



(A joint stock company incorporated in the People's Republic of China with limited liability under the Chinese corporate name 华泰证券股份有限公司 and carrying on business in Hong Kong as HTSC)

Stock code : 6886

# 2016

## Interim Report



## IMPORTANT NOTICE

The Board of Directors, the Board of Supervisors, Directors, Supervisors and senior management of the Company undertake that the information in this interim report is true, accurate and complete and contains no false record, misleading statement or material omission, and assume individual and joint legal liabilities to the truthfulness, accuracy and completeness of the information in this report.

Save for Ms. Pu Baoying, the Company's non-executive Director, and Mr. Yang Xiongsheng, the independent non-executive Director, who were not able to attend the Board meeting due to work engagements, all other Directors had attended the Board meeting. Ms. Pu Baoying, the non-executive Director, appointed Mr. Gao Xu, another non-executive Director, to attend the meeting on her behalf and Mr. Yang Xiongsheng, the independent non-executive Director, appointed Mr. Chen Chuanming, another independent non-executive Director, to attend the meeting on his behalf.

The unaudited interim financial report for 2016 of the Company has been prepared in accordance with the International Financial Report Standards and reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements.

Zhou Yi, officer in charge and officer in charge of accounting of the Company, and Fei Lei, officer in charge of the accounting office of the Company (head of accounting department), hereby warrant and guarantee that the financial report contained in the interim report is true, accurate and complete.

The Board of the Company has not proposed any profit distribution plan or any conversion plan of capital reserves to share capital for the first half of 2016.

Any forward-looking statements such as future plans and development strategies contained in this interim report do not constitute any substantive commitments by the Company to investors. Investors should pay attention to investment risks.

There is no non-operating misappropriation of funds of the Company by any of the controlling shareholders and their related parties.

The Company has not provided any guarantees in favor of others in violation of the decision-making procedures.

The interim report of the Company is prepared in both Chinese and English. In the event of any inconsistency, the Chinese version should prevail.

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# Definitions

In this report, unless the context otherwise requires, the following terms and expressions have the following meanings:

## DEFINITIONS OF CAPITALIZED TERMS AND EXPRESSIONS

“A Share(s)”	shares subscribed for in Renminbi on the Shanghai Stock Exchange
“A Shareholder(s)”	holder(s) of A Shares
“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
“Board of Supervisors”	the Board of Supervisors of the Company
“China” or “PRC”	the People’s Republic of China, excluding, for the purpose of this report, Hong Kong, Macau Special Administrative Region and Taiwan
“China Southern Asset”	China Southern Asset Management Co., Ltd. (南方基金管理有限公司)
“Communications Holding”	Jiangsu Communications Holding Company Limited
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (as amended, supplemented or otherwise modified from time to time)
“Company Law”	Company Law of the People’s Republic of China (中華人民共和國公司法), as amended and adopted by the Standing Committee of the Tenth National People’s Congress on October 27, 2005 and effective on January 1, 2006, as amended, supplemented or otherwise modified from time to time, which was further amended on December 28, 2013 and became effective on March 1, 2014
“corporate communication”	any document(s) to be issued by the Company for the information or action of the shareholders of the Company, including but not limited to: (a) annual reports; (b) interim reports and summary financial reports (where applicable); (c) notice of meetings; (d) listing documents; (e) circulars; (f) forms of proxy; and (g) reply forms
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	director(s) of the Company

## Definitions

“Group”, “our Group”, “we” or “us”	the Company and its subsidiaries, and their respective predecessors
“H Share(s)”	overseas listed foreign shares in the share capital of the Company with nominal value of RMB1.00 each, which are subscribed for and traded in HK dollars and are listed on the Hong Kong Stock Exchange
“H Shareholder(s)”	holder(s) of H Shares
“HK\$, “HKD”	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
“Huatai Asset Management”	Huatai Securities (Shanghai) Asset Management Co., Ltd. (華泰証券(上海)資產管理有限公司), a wholly-owned subsidiary of the Company
“Huatai Financial Holdings (Hong Kong)”	Huatai Financial Holdings (Hong Kong) Limited (華泰金融控股(香港)有限公司), a wholly-owned subsidiary of the Company
“Huatai Futures”	Huatai Futures Co., Ltd. (華泰期貨有限公司), a majority-owned subsidiary of the Company
“Huatai Innovation”	Huatai Innovation Investment Co., Ltd.
“Huatai Financial International Holdings”	Huatai Financial International Holdings Limited
“Huatai-PineBridge”	Huatai-PineBridge Fund Management Co., Ltd. (華泰柏瑞基金管理有限公司)
“Huatai United Securities”	Huatai United Securities Co., Ltd. (華泰聯合證券有限責任公司), a majority-owned subsidiary of the Company
“Huatai Zijin Investment”	Huatai Zijin Investment Co., Ltd. (華泰紫金投資有限責任公司), a wholly-owned subsidiary of the Company
“Jiangsu Equity Exchange”	Jiangsu Equity Exchange Co., Ltd. (江蘇股權交易中心有限責任公司), a majority-owned subsidiary of the Company
“Jiangsu Guoxin”	Jiangsu Guoxin Investment Group Limited (江蘇省國信資產管理集團有限公司)

## Definitions

“Jiangsu SASAC”	State-owned Assets Supervision and Administration Commission of Jiangsu Provincial Government (江蘇省人民政府國有資產監督管理委員會)
“Jiangsu Securities Regulatory Bureau”	Jiangsu Securities Regulatory Bureau of the CSRC
“Listing Rules” or “Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules
“NSSF”	the National Council for Social Security Fund of the PRC (全國社會保障基金理事會)
“our Company”, “Company”, “Parent Company”, “HTSC” or “Huatai Securities”	a joint stock company incorporated in the PRC with limited liability under the corporate name 华泰证券股份有限公司 (Huatai Securities Co., Ltd.), converted from our predecessor 华泰证券有限责任公司 (Huatai Securities Limited Liability Company) on December 7, 2007, carrying on business in Hong Kong as “HTSC”, and was registered as a registered non-Hong Kong company under Part 16 of the Companies Ordinance under the Chinese corporate name approved as “華泰六八八六股份有限公司” and English corporate name of “Huatai Securities Co., Ltd.”; the H Shares of which has been listed on the mainboard of the Hong Kong Stock Exchange on June 1, 2015 (Stock Code: 6886); the A Shares of which has been listed on the Shanghai Stock Exchange on February 26, 2010 (Stock Code: 601688), and except where the context otherwise requires, includes its predecessors
“OTC”	over-the-counter
“QFII”	Qualified Foreign Institutional Investor
“related party transaction(s)”	has the meaning ascribed to the term “related party transaction(s)” by the prevailing Shanghai Stock Exchange Listing Rules, as amended from time to time
“Reporting Period”	the period from January 1, 2016 to June 30, 2016
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC

## Definitions

“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Securities Law”	the Securities Law of the People’s Republic of China (中華人民共和國證券法), as amended, supplemented or otherwise modified from time to time
“Shanghai Stock Exchange”	the Shanghai Stock Exchange (上海證券交易所)
“Shanghai Stock Exchange Listing Rules”	the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange (上海證券交易所股票上市規則)
“Shenzhen Stock Exchange”	the Shenzhen Stock Exchange (深圳證券交易所)
“subsidiary(ies)”	has the meaning ascribed to it in section 15 of the Companies Ordinance
“Supervisor(s)”	supervisor(s) of the Company
“USD” or “US dollar”	the lawful currency of the United States of America

In the 2016 Interim Report, any discrepancies between the total shown and the sum of the amounts listed are due to rounding.

# Corporate Information

## COMPANY INFORMATION

Chinese name of the Company	华泰证券股份有限公司
English name of the Company	HUATAI SECURITIES CO., LTD.
Abbreviation of the Company	HTSC
Legal representative of the Company	Zhou Yi
President of the Company	Zhou Yi
Authorized representatives of the Company	Zhou Yi, Jiang Jian

### Registered Capital and Net Capital

Unit and Currency: RMB

	As at the end of the Reporting Period	As at the end of the previous year
Registered capital	7,162,768,800	7,162,768,800
Net capital	43,755,077,768.74	52,362,033,891.72

### Qualifications of each of the business lines of the Company

There was no newly added business qualification of the Company during the Reporting Period.

Business scope of the Company: securities brokerage, proprietary trading of securities, securities underwriting (limited to underwriting of government bonds, debt financing instruments of non-financial enterprises and financial bonds (including policy-bank bonds) only), securities investment consulting, intermediary introduction business for futures company, margin financing and securities lending business, agency sale of financial products, agency sale of securities investment funds, custodian for securities investment funds, agency services for gold and other precious metal spot contracts and proprietary business for spot gold contracts, stock options market making business, other business activities approved by CSRC.



## LIST OF MEMBERS OF THE BOARD OF DIRECTORS AND SPECIAL COMMITTEES

### Members of the Board of Directors

#### Executive Director

Mr. ZHOU Yi (chairman, president)

#### Non-executive Directors

Ms. PU Baoying

Mr. GAO Xu

Mr. CHEN Ning

Mr. SUN Hongning

Mr. ZHOU Yong

Mr. CAI Biao

Mr. XU Qing

#### Independent Non-executive Directors

Mr. BAI Wei

Mr. LIU Hongzhong

Mr. LEE Chi Ming

Mr. CHEN Chuanming

Mr. YANG Xiongsheng

### Members of Special Committees

#### Development Strategy Committee

Mr. ZHOU Yi (chairman)

Mr. GAO Xu

Mr. CHEN Chuanming

#### Compliance and Risk Management Committee

Ms. PU Baoying (chairman)

Mr. ZHOU Yong

Mr. CAI Biao

Mr. XU Qing

#### Audit Committee

Mr. LEE Chi Ming (chairman)

Mr. CHEN Ning

Mr. YANG Xiongsheng

#### Nomination Committee

Mr. BAI Wei (chairman)

Mr. SUN Hongning

Mr. LIU Hongzhong

#### Remuneration and Appraisal Committee

Mr. BAI Wei (chairman)

Mr. SUN Hongning

Mr. LIU Hongzhong

## Corporate Information

### CONTACT

#### Secretary of the Board

Name Jiang Jian  
Address 11/F, No. 228 Middle Jiangdong Road,  
Nanjing, Jiangsu Province  
Tel. No. (025) 83387793, 83387780, 83387688  
Fax (025) 83387784  
Email jiangjian@htsc.com

#### Securities affairs representative

Zhao Yuankuan  
12/F, No. 228 Middle Jiangdong Road,  
Nanjing, Jiangsu Province  
(025) 83387788  
(025) 83387784  
zhaoyuankuan@htsc.com

#### Joint company secretaries

Name Jiang Jian  
Address 11/F, No. 228 Middle Jiangdong Road,  
Nanjing, Jiangsu Province

Kwong Yin Ping Yvonne  
18/F, Tesbury Centre, 28 Queen's Road East,  
Wan Chai, Hong Kong

### CHANGE IN BASIC INFORMATION

Registered address of the Company	No. 228 Middle Jiangdong Road, Nanjing, Jiangsu Province
Postal codes of registered address of the Company	210019
Office address of the Company	No. 228 Middle Jiangdong Road, Nanjing, Jiangsu Province
Postal codes of office address of the Company	210019
Place of business in Hong Kong	4201, 42/F, The Center, 99 Queen's Road Central, Hong Kong
Company website	<a href="http://www.htsc.com.cn">http://www.htsc.com.cn</a>
Email	boardoffice@htsc.com
Main exchange	025-83389999
Customer service hotline	95597 or 4008895597
Update on the Reporting Period	Nil

## INFORMATION DISCLOSURE AND UPDATE ON LOCATION FOR INSPECTION OF DOCUMENTS

Name of newspapers selected by the Company for information disclosure	China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily
Website designated by the CSRC for publication of interim report	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Website designated by the Hong Kong Stock Exchange for publication of interim report	<a href="http://www.hkexnews.hk">http://www.hkexnews.hk</a>
Location for inspection of interim report of the Company	No. 228 Middle Jiangdong Road, Nanjing, Jiangsu Province
Update on the Reporting Period	Nil

## LANGUAGE AND MEANS OF RECEIPT OF CORPORATE COMMUNICATION

The Company provides corporate communication to H Shareholders based on their respective elected language version and means of receipt. H Shareholders have the following options:

- to read and/or download the corporate communication published on the Company's website at [www.htsc.com.cn](http://www.htsc.com.cn) and receive written notice for the publication of the corporate communication; or
- to receive printed English version of all corporate communications only; or
- to receive printed Chinese version of all corporate communications only; or
- to receive both printed English and Chinese versions of all corporate communications.

H Shareholders may choose and/or change the version of language of our corporate communication and/or the way to receive our corporate communication at any time. H Shareholders may notify our Company their option by the following ways:

- by mail: 17M Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong
- by email: [huatai.ecom@computershare.com.hk](mailto:huatai.ecom@computershare.com.hk)

For enquiry on the arrangement of election of language and means of receipt of corporate communications, H Shareholders may contact our hotline at +852 2862 8688 at any time.

## Corporate Information

### SHARES OF THE COMPANY

Type of share	Stock exchange for listing	Stock name	Stock code	Stock name before change
A Share	Shanghai Stock Exchange	华泰证券	601688	Nil
H Share	Hong Kong Stock Exchange	HTSC	6886	Nil

### CHANGE OF REGISTRATION DURING THE REPORTING PERIOD

Date of registration	June 23, 2016
Place of registration	No. 228 Middle Jiangdong Road, Nanjing, Jiangsu Province
Business license number	91320000704041011J
Tax registration number	91320000704041011J
Organization code	91320000704041011J
Update on registration in the Reporting Period	Nil
Change of the detail	The legal representative was changed from “Wu Wanshan” to “Zhou Yi”. Business license number, Organization code and Tax registration number were combined as one credit code 91320000704041011J.

### OTHER INFORMATION

#### (1) Legal Advisers:

Legal advisers in Hong Kong: Clifford Chance (27/F, Jardine House, One Connaught Place, Central, Hong Kong)

#### (2) Accountants

Domestic accountants: KPMG Huazhen LLP

Office Address: 8/F, KPMG Tower, Oriental Plaza, 1 East Chang'an Avenue, Dongcheng District, Beijing, PRC

International accountants: KPMG

Office address: 8th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong

#### (3) Share registrars

Share registrar for A Share: China Securities Depository and Clearing Corporation Limited, Shanghai Branch

Office address: 36/F, China Insurance Building, No. 166 Lujiazui Dong Road, Pudong New Area, Shanghai, PRC

Share registrar for H Share: Computershare Hong Kong Investor Services Limited

Office address: 17M Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong

# Summary of Financial Data and Indicators

## KEY FINANCIAL DATA AND INDICATORS OF THE COMPANY

(the financial data and indicators set out in this report have been prepared in accordance with the International Financial Reporting Standards)

### (I) Key Financial Data

Unit and Currency: RMB'000

Key financial data	Reporting	Corresponding	Change (%)
	Period	period of the previous year	
Total revenue and other income	11,581,300	21,288,583	(45.60)
Profit for the period attributable to shareholders of the Company	2,841,253	6,674,823	(57.43)
Profit for the period attributable to shareholders of the Company, net of non-recurring profit or loss	2,788,139	6,653,313	(58.09)
Net cash generated from operating activities	29,589,332	1,784,259	1,558.35
Total other comprehensive income for the period, net of tax	(1,241,997)	1,684,553	(173.73)

	As at	As at	Change (%)
	the end of the Reporting Period	the end of the previous year	
Total assets	402,679,317	452,614,615	(11.03)
Total liabilities	322,941,961	371,085,844	(12.97)
Total equity attributable to shareholders of the Company	78,802,063	80,784,925	(2.45)
Total equity	79,737,356	81,528,771	(2.20)

## Summary of Financial Data and Indicators

### (II) Key Financial Indicators

Key financial indicators	Corresponding		Change (%)
	Reporting Period	period of the previous year	
Basic earnings per share (in RMB per share)	0.3967	1.145	(65.35)
Diluted earnings per share (in RMB per share)	0.3967	1.145	(65.35)
Basic earnings per share, net of non-recurring gains or losses (in RMB per share)	0.3893	1.1413	(65.89)
Weighted average return on net assets (%)	3.62	15.33	(11.71)
Weighted average return on net assets, net of non-recurring gains or losses (%)	3.56	15.28	(11.72)

### (III) Net Capital and Risk Control Indicators of the Parent Company

Unit and Currency: RMB

Items	As at	
	the end of the Reporting Period	the end of the previous year
Net capital	43,755,077,768.74	52,362,033,891.72
Net assets	71,762,523,692.36	74,445,317,086.43
Net capital/the sum of various risk provisions (%)	743.04	880.74
Net capital/net assets (%)	60.97	70.34
Net capital/liabilities (%)	46.07	39.67
Net assets/liabilities (%)	75.56	56.41
Value of proprietary equity securities and security derivatives/net capital (%)	70.09	79.45
Value of proprietary fixed income securities/net capital (%)	53.36	72.99

## DIFFERENCE IN FINANCIAL DATA PREPARED IN ACCORDANCE WITH DOMESTIC AND FOREIGN ACCOUNTING STANDARDS

There was no difference between the net profit for January to June 2016 and January to June 2015 and net asset as of June 30, 2016 and December 31, 2015 set out in both consolidated financial statements as prepared under China Accounting Standards for Business Enterprises and consolidated financial statements as prepared under the International Financial Reporting Standards.

# Management Discussion and Analysis

## DISCUSSION AND ANALYSIS OF THE BOARD ON OPERATION OF THE COMPANY DURING THE REPORTING PERIOD

### (I) Changes of External Environment of the Company and Industrial Development during the Reporting Period

In the first half of 2016, international and domestic economic and financial environment was intricate and complex. Internationally, the economic situation in worldwide was in turmoil, while the global economy was still undergoing a profound adjustment after the international financial crisis, the overall global economic recovery remained weak. Domestically, the economic and financial operation in PRC performed steadily in general, with the economic structure continuing to be optimized. Positive progress was made in supply-side structural reforms, and the economic operation maintained at a rational range. However, the domestic economic growth momentum was not sufficient, and the pressure of the economic downturn was still large.

In the first half of 2016, stock market was generally slowing down with a decline in the main indexes in Shanghai and Shenzhen. In the meantime, market activities turned quiet, representing a year-on-year decrease in market volumes. At the end of the Reporting Period, SSE Composite Index closed at 2929.61 points, representing a decrease of 17.22% in the Reporting Period, while SZSE Component Index closed at 10489.99 points, representing a decrease of 17.17% during the Reporting Period. According to the issuance and trading statistics of stock market in the first half of 2016 from WIND Information, in the first half of 2016, Shanghai and Shenzhen A-share market recorded an accumulative stock volume of RMB63,653,731 million, representing a significant decrease of 54.01% as compared to the corresponding period of 2015 and a daily volume of RMB530,448 million, representing a significant decrease of 54.39% as compared to the corresponding period of 2015. During the Reporting Period, actual fund raised include initial offering, additional offering and share allotment, amounted to RMB804,655 million, representing a growth of 18.18% as compared to the corresponding period of 2015. In which, initial actual fund raised experienced a significant decline of 78.55% due to the slowdown issuance of IPO as compared to the corresponding period of 2015. Refinancing market was constantly active, and the total fund raised by additional offering and share allotment sharply raised by 42.58% as compared to the corresponding period of 2015.

## Management Discussion and Analysis

In the first half of 2016, under the impact of the downturn in economic fundamentals, shock of credit risk, raise of interest rate by the U.S. Federal Reserve, Brexit and etc., bond yields gave a volatile reception. At the end of the Reporting Period, CSI Aggregate Bond Index closed at 174.95, representing an increase of 1.63% during the Reporting Period. At the end of the Reporting Period, China Bond Composite Full-price Index closed at 117.78, representing a decline of 0.20% during the Reporting Period. During the Reporting Period, China's bond market experienced a rapid growth, its market size expanded rapidly with the types of products being further enriched. According to the statistics on the size of bond issue in the first half year of 2016 from WIND Information, the aggregate amount of bonds issued during the Reporting Period amounted to RMB18,372,353 million, representing a significant increase of 105.38% as compared to the corresponding period in 2015, of which, the issue size of local governmental bonds was RMB3,575,500 million, representing a year-on-year significant increase of 311.80%; the issue size of NCD was RMB6,049,300 million, representing a year-on-year significant increase of 262.65%; the issue size of corporate bonds was RMB325,650 million, representing a year-on-year significant increase of 79.86%; the issue size of enterprise bonds was RMB1,432,051 million, representing a year-on-year significant increase of 1,553.66%; the issue size of financial bonds recorded a year on year decline; and the issue size of treasury bonds, medium-term notes, short-term financing bills and assets-backed securities recorded a steady year-on-year growth.

In accordance with unaudited operating data of securities companies in the first half of 2016 announced by the Securities Association of China, domestic securities industry recorded an operation revenue of RMB157,079 million in the first half of the year, representing a year-on-year decline of 52.47%; agent trading securities business recorded a net income of RMB55,976 million, representing a year-on-year decline of 64.67%; securities underwriting and sponsorship business recorded a net income of RMB24,116 million, representing a year-on-year growth of 50.25%; financial advisory business recorded a net income of RMB7,143 million, representing a year-on-year growth of 64.06%; investment advisory business recorded a net income of RMB2,333 million, representing a year-on-year growth of 21.19%; asset management business recorded a net income of RMB13,434 million, representing a year-on-year growth of 9.99%; securities investment revenue including fair value change amounted to RMB24,486 million, representing a year-on-year decline of 73.40%; net interest income was RMB16,904 million, representing a year-on-year decline of 53.86%; the securities sector realized a total net profit of RMB62,472 million, representing a year-on-year decline of 59.22%. As of June 30, 2016, domestic securities industry had total assets of RMB5.75 trillion, representing a year-on-year decline of 30.47%; a net asset of RMB1.46 trillion, representing a year-on-year growth of 12.31%; and a net capital of RMB1.18 trillion, representing a year-on-year growth of 3.51%.



