 (unaudited)	2015 (unaudited)
Transactions during the period		
Fees and commission income	–	233
	<u>–</u>	<u>233</u>

- (iii) Key management personnel remuneration

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 benefits		
Fees, salaries, allowance and bonus	15,632	52,771
Post-employment benefit		
Contribution to pension scheme	255	259
Total	<u>15,887</u>	<u>53,030</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

36. SEGMENT REPORTING

	Brokerage and wealth management	Investment banking	Proprietary trading	Investment management	Others	Total
6 months ended 30 June 2016						
(unaudited):						
Revenue from external						
customers	902,148	254,917	78,337	381,511	29,907	1,646,820
Intersegment revenue	(22)	2	-	20	-	-
Other income and gains	<u>2,450</u>	<u>1,064</u>	<u>-</u>	<u>7,612</u>	<u>3,898</u>	<u>15,024</u>
Segment revenue and other						
income	904,598	255,981	78,337	389,123	33,805	1,661,844
Segment expenses	<u>(679,411)</u>	<u>(185,184)</u>	<u>(123,394)</u>	<u>(307,037)</u>	<u>(85,578)</u>	<u>(1,380,604)</u>
Segment operating profit/(loss)	225,187	70,797	(45,057)	82,086	(51,773)	281,240
Share of loss of an associate	-	-	-	-	(1,050)	(1,050)
Profit/(loss) before tax	<u>225,187</u>	<u>70,797</u>	<u>(45,057)</u>	<u>82,086</u>	<u>(52,823)</u>	<u>280,190</u>
Other segment information:						
Interest income	356,869	6,290	426	6,579	29,907	400,071
Interest expenses	(166,046)	-	(106,858)	(89,673)	(158)	(362,735)
Depreciation and amortisation	(27,777)	(1,213)	(140)	(6,603)	(2,806)	(38,539)
Reversal of impairment losses	6,196	-	-	-	-	6,196
Capital expenditure	<u>15,199</u>	<u>333</u>	<u>20</u>	<u>3,933</u>	<u>55,578</u>	<u>75,063</u>
As at 30 June 2016 (unaudited):						
Segment assets	19,847,862	457,915	8,381,846	6,197,347	2,148,550	37,033,520
Deferred tax assets						<u>48,954</u>
Total assets						<u>37,082,474</u>
Segment liabilities	18,224,168	107,847	4,276,551	4,396,643	446,557	27,451,766
Deferred tax liabilities						<u>19,974</u>
Total liabilities						<u>27,471,740</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

36. SEGMENT REPORTING (Continued)

	Brokerage and wealth management	Investment banking	Proprietary trading	Investment management	Others	Total
6 months ended 30 June 2015						
(unaudited):						
Revenue from external						
customers	1,756,662	118,409	681,266	351,723	22,590	2,930,650
Intersegment revenue	16	–	(9)	(203)	196	–
Other income and gains	(18)	1,050	–	–	2,065	3,097
Segment revenue and other income	1,756,644	119,459	681,266	351,723	24,655	2,933,747
Segment expenses	(935,697)	(79,968)	(121,782)	(146,484)	(167,166)	(1,451,097)
Segment operating profit/(loss)	820,947	39,491	559,484	205,239	(142,511)	1,482,650
Share of profit of associates	–	–	–	–	34,323	34,323
Profit/(loss) before tax	820,947	39,491	559,484	205,239	(108,188)	1,516,973
Other segment information:						
Interest income	427,555	6,368	308	1,695	17,834	453,760
Interest expenses	(208,642)	–	(40,698)	(53,423)	(42,028)	(344,791)
Depreciation and amortisation	(14,929)	–	–	(1,296)	(13,372)	(29,597)
Impairment losses	(14,328)	(1,365)	(118)	(787)	(3,219)	(19,817)
Capital expenditure	11,121	84	21	753	2,298	14,277
As at 31 December 2015						
(audited):						
Segment assets	22,360,187	404,979	7,442,517	6,309,959	2,546,212	39,063,854
Deferred tax assets						103,819
Total assets						39,167,673
Segment liabilities	20,046,858	82,222	4,404,052	3,346,651	1,540,458	29,420,241
Deferred tax liabilities						14,400
Total liabilities						29,434,641

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

37. FAIR VALUE MEASUREMENTS

The carrying amount and fair value of debt instruments issued which are not presented at fair value are listed as below:

Carrying amount

	30 June 2016 (unaudited)	31 December 2015 (audited)
Subordinated bonds issued	1,500,000	1,500,000
Long-term corporate bonds issued	1,500,000	–
Total	<u>3,000,000</u>	<u>1,500,000</u>

Fair value

	At 30 June 2016 (unaudited)			Total
	Level 1	Level 2	Level 3	
Financial liabilities				
Subordinated bonds issued	–	1,542,149	–	1,542,149
Long-term corporate bonds issued	–	1,502,036	–	1,502,036
Total	<u>–</u>	<u>3,044,185</u>	<u>–</u>	<u>3,044,185</u>
	At 31 December 2015 (audited)			
	Level 1	Level 2	Level 3	Total
Financial liabilities				
Subordinated bonds issued	–	1,529,707	–	1,529,707
	<u>–</u>	<u>1,529,707</u>	<u>–</u>	<u>1,529,707</u>

Except as disclosed above, the carrying amount of the Group's financial assets and financial liabilities as reflected in the condensed consolidated statement of financial position approximate their respective fair values.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

