



中国银河证券股份有限公司

CHINA GALAXY SECURITIES CO., LTD.

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

Stock Code: 06881



INTERIM REPORT **2016**



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DEFINITIONS

“A Share(s)”	the share(s) that is (are) traded on the SSE or the SZSE in Renminbi
“Articles of Association”	the articles of association of the Company (as amended from time to time)
“Board” or “Board of Directors”	the board of Directors of the Company
“bp”	unit of measurement for the change in interest rate of bonds and notes, one bp equals to 1% of a percentage point
“CG Code”	Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules
“China” or “PRC”	the Peoples’ Republic of China excluding, for the purpose of this interim report, Hong Kong, the Macau Special Administrative Region and Taiwan region
“Company”	China Galaxy Securities Co., Ltd. (中國銀河證券股份有限公司), a joint stock limited company incorporated in the PRC on 26 January 2007, whose H Shares are listed on the Hong Kong Stock Exchange (Stock Code: 06881)
“Company Law”	the Company Law of the PRC
“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)”	issued ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which is (are) subscribed for or credited as fully paid in RMB
“End of the Reporting Period”	30 June 2016
“ETF”	exchange-traded funds
“Futures IB business”	the business activities in which securities firms, as commissioned by futures companies, introduce clients to futures companies to provide futures brokerage and other related services
“Galaxy Capital”	Galaxy Capital Management Company Limited (銀河創新資本管理有限公司), owned as to 100% by the Company and a wholly-owned subsidiary of the Company
“Galaxy Yuanhui Investment”	Galaxy Yuanhui Investment Co., Ltd. (銀河源滙投資有限公司), owned as to 100% by the Company and a wholly-owned subsidiary of the Company
“Galaxy Financial Holdings”	China Galaxy Financial Holdings Company Limited (中國銀河金融控股有限責任公司), which holds approximately 54.71% interests of the Company and is the controlling shareholder of the Company
“Galaxy Futures”	Galaxy Futures Company Limited (銀河期貨有限公司), owned as to approximately 83.32% by the Company and a non wholly-owned subsidiary of the Company
“Galaxy International Holdings”	China Galaxy International Financial Holdings Company Limited (中國銀河國際金融控股有限公司), owned as to 100% by the Company and a wholly-owned subsidiary of the Company
“Galaxy Jinhui”	Galaxy Jinhui Securities Assets Management Co., Ltd. (銀河金滙證券資產管理有限公司), owned as to 100% by the Company and a wholly-owned subsidiary of the Company

DEFINITIONS

“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which is (are) listed on the Hong Kong Stock Exchange and subscribed for and traded in HK dollars
“HK\$” or “HK dollars”	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
“Huijin”	Central Huijin Investment Ltd. (中央匯金投資有限責任公司), which currently holds an equity interest of approximately 78.57% of Galaxy Financial Holdings
“IPO”	initial public offering
“IFRS”	the International Financial Reporting Standards, which include standards, amendments and interpretations promulgated by the International Accounting Standards Board (IASB) and the International Accounting Standards (IAS) and interpretations issued by the International Accounting Standards Committee (IASC)
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (as amended from time to time)
“margin and securities refinancing business”	a business in which securities firms can act as intermediaries to borrow funds or securities from China Securities Finance Corporation Limited and lend such funds and securities to their clients
“MOF bonds”	debt instruments issued by the Ministry of Finance of the PRC on behalf of the PRC government
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in the Appendix 10 to the Listing Rules
“New OTC Board”	National Equities Exchange and Quotations for medium and small-sized enterprises
“QFII”	Qualified Foreign Institutional Investor
“Reporting Period”	the six-month period ended 30 June 2016
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Securities Law”	the Securities Law of the PRC
“RQFII”	Renminbi Qualified Foreign Institutional Investor, a pilot program launched in the PRC which allows Hong Kong subsidiaries of PRC brokerage companies and fund houses to facilitate investments of offshore Renminbi into the PRC capital markets
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“SSE”	the Shanghai Stock Exchange (上海證券交易所)



DEFINITIONS

“SSE Composite Index”	SSE Composite Index
“Supervisor(s)”	supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company
“SZSE”	the Shenzhen Stock Exchange (深圳證券交易所)
“VaR”	value at risk

This interim report has been prepared in Chinese and English. In case of any discrepancy between the Chinese and English versions, the Chinese version shall prevail.

COMPANY INFORMATION

NAME OF THE COMPANY

Registered Chinese Name: 中國銀河證券股份有限公司
Registered English Name: China Galaxy Securities
Co., Ltd.

BOARD SECRETARY

Mr. Wu Chengming

JOINT COMPANY SECRETARIES

Mr. Wu Chengming, Ms. Mok Ming Wai

AUTHORIZED REPRESENTATIVES

Mr. Wu Chengming, Ms. Mok Ming Wai

HEADQUARTERS IN THE PRC

Registered address: 2-6/F, Tower C, Corporate Square,
35 Finance Street, Xicheng District,
Beijing, PRC, 100033

Office address: 2-6/F, Tower C, Corporate Square,
35 Finance Street, Xicheng District,
Beijing, PRC, 100033

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

Email address: yhgf@chinastock.com.cn

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 3501-07, 3513-14, 35/F, Cosco Tower,
183 Queen's Road Central, Sheung Wan, Hong Kong

AUDITORS

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

HONG KONG LEGAL ADVISOR

Latham & Watkins

STOCK CODE

Hong Kong Stock Exchange
H Share Stock Code: 06881

SHARE REGISTRARS

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

FINANCIAL HIGHLIGHTS

(Accounting data and financial indicators contained in this report are prepared in accordance with IFRSs)

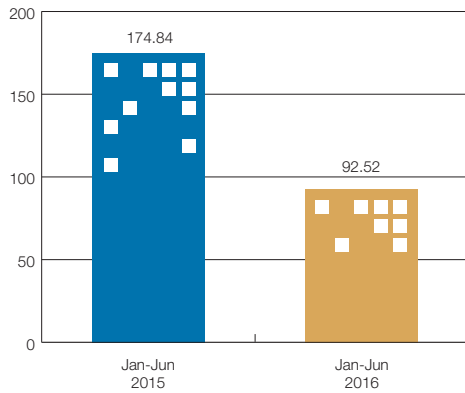
MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

Items	January - June 2016	January - June 2015	Increase/ decrease from the same period of last year
Operating results (RMB'000)			
Revenue and other income	9,251,528	17,484,336	-47.09%
Profit before income tax	2,935,550	7,496,497	-60.84%
Profit for the period – attributable to owners of the Company	2,255,461	5,642,806	-60.03%
Net cash (used in)/from operating activities	23,316,510	(57,321,562)	N/A
Earnings per share (RMB per share)			
Basic earnings per share	0.24	0.69	-65.22%
Profitability ratios			
Weighted average return on net assets	3.93%	14.71%	decrease by 10.78 percentage points
<hr/>			
Items	As at 30 June 2016	As at 31 December 2015	Increase/ decrease from the end of last year
Scale indicators (RMB'000)			
Total assets	256,289,676	300,655,551	-14.76%
Total liabilities	201,209,026	243,406,135	-17.34%
Accounts payable to brokerage clients	104,865,363	117,992,209	-11.13%
Equity attributable to owners of the Company	54,730,308	56,913,566	-3.84%
Share capital (in thousand shares)	9,537,259	9,537,259	0.00%
Net assets value per share attributable to owners of the Company (RMB per share)	5.74	5.97	-3.85%
Gearing ratio (%)¹	63.62	68.66	decrease by 5.04 percentage points

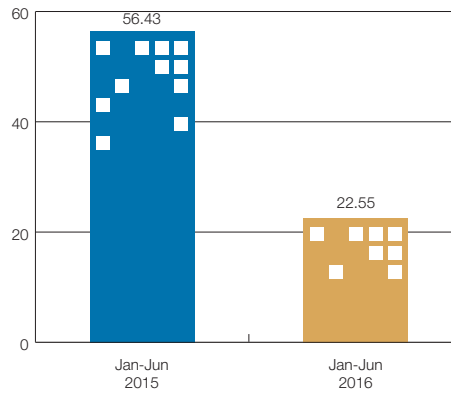
¹ Gearing ratio = (total liabilities—accounts payable to brokerage clients)/(total assets—accounts payable to brokerage clients)

FINANCIAL HIGHLIGHTS

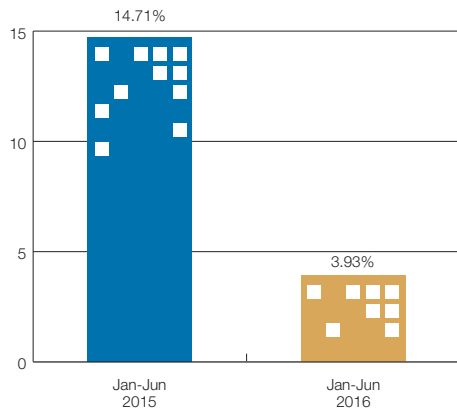
**Revenue and other income
(RMB100 million)**



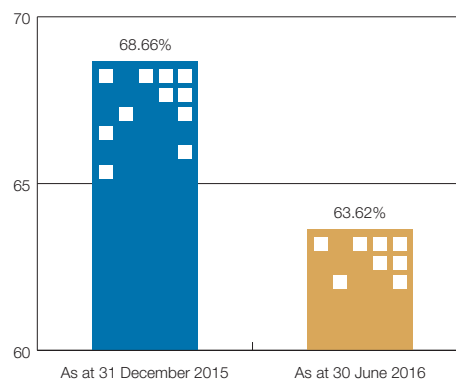
**Profit for the period –
attributable to owners of the Company
(RMB100 million)**



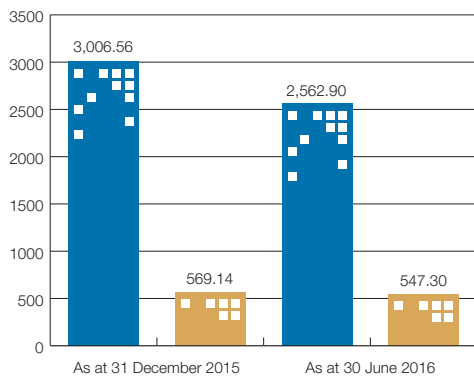
Weighted average return on net assets (%)



Gearing ratio (%)



Scale indicators (RMB100 million)



■ Total assets ■ Equity attributable to owners of the Company

MANAGEMENT DISCUSSION AND ANALYSIS

I. ECONOMIC ENVIRONMENT AND MARKET CONDITIONS DURING THE REPORTING PERIOD

(I) Economic environment

During the Reporting Period, the performance of global economies was mixed. Among developed economies, the US economy still maintained a recovery momentum. Although the Eurozone economy bottomed out, the foundation of overall recovery was still weak. Affected by Briexit and immigrant issue, the prospect of Eurozone economy is full of uncertainties. With Japan's insufficient domestic demand, the difficulty in resolving economic structural problem, and unsatisfactory result of the government's economic control measures, it is predicted that Japan's economy will grow at a very slow pace in the second half of the year. Emerging economies developed steadily, but resource-rich countries such as Brazil and Russia were relatively difficult. China's economy maintained within a reasonable range with increasing financial stimulates from the government, and real estate and infrastructure construction once again supported the economic growth. Monetary policy remained stable but a bit loose, the banking system had moderately sufficient liquidity but the overall level of bad debts of banks continued to rise. The trend of capital outflow slowed down and the range of bilateral fluctuation of exchange rate may expand in future. Chinese government repeatedly emphasized the importance of supply-side structural reform, which is a very critical factor for solving current economic issues and for long-term development in the future.

(II) Market conditions

During the Reporting Period, trading in domestic securities market was in the doldrums. In terms of the stock market, under the effect of various factors during the first quarter, the SSE Composite Index fluctuated and rebounded after quickly dropping to 2,638.30. In the second quarter, the stock market continued to fluctuate but within a narrower range. The SSE Composite Index closed at 2,932.48, decreasing by 17.14%. The index of growth enterprise market closed at 2,227.79, decreasing by 17.92%. In terms of trading volume, the turnover of the stock market amounted to RMB63.74 trillion, decreasing by 54.01% as compared with the same period of last year. In terms of margin financing and securities lending, the balance of margin financing and securities lending as at the End of the Reporting Period was RMB853.584 billion, decreasing by 58.35% as compared with the corresponding period of last year. In terms of equity financing, the actual amount of funds raised by listed companies was RMB734.975 billion, increasing by 7.94% as compared with the same period of last year. In term of bond market, the yield of 10-year fixed rate MOF bond in the interbank bond market increased by 2.0 bp and closed at 2.8412%. In terms of debt financing, the number of newly issued bonds was 13,380 with financing amounts totaling RMB18.78 trillion. As at the End of the Reporting Period, there were a total of 25,658 bonds in issue with balance of RMB57.54 trillion, representing an increase of 78.3% and 43.13% as compared with the same period of last year, respectively.

II. OVERVIEW OF OPERATIONS

During the Reporting Period, the Company adhered to the strategy of "One Core, Two Wings" to transform itself from a traditional channel service provider to a comprehensive financial service provider. By steadily promoting capital intermediary service and taking full advantage of the combination of online and offline operation of internet, we continuously developed and launched financial products and service models which met customers' demand, and brought our advantages in diversified and comprehensive financial intermediary services into full play. However, affected by the domestic market fluctuations, revenue and other income amounted to RMB9.252 billion, representing a decrease of 47.09% as compared with the same period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

III. ANALYSIS OF MAJOR BUSINESS

The business of the Group includes brokerage, sales and trading business, investment banking business, investment management business and overseas business.

(i) Brokerage, sales and trading business

During the Reporting Period, the revenue and other income from the securities brokerage business of the Group amounted to RMB6.481 billion, representing a decrease of RMB8.047 billion as compared with the same period of last year.

1. Securities brokerage, sales and trading business

Under the guidance of its overall strategy, the Company actively transformed its securities brokerage business to a comprehensive wealth management business model, continuously optimized income structure, trading structure and client structure, focused on the development of account opening business, financial products selling business and share pledge business, put more effort on the establishment of PB business (Prime Broker business) system and customer service system, and strived to enhance customer service level so as to build an one-stop financial service platform. The Company continued to promote PB business development, established a comprehensive service system for private equity, strengthened the promotion of custody, outsourcing and PB system business, and launched a marketing activity for introduction of private equity products with the theme of “Walking with the Giants and Helping Seedlings to Grow (與巨人同行 • 助苗成長)”. Meanwhile, with the successful launch of seed fund from the initial period of private equity and taking full advantage of the Company’s strength in private equity fund platform, the Company started bank and private equity outsourcing business in FOF/MOM (Fund of Fund/Manager of Manager) form, which effectively increased the loyalty of private equity customers. The Company also finalized the establishment of a customer service system and built up a service brand called “Jiutian Wealth (久添財富)”. The Company put forward the work of “service standardization and management normalization” for branches in order to achieve “standardized, professional and branding” service management for network. Hong Kong Stock Connect, individual stock options and New OTC Board brokerage businesses achieved a stable growth.

The Company made efforts in its futures IB business to satisfy the demands of clients for investment in futures market, thus providing comprehensive and personalized futures investment service for clients. As at the End of the Reporting Period, the Company had a total of 127 securities branches with qualifications to conduct futures IB business, and there were 26,100 existing clients of the futures IB business with clients’ balances amounting to RMB2.287 billion as at the End of the Reporting Period. The development of the stock option brokerage business of the Company was stably advanced. As at the End of the Reporting Period, the number of the existing clients of the stock option brokerage business was 6,289, representing a year-on-year increase of 1,082.14% and a market share of 4.77%. Trading volume of the Company’s stock option brokerage business amounted to 908,700, representing a year-on-year increase of 303.06% and a market share of 2.58%. Clients’ balances amounted to RMB15.194 billion.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company actively control risks in margin financing and securities lending business and promoted the steady development of various businesses. During the Reporting Period, the margin financing and securities lending balances in the market fluctuated at a low level. China Securities Finance Corporation Limited resumed the margin and securities refinancing business; the SSE and the SZSE issued new rules for suspension and resumption of trading in stocks; business competitors relaxed leverage limitation and concentration indicators, resulting in a price competition in financing interest rate and commission. The Company strengthened risk management for margin financing and securities lending business to secure its sustainable development. The Company restarted securities refinancing business, and promoted securities lending business to serve high-end customers. The Company put more effort on improving strategic service standard so as to enhance the protection of high-end customers. The Company vigorously put forward the development of share pledge business, optimized the system and process of share pledge repurchasing business, and organized and launched business exchange and training program. As at the End of the Reporting Period, the balance of the Company's margin financing and securities lending business amounted to RMB49.564 billion, representing a year-on-year decrease of 62.71% and a market share of 5.81%; turnover of accumulated margin financing business during the Reporting Period amounted to RMB660.821 billion, representing a year-on-year decrease of 77.26% and a market share of 5.77%; and there was a total of 295,896 credit fund accounts, representing a year-on-year increase of 6.64% and a market share of 7.14% (information of the balance and transaction data of margin financing and securities lending is sourced from the SSE and the SZSE, and information of credit fund account is sourced from the Company and China Securities Finance Corporation Limited). Among these, the balance and turnover of margin financing and securities lending significantly decreased, which was mainly due to the balance of margin financing and securities lending in the securities industry decreasing by 58% during the first half of 2016 as compared with the same period of last year.