# Management Discussion and Analysis

## (II) Main Businesses Analysis

### 1 Analysis on Items in Financial Statement

Unit and Currency: RMB'000

Items	Reporting Period	Corresponding Period of last year	Change Percentage (%)
Total revenue and other income	11,581,300	21,288,583	(45.60)
Total expenses	(7,888,922)	(12,652,214)	(37.65)
Net cash generated from operating activities	29,589,332	1,784,259	1,558.35
Net cash generated from investing activities	1,167,306	1,538,183	(24.11)
Net cash (used in)/generated from financing activities	(24,134,816)	76,004,432	(131.75)
Net increase in cash and cash equivalent	6,621,822	79,326,874	(91.65)

### 2 Total revenue and other income

In the first half of 2016, total revenue and other income of the Group was RMB11,581 million, representing a year-on-year decline of RMB9,708 million or 45.60%, mainly due to the significant decline in equity funds trade volume in the market and the scale of capital-based intermediary business as compared to the same period of last year. At the same time, income from investment and trade business decreased sharply on a year-on-year basis due to the significant decline in indexes caused by the circuit breaker mechanism. In which,

- Fee and commission income recorded a year-on-year decline of 51.50% to RMB5,382 million, representing 46.47% of total income, mainly due to the significant decline of 52.92% on a year-on-year basis in equity funds trade volume in the market;
- Interest income recorded a year-on-year decline of 30.53% to RMB4,482 million, representing 38.70% of total income, mainly due to a decline of 58.35% on a year-on-year basis in the scale of market securities margin business;
- Net investment gains recorded a year-on-year decline of 52.46% to RMB1,585 million, representing 13.68% of total income, mainly due to the decrease in investment gains as a result of the significant decline in stock indexes.

## Management Discussion and Analysis

Composition of total revenue and other income of the Group during the Reporting Period are as follows:

Unit and Currency: RMB'000

Items	Jan 1–Jun 30, 2016		Jan 1–Jun 30, 2015		Increase or decrease	
	Amount	Composition	Amount	Composition	Amount	Percentage
Fee and commission income	5,381,541	46.47%	11,096,770	52.13%	(5,715,229)	(51.50%)
Interest income	4,482,460	38.70%	6,452,646	30.31%	(1,970,186)	(30.53%)
Net investment gains	1,584,705	13.68%	3,333,709	15.66%	(1,749,004)	(52.46%)
Other income and gains	132,594	1.14%	405,458	1.90%	(272,864)	(67.30%)
<b>Total revenue and other income</b>	<b>11,581,300</b>		<b>21,288,583</b>		<b>(9,707,283)</b>	<b>(45.60%)</b>

### 3 Total expenses

In the first half of 2016, the Group's total expenses was RMB7,889 million, representing a year-on-year decrease of 37.65%, mainly due to the decrease in fee expenses caused by the declining equity funds trade volume, the decrease in debt financing interest expense resulted from the declining scale of capital-based intermediary business, and the decrease in staff performance fee resulted from the declining income, in which,

- Fee and commission expenses amounted to RMB1,404 million, representing a year-on-year decline of 55.11%, mainly due to the significant decrease in equity funds trade volume;
- Interest expenses was RMB2,935 million, representing a year-on-year decline of 20.33%, mainly due to the decrease in debt financing interest expense resulted from the declining scale of capital-based intermediary business;
- Staff costs was RMB2,368 million, representing a year-on-year decline of 42.13%, mainly due to the decrease in staff performance fee resulted from the declining income;
- Other expenses mainly included depreciation and amortization expenses, business tax and surcharges, other operating expenses and reversal of impairment losses, among which depreciation and amortization expenses increased 22.36%, mainly because quite a lot of properties were put into use in the second half year of last year and the first half year of this year, resulting in the significant increase in amortization and depreciation accrued by the Group as compared to the same period of last year.

## Management Discussion and Analysis

Composition of total expenses of the Group during the Reporting Period is as follows:

Unit and Currency: RMB'000

Total expenses	Jan 1–Jun 30, 2016		Jan 1–Jun 30, 2015		Increase or decrease	
	Amount	Composition	Amount	Composition	Amount	Percentage
Fee and commission expenses	(1,403,748)	17.79%	(3,126,773)	24.71%	1,723,025	(55.11%)
Interest expenses	(2,934,619)	37.20%	(3,683,315)	29.11%	748,696	(20.33%)
Staff costs	(2,367,637)	30.01%	(4,091,491)	32.34%	1,723,854	(42.13%)
Depreciation and amortization expenses	(187,681)	2.38%	(153,379)	1.21%	(34,302)	22.36%
Business tax and surcharges	(343,744)	4.36%	(921,431)	7.28%	577,687	(62.69%)
Other operating expenses	(656,758)	8.33%	(678,187)	5.36%	21,429	(3.16%)
Reversal of impairment losses	5,265	(0.07%)	2,362	(0.02%)	2,903	122.90%
<b>Total</b>	<b>(7,888,922)</b>		<b>(12,652,214)</b>		<b>4,763,292</b>	<b>(37.65%)</b>

#### 4 Cash Flow

During the period from January to June 2016, the net increase in cash and cash equivalent of the Group was RMB6,622 million. In which,

- (1) Net cash generated from operating activities amounted to RMB29,589 million, representing an increase of 1,558.35% as compared to the same period of previous year. The increase was mainly due to the increase in cash inflow resulted from the decline in margin accounts receivable, the financial instruments at fair value through profit or loss, and cash held on behalf of brokerage clients, which was offset by the decline in the profit before income tax adjusted for non-cash and non-operating items, the increase in the outflow from restricted bank deposits, and the increase in the outflow resulted from the decline in other payables and accruals, the accounts payable to brokerage clients and financial assets sold under repurchase agreements during the Reporting Period.
- (2) Net cash generated from investing activities amounted to RMB1,167 million, representing a decrease of 24.11% as compared to the corresponding period of previous year. The decrease was mainly due to the increase in the cash outflow from purchase or disposal of available-for-sale financial assets, net, which was offset by the increase in the inflow from proceeds from other limited partners' interest in private equity funds.

## Management Discussion and Analysis

- (3) Net cash used in financing activities was RMB-24,135 million, mainly due to the large capital raised by the issuance of H shares and long-term and short-term debt instruments during the same period of last year. Cash used in the financial activities was mainly used to repay the debt instruments and its interest, and the cash inflow was small.

### 5 Research and Development Expense

Unit and Currency: RMB ten thousand

Research and development expense for current period	1,655.43
Capitalized research and development expense for current period	6,757.91
Total research and development expense	8,413.34
Percentage of total research and development expense over net assets (%)	0.11
Percentage of total research and development expense over operating income (%)	1.14
Number of research and development staff of the Company	402
Number of research and development staff over total number of staff (%)	7.42
Percentage of capitalized research and development expense (%)	80.32

In order to improve the operation and management efficiency in long-term as well as support and promote the development of innovation business, the Company always persists in focusing on research and development. The Company injected RMB84.1334 million in total in research and development and hardware by independent development, joint development and entrusting development. As of the end of the Reporting Period, there were 402 research and development staffs in the Company, accounting for 7.42% of total number of staff in the parent company, representing an increase of 0.56% as compared to that at the end of 2015.

### 6 Others

#### (1) *Details of Substantial Change of Profit Composition or Resource of the Company*

During the Reporting Period, the operation income, profit and net profit of the Company recorded a significant decrease as compared to the corresponding period of last year, mainly due to significant slump in the equity fund trade volume in the market and the scale of capital intermediary business as compared to the corresponding period of last year. Meanwhile, as a result of circuit breaker mechanism, the share index experienced a substantial decline, which caused a substantial year-on-year decrease in revenue from investment and trade business. During the Reporting Period, the equity fund trade volume in two markets amounted to RMB138.76 trillion, representing a decline of 52.92% as compared to RMB294.73 trillion in the corresponding period of last year. The balances of securities margin business in the market was RMB853,584 million, representing a decrease of 58.35% as compared to RMB2,049,386 million in the corresponding period of last year. Year-on-year change and major factors of operation income, profit and net profit of the Company were detailed as following table.

## Management Discussion and Analysis

Unit and Currency: RMB'000

Items	Reporting Period	Corresponding period of last year (total assets and total liabilities are the data as of December 31, 2015)	Year-on-year change (%)	Major factors
Total revenue and other income	11,581,300	21,288,583	(45.60)	As a result of the substantial slump in the equity fund trade volume and the scale of capital brokerage business as compared to the corresponding period of last year, and a substantial year-on-year decrease of revenue from investment and trade business arising from the substantial decline of share index, total revenue and other income decreased significantly
Total expenses	(7,888,922)	(12,652,214)	(37.65)	Slump in the equity fund trade volume caused a decrease of fee expenses; downscale of capital brokerage business led to a decrease of debt financing interest expenses; and decrease of income led to a decrease of labor performance fees
Operation profit	3,692,378	8,636,369	(57.25)	Decrease of total revenue and other income
Profit before income tax	3,878,012	8,833,873	(56.10)	Decrease of total revenue and other income
Profit for the period	2,943,553	6,718,572	(56.19)	Decrease of total revenue and other income
In which: profit for the period attributable to the Shareholders of the Company	2,841,253	6,674,823	(57.43)	Decrease of total revenue and other income
Total assets	402,679,317	452,614,615	(11.03)	Decrease of margin accounts receivable, financial assets at fair value through profit or loss and cash held on behalf of brokerage clients
Total liabilities	(322,941,961)	(371,085,844)	(12.97)	Decrease of accounts payable to brokerage clients and long-term bonds
Total equity	79,737,356	81,528,771	(2.20)	Offset of accumulated operating profit by increased dividend

## Management Discussion and Analysis

**(2) Analysis of progress related to various financing and substantial assets reorganization matters of the Company in the early stage**

During the Reporting Period, the Company held the 29th meeting of the third session of the Board and the 2015 shareholders' annual general meeting, which considered and passed the Resolution on the Issuance of Short-term Financing Securities of the Company. In order to conform to the development requirements of securities industry, further improve the asset-liability structure of the Company and increase financial flexibility and utilization efficiency of funds, the Company will issue short-term financing securities in due time to finance as per its demands.

During the Reporting Period, the Company did not have any substantial assets reorganization matter.

**(3) Development Strategy and Progress of Operating Plan**

During the Reporting Period, the Company vigorously implemented the whole business chain strategy, actively seized the market development opportunity and continued to put more efforts in promoting transformation of traditional business and development of innovational business, thus achieved the operating objective formulated at the beginning of the year. In respect of securities brokerage business, the Company firmly adhered to Internet strategy, continued to enlarge customer base and customer asset scale, vigorously promoted the function transformation of business outlets, accelerated to improve customer-oriented professional service system, and promoted the comprehensive transformation of wealth management business. In respect of securities margin business, the Company enhanced adjustment of conversion period risk to actively create risk value and implemented customer classification management and updated content of service so as to truly propel customer service system construction. As such, the Company achieved a leap-forward growth of market shares during the Reporting Period. In respect of investment banking business, the Company made full use of its core advantage in merger and acquisition business, continuously promoted the development of equity business, bonds and capital intervention businesses, actively set up a major investment banking comprehensive financial service system that integrates business of counter and OTC markets, domestic and overseas markets and seller and purchaser. In respect of assets management business, the Company continuously improved its systematized investment management ability and product innovation ability, constantly forged core competitiveness to meet customers' diversified investment and financing needs. During the Reporting Period, both scale of business and revenue achieved a significant growth. In respect of equity investment business, the Company fully promoted to build an investment research system, controlled the directional trading volume and strongly developed non-directional investment business. In respect of fixed income investment business, the Company deeply explored fixed income, bulk commodity, foreign exchange and sales and trading businesses, and promoted layout of FICC business strategy. The Company also put aggressive efforts in transformation of exchange-traded quantitative investment and trading business and vigorously promoted OTC derivative business to achieve the coordinated development of business.

## Management Discussion and Analysis

During the Reporting Period, Huatai Zijin Investment completed further capital increasing registration, with its registered capital increased from RMB2,350 million to RMB4,050 million. Huatai Financial Holdings (Hong Kong) increased its capital by HK\$7.8 billion, which was approved by the supervision department under the securities and fund agencies of the CSRC in a no objection letter it issued after the Reporting Period. Huatai Futures completed further capital increasing registration, with its registered capital increased from RMB809 million to RMB1,009 million. Jiangsu Equity Exchange invested RMB10 million for equity participation in Suzhou Equity Exchange Center Co., Ltd., accounting for 20% of the total contribution. The Company established a wholly-owned subsidiary, Huatai International Holdings Limited in Hong Kong with registered capital of HK\$2.00. All of these efforts further enhanced the Company's capability in comprehensive financial services and collectivized operation.

As of June 30, 2016, on consolidated basis, the Company recorded total assets of RMB402,679 million, representing a decrease of RMB49,935 million as compared to the beginning of this year. During the Reporting Period, the total revenue and other income of the Company amounted to RMB11,581.30 million, representing a decrease of RMB9,707.28 million as compared with the corresponding period of last year. The profit for the period amounted to RMB2,943.55 million, representing a decrease of RMB3,775.02 million as compared with the corresponding period of last year. The profit for the period attributable to the Shareholders of the Company amounted to RMB2,841.25 million, representing a decrease of RMB3,833.57 million as compared with the corresponding period of last year.

#### **(4) Bankruptcy Reorganization, Merge or Division, Disposal, Acquisition, Replacement and Exfoliation of Substantial Assets, Reorganization of Other Companies**

- ① The Company acquired 100% of the equity of AssetMark Financial Holdings, Inc. (the "AssetMark")
- On April 11, 2016 (after trading hours), the Company and Huatai International Finance Limited, a wholly owned subsidiary of the Company, entered into a share purchase agreement with AqGen Liberty Holdings LLC (the "AqGen Liberty"), on the terms and subject to the conditions and price of which Huatai International Finance Limited conditionally agreed to acquire, either directly or through an affiliate, the target shares of AssetMark from AqGen Liberty, namely the entire issued share capital of AssetMark.

The trading consideration for this acquisition payable by Huatai International Finance Limited was the purchase price of US\$780 million, plus or minus, as the case may be (i) the difference of working capital of AssetMark at closing and the target working capital of AssetMark; minus (ii) the amount of debt of AssetMark at closing; minus (iii) the amount of AssetMark's unpaid transaction expenses; and plus or minus, as applicable (iv) the difference of cash at closing and the target cash of AssetMark. The trading consideration was determined by the parties after arm's length negotiations having considered the adjusted financials of the Target Company as well as precedent transactions. The trading consideration will be financed using internal resources of the Company. Pursuant to the share purchase agreement, Huatai International Finance Limited shall pay the trading consideration to AqGen Liberty in cash.

## Management Discussion and Analysis

To retain and continue to incentivise the key management members and employees of AssetMark, Huatai International Finance Limited has entered into equity-based incentive arrangements with AssetMark and its certain key management members, pursuant to which these key management members will use part of their sale proceeds from the acquisition to invest in the shares of the direct or indirect holding company of AssetMark, and will participate in a tenure and performance-based equity incentive scheme.

The Group focuses on expanding its existing business and increasing the Group's revenue source in order to enhance Shareholders' value. The acquisition is in favour of expanding investment management service capabilities and enhancing the Group's leading position in the securities industry. The acquisition also helps to increase investment and expand existing capabilities to build the enhanced technology solution platform for the clients of the Company. Therefore, the acquisition will bring significant strategic value for the Group.

The transaction was considered and approved at the 30th meeting of the third session of the Board of the Company. Upon completion, AssetMark will become an indirect subsidiary of the Company. The transaction does not constitute a reorganization of substantial assets.

The transaction is subject to necessary approvals from relevant regulatory authorities and is conditional upon the satisfaction or waiver (where applicable) of various conditions on or before December 30, 2016 (the end date), thus there is uncertainty.

- ② During the Reporting Period, the Company was not subject to other bankruptcy reorganization, merge or division, disposal, acquisition, replacement and exfoliation of substantial assets, and reorganization of other companies.

### (III) Analysis on Major Business

#### 1 Overview

The major business of the Company consists of brokerage and wealth management, investment banking, asset management, investment and trading as well as overseas business. The brokerage and wealth management business mainly includes securities and futures brokerage, sale of financial products, institutional sales and research as well as capital-based intermediary business. The investment banking business mainly includes share underwriting, debenture underwriting, financial advisory and over-the-counter business. The asset management business mainly includes asset management, private equity fund management of securities companies, and asset management of fund companies. The investment and trading business mainly includes investment and trading of equity securities, investment and trading of fixed income, OTC financial product and trading business. The overseas business mainly includes investment banking, sales and trading and asset management business.



## Management Discussion and Analysis

During the Reporting Period, in the major businesses of the Company, except that the profit margin of overseas business and other segments was negative, other major businesses all recorded a segment margin of more than 30%. The particulars are set out in the table below:

Unit and Currency: RMB'000

Segments	Segment revenue and other income	Segment expense	Segment results	Segment margin (%)	Changes		
					in segment revenue and other income as compared with the corresponding period of last year (%)	Changes in segment expense as compared with the corresponding period of last year (%)	Changes in segment margin as compared with the corresponding period of last year (%)
Brokerage and wealth management	8,052,894	(4,869,560)	3,183,334	39.53	(48.56)	(43.75)	(5.17)
Investment banking	1,026,190	(597,041)	429,149	41.82	37.71	30.02	3.44
Asset management	1,425,804	(559,001)	860,384	60.34	49.04	119.31	(12.65)
Investment and trading	839,190	(418,148)	421,042	50.17	(71.70)	(59.17)	(15.29)
Overseas business and others	245,725	(1,453,535)	(1,015,757)	(413.37)	(74.58)	(35.59)	(300.73)
Inter-segment eliminations	(8,503)	8,363	(140)	—	—	—	—
<b>Segment total</b>	<b>11,581,300</b>	<b>(7,888,922)</b>	<b>3,878,012</b>	<b>33.49</b>	<b>(45.60)</b>	<b>(37.65)</b>	<b>(8.01)</b>

Note: Asset management, overseas business and others include loss or profit of associates.

# Management Discussion and Analysis

## 2 Analysis on business segments

### (1) *Brokerage and wealth management businesses*

#### ① Securities and futures brokerage business

During the Reporting Period, the overall stock market was in recovery after fluctuations with a declining trend in both volume and price as the whole. According to the statistics from Shenzhen Stock Exchange and Shanghai Stock Exchange, trading volume of stock-based funds in the two markets amounted to RMB138.76 trillion, representing a decrease of 52.92% as compared to RMB294.73 trillion during the corresponding period of last year. With the popularization of opening an account on mobile terminals and intensification of fee marketization, the securities brokerage business operated in an environment with increasing competition and the average commission rate of the industry may further drop, but afterwards the space of decline was limited.

During the Reporting Period, the securities brokerage business adhered to the Internet development strategy, strived to enlarge customer base and customer asset scale, continued to increase market share, constantly optimized customer structure, vigorously promoted business transformation so as to achieve a stable growth in various businesses and further optimization of income structure. The Company continuously strengthened the Internet customer attraction effect, enhanced the coverage of online channels, constantly cultivated our capabilities to meet customers' ordinary services and demands based on ZhangLe Fortune Path and innovatively established an Internet marketing service system. The Company vigorously promoted the function transformation of business outlets, continued to diversify and innovate service tools, continuously improved employees' quality and qualifications as well as promoted optimization of income structure and business transformation of our branches. The Company also continued to optimize the service system of Zijin Wealth Management, proactively adapted to the Internet strategy, optimized service contents, perfected service forms so as to provide multi-level all-round services and satisfy the diversified investment demands from customers.

During the Reporting Period, the Company continued to optimize and improve the functions of the mobile terminal "ZhangLe Fortune Path" such as accounts, market conditions and tradings by way of users' demand analysis and achieved a significant improvement in user experience and number of active users. During the Reporting Period, "ZhangLe Fortune Path" was downloaded for 4,147,800 times with average daily active users of 1,831,800. Since the online operation of "ZhangLe Fortune Path", the accumulative downloads amounted to 15,164,900. During the Reporting Period, the number of customer accounts of mobile terminal "ZhangLe Fortune Path" was 555,000, accounting for 92.39% of the total accounts of the Company. 78.27% of the Company's customers conducted transactions through "ZhangLe Fortune Path".

## Management Discussion and Analysis

### Data of agent transaction amount and market shares

Currency: RMB

Categories of securities	Jan 1–Jun 30, 2016		Categories of securities	Jan 1–Jun 30, 2015	
	Amount of agent transaction (in RMB100 million)	Market shares (%)		Amount of agent transaction (in RMB100 million)	Market shares (%)
Stocks	101,909.24	7.96	Stocks	198,974.04	7.18
Funds	15,046.67	14.46	Funds	44,684.90	28.62
Debenture	62,415.32	1.74	Debenture	41,529.58	3.11
<b>Total</b>	<b>179,371.23</b>	<b>5.29</b>	<b>Total</b>	<b>285,188.52</b>	<b>6.68</b>

Note: The data of agent transaction amount and market shares is sourced from financial terminal of WIND Information.

Pursuant to the statistics from WIND Information, during the Reporting Period, the aggregate trading volume of stocks and funds of the Company amounted to RMB11.70 trillion with a market share of 8.45%, ranking the first among its peers again. According to the statistics from China Securities Depository and Clearing, as of the end of the Reporting Period, the total amount of securities under custody of the Company amounted to RMB2.29 trillion, ranking No. 3 in the industry. During the Reporting Period, the Southbound Trading business (港股通) of the Company ran smoothly. As of the end of the Reporting Period, the accumulative number of customers with transaction permission of the Company's Southbound Trading business amounted to 121,469, with an accumulative trading volume of RMB63.898 billion and a market share of 7.17%. During the Reporting Period, the stock option brokerage business of the Company achieved a growth while maintaining stable with a total trading volume of 3,675,600, accounting for 9.67% of the market share. As of the end of the Reporting Period, the accumulative accounts reached 7,351.

## Management Discussion and Analysis

As for the futures brokerage business, as of the end of the Reporting Period, the Company had 32 futures branches in 4 municipalities and 14 provinces across the country. During the Reporting Period, Huatai Futures (excluding clearing members) recorded a trading volume and trading amount of 122,443,100 lots and RMB5,571.157 billion, respectively, representing a year-on-year increase of 30.80% and decrease of 74.03% and accounting for 2.67% and 2.80% of the whole market, respectively. During the Reporting Period, the futures IB business of the Company kept the growth momentum. During the Reporting Period, the number of customers of futures IB business increased by 4,984 with the total number of customers reaching 24,463. As of the end of the Reporting Period, a total of 193 securities branches and regional headquarters of the Company were permitted to carry out futures IB business, representing an increase of 10 as compared to that of 2015.