37. FAIR VALUE MEASUREMENTS (Continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy at 30 June 2016:

	Fair value measurements as at 30 June 2016 (unaudited)			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements:				
Assets				
Financial assets at fair value through profit or loss				
Debts securities for trading purpose	1,890,126	6,059,561	179,000	8,128,687
Equity securities	87,410	151,300	138,625	377,335
Investment funds	912,231	2,007	–	914,238
Debt securities designated at fair value through profit or loss	–	155,532	–	155,532
Subtotal	2,889,767	6,368,400	317,625	9,575,792
Available-for-sale financial assets				
Debt securities	52,500	67,721	–	120,221
Equity securities	–	372,700	683,789	1,056,489
Investment funds	150,065	28,623	–	178,688
Assets management schemes	–	1,607,300	–	1,607,300
Subtotal	202,565	2,076,344	683,789	2,962,698
Total	3,092,332	8,444,744	1,001,414	12,538,490

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37. FAIR VALUE MEASUREMENTS (Continued)

(a) Disclosures of level in fair value hierarchy at 30 June 2016: (Continued)

	Fair value measurements as at 31 December 2015 (audited)			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements:				
Assets				
Financial assets at fair value through profit or loss				
Debts securities for trading purpose	360,178	6,563,164	248,950	7,172,292
Equity securities	901,155	98,670	116,898	1,116,723
Investment funds	1,369,045	–	–	1,369,045
Assets management scheme	–	–	11,077	11,077
Debt securities designated at fair value through profit or loss	–	72,451	130,000	202,451
Subtotal	<u>2,630,378</u>	<u>6,734,285</u>	<u>506,925</u>	<u>9,871,588</u>
Available-for-sale financial assets				
Debt securities	45,755	167,336	–	213,091
Equity securities	–	198,308	324,857	523,165
Investment funds	56,833	–	–	56,833
Assets management schemes	–	1,932,369	8,050	1,940,419
Subtotal	<u>102,588</u>	<u>2,298,013</u>	<u>332,907</u>	<u>2,733,508</u>
Total	<u><u>2,732,966</u></u>	<u><u>9,032,298</u></u>	<u><u>839,832</u></u>	<u><u>12,605,096</u></u>
Liabilities				
Financial liabilities at fair value through profit or loss				
	<u><u>–</u></u>	<u><u>22,276</u></u>	<u><u>–</u></u>	<u><u>22,276</u></u>

During the six months ended 30 June 2016, there were no significant transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy (year ended 31 December 2015: Nil).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

37. FAIR VALUE MEASUREMENTS (Continued)

(b) Reconciliation of financial assets measured at fair value based on Level 3:

Description	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
At 1 January 2016	506,925	332,907	839,832
Purchases	59,126	497,105	556,231
Sales and settlements	(248,426)	(146,223)	(394,649)
At 30 June 2016	<u>317,625</u>	<u>683,789</u>	<u>1,001,414</u>
Total gains or losses included in profit or loss for assets held at end of reporting period	<u>-</u>	<u>-</u>	<u>-</u>

Description	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
At 1 January 2015	180,200	137,225	317,425
Gains/(losses) for the year	5,061	(16,000)	(10,939)
Changes in fair value recognised in other comprehensive income	-	50	50
Purchases	471,664	264,857	736,521
Sales and settlements	(150,000)	(53,225)	(203,225)
At 31 December 2015	<u>506,925</u>	<u>332,907</u>	<u>839,832</u>
Total gains or losses included in profit or loss for assets held at end of reporting period	<u>5,061</u>	<u>(16,000)</u>	<u>(10,939)</u>

The total gains or losses recognised in other comprehensive income are presented in fair value gain on available-for-sale financial assets in the condensed consolidated statement of profit and loss other comprehensive income.

The total gains or losses recognised in profit or loss including those for assets held at end of reporting period are presented in net investment income in the condensed consolidated statement of profit or loss.

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37. FAIR VALUE MEASUREMENTS (Continued)

- (c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 30 June 2016:

The Group's Financial Market Department is responsible for the fair value measurements of financial assets and liabilities required for financial reporting purposes, including Level 3 fair value measurements. The Financial Market Department reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the Financial Market Department and the Board of Directors periodically.

A majority of the financial assets at fair value through profit or loss classified as Level 2 consist of debt securities and bond investments trading in the inter-bank bond market and the over-the-counter market. Fair values are determined based on recent transaction prices in inactive markets and using valuation techniques.

A majority of the available-for-sale financial assets classified as Level 2 consist of restricted shares, close-end funds and collective assets management schemes. Fair values of restricted shares are determined by the quoted market prices of the shares with an adjustment of discount for lack of marketability. Fair values of close-end funds are determined by trading price which is based on the net asset value as at the reporting date. Fair values of collective assets management schemes are determined based on the fair value of the underlying investments in each portfolio.

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

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37. FAIR VALUE MEASUREMENTS (Continued)

- (c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 30 June 2016: (Continued)

Level 3 fair value measurements

At 30 June 2016:

Description	Valuation technique	Unobservable inputs	Effect on fair value for increase of inputs
Debt securities, private placements bonds	Discounted cash flows	Risk adjusted discount rates	Decrease
Unlisted equity investments	Market comparable companies	Discount rate for lack of marketability	Decrease
	Recent transaction prices	N/A	N/A
	Net assets value	N/A	N/A

At 31 December 2015:

Description	Valuation technique	Unobservable inputs	Effect on fair value for increase of inputs
Asset management schemes, private placements bonds, trust schemes	Discounted cash flows	Risk adjusted discount rates	Decrease
Unlisted equity investments	Market comparable companies	Discount rate for lack of marketability	Decrease

There were no changes in the valuation techniques used.

Notes to the Condensed Consolidated Financial Statements

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38. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 25 August 2016.