The institutional sales business of the Company developed quickly. During the Reporting Period, save for the existing businesses, including public funds, insurance institutions and QFII, the Company proactively expanded to new business sectors, including private equity, trust companies and asset management companies, in response to customers' demand. The Company also carried out business innovation in custody business and third party business. Currently, the Company had established business cooperative relationship with 84 fund companies, which covered most of the important fund companies in the market. It had 14 QFII and RQFII clients, with two new QFII and RQFII clients added during the Reporting Period. The Company had one new insurance client who had signed leasing agreements for trading units. The services provided by the Company covered 22 insurance asset management companies, 34 asset management departments of insurance companies and 4 group clients. Besides, the Company was liaising with and serving clients from private equity, asset management and financial companies and provided customized assets securitization products to clients based on the demands of overseas institutional investors.

2. Futures brokerage

Affected by the stringent regulatory measures on stock index and futures market, trading volume of the futures market in the first half of 2016 declined sharply. As the traditional brokerage business faced severe challenges, futures companies sought differential competitive strengths, which enabled asset management business to go into a rapid development stage. On the basis of consolidating traditional brokerage business, Galaxy Futures actively promoted its wealth management business. During the Reporting Period, Galaxy Futures realized revenue and other income of RMB333 million, representing a decrease of 30.19% as compared with the same period of last year; daily average balance amounted to RMB12.753 billion, representing a decrease of 18% as compared with the same period of last year; the trading volume accumulated to 58 million board lots (one side of a trade), representing an increase of 38% as compared with the same period of last year; the turnover amounted to RMB2.68 trillion (one side of a trade), representing a decrease of 71% as compared with the same period of last year. Also, Galaxy Futures paid great effort to develop innovative businesses such as wealth management business. As at the End of the Reporting Period, the assets under management amounted to RMB16.8 billion, representing an increase of 630% as compared with the end of 2015. In the first half of 2016, the number of new asset management products was more than 100.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Proprietary trading and other securities trading services

During the Reporting Period, the revenue and other income of the Group generated from the proprietary trading and other securities trading services amounted to RMB1.193 billion, representing a decrease of 8.51% as compared with the same period of last year.

Through the participation in listed company's private placements and purchases in the secondary market, the Company progressively increased its holding of proprietary equity investment by taking advantage of the opportunities brought by the slight market fluctuations at low level. Strategically, the Company carried out comprehensive analysis from various aspects including low valuation, high growth rate, low momentum income, high yield and distribution and long-term reverse turnover, and selected investment products accordingly. Besides, the Company continued to focus on research of listed companies and investigated and researched numerous listed companies in details. Meanwhile, the Company put more efforts on cultivating and recruiting talents so as to build up and optimize a quantified research and transaction team. The Company will grasp the opportunities brought by the slight market fluctuations at low level to strengthen its operations in secondary market and enhance its allocation and management in secondary market. While adhering to a prudent investment style, the Company will strive to realize continuous profits in the proprietary equity business through type selection and position control in a timely and reasonable manner. The Company will actively explore quantitative transaction and related technique to reduce risk exposure and increase income.

Given the consistent market expectation of economic downturn, once there is a change in the economic growth, it is highly possible that the yield will be under an upward pressure. For the proprietary bond investment business, the Company moderately reduced its holding and maintained a short- and medium-term strategy. By strictly controlling credit risk, the Company selectively chose credit bonds and avoided industries with overcapacity as much as possible in the selection of industries. The Company also moderately participated in the investment of products bearing different interest rates, so as to increase portfolio return. In addition, the Company changed its investment strategy from focusing on allocation to a strategy with a balance between trading and allocation. As at the End of the Reporting Period, the number of investors of "Daily Profits (天天利)" reached 400,700, which hit a record high. In the first half of 2016, the daily average balance of outstanding amount of repurchase was RMB8.851 billion, which ranked the first in the market.

The proprietary investment of derivatives of the Company developed steadily. During the Reporting Period, the Company actively developed innovative businesses and completed the preparation for income receipt-linked business. On 6 July 2016, the Company successfully issued one tranche of the principal-guarantee income receipts with floating income that were linked with CSI 300 Index. The Company made more efforts on the monetary ETF business, actively examined and prepared for stock option market making business and prepared materials for the application for qualification as stock option market maker. Also, the Company proactively studied, followed up with and designed OTC option business. During the Reporting Period, the Company realized income of RMB61 million in the trading service business, representing an increase of 211.76% as compared to the same period of last year. As at the End of the Reporting Period, the balance of standardized dealer-quoted securities repurchase business (the product "Xin Yi Yu (鑫易雨)") was RMB535 million. The nominal capital of equity income swap business (the product "Jin Hu Huan (金互换)") was RMB845 million; the accumulative number of accounts opened for the Company's dealer-quoted bond repurchase product (the product "Jin Zi Lai (金自来)") on the SZSE was 54,304, with an existing business scale of RMB2,913 million; the existing income receipt business scale (the product "Galaxy Jin Shan (银河金山)") was RMB6 billion.

MANAGEMENT DISCUSSION AND ANALYSIS

(ii) Investment banking business

During the Reporting Period, revenue and other income of the Group from investment banking business amounted to RMB540 million, representing an increase of RMB85 million as compared with the same period of last year.

1. Equity financing

During the Reporting Period, the Company actively promoted and expanded equity financing business and the merger and acquisition and restructuring business. However, affected by the slowdown in the review of IPO projects by the regulatory authority and the more stringent policy on the review of refinancing projects, the Company completed 2 IPO projects, 6 non-public issuance projects and 1 merger and acquisition and restructuring and fund-raising project. In particular, the IPO project of Winka Times was the Company's first IPO project in Xinjiang region, which reflected the Company's support to the development of the Central and Western China.

As for innovative business, the Company completed 2 corporate ABS (Asset-Backed Securitization) projects with a total size of RMB2.464 billion. In the "Selection of the 2016 Outstanding Investment Banks in China" held by the Securities Times in April 2016, the Company was awarded the "2016 Top 10 Insurance Agencies in China" and the "2016 Best Financial Advisory Team in China".

Major Equity Underwriting Business of the Company

Item	First half of 2016	First half of 2015
Number of IPO underwritten by the Company as the lead underwriter	2	1
Number of equity securities refinancing underwritten by the Company as the lead underwriter	6	7
Total	8	8

2. Bond financing

During the Reporting Period, the reform of the bond market was promoted in greater depth. While intensifying its regulatory effort, the regulatory department simplified approval procedures and innovated new bond products, which enlarged the size of the bond financing market and enriched the types of bonds. The Company actively adapted to new change and new development and kept developing underwriting business of corporate bonds and enterprise bonds. During the Reporting Period, the Company undertook 20 projects concerning corporate bonds with an underwriting amount of RMB28.499 billion, representing an increase of 233.33% and 43.72%, respectively, as compared with the same period of last year. During the Reporting Period, the Company undertook 9 projects on enterprise bonds as the lead underwriter with an underwriting amount of RMB11.030 billion, representing an increase of 50.00% and 127.42%, respectively, as compared with the same period of last year. Besides, the Company tried to run new businesses and new product types, continued to launch new products such as income bonds and special project bonds, and achieved a breakthrough in convertible bonds and renewable bonds businesses.

MANAGEMENT DISCUSSION AND ANALYSIS

Corporate Bond Financing Business of the Company

Project	For the six months ended 30 June 2016		For the six months ended 30 June 2015	
	Amount underwritten by the Company as the lead underwriter (RMB in 100 million)	Number of issuance	Amount underwritten by the Company as the lead underwriter (RMB in 100 million)	Number of issuance
Enterprise bonds	110.30	9	48.50	6
Corporate bonds	284.99	20	198.30	6
Convertible bonds	35.00	1	–	–
Short-term notes	–	–	42.00	2
Subordinated bonds (special financial bonds)	–	–	251.00	5
Medium term notes	16.50	2	3.50	1
Total	446.79	32	543.30	20

3. New OTC Board

During the Reporting Period, the market of the New OTC Board continued a rapid development and the number of companies listed on the New OTC Board increased quickly, with both financing scale and trading activity increasing. Meanwhile, the market regulation became more stringent, which further promoted structural differentiation. On 27 May 2016, the National Equity Exchange and Quotation System issued the “Measures for the Hierarchical Management of Listed Companies (for Trial Implementation)”. Currently, the hierarchical management has been implemented, which further improved the construction of infrastructure. The Company further optimized the establishment of organizations and systems, continued to strengthen risk control system establishment, fully leveraged on its advantages in network and customer base, and further pushed forward the establishment of the linkage mechanism between the head office and branches, thus progressively building up and optimizing the mechanism of synergy development for the whole business chain of the New OTC Board. During the Reporting Period, the Company completed 22 projects for promotion of listing on New OTC Board, and 16 projects for share issuance on New OTC Board, with the funds raised by listed companies amounting to RMB1,763 million. There were 26 new online market making projects, a significant increase as compared with the same period of last year.

New OTC Board Business of the Company

Item	For the six months ended 30 June 2016	For the six months ended 30 June 2015	Increase/Decrease (%)
Number of projects for promotion of listing on New OTC Board	22	13	69%
Number of projects for share issuance on New OTC Board	16	9	78%
Funds raised by listed companies (RMB100 million)	17.63	2.88	512%
Number of new online market making projects	26	7	271%

MANAGEMENT DISCUSSION AND ANALYSIS

(iii) Investment management business

1. Asset management

During the Reporting Period, the asset management business of securities brokers had a stable growth, but the rate of growth of revenue apparently decreased from last year. The regulatory department planned for a policy change to direct securities brokers to deleverage asset management and to focus on the development of active management business. During the Reporting Period, the Company's asset management business realized revenue and other income of RMB368 million, representing an increase of 84.92% as compared with the same period of last year. Galaxy Jinhui actively grasped the market opportunities to push forward all business lines in full swing. It achieved a remarkable result in commercial banks' outsourcing business with further increase in the number of insurance customers and rapid development in asset securitization projects. The assets under management amounted to RMB151.538 billion, representing an increase of 103.96% as compared with the same period of last year; of which the scale of collective asset management business amounted to RMB33.617 billion, representing an increase of 13.02% as compared with the same period of last year; the scale of targeted asset management business amounted to RMB112.075 billion, representing an increase of 172.01% as compared with the same period of last year; the scale of special asset management business amounted to RMB5.846 billion, representing an increase of 74.51% as compared with the same period of last year. The Company had accumulatively 185 management products (64 collective asset management products, 116 targeted asset management products and 5 special asset management products).

2. Private equity investment

The Company continued to push forward the transformation and development of private equity investment business, promoted the private equity fund management business with the equity investment platform of Guangdong Galaxy Yueke Fund (廣東銀河粵科基金) as the base, intensified its effort on the post-investment management of the existing investment projects with its own fund, vigorously pushed forward the exit from projects and properly dealt with problematic projects. During the Reporting Period, Galaxy Capital realized revenue and other income of RMB16 million, representing a decrease of 79.75% as compared with the same period of last year, which was due to the periodic impact of the exit of the investment projects.

3. Alternative investment

Galaxy Yuanhui Investment focuses on equity investment, private equity fund investment and cross-boundary (private equity fund) investment, and will look for investment opportunities in arbitrage, gold ETF, US and European markets, bulk commodity and foreign exchange. During the Reporting Period, Galaxy Yuanhui Investment realized revenue and other income of RMB3 million. Galaxy Yuanhui Investment has formed a professional business team and established a well-developed governance mechanism. Galaxy Yuanhui Investment had 5 equity investment projects with an investment amount of RMB74 million and 4 cash investment projects with an investment amount of RMB274 million.

MANAGEMENT DISCUSSION AND ANALYSIS

(iv) Overseas business

During the Reporting Period, the revenue and other income from overseas business of the Company amounted to RMB186 million, representing a decrease of RMB47 million as compared with the same period of last year. During the Reporting Period, the trading volume of the Hong Kong stock market sharply declined, competition within the industry became increasingly intense, profit margin of commission dropped, and costs of businesses continued to rise. Securities brokers with Chinese background quickly captured the market share through merger and acquisition. Galaxy International Holdings adopted various measures to maintain a stable business operation: firstly, it optimized product lines, enhanced the function of its system and actively participated in the transactions of futures, derivatives and other financial products in order to make up the insufficiency of stock trading; secondly, it strengthened the cooperation between the head office and its branches, focused on attracting institutional and high-end personal customers and refined personalized services in all aspects; thirdly, it enhanced its research ability, exerted the synergy between research and institutional sales and investment banking business and expanded income source other than commission; fourthly, it developed investment banking business in the aspects from sponsorship to refinancing, financial advisory and compliance consultancy; fifthly, it intensified total cost management and strictly controlled expenses.

IV. OUTLOOK AND FUTURE PLANS

In the second half of 2016, the Chinese economy will continue to experience the bottoming process. Various factors of uncertainties will appear, thus creating pressure for the capital market. Securities brokers will remain in fierce competition, in which opportunities will co-exist with challenges. The Company will adhere to the strategy of becoming a leading comprehensive financial service provider in the securities industry of China, and improve its operating results with all efforts.

In the second half of 2016, in order to better address the new normal state from a commission battle to the product- and service-based competition, the Company will enrich product supplies in the brokerage business, optimize PB business system, vigorously develop share pledge business, push forward stock option, Hong Kong Stock Connect and New OTC Board businesses, explore the new idea of developing securities lending business with an aim to facilitate the launch of a customer service system. As for the investment banking business, the Company will enhance its ability in creating an overall financing proposal that makes arrangement for equity, bond and New OTC Board. As for the equity financing business, the Company will put more efforts on the development of refinancing and merger, acquisition and reorganization businesses, continue to develop innovative businesses, such as asset securitization and preferred shares, and explore the connection of innovative businesses, private equity, investment and merger and acquisition. As for the bond financing business, the Company will strive to increase its share in the bond issuance projects of large-scale state-owned enterprises, explore local quality projects in great depth and actively develop new products such as green bonds. As for the New OTC Board business, the Company will stably increase the number of listed projects, further increase the number of stocks for market making and investment amount, and study and finalize the operational model and profit model of the business chain. The Company will accelerate the transformation of institutional sales business, increase market share in public funds and net commission income, reverse the downtrend of QFII business, increase the number of customers of leasing marketing units for insurance business, and expand the service coverage for other institutional customers, including private equity customers. As for the trading business, the Company will enhance the management of equity and bond proprietary trading business so as to enhance the certainty of income and achieve continuous profits. While constantly developing exchange businesses, including market making of listed funds and futures and spot profiting, the Company will also actively explore OTC business such as market making of options. The Company will also strengthen compliance risk control and management by further optimizing performance management, continuously push forward the establishment of comprehensive risk management system, promote financial concentration, provide technical support to business, and improve refined management standard, so as to raise the competitiveness of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

V. LIQUIDITY, FINANCIAL RESOURCES AND SHARE CAPITAL STRUCTURE

During the Reporting Period, the Group continuously maintained its profit and realized capital preservation and appreciation. As at the End of the Reporting Period, net assets attributable to owners of the Company amounted to RMB54.73 billion, representing a decrease of RMB2.184 billion or 3.84% as compared with RMB56.914 billion as at the end of 2015, which was mainly due to the dividend distribution of RMB3.13 billion for the year 2015 and the realized earning of RMB2.271 billion in 2016.

Asset structure kept improving, asset quality and liquidity remained satisfactory. As at 30 June 2016, total assets of the Group, excluding clients' funds, amounted to RMB151.424 billion, representing a decrease of RMB31.239 billion or 17.10% as compared with the total assets of RMB182.663 billion as at the end of 2015 on a comparable basis. In particular, cash and bank balances accounted for 8% of the total assets. Investment assets, which mainly consisted of investments in high liquidity financial assets, accounted for 50% of the total assets. Margin financing and securities lending business grew rapidly, with advances to customers accounting for 34% of the total assets. Dealer-quoted securities repurchase transactions and securities-based lending transactions accounted for 3% of the total assets.

The gearing ratio of the Group decreased slightly. As at the End of the Reporting Period, the own gearing ratio of the Group was 63.62%, representing a decrease of 5.04 percentage points as compared with 68.66% as at the end of 2015. Operating leverage (own assets/net assets) of the Group was 2.75 times, representing a decrease of 14.33% as compared with 3.21 times as at the end of 2015. The decrease in leverage ratio was mainly attributable to the decline in market indices and trading volume, the progressive decrease in the scale of margin financing and securities lending in the market, and the gradual repayment of matured debts by the Company.