### ② Sales of financial products

Pursuant to relevant laws and regulations of the Management Regulations on Agency Sales of Financial Products by Securities Companies (《證券公司代銷金融產品管理規定》) issued by CSRC in November 2012, the Company acted as an agent for sale of a variety of financial products provided by the financial institutions like fund management companies, trust companies and commercial banks, etc. During the Reporting Period, the Company prudently conducted an evaluation for the introduced financial products, continued to strengthen its capabilities to sell products and made aggressive efforts to build a customer-oriented business system assisting the asset allocation through diversified financial products. The Company took full advantage of its strengths in customer resources and network layout, conducted agency sales of wealth management products through its extensive network of securities branches and Internet platform and continued to optimize its product sales service system, which further enhanced the Company's capability in agency sales of financial products to meet customers' demand for asset allocation. During the Reporting Period, the total amount of sales and the total income from agency sales of financial products are set forth as below:

Unit and Currency: RMB

Agency sales business of financial products	Reporting Period		The corresponding period of last year	
	Total sales amounts	Total sales income	Total sales amounts	Total sales income
Fund	12,836,701,527.37	109,339,606.60	19,152,573,983.45	181,178,479.11
Trust	—	—	2,183,010,000.00	1,731,048.27
Others	2,031,085,046,783.48	2,427,480.17	2,080,345,400,187.95	1,333,129.17
<b>Total</b>	<b>2,043,921,748,310.85</b>	<b>111,767,086.77</b>	<b>2,101,680,984,171.40</b>	<b>184,242,656.55</b>

## Management Discussion and Analysis

### ③ Institutional sales and research business

During the Reporting Period, the Company marketed and sold various kinds of stock exchange services and financial products, including stocks, debentures and funds, to institutional clients. The institutional clients of the Company mainly include mutual fund management companies, private fund management companies, QFII, National Social Security Fund, insurance companies, trust companies, asset management companies, RQFII, finance companies and commercial banks. During the Reporting Period, the Company made great efforts in perfecting prime brokerage business system, continued to promote the development of fund custody and outsourcing business, optimized and improved its business system and procedures and proactively explored business opportunities based on the demand from customers in the market, all of which contributed to the significant year-on-year growth in the volume and size of fund custody and outsourcing business. As of the end of the Reporting Period, as for fund custody business, the Company launched 514 products with a business scale of RMB41.391 billion; as for private fund outsourcing business, the Company launched 1,232 products (including 728 products of its asset management subsidiaries) with a business scale of RMB858.096 billion (including RMB824.082 billion attributable to its asset management subsidiaries).

During the Reporting Period, securities companies were confronted with new opportunities and challenges in their research business due to volatile fluctuations in the international capital market, the unstable environment in the domestic capital market, the comprehensive promotion of multidimensional reforms, increasing stringency in securities industry and rapid growth in the number of institutional investors. During the Reporting Period, the Company constantly optimized the internal organizational structure, strengthened the integrated service system of research and sales businesses as well as continued to improve the efficiency and quality of customer services so as to provide customers with comprehensive and quality research services to satisfy their demand for diversified services and enhance customer loyalty. The Company continued to make great efforts in recruiting top talents in the field of research business and institutional sales, constantly adhered to building the research team and continuously improved the quality of research reports, all of which contributed to the further increase in the overall strength and market influence of research business as well as a significant growth in the income from research business as compared with the corresponding period of 2015. As of the end of the Reporting Period, the volume of sub-position transactions of the Company for mutual funds was RMB250.167 billion and the market share in terms of the volume of sub-position transactions of mutual funds was 4.91%, representing an increase of 0.61% as compared to that of 2015.

## Management Discussion and Analysis

### ④ Capital-based intermediary business

The capital-based intermediary business mainly includes providing securities margin trading, stock pledged repurchase and agreed repurchase businesses to clients. During the Reporting Period, the overall scale of market securities margin business continued to decrease due to bleakness of the stock market, stringency in leverage management of regulatory authorities and loss of balance between capital supply and demand resulting from adequacy of market liquidity, and as of the end of the Reporting Period, the balance of the business was RMB853.584 billion. During the Reporting Period, the Company continued to upgrade the service contents of the products and made great efforts in business innovation while continuing to enhance conversion period risk adjustments and business support, all of which contributed to a good momentum in the business development. As at the end of the Reporting Period, the balance of the securities margin business of the parent company was RMB50.091 billion with a market share of 5.87% (ranking No. 2 in the industry), and the average daily guarantee ratio was 340.33%. During the Reporting Period, the stock pledged repurchase business of the Company was in a continuous growth trend. As of the end of the Reporting Period, the pending repurchase balance of the business amounted to RMB41.679 billion and the fulfillment guarantee ratio was 318.48%. During the Reporting Period, the Company actively promoted the option exercise financing and restricted stock financing businesses. As of the end of the Reporting Period, the pending repurchase balance of option exercise financing business was RMB3.7735 million and the fulfillment guarantee ratio was 842.76%, while the pending repurchase balance of restricted stock financing business was RMB1.400 billion and the fulfillment guarantee ratio was 415.24%.

In the first half of 2016, the profit of brokerage and wealth management businesses amounted to RMB3.183 billion, accounting for 82.09% of the total profit.

### (2) *Investment banking business*

#### ① Stock underwriting, bond underwriting and financial advisory businesses

During the Reporting Period, the domestic economy entered into the “new normal” of lower growth rate, adjusted economic structure and changed growth drivers, resulting in great downturn pressure on the economy. During the Reporting Period, there was less issuance of IPOs and the refinancing market continued to boom, which contributed to a steady increase in the scale of equity financing. The bond market continuously expanded and the volume of bond issued was significantly increased due to the continuous improvement of the supporting systems for bonds and the construction of market infrastructure. The merger, acquisition and reorganization market was in a continuously active momentum due to vigorous promotion of the supply-side structural reform, state-owned enterprises reform as well as marketized reform of merger, acquisition and reorganization.

During the Reporting Period, the Company proactively adjusted and optimized its business layout and enhanced internal coordination and resources sharing, which contributed to the continuous perfection in its all-dimensional business line system, further promotion of the large investment banking business model of “professional specialization plus systematic collaboration” and constant improvement in the overall operational efficiency. The Company gave full play to the brand effect and radiation effect of its merger, acquisition and reorganization business, further consolidated its leading position in the market, paid more attention to the customers and industry, spared no efforts to carry out golden projects, constantly provided quality services and promoted development of other businesses. The Company actively explored refinancing business opportunities, increased the scale of strategic customers, enhanced customer loyalty and effectively prevented itself from the impact from slowdown of issuance of new shares, so as to ensure that equity financing business achieved a growth while maintaining stable. The Company enhanced the resources allocation of bond underwriting business, optimized the business lines, put more efforts in innovation and strengthened the sales channels, all of which contributed to a significant growth in the results of bond underwriting business. The Company also actively promoted the development of innovation business by increasing capital investment and taking full advantage of the Company’s capital, merger and acquisition fund as well as industrial fund.

# Management Discussion and Analysis

## Consolidated data

Currency: RMB

Underwriting manners	Issuance category	Times of underwriting (times)		Underwriting amount (in RMB10 thousand)		Underwriting income (in RMB10 thousand)	
		Reporting	Accumulated	Reporting	Accumulated	Reporting	Accumulated
		Period	over the years	Period	over the years	Period	over the years
Lead underwriting	Issue of new shares	1	136	48,832.72	8,208,403.65	5,300.00	357,004.88
	Additional issue						
	of new shares	15	99	3,795,976.58	13,938,200.67	27,802.11	139,637.30
	Allotment of shares	0	30	0.00	1,002,136.78	0.00	19,236.96
	Convertible bonds	0	11	0.00	627,430.00	0.00	16,520.00
	Exchangeable bonds	2	10	88,000.00	568,539.76	870.00	4,895.34
	Preference shares	0	1	0.00	900,000.00	0.00	0.00
	Issue of bonds	49	309	5,442,194.12	27,482,879.44	25,476.26	150,540.37
Sub-total	67	596	9,375,003.42	52,727,590.30	59,448.37	687,834.85	
Co-lead underwriting	Issue of new shares	0	27	0.00	242,956.30	0.00	1,059.01
	Additional issue						
	of new shares	0	4	0.00	55,903.50	0.00	469.00
	Allotment of shares	0	12	0.00	244,241.00	0.00	1,811.00
	Convertible bonds	0	3	0.00	13,284.00	0.00	12.00
	Exchangeable bonds	0	0	0.00	0.00	0.00	0.00
	Preference shares	0	0	0.00	0.00	0.00	0.00
	Issue of bonds	3	98	0.00	941,575.00	0.00	1,882.62
Sub-total	3	144	0.00	1,497,959.80	0.00	5,233.63	
Sub-underwriting	Issue of new shares	0	161	0.00	1,876,238.51	0.00	1,284.42
	Additional issue						
	of new shares	0	28	0.00	382,226.97	0.00	701.00
	Allotment of shares	0	31	0.00	136,077.30	0.00	429.94
	Convertible bonds	0	9	0.00	164,536.00	0.00	217.74
	Exchangeable bonds	0	0	0.00	0.00	0.00	0.00
	Preference shares	0	0	0.00	0.00	0.00	0.00
	Issue of bonds	278	2,608	2,611,000.00	37,341,569.68	2,362.47	40,527.39
Sub-total	278	2,837	2,611,000.00	39,900,648.46	2,362.47	43,160.49	



## Management Discussion and Analysis

### Information of merger, acquisition, reorganization and financial advisory businesses (consolidated data) during the Reporting Period

Currency: RMB

	Net revenue (in RMB10 thousand)	Number	
		Reporting Period	Reporting Period Accumulated over the years
Merger, acquisition, reorganization and financial advisory businesses	23,565.77	34	856

During the Reporting Period, the Company completed a total of 67 lead-underwriting projects on a consolidated basis with an aggregate lead-underwriting amount and revenue from lead-underwriting projects of RMB93.750 billion and RMB594 million, respectively. Specifically, the Company completed a total of 18 equity lead-underwriting projects on a consolidated basis with an aggregate equity lead-underwriting amount and revenue from equity lead-underwriting projects on a consolidated basis of RMB39.328 billion and RMB340 million, respectively. According to the statistics from WIND Information, during the Reporting Period, the Company ranked No. 3 in the industry in terms of amount of equity lead-underwriting projects. The Company completed a total of 49 bond lead-underwriting projects on a consolidated basis with an aggregate bond lead-underwriting amount and revenue from bond lead-underwriting projects on a consolidated basis of RMB54.422 billion and RMB255 million, respectively. As for merger, acquisition and reorganization business, during the Reporting Period, the Company achieved a significant growth in the number and amount of merger, acquisition and reorganization projects and according to the statistics from WIND Information, the Company ranked No. 1 in the industry in terms of the number of merger, acquisition and reorganization projects led by the Company.

#### ② OTC business

During the Reporting Period, the National Equities Exchange and Quotations (the "NEEQ") market grew rapidly. The number of listed enterprises and the market scale continued to increase. The possibility for comprehensive improvement in market liquidity and continuously active trading provided the NEEQ market with significant opportunities due to the implementation of stratification system and constant system innovation of the NEEQ market. According to the statistics from NEEQ, as of the end of the Reporting Period, there were 7,685 companies listed on the NEEQ with a total market capitalization of RMB3,108.190 billion. The Company adjusted its business structure in a timely manner, constantly followed up the financing demand from listed enterprises and promoted the comprehensive development of various businesses, in order to provide the customers with all-

## Management Discussion and Analysis

round comprehensive financial services. During the Reporting Period, the Company recommended 21 projects for listing, with 1 project approved for listing and 5 projects pending approval, completed 19 times of private placement of equity with an amount of RMB1.369 billion in aggregate for 19 listed enterprises and successfully helped a great number of listed enterprises to carry out stocks pledged financing and debt financing businesses. During the Reporting Period, Jiangsu Equity Exchange Center, a subsidiary controlled by the Company made active efforts in developing equity financing instruments and debt financing instruments, put more efforts in the formulation and design of asset management schemes, improved its active management capabilities and continued to make innovations in financial products and services. As of the end of the Reporting Period, Jiangsu Equity Exchange Center had a total of 216 membership units and 684 listed enterprises, 7 of which has shifted to listing on the NEEQ. The amount of funds raised through equity financing and stocks pledged financing projects by listed enterprises accumulated to RMB171.38 million and RMB15.00 million; and the amount of private bonds, targeted financing instruments, income rights products of financial assets and wealth management plans issued was RMB19,754 million, RMB3,974 million, RMB882 million and RMB2,526 million, respectively.

In the first half of 2016, the profit of investment banking business amounted to RMB429 million, accounting for 11.07% of the total profit.

### **(3) Assets management business**

#### ① Assets management business of securities companies

During the Reporting Period, as the access threshold of assets management industry lowered gradually, the competition in the industry became intensified, and marketization continued to be improved, asset management business entered into a period of core competitiveness and incubation of wealth management. With the continue increase of residents' wealth, the increasingly needs of investment and financing in society and the continuing improvement of establishing pension system and the social security system, development space of securities traders' assets management business will be vast. As of the end of the Reporting Period, the scale of the securities traders' assets management business amounted to RMB15.00 trillion in aggregate, representing an increasing of 46.34% as compared to the same period in 2015.

As for asset management business of securities companies, as directed by the strategic concept of covering the whole business chain, Huatai Asset Management vigorously stimulated and created customer needs and satisfied their diversified investment financing needs with diversified financial products. Huatai Asset Management, acting as both the assets manager and assets supplier, continued to enhance its capabilities in active management and product innovation, strived to forge core competitiveness. As for collective asset management business, business and product chain has been increasingly enriched, covering various fields, such as the fixed income, equity, financing, cross-border and alternative investment. As of the end of the Reporting Period, Huatai Asset Management managed a total of 86 collective asset management schemes in an aggregate amount of RMB116.658

## Management Discussion and Analysis

billion. As for targeted asset management business, the Company actively strengthened its business cooperation with the third-party institutions and constantly expanded its wealth management service customized for such institutions. As of the end of the Reporting Period, Huatai Asset Management managed a total of 621 targeted asset management schemes in an aggregate amount of RMB684.413 billion. As for special asset management business, the Company has launched several featured product in fields including rights to margin finance and securities lending, rights to financial leases, internet consumption finance, notes assets, pledge of policy and factoring business. As of the end of the Reporting Period, Huatai Asset Management managed a total of 21 special asset management schemes in an aggregate amount of RMB23.011 billion.

According to the statistics on the asset management business of institutions with business operations for securities and futures published by the Asset Management Association of China, as of the end of the Reporting Period, Huatai Asset Management actively managed a business scale of RMB209.6 billion, ranking the fourth in the industry, and ranking the second in the industry in terms of the total scale of asset management business. According to WIND Information, during the Reporting Period, the newly added scale of asset-backed securities and the size of issuance of Huatai Asset Management ranked the third and second in the industry, respectively.

During the Reporting Period, the scale and revenue of asset management business of Huatai Asset Management Co., Ltd. were set out in the following table:

Currency: RMB

Items	Jan 1–Jun 30, 2016		Jan 1–Jun 30, 2015	
	Entrusted scale (in RMB100 million)	Net income (in RMB10 thousand)	Entrusted scale (in RMB100 million)	Net income (in RMB10 thousand)
Collective asset management business	1,166.58	59,897.90	1,080.11	46,327.54
Targeted asset management business	6,844.13	11,720.31	4,221.21	10,547.99
Special asset management business	230.11	1,822.00	40.60	250.00

## Management Discussion and Analysis

### ② Private equity fund management business

During the Reporting Period, the Company operated direct investment business, including investment in, and management of, private equity funds, through its wholly-owned subsidiary Huatai Zijin Investment. During the Reporting Period, affected by such factors as economic structural adjustment, ongoing reform of the capital market and the declining growth in macroeconomy, it still remained a prudent development trend in the fund raising, investment and withdrawal in terms of private equity funds. The stock of capital, numbers of newly raised funds and average amount of raised funds have significantly increased on year-on-year basis. During the Reporting Period, the Company made active efforts in the establishment of direct investment funds and relevant fund raising activities and continued to expand the size of assets under management. As of the end of the Reporting Period, Huatai Zijin Investment set up a total of 14 direct investment funds. Details of the amount of the funds subscribed with relevant business registration completed are as follows:

Currency: RMB

Direct investment fund	Amount of the funds subscribed with relevant business registration completed
Huatai Zijin (Jiangsu) Equity Investment Fund (Limited Partnership) (華泰紫金(江蘇)股權投資基金(有限合夥))	RMB2,000 million
Beijing Huatai Ruilian Merger and Acquisition Fund Centre (Limited Partnership) (北京華泰瑞聯併購基金中心(有限合夥))	RMB1,000 million
Jiangsu Huatai Ruilian Funds Mergers (Limited Partnership) (江蘇華泰瑞聯併購基金(有限合夥))	RMB9,000 million
Nanjing Huatai Ruilian Merger and Acquisition Fund No. 1 (Limited Partnership) (南京華泰瑞聯併購基金一號(有限合夥))	RMB5,442 million
Nanjing Huatai Ruilian Merger and Acquisition Fund No. 2 (Limited Partnership) (南京華泰瑞聯併購基金二號(有限合夥))	RMB2,902 million

## Management Discussion and Analysis

Direct investment fund	Amount of the funds subscribed with relevant business registration completed
Nanjing Huatai Ruilian Merger and Acquisition Fund No. 3 (Limited Partnership) (南京華泰瑞聯併購基金三號(有限合夥))	RMB602 million
Nanjing Huatai Ruilian Merger and Acquisition Fund No. 4 (Limited Partnership) (南京華泰瑞聯併購基金四號(有限合夥))	RMB52 million
Huatai Merchants (Jiangsu) Capital Market Investment FOF Center (Limited Partnership) (華泰招商(江蘇)資本市場投資母基金中心(有限合夥))	RMB10,020 million
Shenzhen Huatai Ruilin Equity Investment Fund Partnership (Limited Partnership) (深圳市華泰瑞麟股權投資基金合夥企業(有限合夥))	RMB1,000 million
Beijing Huatai Ruihe Medical Industry Investment (Limited Partnership) (北京華泰瑞合醫療產業投資中心(有限合夥))	RMB1,000 million
Jiangsu Industry and Information Industry Investment Fund (Limited partnership) (江蘇工業和信息產業投資基金(有限合夥))	RMB1,206 million
Jiangsu Huatai Emerging Industries Investment Fund (Limited Partnership) (江蘇華泰戰略新興產業投資基金(有限合夥))	RMB2,500.05 million
Jiangsu Huatai Internet Industry Investment Fund (Limited Partnership) (江蘇華泰互聯網產業投資基金(有限合夥))	RMB500.05 million
Yili Suxin Investment Fund (Limited Partnership) (伊犁蘇新投資基金合夥企業(有限合夥))	RMB1,900 million

## Management Discussion and Analysis

During the Reporting Period, details of investment projects carried out by Huatai Zijin Investment and direct investment funds established by it are as follows:

	Jiangsu Huatai Ruilian Funds Mergers (Limited Partnership)	Shenzhen Huatai Ruilin Equity Investment Fund Partnership (Limited Partnership)	Beijing Huatai Ruihe Medical Industry Investment (Limited Partnership)	Huatai Merchants (Jiangsu) Capital Market Investment FOF Center (Limited Partnership) (華泰招商(江蘇)資本市場投資母基金中心(有限合夥))	Jiangsu Huatai Emerging Industries Investment Fund (Limited Partnership)	Yili Suxin Investment Fund Partnership Enterprise (Limited Partnership) (伊犁蘇新投資基金合夥企業(有限合夥))
Total number of investment projects	5	5	1	1	1	1
Of which: equity investment projects	5	5	1	—	1	1
Debt investment projects	—	—	—	—	—	—
Private equity funds investment project	—	—	—	1	—	—
Total investment amount	RMB1,703.88 million +US\$61.3955 million	RMB170 million	RMB100 million	RMB100 million	RMB49.8504 million	RMB299.1027 million
Of which: equity investment projects	RMB1,703.88 million +US\$61.3955 million	RMB170 million	RMB100 million	—	RMB49.8504 million	RMB299.1027 million
Debt investment projects	—	—	—	—	—	—
Private equity funds investment project	—	—	—	RMB100 million	—	—

## Management Discussion and Analysis

### ③ Asset management business of fund companies

During the Reporting Period, the Company mainly conducted asset management business of fund companies through China Southern Asset and Huatai-PineBridge, which are associate companies. For the asset management business managed by China Southern Asset, as of the end of the Reporting Period, China Southern Asset managed a total of 96 funds in its mutual funds business, of which the total size amounted to RMB342,699 million, increased by 48.75% from RMB230,386 million as compared to corresponding period of 2015; the net asset value of private funds business amounted to RMB220,340 million in total, increased by 82.80% from RMB120,536 million as compared to corresponding period of 2015. During the Reporting Period, China Southern Asset was awarded the title of “2015 Golden Bull Fund Management Company” (2015年度金牛基金管理公司獎) by China Securities Journal, “13th China Golden Fund • TOP Fund Managers” (第十三屆中國「金基金」TOP公司獎) by Shanghai Securities News. For the asset management business managed by Huatai-PineBridge, as of the end of the Reporting Period, Huatai-PineBridge managed a total of 37 funds in its mutual funds business, of which the total size amounted to RMB87,650 million, increased by 14.33% from RMB76,662 million as compared to corresponding period of 2015; the net asset value of private funds business amounted to RMB1,144 million in total, decreased by 44.68% from RMB2,068 million as compared to corresponding period of 2015. During the Reporting Period, Huatai-PineBridge was awarded “2015 Golden Fund • Bond Investment Return Fund Management Company” (2015年度金基金•債券投資回報基金管理公司獎) by Shanghai Securities News and “Golden Bull Fund Company for Passive Investment” (被動投資金牛基金公司獎) by the China Securities Journal.

### ④ Other major businesses

As for futures asset management business, during the Reporting Period, Huatai Futures continued to enrich the capital channels, actively expanded cooperation scope, improved overall risk control capacity and continued to promote its active management business. As of the end of the Reporting Period, Huatai Futures managed a total of 108 assets management schemes which were in the duration period, and the total size of which amounted to RMB10,465 million, representing a year-on-year increase of 136.67%. The size of futures interests amounted to RMB2,952 million, representing a year-on-year increase of 251.53%.

During the first half of 2016, the total profit in asset management business reached RMB860 million, which account for 22.19% of the total profit.

# Management Discussion and Analysis

## **(4) Investment and trading business**

### ① Investments in equity securities and trading business

During the Reporting Period, the world still experienced economic downturn, while domestic economy was still encountered a relative higher downward pressure and the stock market continue to falling down with evidence of the trading volume decreased constantly and CSI 300 Index fell by 15.47%. During the Reporting Period, the Company focused on safety margin, controlling risks and reducing drawdown, adhered to the diversification and “direction removal” of business as its development direction and put more effort in non-directional investment business. The Company laid emphasis on the “absolute return” idea in value investment, enhanced overall investment research competence and effectively utilized various financial instruments and trading techniques, in order to find and seize a variety of investment opportunities. During the Reporting Period, the ROI far outperformed the CSI 300 Index. Exchange traded quantified hedging investment business has realized the transition to transaction model, intensified strategy research both in breadth and depth and improved the trading system. The Company actively effected Alpha strategy transaction by combining position management and strategy management, thus earning positive return during the Reporting Period. The Company also took an active approach to the market-making activities in the National Equities Exchange and Quotations System for small and medium sized enterprises nationwide. As of the end of the Reporting Period, the Company has provided market-making and quotation services for a total of 72 listed enterprises and the total market capitalization of the market-making business amounted to RMB566,669,200.

### ② Fixed income investment and trading business

During the Reporting Period, affected by factors such as weak domestic macro-economic fundamentals, relatively sufficient fund in the overall market, frequent credit risk events, the increase of interest rate by the Federal Reserve and the Brexit, the bond market was in a generally volatile condition. During the Reporting Period, the Company actively carried out innovative business, promoted the transformation of traditional business and made active efforts in the deployment of FICC business so as to create differentiated competitive strength. The Company continued to reinforce the research in proprietary investment transaction businesses, adjusted investment strategy and took the opportunities during the time of bond market volatility in a timely manner based on the market trend. The Company made timely adjustment on position structure, appropriately utilized hedge instrument against risks and actively undertook carry portfolio trade in various forms including “cash bond + IRS”. As of the end of the Reporting Period, the growth rate of net value outperformed that of the China Bond Composite Full-price Index. Driven by the exchange business, the qualifications to undertake various proprietary and agency exchange transaction business were accelerated to obtain and the business layout was improved. The Company focused on expanding trading types and optimized trading model in terms of bulk commodity business, and actively carried out structured business of gold leasing and lending. During the Reporting Period, the Company has 51 structured businesses of gold leasing and lending in aggregate with total financing scale of RMB13,346 million.



## Management Discussion and Analysis

### ③ OTC financial products and trading business

During the Reporting Period, the Company continued to upgrade the OTC market trading platform, constantly enhancing business system and procedure, focusing on promoting the development of private equity business, OTC financial derivatives and innovative financing solutions. Currently, the Company's OTC market business was licensed with the full spectrum of authorities, including investment, agency trading, creation, referral and display. During the Reporting Period, the Company issued 15 private equity products with total amount of RMB3,568 million, including 4 structured notes with an amount of RMB275 million, 8 asset management schemes with an amount of RMB2,593 million, 2 private funds with an amount of RMB200 million, 1 trust scheme with an amount of RMB500 million. During the Reporting Period, the Company recorded net decrease of 19 equity return swaps trading transactions. As of the end of the Reporting Period, there were 18 business stocks with nominal principal amount of RMB2,461 million. During the Reporting Period, the Company recorded net increase of 1 OTC option business with nominal principal amount of RMB9,824 million. As of the end of the Reporting Period, there were 41 on-going OTC option business with nominal principal amount of RMB25,057 million.

### Consolidated data

Unit and Currency: RMB'000

Items	Jan 1– Jun 30, 2016	Jan 1– Jun 30, 2015
Net realized (losses)/gains from disposal of available-for-sale financial assets	(456,457)	241,160
Dividend income and interest income from available-for-sale financial assets	209,676	150,956
Net realized (losses)/gains from disposal of financial instruments at fair value through profit or loss	(1,656,224)	5,244,097
Dividend income and interest income from financial instruments at fair value through profit or loss	1,461,719	700,582
Net realized gains/(losses) from disposal of derivative financial instruments	1,778,834	(3,354,672)
Interest income from held-to-maturity investments	112	114
Unrealized fair value changes of financial instruments at fair value through profit or loss	(2,106,483)	127,362
Unrealized fair value changes of derivative financial instruments	2,353,528	224,110
Others	—	—
Total	1,584,705	3,333,709

## Management Discussion and Analysis

During the first half of 2016, the total profit of the investment and trading business of the Company amounted to RMB421 million, representing 10.86% of the total profit.

### **(5) Overseas business and others**

During the Reporting Period, Huatai Financial Holdings (Hong Kong) continued to carry out in-depth development of overseas business, established new business platform, expanded the new product line and promote business transformation and upgrade, thereby transformed the business model based on retail brokerage business into the financial service platform which owned various business lines. As of the end of the Reporting Period, Huatai Financial Holdings (Hong Kong) was licensed by the Securities and Futures Commission of Hong Kong to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities, and had established integrated and comprehensive lines of operation.

As of the end of the Reporting Period, in terms of dealing in securities, the number of the clients of Huatai Financial Holdings (Hong Kong) reached 15,222, and total assets under custody reached HK\$7,946 million, with the total stocks trading volume reaching HK\$11.97 billion; in terms of dealing in futures contracts, its clients reached 1,168, funds under custody reached HK\$112 million, with the total futures trading volume reached 45,200 board lots; in terms of advising on securities, it provided research reports and advisory services for approximately 3,500 clients; in terms of advising on corporate finance, it participated in 2 IPO projects and 1 allotment project, with total clients for its underwriting service reaching 3 and total amount of trading and issuance reaching approximately US\$252 million; in terms of financing for securities margin, accounts of credit capital reached 4,679 with the cumulative amount of credit reaching HK\$65,463,800; in terms of asset management, the total amount of funds under custody reached HK\$2,432 million. Meanwhile, during the Reporting Period, Huatai Financial Holdings (Hong Kong) completed 8 financial advisory projects and 1 structured investment and financing project.

Other businesses represent other businesses other than principal businesses of the head office, including the interest income and interest expenses generated from general working capital of the head office, expenditure from middle and back office departments of the head office and gains from the investment in associated companies. Operating income of other businesses in this period significantly decreased as compared to the same period last year, which is mainly due to the issuance of subordinated bonds of RMB18 billion and corporate bonds of RMB6.6 billion by the Company at the end of the first half of last year, which results in a significant increase of the interest expense in this period as compared to the same period. In addition, exchange gains or losses in this period decreased significantly as compared to the same period last year, which is mainly due to more exchange revenue generated from insurance financial H Shares in the same period last year.

In the first half of 2016, the profit before tax of overseas business and others amounted to RMB-1,016 million, representing -26.19% of the total profit before tax.

## Management Discussion and Analysis

**(6) Business innovation and its impact on the Company's operating results and future development, and how to control relevant risks**

- ① Main business innovation and its impact on the Company's operating results and future development
- In terms of the credit innovative business, during the Reporting Period, the Company carried on private equity financing business actively to satisfy the financing needs of the clients to subscribe for the shares of non-public offering private placement of listed companies, and promoted financing business innovation pilot of asset management schemes actively at the same time. The development of credit innovative business was designed to supplement the existing product lines and business scope of the Company. In addition to interest income generation, it was also beneficial to improving the client structure and business operating model, enhancing the profitability and further increasing the brand influence of the Company.

In terms of OTC derivatives business, during the Reporting Period, this business segment of the Company paid close attention to the growth opportunities in business and market, explored business innovation model, promoted the transformation and development of business, as a results, the business connotation was continuously improved and completed and the income resources was keeping diversified. As the stabilizer for investment business, the OTC derivatives will provide vast innovation room for investment business, diversify the product mix in capital market and satisfy various requirements of clients, thereby further increasing the income resources of brokers.

In terms of exchange traded option business, in 2015, as approved by the Shanghai Stock Exchange, the Company became a stock option trading participant in Shanghai Stock Exchange and was licensed to engage in stock option brokerage and proprietary businesses. In addition, as approved by the CSRC and the Shanghai Stock Exchange, the Company became a major market maker for Shanghai Stock Exchange 50ETF option contracts. During the Reporting Period, the Company actively participated in the option market making business, position risk exposure was controllable, exercise of options was stable and ranked A in monthly ranking for major market makers. The commencement of exchange traded option business has diversified the quantified investment strategies and provided a variety of investment and risk management tools.

## Management Discussion and Analysis

In terms of spot commodity contract agent of precious metals business, which means the business that the Company engages in opening transaction accounts for spot commodity contract of precious metals and trading on behalf of individual and institutional clients. As of the end of the Reporting Period, the Company opened 1 institutional account and 1 product account in total, with the total trading amount of silver products amounting to RMB52,300. The commencement of this business is beneficial for adding new qualification for agent transaction business, enlarging the types of client trading business, expanding the scale of customer investment and asset allocation, expanding the income channels of business and strengthening the differentiation advantages of business.

### ② Risk control for business innovation

During the Reporting Period, the Company continued to promote business innovation, drove innovation in respect of new businesses, new products, services and management models, with a view to enhancing the innovation capability of the Company. In the course of operating its innovative business segments, the Company adhered to the basic principle of “satisfying market needs, pursuing legally viable approach, enhancing risk control and ensuring efficiency”. Based on the characteristics of risk profile of innovative business, risk control measures in relation to organization mechanisms, decision making and delegation of authority and systems and procedures were further consolidated. These initiatives were designed to mitigate risks arising from insufficient awareness on the risks of innovative business, unreasonable business design, and incomplete control mechanism, thus ensuring the sustainable and healthy development of each innovative business on the premise of building the capability to monitor, control and bear risks.

With regard to credit innovative business, during the Reporting Period, the Company realized brand-new business pilots, including “asset management schemes share financing business”, and “private equity financing”. Taking into consideration the characteristics of innovative business, the Company further enhanced business review rules and procedures, customer due diligence, fund monitoring and the identification, monitoring & early warning and control of business risk points. In the course of business, the risk management function of the Company deployed dedicated personnel to carry out monitoring of various risk indicators, and timely assess and report on risks. In addition, various means such as testing on pressures were adopted to meet the Company and its regulatory body’s requirements on business risk levels.

## Management Discussion and Analysis

In terms of OTC derivatives business such as equity return swaps, the Company has established the risk control measures and systems covering various nodes on business procedures. These measures and systems were designed to address different issues, including assessment of counterparts, selection of subject securities, setting of transaction limits, risk hedging management, daily mark to market and risk control. The Company has also adopted active measures in terms of model validation, valuation cross-check and etc., so as to mitigate model risks. In carrying out specific business, first-line staff from specific business unit is responsible for daily mark to market and monitoring, while the risk management function is responsible for second-tier monitoring, and developing detailed assessment on credit risk, market risk and liquidity risk on the basis of the original risk management measures, so as to ensure the risk levels recorded in the course of business meet the requirement in relation to each limit indicators.

In terms of exchange traded option business, on the basis of first-line risk control, the risk management function monitored and assessed the risks arising in the operation of the option business in the whole process, developed risk limit, procedures and risk emergency plan, established risk hedging mechanism and conducted daily mark to market, including but not limited to: capital size of option business, exposure and the issue of Greek alphabet, profit and loss rate of investment projects, utilization of the margin and so on. Among these indicators, the utilization of the margin included intraday real-time margin percentage and day-end margin maintenance percentage, as well as establishing the early warning mechanism to ensure control of business risks.

In terms of spot commodity contract agent of precious metal business, the Company has previously established standardized systems and procedures, reasonable post division and appropriateness management requirement on clients as well as indicators for risk monitoring. In the course of business, daily monitoring and corresponding measures were also carried out by the Company for spot commodity contract agent of precious metal business in respect of overall business activities, appropriateness requirement on clients, risk profile and unusual transaction of clients.

# Management Discussion and Analysis

## (IV) Analysis on Principal Components of Consolidated Statement of Financial Position

### 1 Consolidated Financial Position

#### (1) Overview of Consolidated Statement of Financial Position

Unit and Currency: RMB'000

Items	As of June 30, 2016		As of December 31, 2015		Increase/Decrease	
	Amount	Composition	Amount	Composition	Amount	Percentage
<b>Non-current assets</b>						
Property and equipment	3,496,920	0.87%	3,379,018	0.75%	117,902	3.49%
Investment properties	1,221,646	0.30%	1,301,531	0.29%	(79,885)	(6.14%)
Goodwill	51,342	0.01%	51,342	0.01%	—	—
Other intangible assets	407,046	0.10%	424,968	0.09%	(17,922)	(4.22%)
Interest in associates	2,657,744	0.66%	2,673,834	0.59%	(16,090)	(0.60%)
Interest in joint ventures	100,154	0.03%	—	—	100,154	—
Held-to-maturity investments	5,000	0.00%	5,000	0.00%	—	—
Available-for-sale financial assets	27,299,413	6.78%	25,624,381	5.66%	1,675,032	6.54%
Financial assets held under resale agreements	2,911,643	0.72%	3,843,367	0.85%	(931,724)	(24.24%)
Financial assets at fair value through profit or loss	1,216,667	0.30%	1,200,000	0.27%	16,667	1.39%
Refundable deposits	7,630,318	1.90%	6,009,300	1.33%	1,621,018	26.98%
Deferred tax assets	528,684	0.13%	212,609	0.05%	316,075	148.66%
Other non-current assets	67,634	0.02%	78,174	0.02%	(10,540)	(13.48%)
<b>Total non-current assets</b>	<b>47,594,211</b>	<b>11.82%</b>	<b>44,803,524</b>	<b>9.90%</b>	<b>2,790,687</b>	<b>6.23%</b>
<b>Current assets</b>						
Accounts receivable	1,996,256	0.50%	621,554	0.14%	1,374,702	221.17%
Margin accounts receivable	51,455,667	12.78%	67,432,118	14.90%	(15,976,451)	(23.69%)
Available-for-sale financial assets	12,482,438	3.10%	12,494,340	2.76%	(11,902)	(0.10%)
Financial assets at fair value through profit or loss	91,986,127	22.84%	130,038,108	28.73%	(38,051,981)	(29.26%)
Derivative financial assets	934,651	0.23%	334,750	0.07%	599,901	179.21%
Financial assets held under resale agreements	24,831,958	6.17%	21,791,161	4.82%	3,040,797	13.95%
Other receivables and prepayments	5,605,430	1.39%	3,896,218	0.86%	1,709,212	43.87%
Clearing settlement funds	1,487,189	0.37%	2,551,703	0.56%	(1,064,514)	(41.72%)
Cash held on behalf of brokerage clients	107,580,069	26.72%	131,944,524	29.15%	(24,364,455)	(18.47%)
Cash and bank balances	56,725,321	14.09%	36,706,615	8.11%	20,018,706	54.54%
<b>Total current assets</b>	<b>355,085,106</b>	<b>88.18%</b>	<b>407,811,091</b>	<b>90.10%</b>	<b>(52,725,985)</b>	<b>(12.93%)</b>
<b>Total assets</b>	<b>402,679,317</b>	<b>100.00%</b>	<b>452,614,615</b>	<b>100.00%</b>	<b>(49,935,298)</b>	<b>(11.03%)</b>

## Management Discussion and Analysis

Items	As of June 30, 2016		As of December 31, 2015		Increase/Decrease	
	Amount	Composition	Amount	Composition	Amount	Percentage
<b>Current liabilities</b>						
Short-term bank loans	759,936	0.24%	688,322	0.19%	71,614	10.40%
Accounts payable to brokerage clients	112,581,937	34.86%	128,367,379	34.59%	(15,785,442)	(12.30%)
Derivative financial liabilities	698,785	0.22%	2,460,345	0.66%	(1,761,560)	(71.60%)
Financial liabilities at fair value through profit or loss	833,393	0.26%	14,479,838	3.90%	(13,646,445)	(94.24%)
Financial assets sold under repurchase agreements	21,361,435	6.61%	22,392,019	6.03%	(1,030,584)	(4.60%)
Employee benefits payable	2,079,539	0.64%	2,807,787	0.76%	(728,248)	(25.94%)
Current tax liabilities	492,090	0.15%	2,193,031	0.59%	(1,700,941)	(77.56%)
Placements from financial institutions	1,500,000	0.46%	3,000,000	0.81%	(1,500,000)	(50.00%)
Short-term debt instruments issued	175,000	0.05%	1,053,004	0.28%	(878,004)	(83.38%)
Long-term bank loans due within one year	121,448	0.04%	125,000	0.03%	(3,552)	(2.84%)
Long-term bonds due within one year	28,632,798	8.87%	2,998,178	0.81%	25,634,620	855.01%
Other payables and accruals	98,351,378	30.45%	99,320,062	26.77%	(968,684)	(0.98%)
<b>Total current liabilities</b>	<b>267,587,739</b>	<b>82.86%</b>	<b>279,884,965</b>	<b>75.42%</b>	<b>(12,297,226)</b>	<b>(4.39%)</b>
<b>Net current assets</b>	<b>87,497,367</b>		<b>127,926,126</b>		<b>(40,428,759)</b>	<b>(31.60%)</b>
<b>Total assets less current liabilities</b>	<b>135,091,578</b>		<b>172,729,650</b>		<b>(37,638,072)</b>	<b>(21.79%)</b>
<b>Non-current liabilities</b>						
Financial liabilities at fair value through profit or loss	26,214,545	8.12%	6,948,454	1.87%	19,266,091	277.27%
Financial assets sold under repurchase agreements	700,000	0.22%	10,800,000	2.91%	(10,100,000)	(93.52%)
Long-term bonds	24,217,766	7.50%	69,374,000	18.70%	(45,156,234)	(65.09%)
Long-term employee benefits payable	3,763,396	1.17%	3,366,621	0.91%	396,775	11.79%
Long-term bank loans	303,677	0.09%	359,985	0.10%	(56,308)	(15.64%)
Deferred tax liabilities	154,838	0.05%	351,819	0.10%	(196,981)	(55.99%)
<b>Total non-current liabilities</b>	<b>55,354,222</b>	<b>17.14%</b>	<b>91,200,879</b>	<b>24.58%</b>	<b>(35,846,657)</b>	<b>(39.31%)</b>
<b>Net assets</b>	<b>79,737,356</b>		<b>81,528,771</b>		<b>(1,791,415)</b>	<b>(2.20%)</b>

## Management Discussion and Analysis

Items	As of June 30, 2016		As of December 31, 2015		Increase/Decrease	
	Amount	Composition	Amount	Composition	Amount	Percentage
<b>Equity</b>						
Share capital	7,162,769	8.98%	7,162,769	8.79%	—	—
Reserves	57,147,402	71.67%	58,390,133	71.62%	(1,242,731)	(2.13%)
Retained profits	14,491,892	18.18%	15,232,023	18.68%	(740,131)	(4.86%)
Total equity attributable to shareholders of the Company	78,802,063	98.83%	80,784,925	99.09%	(1,982,862)	(2.45%)
Non-controlling interests	935,293	1.17%	743,846	0.91%	191,447	25.74%
<b>Total equity</b>	<b>79,737,356</b>	<b>100.00%</b>	<b>81,528,771</b>	<b>100.00%</b>	<b>(1,791,415)</b>	<b>(2.20%)</b>

As of June 30, 2016, the total non-current assets of the Group amounted to RMB47,594 million, representing an increase of RMB2,791 million as compared to the beginning of the year. The increase was mainly due to the increase in available-for-sale financial assets and refundable deposits.

As of June 30, 2016, the total non-current liabilities of the Group amounted to RMB55,354 million, representing a decrease of RMB35,847 million as compared with the beginning of the year. The decrease was mainly due to the decrease in financial assets sold under repurchase agreements and long-term bonds were offset by the increase in financial liabilities at fair value through profit or loss.

As of June 30, 2016, the total current assets of the Group amounted to RMB355,085 million, representing a decrease of RMB52,726 million as compared with the beginning of the year. The decrease was mainly due to the decrease in financial assets at fair value through profit or loss, cash held on behalf of brokerage clients and margin accounts receivable was partially offset by the increase in cash and bank balances.

As of June 30, 2016, the total current liabilities of the Group amounted to RMB267,588 million, representing a decrease of RMB12,297 million as compared with the beginning of the year. The decrease was mainly due to the decrease in the accounts payable to brokerage clients and financial liabilities at fair value through profit or loss was partially offset by the increase in long-term bonds due within one year.



## Management Discussion and Analysis

### **(2) Liquidity and Capital Resources**

The major sources of money-markets and capital market financing of the Group primarily include:

Interbank lending: we obtain short-term liquidity from PRC interbank lending market, and as of June 30, 2016, the balance of our interbank lending was RMB1,500.0 million;

Placements from China Securities Finance: we obtain financing from China Securities Finance for margin refinancing and, as of June 30, 2016, the balance of our placements from China Securities Finance amounted to nil;

Repurchase transactions: we contract to sell our financial assets (such as bonds, notes and margin loans receivables) to a counterparty (such as banks and other financial institutions) for a short-term financing and agree to repurchase such assets at a certain amount. As of June 30, 2016, the balance of our financial assets sold under repurchase agreements was RMB22,061.4 million;

Short-term debt instruments: we manage our short-term liquidity by issuing commercial papers, corporate bonds, subordinated bonds and structured notes with a term not exceeding one year. As of June 30, 2016, the aggregate balance of our short-term debt instruments was RMB175.0 million;

Long-term bonds: we finance our long-term business expansion by issuing corporate bonds, subordinated bonds and offshore bonds with a term exceeding one year. As of June 30, 2016, the aggregate balance of our long-term bonds was RMB52,850.6 million; and

Long-term bank loans: we supplement the capital for construction of properties by bank loans. As of June 30, 2016, the aggregate balance of long-term bank loans was RMB425.1 million.

As of June 30, 2016, we had cash and bank balances (excluding cash and bank balances managed by us under consolidated structured entities) of RMB23,363.4 million.