The Company adopted various measures to raise short-term capital, including issuing short-term corporate bonds, short-term subordinated bonds, transfer of income right of margin financing and securities lending business and income right certificate. Meanwhile, the Company also raised long-term capital by various means, including new issuance, placing, issuance of long-term corporate bonds and long-term subordinated bonds, based on the market conditions and its own needs. At present, the Company has obtained comprehensive credit lines from various commercial banks and can use the above debt financing instruments to raise funds based on its business needs.

Excluding the effects of changes in customers' margins, the net increase in cash and cash equivalents of the Company during the Reporting Period was RMB137 million, representing a decrease of RMB20.316 billion as compared with RMB20.453 billion for the same period in 2015. The net cash flow from the operating activities during the Reporting Period was RMB23.317 billion, representing an increase of RMB80.639 billion as compared with RMB-57.322 billion for the same period in 2015, which was mainly due to the decrease in advance to customers in margin financing business of RMB91.412 billion; the net cash flow from the investing activities during the Reporting Period was RMB-3.177 billion, representing a decrease of RMB1.01 billion as compared with RMB-2.167 billion for the same period in 2015, which was mainly due to the increased strategic allocation in equity in secondary market; the net cash flow from the financing activities during the Reporting Period was RMB-20.003 billion, representing a decrease of RMB99.944 billion as compared with RMB79.941 billion for the same period in 2015, which was mainly due to the financing activities of the Company in the first half of 2015, including issuance of short-term corporate bonds and long-term subordinate bonds, part of which had been settled at the End of the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS

VI. ESTABLISHMENT AND DISPOSAL OF SECURITIES BRANCHES AND BRANCH OFFICES

As at the End of the Reporting Period, the Company had 36 branch offices and 360 securities branches.

1. Establishment of branch offices and securities branches

During the Reporting Period, the Company completed the establishment of Jiukeshu Securities Branch in Tongzhou, Beijing, Dawang Road Securities Branch in Beijing, Baizhang East Road Securities Branch in Ningbo, and Dongchang West Road Securities Branch in Liaochang pursuant to the “Approval on the Establishment of 30 Branch Offices by China Galaxy Securities Co., Ltd.” (Jing Zheng Jian Xu Ke [2015] No. 46) issued by CSRC Beijing Bureau in 2015.

2. Relocation of branch offices and securities branches

The Company has constantly adjusted and optimized the branch layout. During the Reporting Period, the Company relocated 9 branches within the same city, including 1 branch office and 8 securities branches.

No.	Province/ Autonomous region/ Direct-controlled Municipality	Branch office	Existing address
1	Hunan Province	Hunan branch office	No. 275, Section 2, Furong Middle Road, Yuhua District, Changsha

No.	Province/ Autonomous region/ Direct-controlled Municipality	Original names of securities branches	Existing name of securities branches	Existing addresses
1	Guangdong Province	Lecong Securities Branch in Shunde, Foshan	Lecong Securities Branch in Shunde, Foshan	Units 305 and 306, Gangmao Building, No. A1 Xinhua Road, Lecong Community Resident Committee, Lecong Town, Shunde District, Foshan City
2	Guangdong Province	Linjiang Avenue Securities Branch in Guangzhou	Huaxia Road Securities Branch in Guangzhou	Units 02-04A (self-numbered), 24th Floor, Agile Center, No. 26 Huaxia Road, Tianhe District, Guangzhou City
3	Guangdong Province	Dongcheng Avenue Securities Branch in Dongguan	Dongcheng Middle Road Securities Branch in Dongguan	Units 701 and 702, Junhao Commercial Center, Dongcheng Middle Road, Gangbei, Dongcheng Street, Dongguan City, Guangdong Province
4	Guangdong Province	Minyou Road Securities Branch in Zhanjiang	Renmin Middle Avenue Securities Branch in Zhanjiang	Unit 05, 1st Floor of the Shopping Mall, Chengshi Shangpin Building, No. 40, Renmin Middle Avenue, Zhanjiang Development Zone
5	Anhui Province	Ma'anshan Securities Branch	Hudong Middle Road Securities Branch in Ma'anshan	Block 2, Jufengyuan, No. 777, Hudong Middle Road, Huashan District, Ma'anshan City
6	Hunan Province	Furong Middle Road Securities Branch in Changsha	Furong Middle Road Securities Branch in Changsha	No. 275, Session 2, Furong Middle Road, Yuhua District, Changsha City
7	Zhejiang Province	Yinquan Road Securities Branch in Taizhou	Yinquan Road Securities Branch in Taizhou	No. 188, Yinquan Road, Xicheng Street, Huangyan District, Taizhou City
8	Qinghai Province	West Street Securities Branch in Xining	North Street Securities Branch in Xining	4th Floor, No. 30, North Street, Chengzhong District, Xining City

MANAGEMENT DISCUSSION AND ANALYSIS

VII. FINANCING OF THE COMPANY

During the Reporting Period, the significant financing activities of the Company are as follows:

(i) Use of proceeds from previous period

1. Use of proceeds from the IPO of H Shares

In May 2013, the Company carried out the public offering of H Shares and was listed on the Hong Kong Stock Exchange. The Company received an aggregate of proceeds and interest income of HK\$8.148 billion, which was equivalent to RMB6.498 billion. The amount was equivalent to RMB214 million after deducting the issuance expenses and the actual net proceeds amounted to RMB6.284 billion.

The Company undertook in the H Shares prospectus that the following amounts of net proceeds will be used for the following purposes: (i) around 60% will be used to develop the margin financing and securities lending business of the Company; (ii) around 25% will be used to develop the capital-based intermediary securities trading business, which mainly includes dealer-quoted bond repurchase transactions; and (iii) around 15% will be used to expand the capital investment business.

As at the End of the Reporting Period, the Company accumulatively utilized HK\$7.910 billion (equivalent to RMB6.236 billion) of the net proceeds (including interest of deposits). Due to the exchange loss of RMB72 million arising from the difference between the actual exchange rate for settlement of Hong Kong dollars and the exchange rate for conversion adopted at the verification of the proceeds, the actual Renminbi amount available for use by the Company decreased accordingly and the sum of the actual invested amount and the exchange loss from the foreign exchange settlement amounted to RMB6.308 billion. Details of the use of proceeds are set out below:

No.	Name of actual investment projects	Accumulated utilization rate of productivity of investment project on the closing date	Committed return	Actual Return for January to June 2016 (RMB)	Accumulated realized return on the closing date (RMB)	Ability to achieve expected return
1	Margin financing and securities lending business	N/A	N/A	155,118,587.16	884,359,562.83	N/A
2	Capital-based intermediary business	N/A	N/A	167,171,242.65	592,960,101.48	N/A
3	Capital investment business	N/A	N/A	24,538,913.98	643,541,357.74	N/A
Total				<u>346,828,743.79</u>	<u>2,120,861,022.05</u>	

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2. Use of proceeds from the placing of H Shares

In May 2015, the Company completed the placing of 2 billion H Shares and received an aggregate of proceeds of HK\$23.98 billion and the actual proceeds credited to the account after deducting the transaction fees and levy by direct payment amounted to HK\$23.978 billion. The total amount of proceeds was equivalent to RMB18.923 billion, and the actual net proceeds received by the Company after deducting the issuance expenses (equivalent to RMB59 million) was equivalent to RMB18.864 billion.

The Company undertook in the announcement in relation to the placing of H Shares that the following amounts of net proceeds will be used for the following purposes: (1) around 60% will be used in margin financing and securities lending business and dealer-quoted securities repurchase business; (2) around 15% will be used in other capital-based intermediary business; (3) around 15% will be used in investment and innovative business; and (4) around 10% will be used to replenish the working capital of the Company.

As at the End of the Reporting Period, the Company injected the interest income into the raised proceeds for use after the cancellation of the bank account for fund raising. The investment amount after the fund raising was RMB18.868 billion, and the actual investment amount was RMB19.122 billion (including the exchange gains of RMB254 million arising from the difference between the actual exchange rate for settlement of Hong Kong dollars and the exchange rate for conversion adopted at the verification of the proceeds). Details of the use of proceeds are set out below:

No.	Name of actual investment projects	Accumulated utilization rate of productivity of investment project on the closing date	Committed return	Actual Return for January to June 2016 (RMB)	Accumulated realized return on the closing date (RMB)	Ability to achieve expected return
1	Margin financing and securities lending business	N/A	N/A	479,078,509.03	1,128,679,801.35	N/A
2	Other capital-based intermediary business	N/A	N/A	142,516,227.36	407,955,083.07	N/A
3	Investment business	N/A	N/A	45,617,676.58	111,030,934.97	N/A
4	Replenishment of working capital	N/A	N/A	23,177,042.75	176,698,586.69	N/A
Total				690,389,455.72	1,824,364,406.08	

MANAGEMENT DISCUSSION AND ANALYSIS

(ii) Significant Financing

1. Bond financing

- (1) During the Reporting Period, the Company publicly issued corporate bonds with an aggregate principal amount of RMB5.5 billion in total, and such corporate bonds were listed on the SSE. Details are set out as follows:

Name	Size of Issuance (RMB)	Use of Proceeds	Date of issuance	Maturity Date	Term	Interest Rate
2016 Corporate Bond (Category 1)	4.9 billion	To replenish working capital of the Company	1 June 2016	1 June 2019	1,095 days	3.10%
2016 Corporate Bond (Category 2)	600 million	To replenish working capital of the Company	1 June 2016	1 June 2021	1,826 days	3.35%

- (2) During the Reporting Period, Galaxy Futures issued the 2016 first tranche subordinated bonds with a principal amount of RMB300 million in total, details of which are as follows:

Name	Size of Issuance (RMB)	Use of Proceeds	Date of Issuance	Maturity Date	Term	Interest Rate
2016 Subordinated Bonds (First Tranche)	300 million	To replenish working capital	15 March 2016	14 March 2021	1,825 days	4.30%

2. Updates on the progress of A Share issuance and financing

On 25 April 2014, the Company convened the 2014 first extraordinary general meeting, Domestic Share class meeting and H Share class meeting, at which the amendments to the A Share offering plan and other relevant resolutions were considered and approved, and the Company was approved to issue no more than 1,693,510,473 A Shares on the SSE. Proceeds raised from the A Share offering would, after deduction of the issuance expenses, be entirely used for strengthening the capital base and replenishing the working capital of the Company. The A Share offering plan was valid for 12 months starting from the date on which the resolution was approved at the general meeting and class meetings. Application materials including the prospectus of A Shares had been submitted by the Company and accepted by the CSRC. The prospectus of A Shares was published on the CSRC website on 29 August 2014, and posted on the HKExnews website at the same time.

On 26 March 2015, the 2015 first extraordinary general meeting and the Domestic Share and H Share class meetings considered and approved the resolution to extend the validity period of the A Share offering plan and the relevant authorizations for 12 months. The new validity period started from the day immediately following the expiry of the original validity period.

On 24 March 2016, the 2016 first extraordinary general meeting and the Domestic Share and H Share class meetings considered and approved the resolution to extend the validity period of the A Share offering plan and the relevant authorizations for an additional period of 12 months. The new validity period started from the day immediately following the expiry of the original validity period, and certain minor amendments were made to the A Share offering plan and the relevant authorizations.

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

MANAGEMENT DISCUSSION AND ANALYSIS

VIII. MATERIAL ASSET ACQUISITION, DISPOSAL, EXTERNAL GUARANTEE, MORTGAGE, PLEDGE AND CONTINGENT LIABILITIES OF THE COMPANY

During the Reporting Period, the Company did not undertake any material asset acquisition, disposal or swap, and merger and acquisition. During the Reporting Period, there was no off balance sheet item or contingent liability which may have a material impact on the financial condition and operating results of the Company, such as material external guarantee, mortgage and pledge.

IX. EMPLOYEE, REMUNERATION AND TRAINING PLAN

As at the End of the Reporting Period, the Group had 10,275 employees (including sales account managers), of which 9,281 were employees of the Company (including sales account managers).

The Company has progressively improved a competitive remuneration mechanism covering all employees. The remuneration of employees of the Company comprises basic remuneration, allowances, performance-based bonus and welfare benefits. The basic remuneration is a relatively fixed part in the composition of remuneration. The allowances include allowances for management positions and for professional and technical personnel, which are supplemental to the basic remuneration. The performance-based bonus is derived from annual profits of the Company, and will be distributed based on the results of performance assessment. The Company has provided social insurance, housing provident fund and other statutory benefits to its employees according to the relevant requirements of the PRC. Meanwhile, in order to improve the welfare protection of employees, the Company has also provided welfare benefits, such as annuity fund and supplementary medical insurance, to its employees. The Company has continuously optimized the employee remuneration structure, benchmarked the remuneration of all employees (especially those in highly competitive business lines) to the market, and implemented remuneration standards with market competitiveness. The Company has also gradually widened the gap of performance-based bonus among different positions and employees with different performance results, and constantly improved the income distribution mechanism that is linked with performance. In terms of trainings for employees, the Company has adhered to the management model that combines project management with quota management and a control mechanism covering different business lines. The Company has reasonably distributed training resources, enhanced training efficiency, and put more efforts on training so as to achieve the objective of the overall appreciation of human capital. Leveraging on instruments of videos and network, the Company has actively provided trainings on occupational qualities and professional abilities for employees in all business lines, and strengthened overall qualities, professional depth, and execution and innovation abilities of professional staffs of all business lines, which effectively made up the deficiency of traditional training model in terms of training time, space and cost.

X. RISK MANAGEMENT

Since its establishment, the Company has been committed to the philosophy that risk management creates value. It gradually promoted comprehensive risk management through identification, evaluation, monitoring, analysis and response of various kinds of risks, thus solidifying the foundation for the Company's sustainable, steady and healthy development.

(I) Major risks affecting the operation of the Company, including market risk, credit risk, operational risk and liquidity risk

1. Market risk

Market risk is originated from the fluctuation of the fair value or future cash flows in respect of financial instruments held or to be held by the Company resulting from the changes in securities price, interest rate and currency rate, including price risk, interest rate risk and currency rate risk.

- (1) Price risk is the risk that the Company may suffer losses as a result of the fluctuation of the fair value or future cash flows of financial instruments due to the changes in securities prices (other than changes resulting from interest rate risk or currency risk).

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Price risk mainly relates to the Company's proprietary investment and market making businesses. In order to control price risks, the Company mainly adopts the following measures: firstly, constructing securities portfolios and using financial derivatives for effective risk hedging; secondly, implementing unified management of risk exposure, identifying and dealing with risks in time through risk monitoring, assessment and reporting; thirdly, carrying out risk quota management to control exposure scale, concentration and loss quota, and making adjustment timely based on the development of market and businesses and risk tolerance of the Company; fourthly, using quantitative methods such as VaR and combining with other methods such as sensitivity analysis and stress testing to assess the relative and absolute risk of portfolios.

During the Reporting Period, affected by the market fluctuation, the price of securities held by the Company had large volatility. However, the Company effectively controlled the size of exposure of the proprietary business through risk hedging and quota management, and timely monitored the position risks of the securities held by the Company that the large volatility of the prices did not lead to the losses of the Company. As at the End of the Reporting Period, the VaR¹ of the Company's investment portfolio amounted to approximately RMB197 million, not over 0.5% of its net capital.

- (2) Interest rate risk refers to the risks resulting from the change in interest rate. The assets of the Company exposed to interest rate risks mainly include bank deposits, clearing settlement fund, refundable deposits and debt equities, etc. The Company used sensitivity analysis as the main instrument for monitoring interest rate risks. Meanwhile, the Company reduced the interest rate risks of portfolios by allocating the duration and convexity of its investment portfolios of fixed income. During the Reporting Period, the overall risk of the Company was within an acceptable range.
- (3) Currency rate risk is originated from the fluctuation of the fair value or future cash flows of financial instruments resulting from the change of currency rates of other countries. Given that the Company settles most of its transactions in RMB and the proportion of foreign currency assets, liabilities and proceeds of the Company in its total assets, liabilities and proceeds is small, the currency risk actually encountered by the Company is not significant. Nevertheless, with the gradual expansion of overseas businesses as well as the progress in the internationalization of RMB, the currency risks of the Company will increase gradually. The Company will conduct further studies and adopt reasonable and effective measures to mitigate any impact of currency risks.

2. Credit risk

Credit risk refers to the potential possibility of incurring losses resulting from the failure of the borrower or counterparty to timely fulfill its contractual obligations, and it also includes the possibility of incurring losses due to changes in the market value of the debts of the borrower or counterparty resulting from the changes in the credit rating and performance capability of such borrower or counterparty. The Company managed credit risk mainly by evaluating credit risk in advance and following up and monitoring credit risk afterward, and gradually promoting the establishment and application of tools such as internal credit rating and risk management system for financing businesses. On one hand, the Company established the guidance for risk management of financing businesses to determine the standards for evaluating the admission of counterparty and business transaction factors to prepare for risk evaluation in advance; on the other hand, the Company closely monitored the risk movement of collateral, controlled concentration risk and conducted stress tests. In addition, the Company continuously traced its clients' financial conditions, operation standard and other significant events that would affect their credit within the duration of business, and identified, reported and dealt with credit risk in time.