## Management Discussion and Analysis

As of June 30, 2016, the total borrowings and bond financing of the Group amounted to RMB54,950 million. The table set out below is the breakdown of borrowings and bond financing of the Group as of the end of June 2016:

Unit and Currency: RMB'000

	As of June 30, 2016	As of December 31, 2015
Short-term debt instruments issued	175,000	1,053,004
Placements from financial institutions	1,500,000	3,000,000
Long-term bonds	24,217,766	69,374,000
Long-term bank loans	303,677	359,985
Long-term bank loans due within one year	121,448	125,000
Long-term bonds due within one year	28,632,798	2,998,178
<b>Total</b>	<b>54,950,689</b>	<b>76,910,167</b>

For details of interest rates and maturities of borrowings and bond financing, please refer to notes set out in the financial statements.

Save for the liabilities disclosed herein, as of June 30, 2016, the Group had no outstanding mortgage, charges, bonds, other debt capital, liabilities under acceptance or other similar indebtedness, lease purchase and finance lease commitment, guarantee or other material contingent liabilities.

### (3) *Asset structure and asset quality*

As of June 30, 2016, total assets and total liabilities of the Group were RMB402,679 million and RMB322,942 million respectively, representing a decrease of 11.03% and 12.97% as compared with the beginning of the year. Among the assets of the Group, cash and bank balances and clearing settlement funds accounted for 14.46% of total assets; financial assets at fair value through profit or loss, available-for-sale financial assets, accounts receivable, other receivables and prepayments accounted for 34.91% of total assets; margin accounts receivable, cash held on behalf of brokerage clients, financial assets held under resale agreements and property and equipment accounted for 12.78%, 26.72%, 6.89% and 0.87% of total assets, respectively. As of June 30, 2016, gearing ratio was 156.44%, representing a decrease of 27.99% as compared with December 31, 2015 due to higher asset liquidity after deducting cash held on behalf of brokerage clients and accounts payable to brokerage clients. Please see “Chapter 3 — Summary of Financial Data and Indicators” for details of net capital and different risk control indicators of the Company.

## 2 Analysis on the Profitability of the Company during the Reporting Period

During the Reporting Period, the operating income and operating profit for the period of the Company recorded a significant decrease as compared with the corresponding period of the previous year. It was primarily due to the implementation of circuit breaker mechanism in the first half of 2016, which caused the drastic changes after a sharp decline in Shenzhen and Shanghai stock markets, leading to a substantial shrinkage in the trading amount of the two markets, and in the meantime, there was a significant decrease in the balance of margin financing and securities lending as compared with the corresponding period of the previous year. The market reasons above resulted in a significant year-on-year decrease in fees and commission income from brokerage, interest income from capital-based intermediary services and investment income from proprietary business of the Company. However, the investment banking business and asset management business of the Company maintained a sound development momentum, and the business income recorded certain growth as compared with the corresponding period of the previous year.

Facing the adverse external market environment, the Company adhered to the development strategy of covering the whole business chain, accelerated the transformation of the wealth management business and continuously developed its core competitiveness. From January to June 2016, the market share of brokerage business (the market share of the stock and fund market) of the Company was 8.45% and ranked first in the industry; as of the end of June, the market share of the margin financing and securities lending balances of the Company was 5.87%, and its ranking rose to No. 2 in the industry; during the first half of 2016, the merger, acquisition and reorganization business ranked first in the industry in terms of business volume and trading volume, both the market ranking and the market share of the equity financing business ranked the front of the industry, and “ZhangLe Fortune Path” was downloaded for more than 15 million times, which ranked the first among wealth management Apps; as of the end of June 2016, the total assets under management amounted to RMB824.082 billion, representing an increase of 34.13% as compared with that at the end of 2015, ranking No. 2 in the industry.

## 3 Explanations on change in the scope of consolidation of the statements

### 1. *Change in the scope of consolidation of the statements as a result of establishment of new subsidiaries*

On June 30, 2016, newly established subsidiaries of this year were included in the consolidation scope of the Group. The Company's management believed that it has the de facto control over such new subsidiaries, therefore, the Company adopted long-term equity investment cost approach for the calculation for such subsidiaries. The Group added 9 subsidiaries into the consolidated financial statements for the first half of this year.

# Management Discussion and Analysis

## **2. *Changes of the consolidation scope as a result of new structured entities incorporated into the consolidation scope***

As the manager or investment advisor and investor of structured entities at the same time, and taking account of the returns of the investments held by the Group and the remuneration received by the Group as a manager of structured entities, structured entities that may materially affected by the variable returns of the Group were consolidated into the Group (primarily including asset management schemes). The Group reduced 2 structured entities into the consolidated financial statements as compared with the beginning of the year.

## **4 Analysis on the financing channels and financing capability of the Company**

### **(1) *Financing channels of the Company***

In terms of the financing methods, the Company's financing channels are equity financing and debt financing. In terms of the financing period, the short-term financing channels of the Company mainly include: credit lending through the inter-bank market, bond repurchase, issuance of short-term commercial bills, short-term corporate bonds, issuance of short-term subordinated bonds and structured notes through the inter-bank market and exchange market, issuance of margin financing and securities lending income rights financing and asset securitization and others. The medium and long-term financing channels of the Company mainly include: issuance of corporate loans, issuance of long-term subordinated bonds, project-financing loans, equity follow-on offering and so on. Through fruitful efforts over the years, the Company explored and established a financing platform integrating multiple financial channels and combining short, medium and long-term financing (including new financing tools), which played a key role in the rapid development of the Company's business.

### **(2) *Liquidity management policy and measures of the Company***

The Company has always attached importance to liquidity management and emphasized capital management in order to adhere to the principle of unifying safety, liquidity and profitability. With respect to the business development strategy, the Company focused on the match between the business scale and liabilities and confirmed the rational proportion between the duration and scale of asset liabilities through rational allocation of assets and diversified debt financing, in order to ensure that the Company can maintain appropriate liquidity.

Adhering to centralized management and separate risk prevention, the Company conducted liquidity risk management in a comprehensive, prudent and foreseeable manner. Based on comprehensive risk management structure, the Company established a sound liquidity management system matching with the corporate strategy. The Company adopted a prudent liquidity risk management policy to prevent any liquidity risk which may significantly affect the sustainable operation of the Company to ensure the stable, safe and smooth operation of all businesses of the Company.

## Management Discussion and Analysis

In order to ensure its liquidity, the Company has adopted various key measures, including: 1) refining the capital plan to strengthen the management of capital position and cash flow control in order to ensure the daily liquidity; 2) strengthening the management of matching the duration of assets and liabilities to establish quality current asset reserves in order to enhance the diversity and stability of financing; 3) improving the liquidity risk reporting system so as to ensure that the management can timely understand the liquidity risk management level and management situation; 4) continuously improving the liquidity management platform to effectively identify, measure, monitor and control the liquidity risk through information system, in order to ensure the liquidity risks are measurable, controllable and tolerable; and 5) analyzing cash flow and capital exposure under certain stress scenarios to evaluate the tolerance level of the Company to liquidity risks and formulate necessary liquidity risk contingency plan according to the stress test results.

### **(3) *Analysis of financing capability and financing strategy of the Company***

The Company operated properly within the authorized scope with high reputation. With the strong capital strength, profitability and solvency and good cooperation relationship with various commercial banks, sufficient bank credit lines, and steadily growing credit lines, the Company has strong short-term and long-term financing ability. As a listed securities firm, the Company can also solve capital demand for long-term development through equity refinancing and other ways. Therefore, the financing capability of the Company is relatively strong and the Company is able to raise funds for its operation by ways of financing approved by regulatory authorities. Looking forward, the Company will adopt other financing channels approved by regulatory authorities based on the business development. The financing cost of such financing channels is subject to the fluctuation of market interest rate. The Company will enhance the monitoring and analysis of the market interest rate and select appropriate financing channels and timing to meet the needs of business development and reduce the financing cost.

In order to maintain the liquidity and profitability, the Company has maintained certain amount of bank deposits and fixed return products. Changes in interest rates will directly affect the interest income of the cash and market price and investment return of bond investments held by the Company. Margin financing and securities lending and other capital intermediary business, corporate debt financing and other businesses which directly related to the interest rate may impact corresponding interest income and financing interest expenses and so on. Meanwhile, the equity investments of the Company will also be indirectly affected by changes of interest rate. In addition, as the Company has overseas-registered subsidiaries, of which the capital is contributed in foreign currency, the Company possesses capital and assets denominated in foreign currency. Fluctuation of exchange rates will have certain extent of impact on the financial position of the Company.

## Management Discussion and Analysis

In order to maintain the liquidity and income rate of the Company's assets, the Company's own funds were managed by the capital operation department in accordance with sound management system and corresponding business processes. By timely adjusting various assets structure, optimizing the allocation structure of assets and liabilities, strengthening research on market interest rate and exchange rate, and using corresponding interest rates, exchange rates and other derivative financial tools, the Company avoided risks and mitigated the impact of the above factors.

### **(4) Contingencies and their impact on the financial position of the Company**

As of the end of the Reporting Period, contingencies of the Company mainly included a counter guarantee to the Bank of China Co., Ltd. for the Company's Hong Kong subsidiary to issue a foreign debt of 0.4 billion U.S. dollars and contingent liabilities resulted from pending legal proceedings. The above matters have minimal impact on the financial position of the Company.

### **(V) Analysis of core competitiveness**

The Company is one of the first integrated securities companies approved by the CSRC and a pilot securities company approved by SAC. Over the years, the Company adheres to the core values of "high efficiency, integrity, stability and innovation". By committing to the operation philosophy of "providing client-oriented services to meet clients' needs and achieve clients' satisfaction", the Company has gradually established its core competitiveness and developed a high reputation and influence in the market.

Through the issuance and listing of A+H shares and the various types of debt financing, the Company's capital strengths have been enhanced rapidly and the scale of net capital and net assets have been greatly enlarged. The capital strength of the Company has entered a new phase, forming a solid capital foundation for business transformation and accelerating business innovation of the Company. According to the data published by SAC, as of the end of 2015, the total assets, net assets and net capital of the Company (parent company) ranked No. 5, No. 4 and No. 6 in the industry, respectively.

During the Reporting Period, the Company further propelled business innovation and transformation, and continued to deepen the construction of the entire business chain system. In the meantime, the Company actively advanced relevant matters of acquiring AssetMark. With the expansion of the scope of the business and further improvement in business system and structure, the Company is able to provide systematized and professional comprehensive financial services by integrating the Group's internal and external resources to meet customers' needs, with a strong economy of scale and cross-selling potential which will further optimize the business development and overall business advantages of the Company.

## Management Discussion and Analysis

The Company always sees innovation as a key driving force for the promotion of strategic transformation and strives for development through innovation, and established a high-efficient innovation promotion mechanism and management system. The Company has been designated by regulatory authorities as one of the first companies to pilot new businesses for many times, and has always been one of the leading companies in various aspects when piloting such new businesses. The Company energetically developed innovation business, promoted the transformation and upgrading of traditional business with innovation and showcased the synergy between innovation and traditional businesses, so as to build a solid foundation for the next stage of our development.

The Company has been firmly propelling the integration of online and offline channels and business resources. On one hand, the Company continued to propel the Internet development strategy centered on the mobile internet platforms, so the mobile internet services remain the leading position in the industry. According to the statistical data provided by Analysys, as of the end of Reporting Period, the average daily number of active users of our mobile terminal “ZhangLe Fortune Path” ranked No. 1 among the brokers’ APPs. On the other hand, the Company formed a relatively sound network system of business by upgrading the functionality of its offline branches and continuing to optimize its network layout. Supported by the reasonably distributed branch network and industry-leading internet platforms, the Company’s operating efficiency and synergic marketing ability has been continuously enhanced, which is conducive to provide targeted high-quality services for approximately 9.8 million clients of the Company.

In recent years, the Company vigorously promoted internationalization strategy, actively advanced the domestic and foreign business linkage, and strived to build business platforms for overseas development. With the completion of the Company’s A+H share layout, the approval of capital increase of HK\$7.8 billion to Huatai Financial Holdings (Hong Kong) by CSRC via the No Objection Letter and the continuance of acquisition of AssetMark, the overseas business layout of the Company is further expanded and internationalization is further accelerated, which is beneficial for meeting the customer needs of overseas business and improving the international influence of our Company.

During the Reporting Period, the Company further strengthened the middle and back offices collaboration in corporate governance, compliance management system, risk management system, internal control system, information technology and talent pool development, in order to enhance our core competitiveness. During the Reporting Period, our core competitiveness has not been adversely affected by facilities or technology upgrade or the loss of concession. We will cautiously analyze and investigate the opportunities and challenges brought by the changes in economic environment, market and business. Under multi-business operation, the Company strives to enhance its integrated competitive strength.

# Management Discussion and Analysis

## (VI) Analysis of investments

### 1 Overall analysis of external equity investments

As of the end of the Reporting Period, the accumulated total external equity investments of the Company amounted to RMB2,758 million, representing an increase of RMB84 million, or 3.14%, as compared to RMB2,674 million at the beginning of the period.

Unit and Currency: RMB

Investee	Balance at the beginning of the Reporting Period	Changes for the Reporting Period	Balance at the end of the Reporting Period	Shareholding percentage (%)
China Southern Asset	1,597,134,318.42	(50,705,521.40)	1,546,428,797.02	45.00
Huatai-PineBridge	338,501,167.90	897,015.76	339,398,183.66	49.00
Huatai Zijin (Jiangsu) Equity Investment Fund (Limited Partnership)	520,201,558.30	18,429,995.29	538,631,553.59	48.25
Jiangsu Small and Micro-Enterprise Financing Products Trading Center Co., Ltd. (江蘇小微企業融資產品交易中心有限責任公司)	16,988,526.77	—	16,988,526.77	49.00
Jiangsu Industrial and Information Industry Investment Fund (Limited Partnership)	201,000,000.00	(912,106.62)	200,087,893.38	16.67
Huatai Investment (Jiangsu) Capital Markets Investment Master Fund (華泰招商(江蘇)資本市場投資母基金) (Limited Partnership)	—	100,153,521.86	100,153,521.86	10.08
Others	8,170.99	16,200,919.81	16,209,090.80	—
<b>Total</b>	<b>2,673,833,742.38</b>	<b>84,063,824.70</b>	<b>2,757,897,567.08</b>	<b>—</b>



## Management Discussion and Analysis

### (1) Equity investments

Currency: RMB

No.	Type of security	Stock code	Abbreviated name of securities	Initial investment (RMB)	Number of shares held (share)	Carrying value as of the end of the Reporting Period (RMB)	Percentage of total securities investment as of the end of the Reporting Period (%)	Profit or loss during the Reporting Period (RMB)
1	Stock	000601	ZHAONENG	244,981,338.68	27,229,533.00	284,548,619.85	6.25	39,567,281.17
2	Stock	000002	Vanke A	131,550,758.27	9,029,600.00	220,593,128.00	4.85	(340,060.89)
3	Stock	300237	Meichen Science	85,032,909.00	20,539,350.00	193,480,677.00	4.25	(62,028,837.00)
4	Stock	300207	Sunwoda	150,095,956.49	6,399,575.00	164,277,090.25	3.61	(15,945,042.61)
5	Stock	002221	Oriental energy	224,305,995.56	13,256,356.00	161,594,979.64	3.55	12,221,660.49
6	Stock	000903	Yunnei Power	138,742,796.41	20,000,000.00	160,600,000.00	3.53	21,857,203.59
7	Stock	600666	Aurora	116,514,486.68	3,620,243.00	125,839,646.68	2.76	(21,776,777.57)
8	Stock	603008	Xilinmen	121,879,691.45	7,168,472.00	123,226,033.68	2.71	1,346,342.23
9	Stock	300356	EleFirst Science	99,189,475.87	2,449,942.00	118,675,190.48	2.61	(18,737,281.59)
10	Stock	300201	Handler	61,848,387.61	5,420,086.00	102,168,621.10	2.24	(8,390,259.56)
Other securities investment held as of the end of the period				2,770,960,569.00	/	2,897,586,240.50	63.65	(355,435,324.07)
Profit or loss for securities investment sold during the Reporting Period				/	/	/	/	(487,005,211.99)
Total				4,145,102,365.02	/	4,552,590,227.18	100.00	(894,666,307.80)

#### Notes to securities investment

- The sequence of this table is based on the percentage of the carrying value as of the end of the period to the total securities investment of the Company as of the end of the period, and this table only shows the top ten securities held by the Company as of the end of the period.
- The securities investment of this table refers to investments including stocks, options, convertible bonds, etc., of which, investment in stocks shows the investment accounted as financial assets held for trading of the Company.
- Other securities investment refers to investment in other securities, other than the top ten securities.
- Profit or loss during the Reporting Period includes the Company's investment gains and profit or loss of changes in fair value for holding such securities during the Reporting Period.

## Management Discussion and Analysis

### (2) Shareholding in other listed companies

Unit and Currency: RMB

Stock code	Abbreviated name of securities	Initial investment cost	Percentage as of the beginning of the Reporting Period (%)	Percentage as of the end of the Reporting Period (%)	Carrying value as of the end of the Reporting Period	Profit or loss during the Reporting Period	Changes in interests of owners during the Reporting Period	Accounting items	Source of shares
601169	Bank of Beijing	560,153,953.26	0.57	0.50	656,569,933.94	14,094,348.85	(25,360,474.13)		
601318	Ping An of China	604,231,663.30	0.11	0.10	591,607,257.84	(12,411,069.83)	(66,331,816.56)		
002517	Kingnet Network	196,742,680.00	1.64	1.64	552,986,832.40	0.00	(121,728,913.48)		
000008	CHSR	119,999,997.88	2.52	2.20	555,422,591.04	0.00	8,155,110.70		
002409	Yoke Technology	300,000,000.00	—	6.44	476,999,968.20	1,767,857.02	176,999,968.20		
000895	Shuanghui Development	401,812,315.44	0.56	0.63	431,659,882.08	26,758,148.94	12,189,836.27	Available-for-sale financial assets	Acquisition
300070	ORIGINWATER	461,440,646.76	0.32	0.91	421,631,213.28	(12,856,308.79)	(42,351,307.15)		
002299	Sunner Development	309,498,650.69	1.25	1.40	402,820,032.30	(7,110,468.01)	68,513,122.61		
601009	NJCB	351,309,919.27	0.97	0.69	391,680,318.66	20,096,483.98	(42,772,489.86)		
002044	Meinian Onehealth	100,000,000.00	1.33	1.33	386,348,453.68	0.00	52,117,574.84		
Others		6,814,772,074.60	/	/	7,413,059,380.00	(418,125,878.87)	(359,971,529.87)		
Total		10,219,961,901.20	/	/	12,280,785,863.42	(387,786,886.71)	(340,540,918.43)		

#### Notes to shareholding in other listed companies

1. This table shows the Company's shareholdings in other listed companies accounted as available-for-sale financial assets.
2. Profit or loss during the Reporting Period refers to the impact of this investment on consolidated net profit of the Company during the Reporting Period.

## Management Discussion and Analysis

### (3) Equity interests in unlisted financial companies

Currency: RMB

Name	Initial investment (RMB)	Percentage as	Percentage as	Carrying value	Profit or	Changes in	Accounting items	Source of shares
		of the beginning of the Reporting Period	of the end of the Reporting Period	of the end of the Reporting Period	loss during the Reporting Period	interests of owners during the Reporting Period		
		(%)	(%)	(RMB)	(RMB)	(RMB)		
Huatai United Securities	1,275,056,039.63	99.72	99.72	1,275,056,039.63	301,025,358.86	14,253,126.04	Long-term equity	Acquisition
Huatai Futures	491,998,085.65	60	60	611,998,085.65	60,457,183.70	(198,391.18)	Long-term equity	Acquisition
China Southern Asset	220,291,751.36	45	45	1,546,428,797.02	133,313,044.30	(22,018,565.70)	Long-term equity	Acquisition
Huatai-PineBridge	101,838,099.60	49	49	339,398,183.66	58,739,974.97	(8,842,959.21)	Long-term equity	Acquisition
Huatai Financial Holdings (Hong Kong)	827,472,700.00	100	100	827,472,700.00	(151,640,060.15)	8,023,310.71	Long-term equity	Establishment
Huatai Zijin Investment	2,750,000,000.00	100	100	4,050,000,000.00	7,441,288.60	29,919,953.67	Long-term equity	Establishment
Huatai Asset Management	1,000,000,000.00	100	100	1,000,000,000.00	424,595,809.59	9,476,565.76	Long-term equity	Establishment
GP Capital Co., Ltd.	12,000,000.00	10	10	12,000,000.00	1,320,000.00	—	Available-for-sale financial assets	Establishment
Bank of Jiangsu Co., Ltd.	1,300,000,000.00	6.16	6.16	3,304,409,638.00	—	(366,429,802.00)	Available-for-sale financial assets	Acquisition
Total	7,978,656,676.24	/	/	12,966,763,443.96	835,252,599.87	(335,816,761.91)	/	/

#### Notes to equity interests in unlisted financial companies

1. Financial companies include securities companies, commercial banks, insurance companies, future brokerage companies and trust companies.
2. Carrying value as of the end of the period excludes provisions for impairment loss.
3. Profit or loss during the Reporting Period refers to the impact of this investment on consolidated net profit of the Company during the Reporting Period.

# Management Discussion and Analysis

## (4) Purchase and sale of shares of other listed companies

Currency: RMB

Stock name	Shares held as of the beginning of the Reporting Period (share)	Shares purchased during the Reporting Period (share)	Fund utilized (RMB)	Shares sold during the Reporting Period (share)	Amount received from the disposal of shares (RMB)	Shares held as of the end of the Reporting Period (share)	Investment gains generated from disposal (RMB)
China Construction Bank	37,120,213.00	104,573,089.00	512,652,594.07	103,475,208.00	526,009,594.18	38,218,094.00	(15,558,276.88)
Bank of China	22,341,080.00	101,482,400.00	365,654,781.18	86,104,165.00	323,148,444.52	37,719,315.00	(21,105,042.09)
Agricultural Bank of China	785,155.00	87,049,800.00	270,295,379.24	86,457,964.00	268,523,136.89	1,376,991.00	(291,901.09)
China Everbright Bank	54,220,997.00	54,701,483.00	198,158,359.43	91,106,209.00	356,659,133.24	17,816,271.00	(24,499,011.41)
Minsheng Bank	98,980,381.00	15,159,322.00	139,202,087.62	113,655,811.00	1,096,123,220.72	483,892.00	(58,424,632.74)

## 2 Entrusted wealth management and entrusted loans

During the Reporting Period, the Company has no entrusted wealth management and entrusted loans.

## 3 Use of proceeds

### (1) Overview of use of proceeds

#### ① Overview of use of proceeds from issuance of A Shares

As approved by the CSRC pursuant to the Approval for the Initial Public Offering by Huatai Securities Co., Ltd. (Zheng Jian Xu Ke [2010] No. 138), the Company publicly issued 784,561,275 ordinary shares of RMB1.00 each at an offering price of RMB20.00 per share on February 9, 2010. Total amount of proceeds raised was RMB15,691,225,500.00. After deducting the underwriting and sponsorship fee of RMB130,000,000.00, the proceeds was RMB15,561,225,500.00. The Company received all such proceeds as at February 12, 2010, which were verified by Jiangsu Talent Certified Public Accountants with the capital verification report (Tian Heng Yan Zi (2010) No. 009). As of December 31, 2012, all proceeds of the Company raised from the initial public offering had been used. The aggregate amount of proceeds used was RMB15.6810 billion (including interests of proceeds raised of RMB119.8082 million). All of accounts designated for the use of proceeds had been cancelled with settlement of interests.

#### ② Overview of use of proceeds from issuance of H Shares

As approved by the CSRC, the Company completed the issuance of H Shares in 2015. Proceeds from the issuance of H Shares have been verified by KPMG Huazhen LLP and KPMG Huazhen Yanzi No. 1501031 verification report (畢馬威華振驗字第1501031號驗資報告) has been issued.

## Management Discussion and Analysis

According to the verification report issued by KPMG Huazhen LLP, the total net proceeds from the initial public offering of H Shares of the Company in 2015 was equivalent to RMB30,587,689,604.94 after deducting related listing expenses and total proceeds raised was equivalent to RMB30,015,054,696.76 after deducting the underwriting and issue fees. As of the end of the Reporting Period, in addition to the total proceeds from the initial public offering of H Shares, the Company obtained interest income of RMB28,622,442.94. As of the end of the Reporting Period, an accumulated amount of RMB26,884,889,918.87 were used out of the proceeds from the initial public offering of H Shares.

As of the date of this report, the proceeds received by the Company from the initial public offering of new shares for listing on Hong Kong Stock Exchange and from the issuance of new shares due to the partial exercise of the over-allotment option were used as follows: RMB18,352,613,762.96 was used for the expansion of capital-based intermediary businesses including margin financing and securities lending, RMB3,058,768,960.49 was used for the expansion of investment and trading business, RMB3,058,768,960.49 was used to increase the capital of Huatai Zijin Investment and Huatai Asset Management, and RMB2,414,738,234.91 was used as working capital and for other general corporate purposes. In addition to the use of proceeds above, the remaining proceeds of the Company was approximately RMB3,702,799,686.07, which was not utilized yet and deposited into the account opened by the Company in the bank. As of June 30, 2016, the intended use of the proceeds from the issuance of H shares of the Company was in line with that disclosed in the prospectus with no change. The Company will gradually utilize the proceeds from the issuance of H shares based on its development strategy, market conditions and the intended use of such proceeds.

Unit and Currency: RMB ten thousand

Year	Approach	Total amount		Total amount of proceeds used	Remaining proceeds in total	Intended use of remaining proceeds
		Total proceeds raised	of proceeds used during the Reporting Period			
2015	Initial public offering (H shares)	3,058,768.96	95,477.93	2,688,488.99	370,279.97	Using for expanding overseas business/working capital and other usages
2010	Initial public offering (A shares)	1,556,122.55	—	1,568,103.37	—	—
Total	/	4,614,891.51	95,477.93	4,256,592.36	370,279.97	/
Notes to general use of proceeds raised					—	

Note: For the general use of proceeds from issuance of A Shares, the surplus of RMB119,808,200 of the total amount of proceeds exceeding the initial proceeds raised was interest income generated from the designated account for the proceeds raised.

## Management Discussion and Analysis

### **(2) Changes of uses of proceeds**

During the Reporting Period, the Company had no changes of uses of proceeds.

### **4 Analysis of key subsidiaries and associated cooperation**

- (1) Huatai United Securities Co., Ltd. with registered capital of RMB997,480.0 thousand owned as to 99.72% by Huatai Securities. As of June 30, 2016, the total assets and net assets of Huatai United Securities were RMB6,985,629.9 thousand and RMB5,973,140.7 thousand, respectively. In the first half of 2016, operating income, total profit and net profit were RMB942,918.5 thousand, RMB422,037.7 thousand and RMB301,870.6 thousand, respectively.

Principal business: securities underwriting and sponsorship (excluding treasury bonds, debt financing instruments and financial bond underwriting business non-financial enterprises); financial advisory to securities trading and investment related activities; other businesses approved by CSRC.

- (2) Huatai Futures Co., Ltd. with registered capital of RMB1,009,000.0 thousand owned as to 60.00% by Huatai Securities. As of June 30, 2016, the total assets and net assets of Huatai Futures were RMB19,740,148.0 thousand and RMB1,540,275.3 thousand, respectively. In the first half of 2016, operating income, total profit and net profit were RMB516,861.8 thousand, RMB127,250.6 thousand and RMB100,009.5 thousand, respectively.

Principal business: commodities futures brokerage, financial futures brokerage, futures investment consultancy and asset management.

- (3) Huatai Financial Holdings (Hong Kong) Limited with paid up capital of HK\$1,000,000.0 thousand owned as to 100.00% by Huatai Securities. As of June 30, 2016, the total assets and net assets of Huatai Financial Holdings (Hong Kong) were RMB5,336,977.4 thousand and RMB750,045.2 thousand, respectively. In the first half of 2016, operating income, total profit and net profit were RMB10,392.2 thousand, RMB-151,279.3 thousand and RMB-151,640.1 thousand, respectively.

Principal business: investment banking (equity underwriting, bond underwriting, private placement, financial consulting, merger and acquisition, structured financing and investment), sales and trading (provision of trading and market making services for various securities and futures products including shares, fixed-income products, credits, futures contracts and structured contracts; provision of customized financial products and market access proposals; provision of financing services for securities under agency business); and asset management.

## Management Discussion and Analysis

- (4) Huatai Zijin Investment Co., Ltd. with registered capital of RMB4,050,000.0 thousand owned as to 100.00% by Huatai Securities. As of June 30, 2016, the total assets and net assets of Huatai Zijin were RMB18,147,261.7 thousand and RMB5,066,767.3 thousand, respectively. In the first half of 2016, operating income, total profit and net profit were RMB129,491.5 thousand, RMB74,117.5 thousand and RMB65,703.4 thousand, respectively.

Principal business: equity investment (for its own funds or clients' funds), debt investment, other fund investment associated with equity investment and debt investment; investment consulting for equity investment and debt investment, investment management and financial consulting service. (Business operation subject to approvals according to the law shall be conducted after obtaining such approvals from relevant authorities)

- (5) Jiangsu Equity Exchange Co., Ltd. with registered capital of RMB200,000.0 thousand owned as to 52.00% by Huatai Securities. As of June 30, 2016, the total assets and net assets of Jiangsu Equity Exchange were RMB243,127.6 thousand and RMB232,949.5 thousand, respectively. In the first half of 2016, operating income, total profit and net profit were RMB20,503.4 thousand, RMB10,080.5 thousand and RMB7,583.8 thousand, respectively.

Principal business: provision of premises, facilities and services for approved listing, registration, trust, trading, financing, settlement, transfer, bonus distribution and pledge of equity, bonds, assets and related financial products and derivatives of unlisted companies, organization and monitoring of trading market activities, issue of market information, trading of listed products as an agent, and provision of consultation services for market participants.

- (6) Huatai Innovation Investment Co., Ltd. with registered capital of RMB500,000.0 thousand owned as to 100.00% by Huatai Securities. As of June 30, 2016, the total assets and net assets of Huatai Innovation were RMB682,228.9 thousand and RMB562,303.9 thousand, respectively. In the first half of 2016, operating income, total profit and net profit were RMB88,747.2 thousand, RMB-20,323.1 thousand and RMB-15,538.7 thousand, respectively.

Principal business: project investment, investment management, asset management, investment consulting, corporate management consulting, financial consulting, hotel management, goods import and export, technology import and export, sale of non-ferrous metals, precious metals and related products, metallic materials, metallic ores, non-metallic ores, construction materials, fuels, chemical products, rubber products, coals, glass, asphalt, agricultural and poultry products, fodder, edible oil, jewellery and handicrafts; purchase of gold products; purchase of silver products.

## Management Discussion and Analysis

- (7) Huatai Securities (Shanghai) Asset Management Co., Ltd. with registered capital of RMB1,000,000.0 thousand owned as to 100.00% by Huatai Securities. As of June 30, 2016, the total assets and net assets of Huatai Asset Management were RMB2,499,936.1 thousand and RMB2,166,895.5 thousand, respectively. In the first half of 2016, operating income, total profit and net profit were RMB761,785.7 thousand, RMB566,139.2 thousand and RMB424,595.8 thousand, respectively.

Principal business: securities asset management (Business operation subject to approvals according to the law shall be conducted after obtaining such approvals from relevant authorities).

- (8) China Southern Asset Management Co., Ltd. with registered capital of RMB300,000.0 thousand owned as to 45.00% Huatai Securities. As of June 30, 2016, the total assets and net assets of China Southern Asset were RMB5,609,052.1 thousand and RMB3,604,097.8 thousand, respectively. In the first half of 2016, operating income, total profit and net profit were RMB1,397,199.7 thousand, RMB448,468.5 thousand and RMB309,690.0 thousand, respectively.

Principal business: fund-raising, fund trading, asset management and other businesses approved by CSRC.

- (9) Huatai-PineBridge Fund Management Co., Ltd. with registered capital of RMB200,000.0 thousand owned as to 49.00% by Huatai Securities. As of June 30, 2016, the total assets and net assets of Huatai-PineBridge were RMB874,827.5 thousand and RMB692,649.4 thousand, respectively. In the first half of 2016, operating income, total profit and net profit were RMB392,155.2 thousand, RMB157,695.1 thousand and RMB119,877.5 thousand, respectively.

Principal business: fund management, promotion and establishment of funds and other businesses approved by CSRC (subject to approvals or permits).

### 5 Projects financed by funds not raised from others

During the Reporting Period, the Company did not have any project invested through funds not raised from others with a total investment exceeding 10% of the audited net asset of the Company as at the end of previous year.



### 6 Structured entities controlled by the Company

#### (1) *Consolidated structured entities*

Structured entities consolidated by the Group stand for the asset management schemes where the Group acts as the manager or investment consultant and also as an investor. The Group comprehensively assesses whether the returns of the investments it holds and its remuneration as the manager or investment consultant of the asset management schemes will make the Group exposed to variable returns to a great extent, and judges based on the above assessment whether the Group is the principal for the asset management schemes. As at June 30, 2016, the Group had 34 consolidated structured entities in total, and the total assets of the consolidated asset management schemes amounted to RMB96,437,277,313.54. The interests held by the Group in the above consolidated asset management schemes amounted to RMB7,248,494,899.47 in total.

#### (2) *Structured entities sponsored by third party institutions*

The structured entities sponsored by third party institutions which the Group does not consolidate into combined financial statements but holds an interest thereof through direct investments mainly include trust schemes, funds, wealth management products issued by banks and other financial institutions. The nature and purpose of these structured entities are to manage assets on behalf of investors and earn management fees. These entities are financed through the issue of investment products to investors. As at June 30, 2016, the carrying amount of the above investments in the consolidated balance sheet was equal to the maximum exposure of RMB39,241,200,246.93 to which the Group maybe exposed due to the interests held by the Group in the unconsolidated structured entities sponsored by third party institutions.

#### (3) *Structured entities excluded in the consolidated financial statements*

As the manager of the structured entities, the Group's exposure to the variable returns was not significant during the Reporting Period due to its management right over asset management schemes, the Group therefore did not consolidate these structured entities. As at June 30, 2016, the total assets of these unconsolidated structured entities managed by the Group amounted to RMB767,771,735,310.39.

# Management Discussion and Analysis

## (VII) Potential Risks and Risk Prevention Measures

Based on its own characteristics and principles of relation and significance, major risk factors which may have adverse effect on the Company's future development strategies, operation goals and business operation include market risk, credit risk, liquidity risk, operational risk, compliance risk and information technology risk. The specific analysis is as follows:

### (1) Market Risk

During the Reporting Period, the Company was primarily confronted with market risk in two aspects. Firstly, market changes may lead to potential losses to the Company's daily operation in terms of market trading volume, brokerage market share, commission rate and scale of asset management which may affect the profitability of the Company. Secondly, market prices such as share prices, interest rates and exchange rates may result in potential losses to the Company's assets, proprietary trading positions or asset management products and portfolios which were primarily reflected in the proprietary and asset management business as well as other investment related business of securities companies.

The Company has adopted various measures to prevent market risk during the Reporting Period. For investments in equity securities, the Company has further stepped up studies on macro economies and fundamental analysis of the enterprises and has chosen suitable target to prudently invest in market. Meanwhile focusing on limit standards, the Company allocated its assets in a reasonable manner, flexibly managed the proportion of its investment portfolios, actively employed risk hedging instruments and diversified its investments so as to minimize the risk. For investments in fixed-income securities, the Company has kept abreast of national monetary policy, closely monitored the trend of market interest rates, strictly controlled duration and leverage of bond investments and increased IRS hedging to effectively lockup capital costs so as to reduce market risk. For quantitative investments, the Company has actively reinforced studies on innovative business and flexibly used quantitative models and financial derivatives to hedge against systematic market risks.

### (2) Credit Risk

During the Reporting Period, the Company were mainly exposed to four types of credit risks: (i) default risk of the issuer or counterparty in debt securities trading; (ii) risk of losses to commercial papers and interest fees arising from default of clients in credit business such as margin financing and securities lending, securities-backed lending and stock repurchases; (iii) risk of losses to our funds or the funds of our clients arising from default of the financing party in innovative credit business; and (iv) default risk of fixed income financial assets except for debt securities and derivative financial assets, which refers to risks of assets losses caused by counterparty defaults.

## Management Discussion and Analysis

For credit risk in debt securities trading, the Company strengthened the researches of issuers and bonds, further promoted the establishment of issuers' credit rating system, conducted researches on key debt securities held and strictly controlled the quality of debt securities invested during the Reporting Period. We also assessed the credibility of counterparties and improved the counterparty pool to prevent default risks of counterparties. In respect of margin financing and securities lending, securities-backed lending and stock repurchases business, the Company set up the market strategic adjustment plans of key risk control measures in margin financing and securities lending business to implement and improved effectiveness and flexibility of the risk control measures of business on the changes in market and business. The Company accelerated to optimize the risk control schemes for evaluation of long-term suspended stocks in margin financing and securities lending business so as to obtain a more accurate analysis of credit risk of customers' accounts. The Company has developed risk analysis and pressure testing system to monitor asset quality and anti-risk capacity in key business on a real time basis, screen the clients with potential default risk involved in great amount and give warnings in a timely manner, in order to avoid any losses to the Company resulting from default by our clients. In respect of innovative credit business, on the premise that strict risk control schemes were designed and implemented, business personnel enhanced preliminary due diligence with a comprehensive project feasibility report and a due diligence report submitted for approval before a project can be launched. In terms of the business of the Company involved in credit risk, the Company collectively gathered and processed customers' default history, which was correlated with the customers' business admission and credit line, thus completing the plan of unified management for the customers' default history within the Group. The Company's monetary capital (other than cash) is mainly deposited in reputable financial institutions and it is expected that no losses would arise from their defaults. Counterparties related to derivatives trading of the Company are all domestic financial institutions with sound reputation and are subject to credit limits.

### (3) Liquidity risk

Liquidity risks of the Company mainly include two aspects: firstly, the liquidity risk of assets, which refers to the risk of losses in proprietary investment and clients' assets due to the failure of timely assets realization or high realization cost, which is mainly reflected in the proprietary investment business and investment in asset management products. Secondly, the liquidity risk of liabilities, which refers to the risk of default in timely settlement of liabilities or normal operating expenses due to insufficient cash or failure of coping with clients' large-scale redemptions due to insufficient liquidity in asset management products.

## Management Discussion and Analysis

In respect of the proprietary business, during the Reporting Period, the Company closely monitored changes of the market, focused on evaluating the ability to encash proprietary positions, flexibly adjusted its asset allocation and controlled its investments in various securities within a reasonable scale, so as to avoid excessive concentration of its investments and ensure the liquidity of its investment portfolios. With respect to the capital management of the Company, the Company strengthened detection and measurement of daily liquidity gap and initiative allocation and management of quality current assets, reasonably planning for the size and structure of quality current assets. In relation to liabilities management, the Company enhanced its ability to manage asset and liabilities, put more effort in funds organization, planned for debt financing in a reasonable size and term and constantly optimized the Company's asset and liability structure. The Company laid emphasis on the construction of liquidity monitoring system, continued to improve the liquidity management platform, which enhanced the efficiency and effectiveness of the liquidity risk management.

#### **(4) Operational risks**

The operational risks to which the Company is exposed mainly include the risk of suffering from losses resulted from inadequate or problematic internal processes, staff, systems and external events. The major types of potential losses include asset loss, external compensation, impairment of carrying amount, regulatory fines and confiscation and legal costs.

During the Reporting Period, the Company continued to further process refinement and optimization and the improvement of hierarchical authorization system, in order to enhance the process efficiency on the premise that risk could be controlled. In the meantime, the Company continuously optimized the three major tools for operational risk management: (1) expanded the internal and external collection scope and channels for loss data and put more effort in the analysis of the impact and frequency distribution of such loss; (2) improved the methodology regarding self-assessment of risk and control and irregular trigger mechanism; (3) commenced to develop a hierarchical mechanism of key risk indicators; (4) analyzed and built an interactive system among the three major management tools and commenced to the second phase of development for operational risk management system.

#### **(5) Compliance risks**

Compliance risks refer to exposure to legal sanctions or regulatory measures imposed on securities companies or asset loss or reputation loss of the securities companies due to violation of laws, rules or standards by operational management or professional conduct performed by securities companies or their employees.

## Management Discussion and Analysis

During the Reporting Period, the Company continued improving compliance management system and strengthened management of the frontline compliance and risk control personnel. As of the end of the Reporting Period, the Company had completed the centralized risk control compliance work for 27 branches, so as to further improve the professionalism and effectiveness of grassroots compliance officers when performing their duties. The Company continued improving the business compliance management mechanism and, by ways of compliance assessment, process streamlining, instruction and steering, and nonvoting attendances at meetings, enhanced management, control and support of key businesses. The Company further improved the compliance training system, and enriched the forms of training, striving to convey the regulatory requirements and compliance awareness to all business personnel and procuring the business departments to make self-regulation as soon as possible. The Company prudently carried out compliance review, timely pointed out compliance issues or defects, put forward suggestions for standardization and formulated review guideline and systematic pattern so as to facilitate the operation of relevant businesses or products in compliance with regulations. The Company put more efforts on compliance inspection, especially special inspections, carried out several checks on the key areas based on problems and risks as guidance, timely gave rectification requirements with respect to identified problems, and tracked the implementation of the rectification. By adhering to the “risk-based” anti-money laundering work principle, the Company orderly carried out various key tasks for anti-money laundering, performed customer identification, customer risk classification and the Company’s duties regarding the reporting of large transactions and suspicious transactions. The Company upgraded the compliance management system and the customer risk rating system for anti-money laundering, tested and launched new contract management system in order to improve the overall efficiency of compliance management.

### **(6) Information technology risks**

The Company’s various businesses and middle office and back office management are highly dependent on information technology. Information technology system has become the key factor to the proper functioning of the Company’s various businesses, due to the full integration of information technology system and business. Information technology risks mainly refer to the risks of a securities company suffering from loss due to the failure of the information system of the securities company to ensure the transactions and business management are carried out continuously, stably, efficiently and safely in the aspects of service fulfillment, response speed, processing ability and data encryption.

During the Reporting Period, the Company continued increasing investment in information technology, gradually established a specialized information technology service management system targeted at business lines, which further improved the information system construction and safety management level, ensured the safety, reliability and stability of the Company’s various supporting information systems for operation and management, and effectively prevented information technology risks.

### PROPOSAL OF PROFIT DISTRIBUTION OR CAPITAL CONVERSION FROM CAPITAL RESERVE

#### (I) Implementation or adjustment of profit distribution proposal during the Reporting Period

Article 255 of the Articles of Association specifies the Company's profit distribution policy, the decision-making procedures of the Company's profit distribution policy and proposal and their adjustment. The policy of the Company's profit distribution is as follows: "The Company emphasizes on a reasonable investment return to the investors and implements a continual and steady policy of profit distribution. The Company's profit distribution may not exceed its accumulated distributable profits nor impair the Company's sustainable operation. The Company may distribute dividends in form of cash, shares or a combination of cash and shares. Except for the special circumstance under which the Company may fail to comply with the regulatory requirements regarding net capital due to the Company's plan to make material investment or significant cash expenses within the next twelve months, the Company shall distribute its dividends in form of cash if the Company's profits for the current year and the accumulated non-distributed profits are positive. The Company's accumulated profits distributed in form of cash for the last three years shall not be less than 30% of the annual average distributable profit for the last three years. Upon proposed by the Board of Directors and approved by the shareholders' meeting, an interim dividend distribution shall be made in the form of cash. The Company may distribute dividends in the form of shares based on the annual profits and cash flow and subject to the satisfaction of the minimum ratio for cash dividend and the reasonableness of the Company's capital."

During the Reporting Period, the Company had not implemented or adjusted any proposal regarding the capital conversion from capital reserve. During the Reporting Period, Resolution on the 2015 Profit Distribution Plan of the Company was considered and passed at the 2015 shareholders' annual general meeting.

The details of the Resolution on the 2015 Profit Distribution Plan of the Company were as follows: the Company recorded a net profit of RMB10,696,870,875.92 attributable to the shareholders of the Company. On the basis of the total share capital of 7,162,768,800 shares as of December 31, 2015, the Company proposed the distribution of cash dividend of RMB5.00 (tax inclusive) for every ten shares to all shareholders. The total amount of cash dividend shall be RMB3,581,384,400.00, accounting for 33.48% of the net profit for the year attributable to the shareholders of the Company in the year.