As at the End of the Reporting Period, 56.31% of the credit bonds held by the Company had a credit rating of AAA, 42.61% had a credit rating of AAA-, AA+, AA with the remaining 1.08% rated AA or below. There was no default from counterparties. During the Reporting Period, there were 1,219 cases of compulsory close position operation in the margin financing and securities lending business with the size reaching RMB416 million, all of which were operated in accordance with the standardized procedures stipulated in business rules and contracts. After compulsory close position operation, amount due from customers was RMB4 million. There was no actual loss incurred by securities-based lending transactions, dealer-quoted securities repurchase transactions and equity swap transactions. The overall credit risk of the Company was under control.

(1) 1 day VaR at 95% confidence level.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Operational risk

Operational risk refers to the risk of incurring losses resulting from the inadequacy or defect of internal operating procedures, personnel or systems, or from such external events. In order to manage operational risk effectively, the Company established a well-developed internal control system, regularly carried out effective assessment of internal control and compliance management throughout the Company. The operational risk management team specially set up by the Risk Management Department was in charge of designing, maintaining and constantly developing the management structure of operational risk and monitoring and reporting the operational risks faced by the Company, and effectively identifying and managing the operational risks by operating the risk management tools, policy-making and construction of IT system, training and assessment to maintain the operational risks at a proper level so as to provide a healthy internal operational environment for business development.

During the Reporting Period, the overall operational risk of the Company was under control.

4. Liquidity risk

Liquidity risk refers to the risk resulting from inability to timely obtain sufficient funds at rational costs to repay debts due, fulfill other payment obligations and satisfy the demands for capital in the ordinary course of business.

As for liquidity risk, the Company formulated the risk evaluation and measurement methods based on the “Guidance for Securities Companies on Liquidity Risk Management”, including but not limited to analysis on the mismatch of maturity of assets and liabilities, source and diversification of financing, liquidity assets with good quality and market liquidity, forecast of static and dynamic cash flow and cash flow gap, monitoring of internal and external liquidity indicators, and carrying out stress test for liquidity.

To cope with and manage liquidity risk effectively, the Company strengthened the real-time monitoring and management of usage of large amounts of funds in order to achieve centralized fund allocation and coordinated liquidity risk management, adjusted and configured the scale and maturity structure of assets and liabilities to build up a multi-level liquidity reserve system, constructed an integrated fund and liquidity risk management system and achieved the target of our liquidity portfolio through accessing the money market, capital market and bank credit.

During the Reporting Period, the overall liquidity risk of the Company was under control and all financial indicators were satisfactory.

(II) Actions and measures taken or proposed to be taken by the Company

When replenishing the capital and seizing the opportunities, the Company transformed the risk management concept, enhanced the cultivation of talent team, strengthened risk management method and tools, accelerated the establishment of the risk management system, carried out risk management throughout all the processes, fully cooperated in developing innovative business, continued to advance the progress of assets and liabilities structure optimization and intensified liquidity risk management to support and ensure the innovative transformation and strategy implementation of the Company.

1. Promoting the cultivation of a risk management culture and strengthening risk management philosophy

With a “top-down approach”, the shareholders, the Board and the management of the Company attached high importance to risk management. Driven by regulatory requirements, industrial trends, business development and our own efforts, the Company achieved preliminary result in the establishment of a comprehensive risk management system. The Company has further defined risk management strategy and issued and implemented risk appetite. Through the enhancement of management on risk limit and authorization, the Company further strengthened the establishment of risk monitoring and reporting system, giving a more important role of risk management in business decision and embedding it in business development process. As such, risk management has been playing an increasingly important role in the daily operation and management of the Company.

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2. Strengthen the risk management method and instrument, speed up the construction of risk management system

By enhancing the risk management methods and tools, the Company fully identified the risks in a timely manner, prudentially evaluated all kinds of risks, constantly monitored risks, actively responded to various risks, and timely and comprehensively reported risks. The Company continuously enhanced risk evaluation and measurement methods, developed and applied a series of risk management methods and tools, to evaluate and report risks in a quantitative method: enhancing such market risk evaluation techniques such as sensitivity analysis, scenario analysis, VaR, and pressure tests, etc.; carrying out credit risk evaluation method including corporate rating; gradually establishing basic tools for operational risks such as loss database, key risk indicators, risk control and self-evaluation; adopting liquidity risk evaluation measures such as financing capability analysis, asset realization analysis, dynamic and static cash flow forecasts, and stress tests; and exploring and considering risk-correlated overall risk summary techniques.

Based on the principles of “fast effect in the short term and expandable in the long term”, the Company constructed the risk management system cluster with uniform structure, clear layers and well-developed functions to vigorously support the implementation of comprehensive risk management system. The ideal of “integrated design, use in advance in case of urgent demands, planning the implementation as a whole and crushing one by one” was adopted for the integrated construction, and the data integration and governance were used as basis and the demands for risk management were oriented to design the overall structure of the risk management system and to cooperate in synchronization in completing the transformation of relevant production system and supporting system. As at the End of the Reporting Period, the Company had completed the establishment and operation of the market risk measuring system and internal credit rating system. The liquidity risk management system, operational risk management system and financing risk monitoring system were under smooth construction. The establishment of risk management system was significantly accelerated.

3. To adopt a comprehensive risk management, cooperate fully with the innovative business development

While actively carrying out innovative business, the Company also focused on the risk management of the innovative business, which mainly included risk valuation for each innovative business, risk control procedure design, risk control indicator design and indicator setting, risk management supporting system design and related construction of risk control information system, and performed effective risk management of the innovative business by way of assessment and review beforehand, assigned risk limits, concurrent risk measurement, independent monitoring and risk reporting, and risk assessment and participated in risk disposal afterwards, etc.

4. Continue to advance the progress of assets and liabilities structure optimization, strengthen the risk management of liquidity

After the violent market turbulence in 2015, the matching of maturity structure of assets and liabilities had to be improved, in particular, cash assets represented a large portion while the rate of return and liquidity risk management should be improved.

On the basis of balance between safety, liquidity and profitability, the Company actively conducted asset and liability management, continuously optimized asset and liabilities structure, established different levels of liquidity reserves system, further improved internal funding valuation pattern, and increased fund utilization rate, so as to support the healthy and stable development of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

(III) RISK CONTROL INDICATORS (INCLUDING NET CAPITAL, ETC.)

As at the End of the Reporting Period, the net capital of the Company was RMB46.434 billion, representing a 23.42% decrease as compared with RMB60.638 billion as at 31 December 2015, mainly due to the decrease in net assets as a result of the distribution of final dividend for the year 2015 and the maturity of the subordinate bonds of the Company. At the end of February 2016, a significant amount of deposit for application received by the Company in its bonds underwriting business during the ordinary course of business was recognized as its own liabilities in accordance with accounting and audit rules, therefore, risk control indicators (including net capital/liabilities and net assets/liabilities) as at the end of the month did not meet the warning standards and regulatory standards. The balance of the abovementioned deposit for application was returned to investors in early March after deducting the amount of allocation of the successful applications according to the offline allocation result of institutional investors, following which, the risk control indicators have restored to the regulatory standards. The Company has reported to the regulatory authority in such regard. Saved as the above matter, the Company's net capital and risk control indicators have continuously met the regulatory standards in the first half of 2016 and the overall risk capital reserves and the risk capital reserves for all businesses have been effectively controlled.

The Company collected financial and related business data through net capital monitoring system, formulated the table for monitoring net capital and risk control indicators, performed daily dynamic monitoring, and regularly conducted internal audit for the financial statements, so as to ensure risk control indicators including net capital meet regulatory requirements.

Items	30 June 2016	31 December 2015
Net capital (RMB in 100 million)	464.34	606.38
Net assets (RMB in 100 million)	539.60	562.58
Total risk capital reserves (RMB in 100 million)	57.06	48.38
Net capital/total risk capital reserves	813.82%	1,253.42%
Net capital/net assets	86.05%	107.79%
Net capital/liabilities	52.66%	50.96%
Net assets/liabilities	61.19%	47.28%
Proprietary equity securities and securities derivatives/net capital	57.25%	29.39%
Proprietary fixed income securities/net capital	100.80%	79.88%



OTHER INFORMATION

I. INTERIM DIVIDEND

The Board does not declare the payment of interim dividend to the shareholders of the Company for the six months ended 30 June 2016.

II. INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OR DEBENTURES IN THE COMPANY AND ITS ASSOCIATED CORPORATIONS HELD BY THE DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE

As described in the “Voluntary Announcement on Participation of Directors, Supervisors, Senior Management and Employees in a Collective Investment Scheme” dated 9 July 2015, the Directors, Supervisors and senior management of the Company who satisfied certain conditions voluntarily invested, with their own funds, in a collective investment scheme (i.e. Galaxy Wenhui products (“銀河穩匯”)) which was offered to all customers of the Company and intended to primarily invest in H Shares of the Company (as well as other securities). The collective investment scheme shall be implemented by an independent manager of the scheme at his/her absolute discretion (including but not limited to any adjustment to investment portfolio and purchase and disposal of investment products). As at the End of the Reporting Period, the Directors, Supervisors and senior management invested a total of RMB45.97 million in the collective investment scheme. As the collective investment scheme has opened for redemption, as at 29 July 2016, according to the manager, balance of the Directors, Supervisors and senior management in the collective investment scheme was RMB3.10 million. The Directors, Supervisors and senior management are not aware of the number of H Shares of the Company included in the collective investment scheme.

Saved as disclosed above, so far as the Directors are aware, as at the End of the Reporting Period, none of the Directors, Supervisors and chief executive of the Company has interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of SFO) (i) which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or (ii) which are required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein, or (iii) which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

III. RIGHTS OF THE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

During the Reporting Period and as at the End of the Reporting Period, there was no arrangement to which the Company, its subsidiaries or holding company or a subsidiary of its holding company was a party and the purpose or one of the purposes of which was to benefit any Director, Supervisor, their respective spouses or any of their minor children under 18 years of age through acquisition of any shares or debentures of the Company or any other body corporation.

OTHER INFORMATION

IV. 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 the End of the Reporting Period, the following persons (other than the Directors, Supervisors or chief executive of the Company) held 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 substantial shareholders	Class of shares	Nature of interest	Number of shares held (share) (Note 1)	Percentage of the total number of issued shares of the Company (%)	Percentage of the total number of issued Domestic Shares/H Shares of the Company (%)	Long positions/short positions/shares available for lending
Huijin (Note 2)	Domestic Shares	Interests of controlled corporation	5,217,743,240	54.71	89.25	Long position
Galaxy Financial Holdings	Domestic Shares	Beneficial owner	5,217,743,240	54.71	89.25	Long position
Franklin Templeton Sealand Fund Management Co., Ltd	H Shares	Investment manager	217,087,000	2.28	5.88	Long position
BlackRock, Inc. (Note 3)	H Shares	Interest of controlled corporation	196,630,151	2.06	5.33	Long position
	H Shares	Interest of controlled corporation	2,491,000	0.03	0.07	Short position
Wenze International Investment Limited (Notes 4 & 5)	H Shares	Beneficial owner	219,524,000	2.30	5.95	Long position
Wang Yili (Note 4)	H Shares	Interests of controlled corporation	219,524,000	2.30	5.95	Long position
Yan Yuqing (Note 5)	H Shares	Interests of controlled corporation	219,524,000	2.30	5.95	Long position
JPMorgan Chase & Co. (Note 6)	H Shares	Beneficial owner/ Investment manager/ Custodian- Corporation/approved lending agent	226,562,950	2.38	6.13	Long position
	H Shares	Beneficial owner	3,625,000	0.04	0.09	Short position
	H Shares	Custodian-Corporation/ approved lending agent	84,018,171	0.88	2.27	Shares available for lending

Note 1: According to Section 336 of the SFO, shareholders of the Company are required to file disclosure of interests forms when certain criteria are fulfilled. When the shareholdings of the shareholders in the Company change, it is not necessary for the shareholders to notify the Company and the Hong Kong Stock Exchange unless certain criteria are fulfilled. Therefore, the latest shareholdings of the shareholders in the Company may be different from the shareholdings filed with the Hong Kong Stock Exchange.

Note 2: Huijin directly holds approximately 78.57% equity interest in Galaxy Financial Holdings and is therefore deemed to be interested in 5,217,743,240 Domestic Shares directly held by Galaxy Financial Holdings.

Note 3: BlackRock, Inc. holds 196,630,151 H Shares in long position and 2,491,000 H Shares in short position through various entities under its control. In addition, 1,780,500 H Shares in long position and 385,000 H Shares in short position involve derivatives, of which the category is: unlisted derivatives – cash settled.

Note 4: Wang Yili is interested in 50% shares of Wenze International Investment Limited and is hence deemed to be interested in the 219,524,000 H Shares held by Wenze International Investment Limited.

OTHER INFORMATION

Note 5: Yan Yuqing is interested in 50% shares of Wenze International Investment Limited and is hence deemed to be interested in the 219,524,000 H Shares held by Wenze International Investment Limited.

Note 6: Out of the 226,562,950 H Shares in long position held by JPMorgan Chase & Co., 142,515,779 H Shares are held by JPMorgan Chase & Co. as the beneficial owner, 29,000 H Shares are held by JPMorgan Chase & Co. as the investment manager, 84,018,171 H Shares are held by JPMorgan Chase & Co. as the custodian – corporation/approved lending agent. In addition, 2,436,000 H Shares in long position and 1,790,500 H Shares in short position involve derivatives, of which the categories are:

- 1,290,500 H Shares in short position: derivatives listed and traded on a stock exchange or traded on a futures exchange – cash settled;
- 2,436,000 H Shares in long position: unlisted derivatives – physically settled;
- 500,000 H Shares in short position: unlisted derivatives – cash settled.

Save as disclosed above, as at the End of the Reporting Period, the Company was not aware of any other person (other than Directors, Supervisors and chief executive of the Company) who held interests or short positions in shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.

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

Save as disclosed in the sub-section “VII. Financing of the Company” under the section “Management Discussion and Analysis”, the Company and its subsidiaries did not purchase, sell or redeem any of its listed securities during the Reporting Period.

VI. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company exerted its effort in maintaining high quality corporate governance in order to protect the interests of its shareholders and enhance its corporate value and accountability. Except for code provision E.1.2 of the CG Code, the Company has adopted and has been in compliance with the code provisions of CG Code during the Reporting Period, and met the requirements of the majority of the recommended best practices set out in the CG Code. The Company will continue to review and enhance its corporate governance practice so as to ensure the compliance with the CG Code.

Pursuant to code provision E.1.2 of the CG Code, the chairman of the board shall attend annual general meetings. However, as Mr. Chen Youan resigned as the chairman and an executive Director of the Company on 25 April 2016 due to work arrangements, the annual general meeting convened on 6 June 2016 was chaired by Mr. Gu Weiguo, vice chairman of the Company.

VII. COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for securities transactions by Directors and Supervisors. The Company has made specific enquiries to all Directors and Supervisors with respect to their compliance with the Model Code, and all Directors and Supervisors confirmed that they have complied with all standards set out in the Model Code during the Reporting Period.

VIII. OPERATION OF THE BOARD AND ITS SPECIAL COMMITTEES

The Board currently comprises 10 Directors, including 2 executive Directors, 4 non-executive Directors and 4 independent non-executive Directors.

Board	Vice chairman, executive Director and president	Executive Director, board secretary and joint company secretary	Non-executive Director	Independent non-executive Director
Director	Gu Weiguo	Wu Chengming	Du Ping, Shi Xun, Zhang Jinghua, Li Chaoyang	Liu Feng, Luo Lin, Wu Yuwu, Chi Fulin

The Strategy and Development Committee, Risk Management Committee, Nomination and Remuneration Committee and Audit Committee have been established under the Board. The responsibilities of each committee are clearly divided and defined. The committees assist the Board in conducting work within the terms of reference as specified in the procedural rules of meetings, and are accountable to and report to the Board. The majority of the members of the Nomination and Remuneration Committee and the Audit Committee are independent non-executive Directors, and the chairman of each of the two committees is an independent non-executive Director.

Special committees	Chairman	Members
Strategy and Development Committee	–	Gu Weiguo, Du Ping, Shi Xun, Zhang Jinghua, Wu Chengming, Liu Feng, Luo Lin, Wu Yuwu, Chi Fulin, Li Chaoyang
Risk Management Committee	Shi Xun	Gu Weiguo, Du Ping, Zhang Jinghua, Wu Chengming, Liu Feng, Li Chaoyang
Nomination and Remuneration Committee	Liu Feng	Luo Lin, Wu Yuwu, Chi Fulin, Shi Xun, Li Chaoyang
Audit Committee	Luo Lin	Liu Feng, Wu Yuwu, Chi Fulin, Shi Xun, Zhang Jinghua

All Directors performed their duties faithfully and diligently in accordance with the relevant requirements of laws, regulations and the Articles of Association, so as to protect the interests of the Company and its shareholders. During the Reporting Period, all Directors faithfully and diligently performed their duties entitled by laws and regulations, and have protected the overall interests of the Company, especially the legitimate interests of small and medium shareholders.

OTHER INFORMATION

During the Reporting Period, the Board convened 1 annual general meeting, 1 extraordinary general meeting, 1 Domestic Share class meeting and 1 H Share class meeting and submitted 23 proposals for shareholders' consideration. The Board actively organized, supervised and followed up the implementation of the resolutions passed at general meetings. The Board has convened 4 Board meetings to consider 33 proposals. The Strategy and Development Committee, the Risk Management Committee, the Nomination and Remuneration Committee and the Audit Committee convened 2 meetings, 2 meetings, 4 meetings and 4 meetings, respectively. The special committees gave full play to their own professional strengths, providing strong support for the decision-making of the Board and further enhancing the efficiency and level of decision-making of the Board.

The Audit Committee and the management have reviewed the accounting policies adopted by the Company, discussed matters including the risk management, internal control and financial statements of the Company, and reviewed the consolidated interim financial information of the Company for the six months ended 30 June 2016. The external auditor of the Company has reviewed the interim financial information in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

The financial information set out in this interim report is unaudited.

IX. OPERATION OF THE SUPERVISORY COMMITTEE

The Supervisory Committee currently comprises 5 Supervisors, including 2 employee Supervisors.

Supervisory Committee	Chairman	Supervisors
Supervisors	Yu Wenxiu	Zhong Cheng, Feng Heping, Liu Zhiyi (employee Supervisor), Chen Jijiang (employee Supervisor)

The Supervisors performed their duties diligently in accordance with relevant laws and regulations, including the Company Law and Securities Law of the PRC, and relevant requirements of the Articles of Association. The Supervisory Committee supervised the operation of the Company so as to protect the legitimate interests of the Company and its shareholders. During the Reporting Period, the Supervisory Committee convened 2 meetings.

X. MATERIAL LITIGATIONS

Out of the four material litigations as disclosed in the 2015 annual report of the Company, final decision has been made for two, which has been disclosed in the 2015 annual report. For the remaining two material litigations, the update of their status is as follows:

1 Civil action brought by Sichuan Trust Co., Ltd. (四川信託有限公司) against eight entities and individuals including Weihai Zhongtian Real Estate Co., Ltd. (威海中天房地產有限公司) in relation to an entrusted loan agreement dispute

On 27 January 2016, the Company received the materials ((2016) Lu Min Chu No. 2) delivered by the People's High Court of Shandong Province in relation to the civil action brought by Sichuan Trust Co., Ltd. against eight entities and individuals including Weihai Zhongtian Real Estate Co., Ltd. for an entrusted loan agreement dispute. The Company and Galaxy Jinhui, as the managers of the directed asset management scheme, were listed as the 7th and 8th defendants, respectively. The action is undergoing the first trial.

2 Civil action brought by four individuals including Che Jingwei against the Qinhuangdao Securities Branch and the Company in relation to the fraud by Che Chao individually, a former employee of the Qinhuangdao Securities Branch

On 23 May 2016, the People's Court of Haigang District in Qinhuangdao organized an exchange of evidence. The court commenced the first trial of the case on 5 July 2016. On 19 July 2016, the People's Court of Haigang District in Qinhuangdao made the first judgment, which dismissed all of claims made by the four individuals including Che Jingwei, the plaintiffs. On 11 August 2016, the Company received the materials in relation to appeal from four individuals including Che Jingwei, and the case is undergoing the appeal process.

During the Reporting Period, there were no new material litigations.

The Company considers that the above legal proceedings will not have direct material adverse impact on the business, financial position or operating results of the Company.

XI. CAPITAL INCREASE

On 24 March 2016, the eleventh meeting of the third session of the Board passed the "Proposal on the Increase of Registered Capital of the Hong Kong Subsidiary". In order to support the business development of Galaxy International Holdings, it is proposed to increase its registered capital by HK\$4 billion, after the capital increase, the registered capital of Galaxy International Holdings will be HK\$5 billion. Such capital will be injected by phase taking into account the operating condition of Galaxy International Holdings and its actual capital requirement.

XII. EVALUATION RESULTS OF THE COMPANY BY SECURITIES REGULATORY AUTHORITY

In the evaluation of securities companies of 2016 carried out by the CSRC, the Company was assigned an A rating in A class.

XIII. CHANGE IN DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

- (1) As described in the announcements of the Company dated 31 January and 29 July 2016, since Ms. Huo Xiaoyu was directed to cooperate with the judicial authority in the PRC and could not perform her duties, the Company ceased to employ Ms. Huo Xiaoyu as a member of the executive committee and the vice president of the Company with effect from 29 July 2016.
- (2) As described in the announcement of the Company dated 27 April 2016, due to work arrangements, Mr. Chen Youan has tendered his resignation as the chairman of the Board and an executive Director, and has ceased to perform such duties since 25 April 2016.
- (3) As described in the announcement of the Company dated 30 August 2016, the resolution in relation to the nomination of Mr. Chen Gongyan as a candidate for executive Director of the Company was considered and passed at the fifteenth meeting of the third session of the Board. Such resolution shall be submitted to the shareholders' general meeting of the Company for consideration and approval.

XIV. OTHERS

On 30 August 2016, the resolution on the provision of the net capital guarantee to Galaxy Jinhui by the Company was considered and passed at the fifteenth meeting of the third session of the Board. The Company will provide a net capital guarantee of RMB1 billion to Galaxy Jinhui to satisfy its business development demand.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



TO THE BOARD OF DIRECTORS OF CHINA GALAXY SECURITIES CO., LTD.

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

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Galaxy Securities Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 33 to 75, which comprise the condensed consolidated statement of financial position as at 30 June 2016 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standard Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

30 August 2016

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	Notes	Six months ended 30 June	
		2016 (Unaudited)	2015 (Unaudited)
Revenue			
Commission and fee income	4	4,078,490	9,911,090
Interest income	5	3,784,585	6,010,681
Net investment gains	6	1,354,861	1,283,736
		9,217,936	17,205,507
Other income and gains		33,592	278,829
Total revenue and other income		9,251,528	17,484,336
Depreciation and amortization	7	(99,324)	(88,443)
Staff costs	8	(2,352,820)	(4,917,052)
Commission and fee expenses	9	(143,765)	(209,644)
Interest expenses	10	(2,692,756)	(3,094,265)
Other operating expenses	11	(1,016,722)	(1,664,879)
Impairment losses	12	(10,591)	(13,159)
Total expenses		(6,315,978)	(9,987,442)
Share of result of an associate		–	(397)
Profit before income tax		2,935,550	7,496,497
Income tax expense	13	(664,490)	(1,830,252)
Profit for the period		2,271,060	5,666,245
Attributable to:			
Owners of the Company		2,255,461	5,642,806
Non-controlling interests		15,599	23,439
		2,271,060	5,666,245
Earnings per share attributable to owners of the Company (in RMB)			
– Basic	14	0.24	0.69

The notes on pages 40 to 75 form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

	Six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited)
Profit for the period	2,271,060	5,666,245
Other comprehensive income		
<i>Items that will not be reclassified to profit or loss:</i>		
Remeasurement of defined benefit obligation	(1,404)	4,383
	(1,404)	4,383
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Available-for-sale financial assets		
– Fair value (loss)/gains	(1,598,896)	936,958
– Reclassification of gains to profit or loss on disposals	(174,237)	(345,911)
– Income tax relating to items that may be classified subsequently	443,283	(147,762)
Subtotal	(1,329,850)	443,285
Exchange differences arising on translation of foreign operations	21,439	(1,029)
	(1,308,411)	442,256
Other comprehensive income for the period, net of income tax	(1,309,815)	446,639
Total comprehensive income for the period	961,245	6,112,884
Attributable to:		
Owners of the Company	945,646	6,089,445
Non-controlling interests	15,599	23,439
	961,245	6,112,884

The notes on pages 40 to 75 form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

	Notes	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	16	421,392	450,507
Goodwill		223,278	223,278
Other intangible assets		356,225	363,359
Advances to customers	21	161,901	–
Available-for-sale financial assets	17	15,757,795	16,273,629
Financial assets held under resale agreements	18	2,178,092	323,624
Investments classified as loan and receivables		2,869,100	2,869,100
Deposits with exchanges and a non-bank financial institution	19	485,760	849,869
Deferred tax assets	20	469,147	131,017
Total non-current assets		22,922,690	21,484,383
Current assets			
Advances to customers	21	52,003,555	70,138,177
Accounts receivable	22	712,376	764,030
Other receivables and prepayments	23	3,704,971	2,372,734
Amounts due from a non-bank financial institution		300,000	–
Available-for-sale financial assets	17	18,403,372	15,851,557
Investments classified as loan and receivables		–	250,000
Financial assets held under resale agreements	18	2,563,074	21,467,065
Financial assets held for trading	24	37,517,131	37,267,147
Financial assets designated at fair value through profit or loss	25	1,741,124	1,656,671
Derivative financial assets	26	156,227	23,536
Deposits with exchanges and a non-bank financial institution	19	4,942,017	3,539,094
Clearing settlement funds	27	20,241,153	23,259,552
Bank balances	28	91,081,986	102,581,605
Total current assets		233,366,986	279,171,168
Total assets		256,289,676	300,655,551
EQUITY AND LIABILITIES			
Equity			
Share capital	30	9,537,259	9,537,259
Reserves		32,072,590	33,382,405
Retained profits		13,120,459	13,993,902
Equity attributable to owners of the Company		54,730,308	56,913,566
Non-controlling interests		350,342	335,850
Total equity		55,080,650	57,249,416

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

	Notes	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
LIABILITIES			
Non-current liabilities			
Bonds payable	31	14,034,544	27,570,925
Financing instrument payables	32	–	3,000,000
Other payables and accruals	33	1,877,517	2,790,184
Total non-current liabilities		15,912,061	33,361,109
Current liabilities			
Bonds payable	31	25,499,400	22,830,000
Due to banks	34	1,955,126	1,190,515
Financing instrument payables	32	6,000,000	10,867,870
Accounts payable to brokerage clients	35	104,865,363	117,992,209
Accrued staff costs	36	3,815,981	5,543,795
Other payables and accruals	33	9,393,727	5,741,762
Current tax liabilities		39,999	633,473
Financial liabilities at fair value through profit or loss		8,822	51,039
Derivative financial liabilities	26	73,942	341,443
Financial assets sold under repurchase agreements	37	33,644,605	44,852,920
Total current liabilities		185,296,965	210,045,026
Total liabilities		201,209,026	243,406,135
Total equity and liabilities		256,289,676	300,655,551
Net current assets		48,070,021	69,126,142
Total assets less current liabilities		70,992,711	90,610,525

The condensed consolidated financial statements on pages 33 to 75 were approved and authorized for issue by the Board of Directors on 30 August 2016 and are signed on its behalf by:

Gu Weiguo

DIRECTOR

Wu Chengming

DIRECTOR

The notes on pages 40 to 75 form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

	Equity attributable to owners of the Company									
	Share capital	Reserves					Retained profits	Subtotal	Non-controlling interests	Total equity
		Capital reserve	Investment revaluation reserve	Translation reserve	General reserves	Other reserves				
Six months ended 30 June 2016 (Unaudited)										
At 1 January 2016	9,537,259	21,673,175	597,408	37,072	11,109,898	(35,148)	13,993,902	56,913,566	335,850	57,249,416
Profit for the period	-	-	-	-	-	-	2,255,461	2,255,461	15,599	2,271,060
Other comprehensive income/(expense) for the period*	-	-	(1,329,850)	21,439	-	(1,404)	-	(1,309,815)	-	(1,309,815)
Total comprehensive income/(expense) for the period	-	-	(1,329,850)	21,439	-	(1,404)	2,255,461	945,646	15,599	961,245
Others	-	-	-	-	-	-	1,107	1,107	(1,107)	-
Dividend recognized as distribution (note 15)	-	-	-	-	-	-	(3,130,011)	(3,130,011)	-	(3,130,011)
At 30 June 2016	9,537,259	21,673,175	(732,442)	58,511	11,109,898	(36,552)	13,120,459	54,730,308	350,342	55,080,650
Six months ended 30 June 2015 (Unaudited)										
At 1 January 2015	7,537,259	4,798,418	258,537	(18,060)	8,219,866	(26,608)	8,254,385	29,023,797	312,123	29,335,920
Profit for the period	-	-	-	-	-	-	5,642,806	5,642,806	23,439	5,666,245
Other comprehensive income/(expense) for the period	-	-	443,285	(1,029)	-	4,383	-	446,639	-	446,639
Total comprehensive income/(expense) for the period	-	-	443,285	(1,029)	-	4,383	5,642,806	6,089,445	23,439	6,112,884
Placing of new H shares	2,000,000	16,923,098	-	-	-	-	-	18,923,098	-	18,923,098
Costs of placing of new H shares	-	(48,341)	-	-	-	-	-	(48,341)	-	(48,341)
Dividend declared to non-controlling interests	-	-	-	-	-	-	-	-	(17,414)	(17,414)
Appropriation to general reserves	-	-	-	-	11,059	-	(11,059)	-	-	-
Dividend recognized as distribution (note 15)	-	-	-	-	-	-	(1,205,961)	(1,205,961)	-	(1,205,961)
At 30 June 2015	9,537,259	21,673,175	701,822	(19,089)	8,230,925	(22,225)	12,680,171	52,782,038	318,148	53,100,186

* The other comprehensive loss recorded in the investment revaluation reserve for the period ended 30 June 2016 is primarily related to the investment in a designated account managed by China Securities Finance Corporation Limited (the "CSFCL") as set out in note 17 to these condensed consolidated financial statements.

The notes on pages 40 to 75 form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

	Six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited)
OPERATING ACTIVITIES		
Operating cash flows before movements in working capital	4,851,481	9,785,588
Decrease/(increase) in advances to customers	17,996,257	(73,415,967)
Decrease in financial assets held under resale agreements	17,039,141	1,641,688
Decrease/(increase) in clearing settlement funds-clients	3,743,859	(2,032,072)
Decrease/(increase) in cash held on behalf of customers	11,081,553	(119,566,691)
Increase in placements from a bank	200,000	-
(Decrease)/increase in accounts payable to brokerage clients, accrued staff costs and other payables and accruals	(14,973,119)	123,956,637
(Decrease)/increase in financial assets sold under repurchase agreements	(11,208,315)	14,483,600
Increase in due from a non-bank financial institution	(300,000)	-
Other working capital items	(2,827,558)	(9,544,947)
Cash from/(used in) operations	25,603,299	(54,692,164)
Income taxes paid	(1,152,811)	(1,328,609)
Interest paid	(1,133,978)	(1,300,789)
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	23,316,510	(57,321,562)
INVESTING ACTIVITIES		
Dividends and interest received from investments	595,374	281,533
Purchases of property and equipment and other intangible assets	(63,656)	(98,649)
Proceeds from disposals of property and equipment and other intangible assets	701	1,309
Purchases of available-for-sale financial assets	(13,175,600)	(6,098,646)
Proceeds from disposals of available-for-sale financial assets	9,541,074	4,050,197
Decrease in investments classified as loans and receivables	250,000	(742,750)
Placement of bank deposits with original maturity of more than three months	(459,931)	(380,541)
Maturity of bank deposits with original maturity of more than three months	135,468	820,568
NET CASH USED IN INVESTING ACTIVITIES	(3,176,570)	(2,166,979)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Note	Six months ended 30 June	
		2016 (Unaudited)	2015 (Unaudited)
FINANCING ACTIVITIES			
Proceeds from placing of new H shares		–	18,923,098
Cash injection by third-party holders to consolidated structured entities, net		916,455	557,430
Proceeds from borrowing and financing instrument payables		2,551,873	50,495,654
Proceeds from short-term notes and bonds issued		5,800,000	47,430,000
Repayment of borrowing and financing instrument payables		(9,855,132)	(34,838,653)
Repayment of short-term notes and bonds		(16,630,000)	(2,334,925)
Interest paid in respect of bonds, borrowing and financial instrument payables		(2,785,874)	(287,027)
Transaction costs paid on issue of new H shares		–	(4,385)
NET CASH (USED IN)/FROM FINANCING ACTIVITIES		(20,002,678)	79,941,192
NET INCREASE IN CASH AND CASH EQUIVALENTS		137,262	20,452,651
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		8,415,414	7,503,887
Effect of foreign exchange rate changes		50,043	(148)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	29	8,602,719	27,956,390
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		3,693,984	5,449,150
Total interest paid		(3,947,741)	(1,587,816)

The notes on pages 40 to 75 form an integral part of these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

1. GENERAL INFORMATION OF THE GROUP

Pursuant to the approval from the China Securities Regulatory Commission (the “CSRC”), China Galaxy Securities Co., Ltd. (the “Company”) was established in Beijing, the People’s Republic of China (the “PRC”) on 26 January 2007 with a registered capital of RMB6 billion. In May 2013, the Company issued H shares which were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) and the issued capital of the Company was increased to RMB7,537 million on completion of the H share offering. On 5 May 2015, the Company completed its placing of 2,000,000,000 H shares on the Main Board of the Hong Kong Stock Exchange and the issued capital of the Company was increased to RMB9,537 million.