Cash dividend is denominated and declared in RMB and paid to holders of A shares and the investors of the Southbound Trading business in RMB and to holders of H shares (excluding the investors of the Southbound Trading business) in HKD. The actual distribution amount in HKD would be calculated at the rate of average basic exchange rate of RMB against HKD (i.e. RMB0.846026 against HK\$1.00) issued by the People's Bank of China for the five business days prior to the 2015 shareholders' annual general meeting of the Company, namely distributing cash dividend of HK\$5.909984 (tax inclusive) for each 10 H shares.

## Management Discussion and Analysis

After the Reporting Period, the Company has published an announcement regarding the implementation of the profit distribution for 2015 on China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily, the website of Shanghai Stock Exchange as well as the website of Hong Kong Stock Exchange and the Company. On August 5, 2016, the Profit Distribution Plan of the Company for 2015 was completed.

The formulation and implementation of the profit distribution policies of the Company, in particular the cash dividend policy, were in compliance with relevant provisions of the securities industry, the requirements of the Articles of Association and the resolutions of shareholders' general meetings of the Company. Criteria and proportion of dividend distribution were clear and definite, and relevant decision-making procedures and mechanism were sound and complete. The independent Directors conducted due diligence and played their due roles, and channels were provided for minority shareholders to fully express their opinions and requests which fully protected their legal rights and interests. The conditions and procedures for the adjustments or changes of the Company's profit distribution policy were legitimate and transparent.

### **(II) Profit distribution proposal and proposal of capital conversion from capital reserve for the first half of the year**

The Board had not formulated the profit distribution proposal and proposal of capital conversion from capital reserve during the review of the interim report.

## OTHER DISCLOSURES

During the Reporting Period, the Company had no other undisclosed matters which shall be discloseable.

# Major Events and Corporate Governance

## MATERIAL LITIGATION, ARBITRATION AND MEDIA ENQUIRY

During the Reporting Period, the material litigation, arbitration and media enquiry of the Company were as follows:

### (I) Litigation, arbitration and media enquiry disclosed in ad hoc announcements without subsequent development

1. The debt disputes between Huatai United Securities, Stone Group (四通集團) and Stone Group Financial Company (四通集團財務公司): There were three debt disputes due to the illegal appropriation of funds of Huatai United Securities by Stone Group Financial Company, a subsidiary of Stone Group Corporation which was a former shareholder of Huatai United Securities. Two of the disputes had been ruled by the intermediate people's court in Shenzhen via a civil order (2001) SZFJ First Instance No. 315 and a civil mediation notice (2002) SZFJ First Instance No. 430. According to the civil order and civil mediation notice, the Stone Group was demanded to pay Huatai United Securities RMB73.45 million with interests and RMB99.40 million with interests. The civil order and civil mediation notice have taken effect and are now under implementation. The other dispute was filed by Huatai United Securities to the high people's court in Beijing in June 2008 to demand aggregate payment of approximately RMB260 million, including a debt of RMB237.7536 million and interest of RMB21.8772 million, due from Stone Group Corporation. It was ruled by the high people's court in Beijing via a civil order (2008) Gao Min Chu Zi No. 1080 made on December 17, 2009. The other party did not make any appeal and the judgement of the first trial became effective, pursuant to which, Stone Group Corporation should pay the Company the principal of RMB175.53389311 million with interests. The order is now in the process of implementation.
2. Debt disputes between Huatai United Securities, China Huacheng Group Financial Co., Ltd. (中國華誠集團財務有限責任公司) (hereinafter referred to as "Huacheng Group") and Huacheng Investment Management Co., Ltd. (華誠投資管理有限公司) (hereinafter referred to as "Huacheng Investment"): Huacheng Group misappropriated the funds of branches of Huatai United Securities of approximately RMB37.20 million. Cash of RMB17.38 million in aggregate was detained from three branches and the head office of Huatai United Securities by various local courts due to debt disputes between Huacheng Group and its creditors. However, Huacheng Group refused to pay the debts. In December 2003, Huatai United Securities submitted a lawsuit to the intermediate people's court in Shenzhen to demand Huacheng Investment and Huacheng Group to severally and jointly settle the debts. After filing of the lawsuit, all local courts were instructed by the highest people's court that no litigation involving Huacheng Investment and its subsidiaries shall be accepted, heard or executed. The lawsuit has been adjourned since then. In May 2009, Huacheng Investment was ruled bankrupt and put under liquidation by the court. In August 2009, Huatai United Securities filed a claim of RMB125.98 million (sum of principal and interest) to the liquidation committee. However, the debt was unconfirmed because it had not been verified by the court. In March 2010, the intermediate people's court in Shenzhen resumed the hearing of the case and approved the claim of Huatai United Securities after the first trial. Huacheng Investment and Huacheng Group were demanded to pay RMB54.584 million and litigation fee of RMB282,000. After that, Huatai United Securities filed its claim of the debts and litigation fee to the liquidation committee of Huacheng Investment. On December 21, 2012, Huatai United Securities was issued a civil award from No. 2 intermediate people's court in Beijing (hereinafter referred to as the "No. 2 Intermediate Court") stating that the liquidation of Huacheng Investment was completed.



## Major Events and Corporate Governance

During the liquidation of Huacheng Investment, Huatai United Securities was distributed 2,764,400 shares in Huafang Co., Ltd. and cash of RMB1,823,979. In July 2012, Huacheng Group was ruled bankrupt and put under liquidation by the court. In June 2013, the liquidator issued a List of Debts for Verification for the debt confirmation of Huatai Securities. On March 21, 2014, No. 2 Intermediate Court convened a meeting of creditors of Huacheng Group. At the meeting, the liquidator stated that “as Huatai United Securities Co., Ltd. denied the capacity of Huacheng Investment as its shareholder, it is not a creditor to the debts owed by Huacheng Group”. Accordingly, Huatai United Securities submitted a law suit regarding the debts to No. 2 Intermediate Court. On November 18, 2014, No. 2 Intermediate Court announced its judgment of (2014) Er Zhong Min Chu Zi No. 6794. Pursuant to which, Huatai United Securities should be a creditor to the debts of Huacheng Group in the amount of RMB39,387,194.72. The equity dispute of the two parties was ruled by the No. 2 Intermediate Court via the civil order (2015) Er Zhong Min (Shang) Chu Zi No. 05326 issued on October 26, 2015, denying the lawsuit for the confirmation of Huacheng’s equity. The capital cancellation for the 2.52 million shares originally registered under Huacheng Investment has been confirmed as effective.

3. A considerable overloss occurred in futures account of Zhang Xiaodong, a client of Huatai Futures on April 16, 2013, with the overloss amount of RMB22,639,786.41. Since Zhang Xiaodong failed to repay the overloss amount lent by Huatai Futures, on December 27, 2013, Huatai Futures brought a civil suit against Zhang Xiaodong to the No. 1 intermediate people’s court in Shanghai, requiring Zhang Xiaodong to reimburse the overloss amount paid by Huatai Futures for him and bear all legal costs. The No. 1 intermediate people’s court in Shanghai held a hearing on May 29, 2014, and delivered a verdict ((2014) HYZML(S) Chu Zi No. 1) on June 25, pronouncing that the defendant Zhang Xiaodong shall repay RMB22,639,786.41 to the plaintiff Huatai Futures within ten days after the verdict became effective, and supporting the plaintiff’s demand that Zhang Xiaodong should bear the court case hearing cost. Huatai Futures applied to the No. 1 intermediate people’s court in Shanghai for compulsory enforcement of overloss amount of Zhang Xiaodong on November 11, 2014; currently, the case is in the process of implementation. With respect to the application for enforcement through the defendant’s properties, Huatai Futures received enforcement ruling from the intermediate people’s court in Sanmenxia, Henan Province at the end of June 2015: since the person subject to enforcement was temporarily unable to repay the debt, the case failed to be executed effectively, and the court terminated the procedure of enforcement. If the person subject to enforcement was found to have properties to be executed, Huatai Futures may apply to the court for resuming enforcement at any time. In accordance with relevant finance system regulations, such overloss of client was treated as “risk loss receivables” in year 2013. Huatai Futures made provision for futures risk in accordance with relevant regulations of finance management in futures industry, and no bad debt provision was required for such overloss.

## Major Events and Corporate Governance

### (II) Litigation and arbitration not disclosed in ad hoc announcements or with subsequent development

During the Reporting Period, litigation and arbitration not disclosed in ad hoc announcements or with subsequent development were as follows:

1. Huatai Securities raised objection to enforcement for the deposit receipts under pledge: as the manager of “Jinling No. 6 Targeted Assets Management Plan of Huatai Securities” (hereinafter referred to as “Jinling No. 6 Plan”), Huatai Securities, according to the investment directive from the client, invested in the right to yields of deposit receipts held by Kunshan Kaihong Car Trade Co., Ltd. (hereinafter referred to as “Kunshan Kaihong”) with the assets under the targeted plan on April 22, 2014, and Kunshan Kaihong agreed to repurchase all such deposit receipts on April 21, 2016. To guarantee normal performance of repurchase articles, Kunshan Kaihong pledged the deposit receipts (RMB25 million) to Huatai Securities. Due to other disputes of Kunshan Kaihong, its relevant assets (including the deposit receipts of RMB25 million pledged for such business) were frozen by the people’s court in Kunshan. According to the provisions of relevant contracts, if the transferor of deposit receipts was involved in disputes, Jinling No. 6 Plan manager was able to exercise the right of pledge in advance. In October 2015, Huatai Securities raised objection to enforcement to the people’s court in Kunshan, requesting the court to defreeze the deposit receipts of RMB25 million pledged by the aforesaid enterprise to Huatai Securities. The people’s court in Kunshan has accepted the objection raised by Huatai Securities (acceptance No. (2016) S0583ZY No. 9). The case was judged in May 2016. After the judgement came into effect, the said deposit receipts were defrozeed. However, the court enforced the freeze in order of the deposit receipts in relation to other litigations and deputes of Kunshan Kaihong. Huatai Securities raised an objection to enforcement in May 2016, which was however rejected by the court. Huatai Securities then brought legal proceedings for the objection to enforcement in June 2016. As the manager of the Jinling No. 6 Plan, Huatai Securities has been entrusted by the client of the plan to institute the proceedings, and the losses or profits arising wherefrom will be included in the assets under the plan. The assets under the plan are independent from the assets of Huatai Securities, and this lawsuit has no adverse effect on the Company’s profits during and after the Reporting Period.
2. Debt dispute between Huatai United Securities and Beijing Huazi Syndicate Group (北京華資銀團集團): As Beijing Huazi Syndicate Group failed to repay its debt to Huatai United Securities according to the agreement, Huatai United Securities filed a lawsuit to the peoples’ court in Futian District of Shenzhen in January 2011 against Beijing Huazi Syndicate Group to demand payment of the principal and interest thereon of RMB34.5789 million in aggregate. After the first trial in February 2011, the court ordered the payment to Huatai United Securities of RMB24.30 million plus interest calculated at the interest rate of bank deposit during the same period by Beijing Huazi Syndicate Group. Beijing Huazi Syndicate Group filed an appeal to the intermediate people’s court in Shenzhen in June 2011. The appeal was dismissed and the order of the court of first instance sustained. The order is now in the process of implementation. Regarding to the legal proceedings instituted by Huatai United Securities against Huang Zuxiang, Huang Ping, Huang Zufeng and the deputes between Beijing Huazi Syndicate Group and Huatai United Securities, No. 3 intermediate people’s court in Beijing issued a civil order (2015) San Zhong Min (Shang) Chu Zi No. 03020 on December 4, 2015, demanding Huang Zuxiang and Huang Zufeng,

## Major Events and Corporate Governance

as shareholders of Huazi Syndicate Group, to settle the debt of RMB24.30 million (including this principle and the interest) as well as case acceptance fee of RMB91,031 on behalf of Huazi Syndicate Group. Huang Zuxiang and Huang Zufeng have not performed the debt settlement order since 2016. On May 31, 2016, Huatai United Securities applied for order enforcement at No. 3 intermediate people's court in Beijing.

3. China Nuclear Energy Industry Corporation (hereinafter referred to as "Nuclear Energy Corp") brought legal proceedings regarding to a deposit receipts dispute against Huacheng Group and Huacheng Investment. The No. 2 Intermediate Court issued a civil order (1998) Er Zhong Jing Chu Zi No. 1218 on February 10, 1999. After the order came into effect, Nuclear Energy Corp applied for order enforcement at the No. 2 Intermediate Court on July 12, 1999. The No. 2 Intermediate Court, according to law, impounded the equity shares of United Securities Co., Ltd. (hereinafter referred to as "United Securities") held by Huacheng Investment. After that, Nuclear Energy Corp acquired 36.60 million shares of United Securities held by Huacheng Investment through auction. United Securities considered the contribution of RMB14.98 million at the beginning of investment in United Securities by Huacheng Investment as overstated (deduction enforced by the court), and therefore filed a writ and raised an objection to enforcement to the high people's court in Beijing and the highest people's court. The No. 2 Intermediate Court and Nuclear Energy Corp finally deducted the 13.48 million shares of United Securities (equivalent to RMB14.98 million) from the 36.60 million shares of United Securities acquired through auction by Nuclear Energy Corp, and the remaining equity of 23.12 million shares were transferred to Nuclear Energy Corp. However, the aforesaid 13.48 million shares were requested to continue to be frozen under the name of Nuclear Energy Corp in the No. 2 Intermediate Court.

At the end of 2003, United Securities instituted proceedings in court against Huacheng Group and Huacheng Investment, the proceedings was halted due to the highest people's court informing all the courts over the country to temporarily refuse to accept cases in relation to Huacheng Group and its subsidiaries through an openly transmitted telegraph. Therefore, United Securities initiated the negotiation with Nuclear Energy Corp, in relation to the application of freezing the 13.48 million shares in the No. 2 Intermediate Court under the name of Nuclear Energy Corp. The two parties reached a mutual consent on the basis of mutual benefit. United Securities agreed that the aforesaid 13.48 million shares were under the name of Nuclear Energy Corp, provided that the entire equity would be spilt up in two parts in 40-60 proportion, in which Nuclear Energy Corp obtained 5.5 million shares, and the remaining 7.98 million shares were obtained by United Securities as the settlement of the debt owed by Huacheng Investment. In 2008, the 13.48 million shares of Huacheng Investment were transferred to Nuclear Energy Corp. By then, Nuclear Energy Corp, on behalf of United Securities, held the 7.98 million shares, which were originally held by Huacheng Investment in United Securities.

## Major Events and Corporate Governance

In 2009, Huatai Securities restructured United Securities. United Securities changed its name to Huatai United Securities Co., Ltd. After the split off, Nuclear Energy Corp held 10.98 million shares of Huatai United Securities, in which 8.586 million shares were held on its behalf, and 2.394 million shares were held as warehouse. Huatai Securities then negotiated with Nuclear Energy Corp, agreeing that Nuclear Energy Corp transferred 2 million shares of the 2.394 million entrusted shares to Huatai Securities, and the transfer payment was made to Huatai United Securities. The remaining 394,000 shares together with the 8.586 million shares (8.98 million shares in total) were converted to equity interest in Huatai Securities. Nevertheless, the issue of the 2 million entrusted shares held by Nuclear Energy Corp was yet to be settled.

On December 23, 2014, people's court in Xicheng District of Beijing accepted the case regarding contract dispute between Huatai United Securities and Nuclear Energy Corp. On June 28, 2016, people's court in Xicheng District of Beijing issued a civil order (2015) Xi Min (Shang) Chu Zi No. 1048, Huatai United Securities obtained the judgement in its favor. The court judged that the defendant should continue to perform the Entrusted Equity Agreement and the Entrusted Equity Listing Transfer Agreement, and complete the equity transfer of the 2 million equity shares within 30 days commencing on the effective date of the judgement, as well as pay the proceeds from the equity transfer to Huatai United Securities. The case is now pending a determination by the court whether the defendant will make any appeal.

### **(III) Matters not disclosed in ad hoc announcements or matters with subsequent development queried by the media in general**

During the Reporting Period, there were no matters not disclosed in ad hoc announcements or matters with subsequent development queried by the media in general.

### **(IV) Punishment and reprimand of the Company during the Reporting Period**

During the Reporting Period, none of the Directors, Supervisors, senior management, Shareholders holding over 5% of equity interest, de facto controllers or purchaser of the Company was investigated by competent authorities, imposed with coercive measures by a judiciary authority or disciplinary department, transferred to a judicial authority or held criminally liable, investigated by or imposed with administrative penalty by CSRC, banned from access to market, identified as an unsuitable person, punished by other administrative departments or publicly condemned by a stock exchange.

### **(V) Others**

Save as disclosed above, the Group was not involved in any material litigation, arbitration or media enquiry in general as of June 30, 2016. So far as the Directors are aware, no litigation or claim of material importance is pending or threatened against our Group.

### **INTERIM DIVIDENDS**

The Board does not propose to pay any interim dividend for the six months ended June 30, 2016.

### **BANKRUPTCY AND RESTRUCTURING**

The Company was not involved in any bankruptcy or restructuring during the Reporting Period.

### **ASSET TRANSACTIONS AND BUSINESS COMBINATIONS**

The Company was not involved in any asset transactions or business combinations during the Reporting Period. During the Reporting Period, the Company proactively made further progresses on the acquisition of the 100% shares of AssetMark. For detail information, please refer to “Management Discussion and Analysis — Discussion and Analysis of the Board on Operation of the Company during the Reporting Period — Main Businesses Analysis — Bankruptcy Reorganization, Merge or Division, Disposal, Acquisition, Replacement and Exfoliation of Substantial Assets, Reorganization of Other Companies” in this report.

### **SHARE INCENTIVE SCHEME AND ITS IMPLICATION**

The Company did not implement any share incentive scheme during the Reporting Period.

## Major Events and Corporate Governance

### MATERIAL RELATED PARTY TRANSACTIONS

During the Reporting Period, the Company entered into the following material related party transactions:

(I) Related party transactions in daily operation

1. Related party transactions disclosed in ad hoc announcements with subsequent development or changes

(1) *Related party transactions in relation to buying and selling commodities, provision and reception of services*

Unit and Currency: RMB

Related Party	Details of Related Party Transaction	From January to June 2016	From January to June 2015
China Southern Asset	Fund sub-positions and trailing commissions and sales fees	10,093,176.60	24,077,646.66
Huatai-PineBridge	Fund sub-positions and trailing commissions and sales fees	6,393.45	30,402,845.86
China Southern Asset	Securities trading commission	19,225.39	4,000.00
Jiangsu Guoxin	Securities trading commission	38,648.36	1,831,539.02
Communications Holding	Securities trading commission	—	18,179.70
Total		10,157,443.80	56,334,211.24

## Major Events and Corporate Governance

### (2) Lease transactions between related parties

Unit and Currency: RMB

Name of Lessee	Type of asset leased	Rental income attributed to the period from January to June 2016	Rental income attributed to the period from January to June 2015
China Southern Asset	Building	552,194.25	552,194.28
Huatai-PineBridge	Equipment	—	50,000.00
Total		552,194.25	602,194.28

### (3) Investment Incomes

Unit and Currency: RMB

Related Party	Details of Related Party Transaction	From January to June 2016	From January to June 2015
Jiangsu Guoxin	Gains on acquisition or disposal of financial assets at fair value through profit or loss	1,459,487.03	917,031.12
Communications Holding	Gains on acquisition or disposal of financial assets at fair value through profit or loss	8,989,365.84	261,649.51
Huatai-PineBridge	Funds distributions	11,531,798.31	3,778,108.68
China Southern Asset	Funds distributions	12,187,484.76	3,442,052.30
Total		34,168,135.94	8,398,841.61

## Major Events and Corporate Governance

### (4) Subscription of funds managed by related parties

Currency: RMB

Related Party	Name of subscribed funds	June 30, 2016			Shares held at the end of the Reporting Period (in 10,000)	Balance at the end of the Reporting Period (in RMB10,000)	
		Shares held at the beginning of the Reporting Period (in 10,000)	Increase in the Reporting Period (in 10,000)	Decrease in the Reporting Period (in 10,000)			
China Southern Asset	China Southern SZ Exch Component ETF	8.87	—	(6.87)	2.00	2.22	
	China Southern CSI 500 Index ETF (LOF) Fund	17.95	—	(17.95)	—	—	
	China Southern Cash Gain Fund Class B	2,043.48	29.35	—	2,072.83	2,072.83	
	China Southern Earnings Treasure Money Market Fund B	100,008.46	—	(50,008.46)	50,000.00	50,000.00	
	China Lixin Hybrid	—	—	—	—	—	
	Financial Type Gold Trading Money Market Funds Class H	167.34	147,012.95	—	147,180.29	147,180.29	
	CSI 500 Index ETF	241.57	—	(241.57)	—	—	
	Total	102,487.67	147,042.30	(50,274.85)	199,255.12	199,255.34	
	Huatai-PineBridge	Huatai-Pinebridge CSI 300 Index ETF	126.06	—	(114)	12.06	38.12
		Huatai-Pinebridge Money Market Fund Class B	16,232.17	74,950.00	—	91,182.17	91,182.17
Huatai-Pinebridge Quantitative Index Enhanced Equity Fund A		2,155.10	—	(2,155.10)	—	—	
Huatai-Pinebridge Traded Money Market Fund A		6.76	2,320.17	—	2,326.93	2,326.93	
Total		18,520.09	77,270.17	(2,269.10)	93,521.16	93,547.22	