The registered office of the Company is located at 2-6F, Tower C, Corporate Square, 35 Finance Street, Xicheng District, Beijing, the PRC.

The Company and its subsidiaries (hereinafter collectively referred to as the “Group”) are principally engaged in securities brokerage, securities investment advisory, financial advisory relating to securities trading and securities investment activities, security underwriting and sponsorship, proprietary trading, asset management, margin financing and securities lending, securities investment fund distribution, agency sale of financial products, project and investment management, equity investment management, industrial investment, commodity futures brokerage, financial futures brokerage, futures investment advisory, wealth management, alternative investment and money lending business.

The Company’s immediate holding company is China Galaxy Financial Holdings Company Limited (中國銀河金融控股有限責任公司) (“Galaxy Financial Holdings”).

These condensed consolidated financial statements are presented in Renminbi (“RMB”), which is also the functional currency of the Company, and all values are rounded to the nearest thousand unless otherwise stated.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” and the applicable disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange. The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2015.

(b) Principal accounting policies

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

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

During the six months ended 30 June 2016, the following amendments to standards were effective on 1 January 2016:

Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle

None of the above amendments to IFRSs, however, have had a material impact on the financial position or performance of the Group, nor the presentation or disclosures of these endorsed financial statement for the six months ended 30 June 2016.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SEGMENT REPORTING

Information reported to the chief operating decision maker (the “CODM”), being the board of directors of the Company, for the purposes of resource allocation and assessment of segment performance focuses on the nature of products sold and services provided by the Group, which is also consistent with the Group’s basis of organization, whereby the businesses are organized and managed separately as individual strategic business unit that offers different products and serves different markets except for overseas business, which is reviewed by CODM as a single segment. Segment information is measured in accordance with the accounting policies and measurement criteria adopted by each segment when reporting to the board of directors, which are consistent with the accounting and measurement criteria in the preparation of the condensed consolidated financial statements.

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

- (a) Securities brokerage: This segment engages in the provision of securities dealing and broking, margin financing to margin clients and securities lending;
- (b) Futures brokerage: This segment engages in futures dealing and broking, futures information consulting and training;
- (c) Proprietary trading and other securities trading services: This segment engages in trading of equities, bonds, funds, derivatives and other financial products for the Group;
- (d) Investment banking: This segment engages in the provision of corporate finance services including underwriting of equity and debt securities and financial advisory services to institutional clients;
- (e) Asset management: This segment engages in the provision of portfolio management and maintenance, investment advisory and transaction execution services;
- (f) Private equity and alternative investment: This segment makes direct equity investments in private companies and realizes capital gains by exiting from these private equity investments through initial public offerings or share sales, or receives dividends from these portfolio companies;
- (g) Overseas business: This segment mainly represents the business operations in securities brokerage, futures brokerage, securities research, investment banking, margin financing, money lending, asset management and insurance brokerage business that are carried out in Hong Kong; and
- (h) Others: This segment mainly represents head office operations, investment holding as well as interest income and interest expenses arising from general working capital.

Inter-segment transactions, if any, are conducted with reference to the prices charged to third parties and there was no change in the basis during both periods.

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

Segment assets or liabilities are allocated to each segment, excluding deferred tax assets. Inter-segment balances mainly resulted from futures brokerage transaction carried out by futures brokerage segment for proprietary trading and other securities trading services segment and are eliminated upon consolidation. The segment result excludes income tax expense while the segment assets and liabilities include prepaid taxes and current tax liabilities respectively.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SEGMENT REPORTING (Continued)

The Group operates in two principal geographical areas in the People's Republic of China, Mainland China and Hong Kong, representing the location of both income from external customers and assets of the Group. Segment revenue and all assets of the Group in respect of overseas business segment are attributable to operations in Hong Kong. Segment revenue and all assets of the Group except for the overseas business segment are attributable to operations in Mainland China. No single customer contributes more than 10% of the Group's income for the six months ended 30 June 2016 and 2015.

The operating and reportable segment information provided to the CODM for the six months ended 30 June 2016 and 2015 is as follows:

	Securities brokerage	Futures brokerage	Proprietary trading and other securities services	Investment banking management	Asset management	Private equity and alternative investments	Overseas business	Others	Segment total	Eliminations	Consolidated total
For the six months ended 30 June 2016 (Unaudited)											
Segment revenue and results											
Revenue and net investment gains											
– External	6,304,251	328,127	1,193,142	540,089	354,867	19,427	184,142	293,891	9,217,936	–	9,217,936
– Inter-segment	153,823	1,108	–	–	13,026	–	–	–	167,957	(167,957)	–
Other income and gains	22,583	4,240	200	–	–	–	1,700	4,869	33,592	–	33,592
Segment revenue and other income	6,480,657	333,475	1,193,342	540,089	367,893	19,427	185,842	298,760	9,419,485	(167,957)	9,251,528
Segment expenses	(4,032,861)	(223,380)	(844,258)	(358,171)	(264,621)	(9,983)	(133,036)	(617,625)	(6,483,935)	167,957	(6,315,978)
Segment result	2,447,796	110,095	349,084	181,918	103,272	9,444	52,806	(318,865)	2,935,550	–	2,935,550
Profit/(loss) before income tax	2,447,796	110,095	349,084	181,918	103,272	9,444	52,806	(318,865)	2,935,550	–	2,935,550

For the six months ended 30

June 2015 (Unaudited)

Segment revenue and results

Revenue and net investment gains

– External	14,376,429	473,925	1,304,001	454,953	198,957	78,842	220,370	98,030	17,205,507	–	17,205,507
– Inter-segment	131,764	484	–	–	434	–	10,480	88,780	231,942	(231,942)	–
Other income and gains	19,865	2,242	–	–	–	2	1,947	254,773	278,829	–	278,829
Segment revenue and other income	14,528,058	476,651	1,304,001	454,953	199,391	78,844	232,797	441,583	17,716,278	(231,942)	17,484,336
Segment expenses	(7,405,030)	(317,659)	(552,952)	(328,490)	(172,490)	(26,208)	(129,801)	(1,186,138)	(10,118,768)	131,326	(9,987,442)
Segment result	7,123,028	158,992	751,049	126,463	26,901	52,636	102,996	(744,555)	7,597,510	(100,616)	7,496,894
Share of result of an associate	–	–	–	–	–	–	–	(397)	(397)	–	(397)
Profit/(loss) before income tax	7,123,028	158,992	751,049	126,463	26,901	52,636	102,996	(744,952)	7,597,113	(100,616)	7,496,497

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

3. SEGMENT REPORTING (Continued)

	Securities brokerage	Futures brokerage	Proprietary trading and other securities trading services	Investment banking management	Asset management	Private equity and alternative investments	Overseas business	Others	Segment total	Eliminations	Consolidated total
As at 30 June 2016 (Unaudited)											
Segment assets and liabilities											
Segment assets	152,462,885	16,801,370	63,028,911	2,004,910	6,491,034	1,655,581	5,160,809	109,404,647	357,010,147	(101,189,618)	255,820,529
Deferred tax assets											469,147
Total assets											256,289,676
Segment liabilities	145,618,042	15,096,276	64,609,444	1,437,479	5,823,749	340,263	4,057,792	65,357,389	302,340,434	(101,131,408)	201,209,026
As at 31 December 2015 (Audited)											
Segment assets and liabilities											
Segment assets	194,664,924	13,030,470	78,126,704	2,441,694	4,971,268	1,551,627	4,575,518	128,587,822	427,950,027	(127,425,493)	300,524,534
Deferred tax assets											131,017
Total assets											300,655,551
Segment liabilities	179,965,735	11,398,945	74,813,763	1,733,968	4,316,166	563,165	3,549,084	94,496,851	370,837,677	(127,431,542)	243,406,135

4. COMMISSION AND FEE INCOME

	Six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited)
Commission on securities dealing and broking and handling fee income	3,168,293	9,105,178
Underwriting and sponsors' fees	418,799	316,074
Commission on futures and options contracts dealing and broking and handling fee income	163,175	208,731
Consultancy and financial advisory fee income	65,983	56,853
Asset management fee income	213,207	202,712
Others	49,033	21,542
	4,078,490	9,911,090

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

5. INTEREST INCOME

The following is the analysis excluding interest income from investments:

	Six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited)
Deposits with exchanges and a non-bank financial institution and bank balances	1,474,615	1,509,510
Advances to customers and securities lending	2,231,302	4,354,484
Financial assets held under resale agreements	78,668	146,687
	3,784,585	6,010,681

6. NET INVESTMENT GAINS

	Six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited)
Investment gains from available-for-sale financial assets	174,237	345,911
Dividend income and interest income from available-for-sale financial assets	557,764	291,820
Investment (losses)/gains from financial assets held for trading	(688,520)	621,553
Dividend income and interest income from financial assets held for trading	622,450	322,041
Investment losses from financial assets designated at fair value through profit or loss	(745)	(245,334)
Dividend income and interest income from financial assets designated at fair value through profit or loss	2,950	17,122
Interest income from investments classified as loans and receivables	148,965	14,153
Investment gains/(losses) from derivatives	537,464	(83,670)
Investment gains from financial liabilities at fair value through profit or loss	296	140
	1,354,861	1,283,736

7. DEPRECIATION AND AMORTIZATION

	Six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited)
Depreciation for property and equipment	82,765	74,528
Amortization of other intangible assets	16,559	13,915
	99,324	88,443

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

8. STAFF COSTS

	Six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited)
Salaries, bonus and allowances	1,734,024	4,416,860
Social welfare	285,098	213,879
Contributions to annuity schemes	202,973	79,632
Supplementary retirement benefits	4,145	3,980
Early retirement benefits	1,274	2,262
Others	125,306	200,439
	2,352,820	4,917,052

9. COMMISSION AND FEE EXPENSES

	Six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited)
Securities and futures dealing and broking expenses	132,729	199,785
Underwriting and sponsors' fee expenses	5,893	821
Other service expenses	5,143	9,038
	143,765	209,644

10. INTEREST EXPENSES

	Six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited)
Interest on liabilities that are wholly repayable within five years:		
– Bonds payable	1,244,470	1,301,651
– Financial assets sold under repurchase agreements	897,512	1,176,991
– Financing instrument payables	289,566	332,138
– Accounts payable to brokerage clients	169,520	205,611
– Due to banks	26,819	77,874
– Third-party interests in consolidated structured entities	64,869	–
	2,692,756	3,094,265

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

11. OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited)
General and administrative expenses	191,941	252,672
Business tax and other taxes	316,087	869,129
Operating lease rentals in respect of rented premises	264,431	230,041
Data transmission expenses	107,349	110,020
Securities investor protection funds	47,484	78,066
Business travel expenses	31,247	40,149
Utilities expenses	20,706	22,150
Sundry expenses	37,477	62,652
	1,016,722	1,664,879

12. IMPAIRMENT LOSSES

	Six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited)
Financial assets held under resale agreements (note 18)	10,382	–
Advances to customers (note 21)	(23,536)	–
Accounts receivables (note 22)	16,973	10,104
Other receivables (note 23)	6,772	3,055
	10,591	13,159

13. INCOME TAX EXPENSE

	Six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited)
Current income tax	559,337	1,743,745
PRC Enterprise Income Tax	559,337	1,726,482
Hong Kong Profits Tax	–	17,263
Deferred income tax (note 20)	105,153	86,507
	664,490	1,830,252

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate applicable to PRC enterprises is 25%.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

14. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share for the six months ended 30 June 2016 and the six months ended 30 June 2015 is based on the profit attributable to owners of the Company and the number of ordinary shares in issue during the periods.

	Six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited)
Profit attributable to owners of the Company	2,255,461	5,642,806
Weighted average number of shares in issue (2015: weighted average number of shares in issue) (thousand)	9,537,259	8,170,592
Basic earnings per share (in RMB)	0.24	0.69

No diluted earnings per share has been presented for the six months ended 30 June 2016 and 2015 as the Group had no potential ordinary shares in issue during the periods.

15. DIVIDEND

No interim dividend was proposed by the Board of Directors in respect of the interim period for the six months ended 30 June 2016.

A dividend in respect of 2015 of RMB3.28188 per 10 shares (inclusive of tax), or a total of RMB3,130.01 million, based on a total of 9,537,258,757 shares in issue, was approved at the Annual General Meeting on 6 June 2016.

A dividend in respect of 2014 of RMB1.26447 per 10 shares (inclusive of tax), or a total of RMB1,205.96 million, based on a total of 9,537,258,757 shares in issue, was approved at the Annual General Meeting on 29 June 2015.

16. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the Group acquired assets with a cost of RMB54.23 million (31 December 2015: RMB228.43 million).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
Non-current		
Measured at fair value:		
Other investments ⁽¹⁾	11,679,244	12,726,202
Funds	3,797,163	3,266,039
Measured at cost:		
Equity securities ⁽²⁾	281,388	281,388
	15,757,795	16,273,629
Current		
Measured at fair value:		
Debt securities	11,802,190	12,753,740
Equity securities	6,206,654	2,107,976
Funds	–	8,065
Other investments ⁽¹⁾	394,528	981,776
	18,403,372	15,851,557

- (1) Included in the balance represents an investment in a designated account managed by CSFCL together with other securities companies for the purpose of maintaining stability in the PRC stock markets. Pursuant to the agreements the Company entered into with CSFCL, the Company contributed RMB10,500.00 million to the designated account managed by CSFCL in 2015. Risks and income arising from the investment shall be shared by the participating securities companies in proportion to their respective contribution. As at 30 June 2016 & 31 December 2015, the fair value of the investment in the designated account was determined according to the valuation provided by CSFCL.

The remaining balance mainly represents investments in: (i) collective asset management schemes issued and managed by the Group, whereby the Group's interest in and exposure to them are not significant; (ii) wealth management products issued by banks, (iii) targeted asset management schemes (or trust investments) managed by non-bank financial institutions, which mainly invest in debt securities, publicly traded equity securities listed in the PRC and loans. The Group has committed to holding some of its investments in collective asset management schemes managed by the Group till the end of the investment period, the amount of which is RMB313.36 million as at 30 June 2016 (31 December 2015: RMB395.00 million).

- (2) During the six months ended 30 June 2016, the Group made no impairment loss (31 December 2015: RMB30.00 million) in respect of private equity investments measured at cost less impairment.

The unlisted equity securities held by the Group are issued by private companies that are in the mineral resources, manufacturing or information technology sectors, among others. As the reasonable range of fair value estimation is so significant that the directors of the Company are of the opinion that the fair value cannot be measured reliably. The values of these securities are measured at cost less impairment at the end of each reporting period.

Included in the Group's listed equity securities of approximately RMB2,591.89 million as at 30 June 2016 (31 December 2015: RMB1,949.48 million) were restricted shares listed in the PRC with a legally enforceable restriction that prevents the Group to dispose of within the specified period.

In the opinion of the directors of the Company, non-current available-for-sale financial assets are not expected to be realized within one year from the end of the reporting periods.

The Group entered into securities lending arrangement with clients that resulted in the transfer of available-for-sale equity securities and exchange-traded funds ("ETF") to these clients. These securities continued to be recognized as financial assets of the Group and the total fair value amounted to RMB0.02 million (31 December 2015: RMB9.19 million).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

18. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
Non-current		
Analyzed by collateral type:		
Stocks	2,186,310	325,250
Funds	1,722	–
Less: Impairment on financial assets held under resale agreements (note 12)	(9,940)	(1,626)
	2,178,092	323,624
Analyzed by market of collateral:		
Stock exchanges	2,178,092	323,624
Current		
Analyzed by collateral type:		
Stocks	2,032,899	1,612,280
Bonds	533,223	19,859,668
Funds	3,903	–
Less: Impairment on financial assets held under resale agreements (note 12)	(6,951)	(4,883)
	2,563,074	21,467,065
Analyzed by market of collateral:		
Stock exchanges	2,563,074	21,467,065

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(Amounts in thousands of Renminbi, unless otherwise stated)

19. DEPOSITS WITH EXCHANGES AND A NON-BANK FINANCIAL INSTITUTION

Non-current	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
Deposits with stock exchanges		
– Shanghai Stock Exchange	243,660	456,608
– Shenzhen Stock Exchange	180,770	329,886
– Hong Kong Stock Exchange	10,133	9,593
– National Equities Exchange and Quotations	200	200
Deposits with futures and commodity exchanges		
– Hong Kong Futures Exchange	36,755	40,284
– Shanghai Gold Exchange	2,820	2,820
Guarantee fund paid to Shenzhen Stock Exchange	6,281	6,281
Others	5,141	4,197
	485,760	849,869
Current	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
Deposits with futures and commodity exchanges		
– China Financial Futures Exchange	2,048,975	1,633,722
– Shanghai Futures Exchange	1,460,213	1,070,864
– Dalian Commodity Exchange	948,990	552,443
– Zhengzhou Commodity Exchange	483,801	282,062
China Securities Finance Corporation Limited	38	3
	4,942,017	3,539,094

20. DEFERRED TAXATION

For presentation purpose, certain deferred tax assets and deferred tax liabilities have been offset. The following is an analysis of the deferred tax balances for financial reporting purposes:

	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
Net deferred income tax assets, at beginning of period/year	131,017	347,650
Recognized in profit or loss (note 13)	(105,153)	(103,676)
Recognized in other comprehensive income	443,283	(112,957)
Net deferred income tax assets, at end of period/year	469,147	131,017

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes, if any, and the taxes are to be levied by the same tax authority, and of the same taxable entity.

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21. ADVANCES TO CUSTOMERS

Non-current	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
Other loans and advances	161,901	–
Current	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
Loans to margin clients	51,324,138	69,955,846
Other loans and advances	738,934	265,384
Less: Impairment on advances to customers (note 12)	(59,517)	(83,053)
	52,003,555	70,138,177

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

Based on the agreement terms with margin clients in Hong Kong, the Group is able to repledge clients' securities for margin financing arrangements with qualified financial institutions. The fair values of these listed securities at 30 June 2016 was RMB12,670.92 million (31 December 2015: RMB7,742.19 million).

No aging analysis is disclosed as in the opinion of the directors of the Company, the aging analysis does not give additional value to the users of these condensed consolidated financial statements in view of the nature of business of securities margin financing.

The Group evaluates the collectability of loans based on management's judgement regarding the change in credit quality, collateral value and the past collection history of each client.

The Group determines the allowance for impaired debts based on the evaluation of collectability and on management's judgment including the assessment of change in credit quality and collateral.

The concentration of credit risk is limited due to the customer base being large and diversified.

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22. ACCOUNTS RECEIVABLE

	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
Accounts receivable of:		
Client securities settlement	89,728	53,298
Brokers and dealers	92,988	82,833
Clearing house	67,405	80,095
Underwriting and sponsors fee	239,003	232,243
Trading rights rental commission	114,382	165,943
Asset management and funds distribution handling fee	128,093	150,718
Others	16,990	18,140
Subtotal	748,589	783,270
Less: Impairment on accounts receivable	(36,213)	(19,240)
Total	712,376	764,030

Aging analysis of accounts receivable is as follows:

	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
Within 1 year	525,208	714,158
Between 1 and 2 years	155,795	49,442
Between 2 and 3 years	31,363	420
Over 3 years	10	10
	712,376	764,030

The movements in the allowance for impairment on accounts receivable are set out below:

	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
At beginning of the period/year	19,240	10,104
Impairment losses recognized (note 12)	16,973	9,136
At end of the period/year	36,213	19,240

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23. OTHER RECEIVABLES AND PREPAYMENTS

	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
Prepaid taxes	473,696	9,834
Interests receivable	2,848,750	2,167,172
Prepaid expenses	140,529	138,476
Fund redemption receivable	41,852	6,995
Others	216,518	62,950
Subtotal	3,721,345	2,385,427
Less: Impairment on other receivables	(16,374)	(12,693)
Total	3,704,971	2,372,734

The movements in the allowance for impairment on other receivables are set out below:

	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
At beginning of the period/year	12,693	12,197
Impairment losses recognized (note 12)	6,772	12,945
Amounts written off	(3,091)	(12,449)
At end of the period/year	16,374	12,693

24. FINANCIAL ASSETS HELD FOR TRADING

	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
Debt securities	22,061,274	21,714,824
Equity securities	1,918,580	1,524,773
Funds	13,417,073	14,027,550
Asset-backed securities	120,204	-
Total	37,517,131	37,267,147

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25. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
Convertible bonds ⁽¹⁾	865,768	9,171
Equity securities ⁽²⁾	716,389	1,202,851
Funds ⁽²⁾	722	400,309
Other investments	158,245	44,340
Total	1,741,124	1,656,671

(1) The convertible bonds held by the Group are hybrid instruments, which are designated as financial assets at fair value through profit or loss.

(2) These equity securities and ETF are used for securities lending business which are designated as financial assets at fair value through profit or loss. As at 30 June 2016, the Group entered into securities lending arrangement with clients that resulted in the transfer of financial assets designated at fair value through profit or loss with a fair value of RMB26.94 million (31 December 2015: RMB1,002.49 million) to clients. These equity securities and ETF continued to be recognized as financial assets of the Group.

26. DERIVATIVE FINANCIAL INSTRUMENTS

	As at 30 June 2016		As at 31 December 2015	
	Asset (Unaudited)	Liability (Unaudited)	Asset (Audited)	Liability (Audited)
Swap ⁽¹⁾	156,227	73,942	23,536	341,279
Stock index futures	106	495	–	8,156
Less: settlement	(106)	(495)	–	(8,156)
Treasury bond futures	–	329	–	1,146
Less: settlement	–	(329)	–	(1,146)
Commodity Futures	158	3,712	–	–
Less: settlement	(158)	(3,712)	–	–
Options	–	–	–	164
Total	156,227	73,942	23,536	341,443

(1) The equity return swaps are carried at fair values and the notional principal amounts of swaps as at 30 June 2016 were RMB844.58 million (31 December 2015: RMB1,086.09 million).

(2) Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in stock index futures, treasury bond futures and commodity futures were settled daily and the corresponding receipts and payments were included in "clearing settlement funds". Accordingly, the net position of the stock index futures, treasury bond futures and commodity future contracts was nil at the end of each reporting period.

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27. CLEARING SETTLEMENT FUNDS

	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
Clearing settlement funds held with clearing houses for:		
– House accounts	2,395,445	1,669,985
– Clients accounts	17,845,708	21,589,567
	20,241,153	23,259,552

These clearing settlement funds are held by the clearing houses for the Group, and these balances carry interest at prevailing market interest rates.

28. BANK BALANCES

	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
House accounts	8,267,648	8,685,714
Cash held on behalf of customers ⁽¹⁾	82,814,338	93,895,891
	91,081,986	102,581,605

Bank balances comprise time and demand deposits at bank which bear interest at the prevailing market rates.

- (1) The Group maintains bank accounts with banks to hold customers' deposits arising from normal business transactions. The Group has recognized the corresponding amount in accounts payable to brokerage clients (note 35).

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29. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the followings:

	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
Bank balances – house accounts	6,207,274	6,745,429
Clearing settlement funds – house accounts	2,395,445	1,669,985
	8,602,719	8,415,414

Cash and cash equivalent does not include bank deposits with original maturity of more than three months held by the Group and restricted bank deposits. As at 30 June 2016, bank deposits with original maturity of more than three months held by the Group were RMB1,575.51 million (31 December 2015: RMB1,251.05 million) and bank deposits restricted for use were RMB484.86 million (31 December 2015: RMB689.23 million).

30. SHARE CAPITAL

The Company's number of shares and nominal value are as follows:

	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
Issued and fully paid ordinary shares of RMB 1 each (in thousands)		
Domestic shares	5,846,274	5,846,274
H shares	3,690,985	3,690,985
	9,537,259	9,537,259
Share capital (in RMB'000)		
Domestic shares	5,846,274	5,846,274
H shares	3,690,985	3,690,985
	9,537,259	9,537,259

On 5 May 2015, the Company completed its placing of 2 billion H shares at a price of HK\$11.99 per H share on the Hong Kong Stock Exchange.

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31. BONDS PAYABLE

As at 30 June 2016 and 31 December 2015, bonds payable comprised of subordinated bonds and corporate bonds.

Details of the bonds issued by the Company are as follows:

Current

Issue date	Maturity date	Coupon rate	As at 30 June 2016 Amount (Unaudited)	As at 31 December 2015 Amount (Audited)
26 November 2014	26 November 2016	5.20%	1,500,000	1,500,000
5 December 2014	5 December 2016	5.30%	1,500,000	1,500,000
15 December 2014	15 December 2016	6.30%	3,200,000	3,200,000
6 March 2015	6 March 2016	5.02%	–	2,630,000
24 March 2015	24 March 2016	5.40%	–	3,000,000
29 April 2015	29 April 2016	5.20%	–	2,000,000
15 June 2015	10 May 2016	4.65%	–	7,000,000
29 June 2015	29 June 2016	5.30%	–	2,000,000
30 January 2015	30 January 2017	5.80%	1,199,400	–
30 January 2015	30 January 2017	5.90%	2,800,000	–
10 April 2015	10 April 2017	5.80%	4,300,000	–
8 May 2015	8 May 2017	5.70%	11,000,000	–
			25,499,400	22,830,000

Non-current

Issue date	Maturity date	Coupon rate	As at 30 June 2016 Amount (Unaudited)	As at 31 December 2015 Amount (Audited)
30 January 2015	30 January 2017	5.80%	–	1,198,800
30 January 2015	30 January 2017	5.90%	–	2,800,000
10 April 2015	10 April 2017	5.80%	–	4,300,000
8 May 2015	8 May 2017	5.70%	–	11,000,000
24 April 2015	24 April 2018	5.60%	5,800,000	5,800,000
4 February 2015	4 February 2018	4.65%	1,488,125	1,484,375
4 February 2015	4 February 2020	4.80%	989,250	987,750
1 June 2016	1 June 2019	3.10%	4,861,889	–
1 June 2016	1 June 2021	3.35%	595,280	–
15 March 2016	14 March 2021	4.30%	300,000	–
			14,034,544	27,570,925

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32. FINANCING INSTRUMENT PAYABLES

As at 30 June 2016, financing instrument payables are all current beneficiary certificates issued by the Company with an interest at 5.40%-6.00% per annum (31 December 2015: 4.00%-6.00% per annum) and are repayable within one year. As at 31 December 2015, financing instrument payables consist of current and non-current financing instrument payables, in which non-current financing instrument payables bear interest at 5.45%-6.00% per annum and are repayable in more than one year.

33. OTHER PAYABLES AND ACCRUALS

	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
Current		
Third-party interests in consolidated structured entities	2,524,682	891,382
Dividends payable	3,130,011	–
Business taxes, VAT and other taxes	345,497	447,252
IPO expenses payable	51,964	51,964
Customer deposits held for swap transactions	418,830	339,777
Accrued expenses	192,183	90,568
Payables to margin clients	907,038	752,509
Payables to clearing houses	–	20,687
Sundry payables	24,915	57,014
Payable for the securities investor protection fund	65,821	76,029
Interests payable	1,253,226	2,247,520
Others	479,560	767,060
	9,393,727	5,741,762
Non-current		
Third-party interests in consolidated structured entities	1,877,517	2,529,493
Interests payable	–	260,691
	1,877,517	2,790,184

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34. DUE TO BANKS

	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
Secured short-term bank loans ⁽¹⁾	391,453	1,190,515
Unsecured short-term bank loans ⁽²⁾	1,363,673	–
Placements from a bank ⁽³⁾	200,000	–
	1,955,126	1,190,515

(1) The short-term bank loans borrowed by the Group are secured by the listed shares in Hong Kong pledged to the Group as a security for advances to customers (with customers' consent) with a fair value of approximately RMB391.45 million (31 December 2015: RMB1,190.52 million). The short-term bank loans bear interest at Hibor+125 to 185 basis point per annum (31 December 2015: Hibor+125 to 210 basis point per annum) and are repayable within 1 month (31 December 2015: within 3 months).

(2) As at 30 June 2016, the unsecured short-term bank loans bear interest at 1.73%-2.07% per annum and are repayable within 60 days.

(3) The placement obtained from a bank will be repaid during the year 2016. As at 30 June 2016, the balance bears interest at 2.57% per annum and the contract term is 7 days.

35. ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

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

No aging analysis is disclosed as in the opinion of the directors of the Company, the aging analysis does not give additional value to the readers of the condensed consolidated financial statements in view of the nature of these businesses.

Accounts payable to brokerage clients mainly include money held on behalf of clients at banks and at clearing houses by the Group and are interest bearing at the prevailing market interest rate.

As at 30 June 2016, included in the Group's accounts payable to brokerage clients were approximately RMB4,443.16 million (31 December 2015: RMB14,497.46 million) of cash collateral received from clients for margin financing and securities lending arrangement.

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36. ACCRUED STAFF COSTS

	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
Salaries, bonus and allowances	3,390,068	5,193,521
Social welfare	13,973	7,777
Annuity schemes	36,551	15,666
Supplementary retirement benefits	210,076	209,082
Early retirement benefits	18,677	23,046
Others	146,636	94,703
	3,815,981	5,543,795

37. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
Analyzed by collateral type:		
Bonds	16,931,314	15,770,815
Rights and interests in margin loans	13,800,000	26,675,000
Funds	2,913,291	2,407,105
	33,644,605	44,852,920
Analyzed by market of collateral:		
Stock exchanges	15,083,965	15,797,624
Interbank bond market	4,760,640	2,380,296
Over the counter	13,800,000	26,675,000
	33,644,605	44,852,920

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38. INTERESTS IN STRUCTURED ENTITIES

(a) Structured entities set up and managed by the Group

Structured entities consolidated by the Group include the collective asset management schemes, funds and other investments where the Group involves as investment manager or investment consultant and also as investor. The Group considers the scope of its decision-making authority and assesses whether the combination of investments it holds together with its remuneration and credit enhancements creates exposure to variability of returns from the activities of the collective asset management schemes, funds and other investments to a level of such significance that it indicates that the Group is a principal.

As at 30 June 2016, the total assets of the consolidated structured entities are RMB6,305.72 million (31 December 2015: RMB4,844.17 million) and the carrying amount of third party interests in consolidated structured entities are RMB4,402.20 million (31 December 2015: RMB3,420.88 million).

The Group also has interests in unconsolidated structured entities which the remuneration of the Group is commensurate with the services provided and the variable returns the Group exposed to are not considered significant. The Group therefore considers such decision-making rights is acting as an agent for the investors and hence did not consolidate these structured entities.

The size of unconsolidated structured entities managed by the Group amounted to RMB24,038.85 million as at 30 June 2016 (31 December 2015: RMB29,050.99 million). The Group's interests is equal to the maximum exposure to loss of interests held by the Group in these unconsolidated structured entities, which are amounted to RMB640.54 million as at 30 June 2016 (31 December 2015: RMB460.94 million).

During the period, the amount of management fee income and investment gains from unconsolidated collective asset management schemes managed by the Group amounted to RMB208.44 million as at 30 June 2016 (six months ended 30 June 2015: RMB202.71 million).

(b) Structured entities set up and managed by third party institutions in which the Group holds an interest

The types of structured entities that the Group does not consolidate but in which it holds an interest include funds, asset management schemes, trust schemes, asset-backed securities and wealth management products issued by banks or other financial institutions. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These vehicles are financed through the issue of units to investors.

The carrying amount of the related accounts in the consolidated statements of financial position is equal to the maximum exposure to loss of interests held by the Group in the unconsolidated structured entities as 30 June 2016 and 31 December 2015, which are listed as below:

	As at 30 June 2016		
	Available- for-sale financial assets (Unaudited)	Financial assets at fair value through profit or loss (Unaudited)	Total (Unaudited)
Carrying amount of interests held by the Group			
– Funds	3,797,163	13,417,795	17,214,958
– Trust schemes and wealth management products	2,527,537	–	2,527,537
– Collective asset management schemes	14,965	–	14,965
– Assets-backed securities	–	120,204	120,204
Total	6,339,665	13,537,999	19,877,664

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38. INTERESTS IN STRUCTURED ENTITIES (Continued)

(b) Structured entities set up and managed by third party institutions in which the Group holds an interest (Continued)

	As at 31 December 2015		
	Available-for-sale financial assets (Audited)	Financial assets at fair value through profit or loss (Audited)	Total (Audited)
Carrying amount of interests held by the Group			
– Funds	3,274,104	14,427,859	17,701,963
– Trust schemes and wealth management products	3,310,675	–	3,310,675
Total	6,584,779	14,427,859	21,012,638

39. OPERATING LEASE COMMITMENTS

The Group as lessee

At 30 June 2016 and 31 December 2015, the Group had commitments for total future minimum lease payments under non-cancellable operating leases in respect of rented premises falling due as follows:

	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
Within 1 year	379,335	416,840
Beyond 1 year and not more than 2 years	253,491	259,245
Beyond 2 years and not more than 3 years	180,397	200,958
Beyond 3 years and not more than 5 years	166,759	193,291
More than 5 years	179,999	205,235
	1,159,981	1,275,569

Lease of rented premises are negotiated with fixed lease term for 1 to 14 years (31 December 2015: 1 to 15 years).

40. CAPITAL COMMITMENTS

	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
Contracted but not provided for Leasehold improvements	7,120	9,570

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41. RELATED PARTY TRANSACTIONS

(1) Immediate holding company

Galaxy Financial Holdings is a financial holding company approved by the State Council of the PRC and was established in Beijing on 8 August 2005. Galaxy Financial Holdings owned 5,217,743,240 shares (31 December 2015: 5,217,743,240 shares), representing 54.71% of the entire equity interest of the Company as at 30 June 2016 (31 December 2015: 54.71%). Galaxy Financial Holdings' shareholders are Central Huijin Investment Ltd. ("Central Huijin") with 78.57% equity interest and the Ministry of Finance ("the MOF") with 21.43% equity interest.

Central Huijin is a wholly-owned subsidiary of China Investment Corporation Limited, and is established in Beijing, PRC. Central Huijin was established to hold certain equity investments as authorized by the State Council and does not engage in other commercial activities. Central Huijin exercises legal rights and obligations in the Group on behalf of the PRC Government.

The MOF is one of the ministries under the State Council, primarily responsible for state fiscal revenue and expenditures, and taxation policies.

During the six months ended 30 June 2016 and the year of 2015, the Group provided securities brokerage and asset management services to Galaxy Financial Holdings and details of the significant transactions and balances are set out below.

	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
Accounts payable to brokerage clients	66,656	56,192
Dividends payable	1,712,401	–
	Six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited)
Commission and fee income	590	1,004
Interest expenses	628	430

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41. RELATED PARTY TRANSACTIONS (Continued)

(2) Central Huijin

Central Huijin holds equity interests in a number of banks and non-bank financial institutions in the PRC under the direction of the Chinese government (collectively referred to as the “Central Huijin Group”). The Group enters into transactions with Central Huijin Group under normal commercial terms. Such transactions mainly include deposits at banks, securities and futures dealing and broking, underwriting of equity and debt securities, and purchase and sale of equity and debt securities issued by banks and non-bank financial institutions within the Central Huijin Group.

The Group’s material transactions with Central Huijin Group

	Six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited)
Interest income from banks and non-bank financial institutions within the Central Huijin Group	991,159	753,403
Interest expenses to brokerage clients within the Central Huijin Group	318,047	208,064

The Group’s material balances with Central Huijin Group

	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
	Equity and debt securities issued by banks and non-bank financial institutions within the Central Huijin Group classified as	
– available-for-sale financial assets	748,453	1,053,964
– financial assets held for trading	699,151	698,656
– financial assets designated at fair value through profit or loss	1	23,507
Bank balances deposited with banks within the Central Huijin Group	57,263,195	54,880,151
Financial assets held under repurchase agreements	207,000	2,000,000

As at 30 June 2016, the financial institutions within the Central Huijin Group invested an amount of RMB1,943.76 million (31 December 2015: RMB1,925.15 million) in collective asset management schemes and targeted asset management schemes launched by the Group.

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41. RELATED PARTY TRANSACTIONS (Continued)

(3) Transactions with other government-related entities in the PRC

Other than disclosed above, a significant portion of the Group's transactions are entered into with government related entities including securities and futures dealing and broking, underwriting of debt securities, purchase and sales of government bonds, and equity and debt securities issued by other government related entities. These transactions are entered into under normal commercial terms and conditions. At the end of the reporting period, the Group holds such investments in equity and debt securities and has balances with these government related entities including accounts payable to brokerage clients.

Directors of the Company consider that transactions with government related entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the counterparties are government related entities.

(4) Other related parties

Other related parties which have transactions with the Group are as follows:

Name	Relationship
Galaxy Fund Management Company Limited ("Galaxy Fund Management")* 銀河基金管理有限公司	Fellow subsidiary
Galaxy Capital Asset Management Limited ("Galaxy Asset Management")* 銀河資本資產管理有限公司	Fellow subsidiary
China Galaxy Investment Management Company Limited ("Galaxy Investment")* 中國銀河投資管理有限公司	Note 1
Bank of Tianjin Co., Ltd. ("Bank of Tianjin")* 天津銀行股份有限公司	Note 2

Galaxy Fund Management and Galaxy Asset Management are subsidiaries of the immediate holding company of the Group, Galaxy Financial Holdings .

Note 1: Galaxy Investment ceased to be a related party of the Group on 29 June 2015 when Mr. Xu Guoping, the chairman of Galaxy Investment, resigned as director of the Company on the date.

Note 2: Mr. Feng Heping serves as the independent non-executive director of Bank of Tianjin and also as supervisor of the Company from 29 June 2015.

* These entities do not have official English names.

The Group's material transactions with other related parties

Commission and fee income from

	Six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited)
Galaxy Fund Management	11,125	21,248
Galaxy Asset Management	35,252	60,377

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41. RELATED PARTY TRANSACTIONS (Continued)

(4) Other related parties (Continued)

The Group's material transactions with other related parties (Continued)

Rental expenses paid or payable to

	Six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited)
Galaxy Investment	56,245	47,956

The Group's material balances with other related parties

Accounts payable to brokerage clients

	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
	Galaxy Investment	28,339
Galaxy Assets Management	337,736	1,440,696

Financial assets sold under repurchase agreements

	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
	Bank of Tianjin	510,000

The Group's lease commitments with Galaxy Investment

	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)
	The Group as lessee	
Within 1 year	57,014	107,843
Beyond 1 year and not more than 2 years	5,072	4,828
Beyond 2 year and not more than 3 years	2,252	3,951
	64,338	116,622

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41. RELATED PARTY TRANSACTIONS (Continued)

(5) Key management personnel

Key management personnel are those persons having authorities and responsibilities for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and other members of senior management.

The key management compensation for the six months ended 30 June 2016 and 2015 comprises:

	Six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited)
Salaries, allowances, bonuses, social welfare and annuity scheme contribution	29,831	26,476

Note: The key management personnel's final compensation packages for the six months ended 30 June 2016 and 30 June 2015 have not yet been finalized in accordance with regulations of the PRC relevant authorities. Management of the Group believes that the difference between the final emoluments and that disclosed above will not have significant impact on the condensed consolidated financial statements of the Group.

As at 30 June 2016, key management personnel have interests amounting to RMB47.33 million (31 December 2015: RMB45.97million) in collective asset management schemes set up and managed by Galaxy Jinhui, a subsidiary of the Company.

42. FINANCIAL RISK MANAGEMENT

The Group's activities are exposed to a variety of financial risks. The most important components of financial risks are credit risk, market risk and liquidity risk.

The condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2015. There have been no significant changes in the Group's risk management processes since 31 December 2015 or in any risk management policies.

43. FAIR VALUE OF FINANCIAL INSTRUMENTS

43.1 Fair value of the Group's financial assets and financial liabilities that are not measured on a recurring basis

The carrying amounts of the Group's financial assets and liabilities not measured at fair value approximate their fair values as at 30 June 2016 and 31 December 2015 except for the following financial liabilities, for which their carrying amounts including interest payable and fair value are disclosed below:

	As at 30 June 2016	
	Carrying amounts (Unaudited)	Fair value
Non-current		
Bonds payable	14,164,014	14,532,731

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43. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

43.1 Fair value of the Group's financial assets and financial liabilities that are not measured on a recurring basis (Continued)

	As at 31 December 2015	
	(Audited) Carrying amounts	Fair value
Non-current		
Bonds payable	28,715,006	29,696,557
Financing instrument payables	3,025,533	3,076,151

43.2 Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of the reporting periods. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorized (Level 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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43. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

43.2 Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Financial assets/ financial liabilities	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)	Fair value hierarchy	Valuation technique(s) and key input(s)
Available-for-sale financial assets:				
– Debt securities traded on stock exchanges	10,246,446	11,311,185	Level 1	Quoted bid prices in an active market.
– Debt securities traded on interbank market	1,555,744	1,442,555	Level 2	Discounted cash flow with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.
– Equity securities and funds traded on stock exchanges	7,381,257	3,420,465	Level 1	Quoted bid prices in an active market.
– Equity securities traded on National Equities Exchange and Quotations	30,673	12,136	Level 2	Recent transaction prices.
– Equity securities traded on stock exchanges with lock-up periods (Note 1)	2,591,887	1,949,479	Level 3	The fair value is determined with reference to the quoted market prices with an adjustment of discount for lack of marketability.
– Other investments	10,440,501	12,309,007	Level 2	Calculated based on the fair value of the underlying investments which are debt securities and publicly traded equity investments listed in the PRC in each portfolio.
– Other investments (Note 1)	1,633,271	1,398,971	Level 3	Calculated based on the fair value of the underlying investments which invest in listed shares with lock up periods in which the fair value is determined with reference to the quoted market prices with an adjustment of discount for lack of marketability.

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Financial assets/ financial liabilities	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)	Fair value hierarchy	Valuation technique(s) and key input(s)
Financial assets held-for-trading:				
– Debt securities traded on stock exchanges	4,611,863	5,208,944	Level 1	Quoted bid prices in an active market.
– Debt securities traded on interbank market	17,449,411	16,505,880	Level 2	Discounted cash flow with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.
– Equity securities and funds traded on stock exchanges and unlisted funds (open-ended mutual funds)	13,742,337	14,962,903	Level 1	Quoted bid prices in an active market.
– Asset-backed securities, other investments and unlisted funds	1,713,520	589,420	Level 2	Calculated based on the fair value of the underlying investments which are debt securities and publicly traded equity investments listed in the PRC in each portfolio.
Financial assets designated at fair value through profit or loss:				
– Debt securities traded on stock exchanges	865,768	9,171	Level 1	Quoted bid prices in an active market.
– Equity securities and funds traded on stock exchanges	48,104	1,260,509	Level 1	Quoted bid prices in an active market.
– Equity securities traded on National Equities Exchange and Quotations	669,007	342,651	Level 2	Recent transaction prices.
– Other investments	158,245	44,340	Level 2	Calculated based on the fair value of the underlying investments which are debt securities and publicly traded equity investments listed in the PRC in each portfolio.
Financial liabilities at fair value through profit or loss:				
– Securities lending	–	(51,039)	Level 2	Determined with reference to the fair value of the underlying sold.
Financial liabilities at fair value through profit or loss:				
– Other investments	(8,822)	–	Level 2	Calculated based on the fair value of the underlying investments which are debt securities and publicly traded equity investments listed in the PRC in each portfolio.

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43. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

43.2 Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Financial assets/ financial liabilities	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)	Fair value hierarchy	Valuation technique(s) and key input(s)
Derivative financial instruments:				
– Equity return swaps – assets	156,227	23,536	Level 2	Calculated based on the difference between the equity return of underlying equity securities based on quoted prices from stock exchanges in the PRC and the fixed income agreed in the swap agreements between the Company and the counterparties.
– Equity return swaps – liabilities	(73,942)	(341,279)	Level 2	Calculated based on the difference between the equity return of underlying equity securities based on quoted prices from stock exchanges in the PRC and the fixed income agreed in the swap agreements between the Company and the counterparties.
– Stock index futures – assets (Note 2)	106	–	Level 1	Quoted bid prices in an active market.
– Stock index futures – liabilities (Note 2)	(495)	(8,156)	Level 1	Quoted bid prices in an active market.
– Treasury bond futures (Note 2)	(329)	(1,146)	Level 1	Quoted bid prices in an active market.
– Commodity futures – assets	158	–	Level 1	Quoted bid prices in an active market.
– Commodity futures – liabilities	(3,712)	–	Level 1	Quoted bid prices in an active market.
– Options (Note 3)	–	(164)	Level 3	Calculated based on Black-Scholes option pricing model.

Notes:

- (1) The unobservable inputs to fair value is the discount rate for lack of marketability. As at 30 June 2016, the non-marketability discount rates used in measuring the fair value ranged from 4.50% to 25.46% (31 December 2015: from 5.00% to 29.08%). The higher the discount rate, the lower the fair value.
- (2) Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in stock index futures and treasury bond futures were settled daily and the corresponding receipts and payments were included in "clearing settlement funds" as at 30 June 2016 and 31 December 2015. Accordingly, the net position of the stock index futures and treasury bond futures contracts was nil at the end of the reporting periods. The above analysis only presents the fair value of derivative financial instruments.
- (3) The unobservable input to fair value is price volatility; the higher the price volatility, the higher the fair value.

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43. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

43.2 Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

As at 30 June 2016 (Unaudited)

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
– Equity securities	3,584,094	30,673	2,591,887	6,206,654
– Debt securities	10,246,446	1,555,744	–	11,802,190
– Funds	3,797,163	–	–	3,797,163
– Other investments	–	10,440,501	1,633,271	12,073,772
	17,627,703	12,026,918	4,225,158	33,879,779
Financial assets held for trading				
– Equity securities	1,918,580	–	–	1,918,580
– Debt securities	4,611,863	17,449,411	–	22,061,274
– Funds	11,823,757	1,593,316	–	13,417,073
– Asset-backed securities	–	120,204	–	120,204
	18,354,200	19,162,931	–	37,517,131
Financial assets designated at fair value through profit or loss				
– Equity securities	47,382	669,007	–	716,389
– Debt securities	865,768	–	–	865,768
– Funds	722	–	–	722
– Other investments	–	158,245	–	158,245
	913,872	827,252	–	1,741,124
Derivative financial instruments				
– Equity return swaps – assets	–	156,227	–	156,227
– Equity return swaps – liabilities	–	(73,942)	–	(73,942)
– Treasury bond futures	(329)	–	–	(329)
– Stock index futures – assets	106	–	–	106
– Stock index futures – liabilities	(495)	–	–	(495)
– Commodity futures – assets	158	–	–	158
– Commodity futures – liabilities	(3,712)	–	–	(3,712)
	(4,272)	82,285	–	78,013
Financial liabilities at fair value through profit or loss				
– Other investments	–	(8,822)	–	(8,822)
	–	(8,822)	–	(8,822)

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43. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

43.2 Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

As at 31 December 2015 (Audited)

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
– Equity securities	146,361	12,136	1,949,479	2,107,976
– Debt securities	11,311,185	1,442,555	–	12,753,740
– Funds	3,274,104	–	–	3,274,104
– Other investments	–	12,309,007	1,398,971	13,707,978
	14,731,650	13,763,698	3,348,450	31,843,798
Financial assets held for trading				
– Equity securities	1,319,582	205,191	–	1,524,773
– Debt securities	5,208,944	16,505,880	–	21,714,824
– Funds	13,643,321	384,229	–	14,027,550
	20,171,847	17,095,300	–	37,267,147
Financial assets designated at fair value through profit or loss				
– Equity securities	860,200	342,651	–	1,202,851
– Debt securities	9,171	–	–	9,171
– Funds	400,309	–	–	400,309
– Other investments	–	44,340	–	44,340
	1,269,680	386,991	–	1,656,671
Derivative financial instruments				
– Equity return swaps-assets	–	23,536	–	23,536
– Equity return swaps-liabilities	–	(341,279)	–	(341,279)
– Treasury bond futures	(1,146)	–	–	(1,146)
– Stock index futures	(8,156)	–	–	(8,156)
– Options	–	–	(164)	(164)
	(9,302)	(317,743)	(164)	(327,209)
Financial liabilities at fair value through profit or loss				
– Securities lending	–	(51,039)	–	(51,039)
	–	(51,039)	–	(51,039)

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43. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

43.3 Reconciliation of Level 3 fair value measurements

	Available-for-sale financial assets
Six months ended 30 June 2016 (Unaudited)	
At 1 January 2016	3,348,450
Recognized in other comprehensive expense	(463,430)
Purchases	2,272,499
Transfer out (note)	(932,361)
As at 30 June 2016	4,225,158
Year ended 31 December 2015 (Audited)	
At 1 January 2015	847,743
Recognized in other comprehensive income	787,688
Purchases	2,898,211
Transfer out (note)	(1,185,192)
As at 31 December 2015	3,348,450

Note: The equity securities traded on stock exchanges with lock-up periods and other investments holding listed shares with lock-up periods were transferred from Level 3 to Level 1 when the lock-up periods lapsed and they became unrestricted.

Fair value measurements and valuation process

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages external valuers to perform the valuation. The Group works closely with the external valuers to establish the appropriate valuation techniques and inputs to the model.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.



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44. EVENTS AFTER THE END OF THE REPORTING PERIOD

In August 2016, the Company issued three-year corporate bonds amounting to RMB1,500 million and five-year corporate bonds amounting to 1,000 million, respectively. The three-year corporate bonds and five-year corporate bonds carry interests at 2.89% and 3.14% per annum, respectively.