## Major Events and Corporate Governance

Currency: RMB

Related Party	Name of subscribed funds	December 31, 2015			Shares held at the end of the Reporting Period (in 10,000)	Balance at the end of the Reporting Period (in RMB10,000)	
		Shares held at the beginning of the Reporting Period (in 10,000)	Increase in the Reporting Period (in 10,000)	Decrease in the Reporting Period (in 10,000)			
China Southern Asset	China Southern SZ Exch Component ETF	99.00	—	(90.13)	8.87	11.86	
	China Dream	999.90	—	(999.90)	—	—	
	China Southern CSI500 Index ETF (LOF) Fund	2,817.95	—	(2,800.00)	17.95	32.42	
	China Southern Hang Seng ETF	500.00	—	(500.00)	—	—	
	China Southern Cash Gain Fund Class B	110,000.00	2,043.48	(110,000.00)	2,043.48	2,043.48	
	China Southern Pay Treasure Money Market Funds	3,061.81	3,066.78	(6,128.59)	—	—	
	China Southern Earnings Treasure Money Market Fund B	—	100,008.46	—	100,008.46	100,008.46	
	China Lixin Hybrid	—	17,946.06	(17,946.06)	—	—	
	Financial Type Gold Trading Money Market Funds Class H	—	167.34	—	167.34	16,735.66	
	CSI 500 Index ETF	—	241.57	—	241.57	1,893.43	
	Total	117,478.66	123,473.69	(138,464.68)	102,487.67	120,725.31	
	Huatai-PineBridge	Huatai-Pinebridge Added-Gain Bond Fund	3,000.13	—	(3,000.13)	—	—
		Huatai-Pinebridge CSI 300 Index ETF	26,947.58	64,942.44	(91,763.96)	126.06	476.25
Huatai-Pinebridge DividendETF of the Shanghai Stock Exchange		154.52	—	(154.52)	—	—	
Huatai-Pinebridge Money Market Fund Class B		25,594.98	26,232.17	(35,594.98)	16,232.17	16,232.17	
Huatai-Pinebridge Quantitative Index Enhanced Equity Fund A		—	2,155.10	—	2,155.10	3,792.98	
Huatai-Pinebridge Traded Money Market Fund A		—	6.76	—	6.76	676.18	
Total		55,697.21	93,336.47	(130,513.59)	18,520.09	21,177.58	

## Major Events and Corporate Governance

### (5) Bonds issued by related parties and held by the Group

Unit and Currency: RMB

Related Party	Details of Related Party Transaction	From January to June 2016	From January to June 2015
Jiangsu Guoxin	Investment in corporate bonds	63,049,318.00	63,473,480.00
Communications Holding	Investment in corporate bonds	502,949,525.92	349,863,792.36
Total		565,998,843.92	413,337,272.36

### (6) Dividend associated with related parties

Unit and Currency: RMB

Related Party	Details of Related Party Transaction	From January to June 2016	From January to June 2015
Huatai-PineBridge	Dividends received	49,000,000.00	—
Total		49,000,000.00	—

### (7) Key management personnel remuneration

Unit and Currency: RMB

Details of Related Party Transaction	From January to June 2016	From January to June 2015
Key management personnel remuneration	25,559,438.00	13,893,578.00

## Major Events and Corporate Governance

### 2. Related matters not yet disclosed in ad hoc announcements

Unit and Currency: RMB

Related party	Relationship	Type of related party transaction	Details of related party transaction	Pricing principle of related party transaction	Percentage of the	
					Amount of related party transaction	total amount of the same type of transactions (%)
Huatai Zijin (Jiangsu) Equity Investment Fund (Limited Partnership)	Associate	Other inflow	Income from fund management fees	At market price	19,714,233.37	25.49
Jiangsu Industry and Information Industry Investment Fund (Limited partnership)	Associate	Other inflow	Income from fund management fees	At market price	594,384.14	0.77
Huatai China Merchants (Jiangsu) Capital Market Investment Fund of Funds (Limited Partnership) (華泰招商(江蘇)資本市場投資母基金(有限合夥))	Joint Venture	Other inflow	Income from fund management fees	At market price	633,238.57	0.82
Huatai Zijin (Jiangsu) Equity Investment Fund (Limited Partnership)	Associate	Other outflow	Collective Asset Management Scheme	At market price	(402,971,750.00)	0.32
Huatai China Merchants (Jiangsu) Capital Market Investment Fund of Funds (Limited Partnership)	Joint Venture	Capital increase	Investment increase in joint venture		100,000,000.00	86.13
Nanjing Huatai Ruilian Merger and Acquisition Fund No. 2 (Limited Partnership) (南京華泰瑞聯併購基金二號(有限合夥))	Associate	Capital increase	Investment increase in associate company		2,000,000.00	1.72
Nanjing Huatai Ruilian Merger and Acquisition Fund No. 3 (Limited Partnership) (南京華泰瑞聯併購基金三號(有限合夥))	Associate	Capital increase	Investment increase in associate company		2,000,000.00	1.72
Nanjing Huatai Ruilian Merger and Acquisition Fund No. 4 (Limited Partnership) (南京華泰瑞聯併購基金四號(有限合夥))	Associate	Capital increase	Investment increase in associate company		2,000,000.00	1.72

## Major Events and Corporate Governance

Related party	Relationship	Type of related party transaction	Details of related party transaction	Pricing principle of related party transaction	Percentage of the	
					Amount of related party transaction	total amount of the same type of transactions (%)
Suzhou Equity Exchange Co., Ltd	Associate	Capital increase	Investment increase in associate company		10,000,000.00	8.16
Jiangsu Huatai Emerging Industries Investment Fund (Limited Partnership)	Associate	Capital increase	Investment increase in associate company		50,000.00	0.04
Jiangsu Huatai Internet Industry Investment Fund (Limited Partnership)	Associate	Capital increase	Investment increase in associate company		50,000.00	0.04
Huatai Zijin (Jiangsu) Equity Investment Fund (Limited Partnership)	Associate	Other inflow	Proceeds from disposal of asset management scheme		459,711.56	0.00
Total				/	/	/
Details of related party transactions						Nil

### (II) Debts between the Company and Related Parties

#### 1. Related party transactions disclosed in ad hoc announcements with subsequent development or changes

##### (1) Amount receivable

Unit and Currency: RMB

Related Party	Details of Related Party Transaction	June 30, 2016		December 31, 2015	
		Carrying amount	Provisions for bad debt	Carrying amount	Provisions for bad debt
Huatai-PineBridge	Fund sub-positions commissions and sales fees	—	—	5,518,975.58	(27,594.88)
China Southern Asset	Fund sub-positions commissions and sales fees	2,911,621.14	(14,558.11)	4,048,888.44	(20,244.44)
Total		2,911,621.14	(14,558.11)	9,567,864.02	(47,839.32)

## Major Events and Corporate Governance

### (2) Amount payable

Unit and Currency: RMB

Related Party	Details of Related Party Transaction	June 30, 2016	December 31, 2015
Jiangsu Guoxin	Accounts payable	3,211,190.78	3,211,190.78
Jiangsu Guoxin	Client securities brokerage services	50,000.00	171,475.09
Huatai-PineBridge	Client securities brokerage services	3,803,053.62	12,399,012.24
China Southern Asset	Client securities brokerage services	35,819.13	19,487.86
Communications Holding	Client securities brokerage services	—	11,349.77
Total		7,100,063.53	15,812,515.74

### (3) Interest receivable

Unit and Currency: RMB

Related party	Details of Related Party Transaction	June 30, 2016	December 31, 2015
Jiangsu Guoxin	Interest receivable from bond investment	861,926.79	2,343,425.67
Communications Holding	Interest receivable from bond investment	13,847,905.49	3,946,393.45
Total		14,709,832.28	6,289,819.12

### (4) Dividends receivable

Unit and Currency: RMB

Related party	Details of Related Party Transaction	June 30, 2016	December 31, 2015
China Southern Asset	Dividends receivable	162,000,000.00	—
China Southern Cash Gain Fund Class B	Bonus receivable	21,183.08	—
Huatai-Pinebridge Money Market Fund Class B	Bonus receivable	11,130,670.57	—
Total		173,151,853.65	—

## Major Events and Corporate Governance

### 2. Related matters not yet disclosed in ad hoc announcements

Unit and Currency: RMB

Related Party	Relationship	Items	Amount provided to related party		Amount provided to listed company from related party			
			Balance at the beginning of the period	Amount	Balance at the end of the period	Balance at the beginning of the period	Amount	Balance at the end of the period
Huatai Zijin (Jiangsu) Equity Investment Fund (Limited Partnership)	Associate	Fund management fees	—	20,000,000.00	20,000,000.00			
Jiangsu Industry and Information Industry Investment Fund (Limited partnership)	Associate	Fund management fees	—	721,567.42	721,567.42			
Huatai China Merchants (Jiangsu) Capital Market Investment Fund of Funds (Limited Partnership)	Joint venture	Fund management fees	—	671,232.88	671,232.88			
Huatai Zijin (Jiangsu) Equity Investment Fund (Limited Partnership)	Associate	Client securities brokerage services	—	988.09	988.09			
Total				21,393,788.39	21,393,788.39			
Amount provided to the controlling shareholder and its subsidiary by the Company during the Reporting Period							0	
Balance of amount provided to the controlling shareholder and its subsidiary by the Company							0	

## MATERIAL CONTRACTS AND PERFORMANCE OF OBLIGATION THEREOF

### 1 Custody, contracting and lease

During the Reporting Period, the Company did not have any custody, contracting or lease arrangements.

### 2 Guarantees

During the Reporting Period, the Company did not have any guarantee.

# Major Events and Corporate Governance

## 3 Other Material Contracts or Transactions

Currency: RMB

Name of contract	Contracting parties	Date of signing	Carrying amount	Asset underlying the contract		Principle of pricing	Price for transaction	Performance
				Assessed value	Name of agency assessment Base date of assessment			
General construction contract for Huatai Securities Square	Huatai Securities and China Jiangsu International Economic and Technological Cooperation Group Ltd.	July 30, 2010					RMB1,132,851,800	In July 2010, the Company and China Jiangsu International Economic and Technological Cooperation Group Ltd. entered into the General Construction Contract for Huatai Securities Square. During the Reporting Period, the contract was duly performed and the Company paid RMB16,138,574.85 under the general construction contract and sub-contracts thereof. By the end of the Reporting Period, the Company has paid RMB724,265,117.82 in total under the general construction contract.
Construction contract for smart facilities at Huatai Securities Square	Huatai Securities and Shanghai Haode Tech Co., Ltd.	March 6, 2012					RMB213,000,000	In March 2012, the Company and Shanghai Haode Tech Co., Ltd. entered into the Construction Contract for Smart Facilities at Huatai Securities Square. During the Reporting Period, a supplementary agreement was signed and the contract price was changed from RMB198,899,700 to RMB213,000,000. During the Reporting Period, the contract was duly performed and the Company paid RMB10,386,111 under the construction contract for smart facilities. By the end of the Reporting Period, the Company has paid RMB171,696,385 in total under the construction contract for smart facilities.
Construction contract for interior decoration of the second bid section of Huatai Securities Square	Huatai Securities and Zhejiang Yasha Decoration Co., Ltd.	May 21, 2013					RMB117,584,500	On May 21, 2013, the Company and Zhejiang Yasha Decoration Co., Ltd. entered into the Construction Contract for Interior Decoration of the Second Bid Section of Huatai Securities Square. During the Reporting Period, the contract was duly performed and the Company paid RMB0 under the construction contract for interior decoration of the second bid section. By the end of the Reporting Period, the Company has paid RMB83,052,399.33 in total under the construction contract for interior decoration of the second bid section.

## Major Events and Corporate Governance

Name of contract	Contracting parties	Date of signing	Carrying amount	Asset underlying the contract		Principle of pricing	Price for transaction	Performance
				Assessed value	Name of agency assessment Base date of assessment			
Construction contract for interior decoration of the first bid section of Huatai Securities Square	Huatai Securities and China Building Technique Group Co., Ltd.	May 21, 2013					RMB78,771,800	On May 21, 2013, the Company and China Building Technique Group Co., Ltd. entered into the Construction Contract for Interior Decoration of the First Bid Section of Huatai Securities Square. During the Reporting Period, the contract was duly performed and the Company paid RMB4,000,000 under the construction contract for interior decoration of the first bid section. By the end of the Reporting Period, the Company has paid RMB78,621,384.36 in total under the construction contract for interior decoration of the first bid section.
Construction contract for interior decoration of the third bid section of Huatai Securities Square	Huatai Securities and Shenzhen Shen Zhuang Zong Decoration Co., Ltd.	October 2013					RMB135,052,600	In October 2013, the Company and Shenzhen Shen Zhuang Zong Decoration Co., Ltd. entered into the Construction Contract for Interior Decoration of the Third Bid Section of Huatai Securities Square. During the Reporting Period, a supplementary agreement was signed and the contract price was changed from RMB131,586,304.3 to RMB135,052,600. During the Reporting Period, the contract was duly performed and the Company paid RMB7,478,300 under the construction contract for interior decoration of the third bid section. By the end of the Reporting Period, the Company has paid RMB100,566,797.42 in total under the construction contract for interior decoration of the third bid section.
Contract on Hengyi No. 15402 beneficiary certificate of Huatai Securities	Huatai Securities and Bank of Shanghai Co., Ltd.	June 24, 2015					RMB5,200,000,000	On June 24, 2015, the Company and Bank of Shanghai Co., Ltd. entered into the Contract on Hengyi No. 15402 Beneficiary Certificate which was duly performed during the Reporting Period.



### PERFORMANCE OF UNDERTAKINGS

#### **(1) Undertakings of the listed company, shareholders holding not less than 5% of shares, controlling shareholders and de facto controllers made and/or remain effective during the Reporting Period**

In order to cope with competition with other financial institutions, on June 27, 2014, Jiangsu Guoxin made a long term undertaking, pursuant to which, Jiangsu Guoxin and its subsidiaries and associated companies shall not involve or conduct an business (except Jintai Futures Co., Ltd.) which competes with the major business of Huatai Securities at any time and in any form (including but not limited to self-owned, joint venture or co-operation). Any opportunities to conduct, involve or invest in any business (except Jintai Futures Co., Ltd.) which may compete with the business of Huatai Securities available to Jiangsu Guoxin and its subsidiaries and associated companies, Jiangsu Guoxin shall be referred to Huatai Securities. This undertaking does not have any expiry date.

As of the date of this report, Jiangsu Guoxin strictly complied with the above undertaking.

### APPOINTMENT AND REMOVAL OF ACCOUNTING FIRM

As approved at the 2015 shareholders' annual general meeting of the Company, the Company reappointed KPMG Huazhen LLP as the auditor of the Company and its subsidiaries controlled by it to audit the accounting statements and internal control for 2016 and issue audit reports on A shares and internal control. The Company also got the approval of engaging KPMG as the auditor for the H shares of the Company to issue audit reports on H shares. The auditing fee is up to RMB5 million in aggregate.

During the meeting, it was also approved to increase the Company's auditing fee for KPMG Huazhen LLP from RMB2 million to RMB2.55 million, with an additional fee of RMB2 million in relation to the review and audit of H shares in 2015. The aggregate amount of audit fee that the Company paid the external audit company in 2015 was RMB4.55 million.

### PUNISHMENT ON THE LISTED COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, SHAREHOLDERS HOLDING OVER 5% OF EQUITY INTEREST, DE FACTO CONTROLLER AND PURCHASER AND RECTIFICATIONS

During the Reporting Period, neither the Company nor its Directors, Supervisors, senior management, shareholders holding over 5% of equity interest, de facto controllers or purchaser received any punishment or rectification.

### CONVERTIBLE CORPORATE BONDS

The Company did not issue any convertible corporate bonds during the Reporting Period.

## Major Events and Corporate Governance

### CORPORATE GOVERNANCE

As a public company listed in Mainland China and Hong Kong, the Company has standardized its operation in strict compliance with requirements of relevant laws, regulations and normative documents in the places where the shares of the Company is listed. The Company is committed to continuously maintaining and improving the company image in the market. During the Reporting Period, the Company was in strict compliance with the requirements of the Company Law, the Securities Law, the Regulations on Supervision and Administration of Securities Companies, the Rules for Governance of Securities Companies, the Code of Corporate Governance for Listed Companies, the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules, the Corporate Governance Report and other relevant laws and regulations as well as the Articles of Association of the Company. In order to establish a modern corporate system, the Company has strengthened and refined its corporate governance structure, compliance and risk control system and internal control management system. A corporate governance structure with checks and balances has been formed which features the separation among the shareholders' general meeting, the Board, the Board of Supervisors and operation management. Under such structure, they perform their respective functions at various levels and are held accountable within respective responsibilities and authorization, ensuring the prudent and standardized operation of the Company.

#### **(I) Compliance with the provisions under the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules**

During the Reporting Period, the Company convened two shareholders' general meetings, eight Board meetings, three meetings of the Board of Supervisors, four meetings of the Audit Committee, one meeting of the Compliance and Risk Management Committee, one meeting of the Development Strategy Committee, one meeting of the Remuneration and Appraisal Committee, and two meetings of Nomination Committee. The total number of meetings convened is twenty-two. The convening and voting procedures of the general meeting, Board meetings and the meetings of the Board of Supervisors were legally valid. During the Reporting Period, by continuously enhancing investor relationship management and information disclosure, the Company possessed a standardized and professional investor relationship management, disclosed truthful and accurate information in a complete, timely and fair manner and continuously improved its transparency.

On December 18, 2015, Mr. Wu Wanshan resigned from his duties as an executive Director and chairman of the Third Session of the Board and as chairman of the Development Strategy Committee due to work re-allocation, with effect on the same day. In accordance with the requirements of and procedures set out in the Company Law and the Articles of Association, on June 20, 2016, the Company elected Mr. Zhou Yi as the chairman of the third session of the Board. Mr. Zhou Yi became the chairman of the Board and the president of the Company with effect on the same day. In accordance with the provision A.2.1 of Corporate Governance Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. In view of the fact that Mr. Zhou Yi has been responsible for overseeing the Company's daily operation and management, formulating corporate and business strategies and determining or nominating the senior management of the Company since he joined the Group in August

## Major Events and Corporate Governance

2006, the Board believes that it is in the best interest of the Company to have Mr. Zhou Yi taking up both roles for effective management and business development. Therefore, the Board considers that the current arrangement of the Company, which is inconsistent with the provision A.2.1 of Corporate Governance Code, is appropriate in such circumstance. Notwithstanding the above, the Board is of the view that this management structure is effective for the Company's operations and sufficient checks and balances are in place.

The Company has been striving for the continuous improvement of corporate governance and system establishment. The Company has strengthened its corporate governance with gradual standardization of corporate governance structure. There is no deviation of the actual performance of its corporate governance from the Company Law and relevant requirements of the CSRC. Meanwhile, save as disclosed above, the Company was in full compliance with all the codes and provisions of the Corporate Governance Code as well as the Corporate Governance Report. It also complies with substantially all of recommended best practices set out in the Corporate Governance Code.

### (II) Independent Non-executive Directors

The Company has appointed sufficient number of independent non-executive Directors with appropriate professional qualifications or accounting or related financial management expertise in accordance with the Listing Rules. The Company has appointed five independent non-executive Directors, including Mr. Bai Wei, Mr. Liu Hongzhong, Mr. Lee Chi Ming, Mr. Chen Chuanming and Mr. Yang Xiongsheng.

### (III) Securities transactions by Directors, Supervisors and employees

The Company has adopted the Model Code as the code of conduct for securities transactions by Directors, Supervisors and relevant employees of the Company. According to the domestic regulatory requirements, the Company convened the 13th meeting of the third session of the Board on November 25, 2014 to consider and approve the Administrative System Regarding the Shares of the Company Held by Directors, Supervisors and Senior Management (the "Administrative System") in order to regulate holding and trading in the shares of the Company by Directors, Supervisors and senior management. In 2015, in order to meet the relevant regulatory requirements regarding the listing of the H Shares of the Company, the Company made amendments to the Administrative System, which were considered and approved at the 16th meeting of the third session of the Board. The compulsory provisions contained in the Administrative System are stricter than those under the Model Code. Having made all enquiries with Directors, Supervisors and senior management, the Company confirmed that all Directors, Supervisors and senior management had strictly complied with the relevant requirements under the Administrative System and Model Code during the Reporting Period. The Board of the Company will, from time to time, carry out inspection on the corporate governance and operation of the Company, in order to ensure the relevant provisions under the Hong Kong Listing Rules are well observed and to protect the interests of the shareholders. There was no breach of guidelines by the relevant employees to the knowledge of the Company.

## Major Events and Corporate Governance

### AUDIT COMMITTEE AND AUDITING

The Audit Committee was established under the Board in accordance with the requirements of CSRC, the Shanghai Stock Exchange and the Listing Rules.

The Audit Committee of the third session of Board of the Company is composed of independent directors and directors assigned by shareholders. At the beginning of the Reporting Period, the Audit Committee of the third session of Board of the Company is composed of the independent Directors namely Mr. Lee Chi Ming, Mr. Liu Hongzhong and Mr. Chen Zhibin, as well as the Director Ms. Pu Baoying, among whom Mr. Lee Chi Ming is the chairman (convener) of Audit Committee. On June 20, 2016, the Resolution on Changes of the Composition of Some Special Committees of the third session of Board of the Company was considered and approved in the 33rd meeting of the third session of Board of the Company, confirming that the Audit Committee of the third session of Board of the Company was composed of the independent Directors Mr. Lee Chi Ming, Mr. Yang Xiongsheng, and the Director Mr. Chen Ning, among whom Mr. Lee Chi Ming was appointed as the chairman (convener) of Audit Committee.

During the Reporting Period, the Audit Committee of the Board of the Company convened four meetings, the details of which were as follows:

1. The first meeting of the Audit Committee of the third session of the Board for 2016 was convened by way of face to face and video conference on February 1, 2016, at which KPMG Huazhen LLP introduced their audit work scope for 2015, the main members of the professional team, general arrangement for audit, audit plan and focus, audit report on internal control. During the meeting, the members of Audit Committee had extensive discussions and communications with the relevant staves of KPMG Huazhen LLP on issues of the identification of new risks during audit process, the credit risk in relation to the stock market volatility in 2015 and the reputation risk after accepting the punishment, the scale of passageway business and risk prevention, as well as the risk control for the management of the operational process of subsidiaries of the Company.
2. The second meeting of the Audit Committee of the third session of the Board for 2016 was convened by way of teleconference on February 25, 2016, and considered and approved the Resolution on the Auditing Plan of the Company for 2015.
3. The third meeting of the Audit Committee of the third session of the Board for 2016 was convened in Nanjing on March 28, 2016, at which the Final Account Report of the Company for 2015, the Financial Budget Report of the Company for 2016, the Proposal on the Profit Distribution Plan of the Company for 2015, the Resolution on the Annual Report of the Company for 2015, the Resolution on the Internal Control Assessment Report of the Company for 2015, the Report on Performance of Duties of Audit Committee under the Board of the Company in 2015, the Proposal on the Increase of Audit Fee of the Company in 2015, the Proposal on the Reappointment of the Company's Accountant, the Proposal on the Anticipation of Ordinary Connected Transactions of the Company for 2016, the Resolution on Reviewing the Special Report in relation to Changes of Accounting Estimates in 2015 of the Company, the Work Plan for the Internal Audit of the Company for 2016 were considered and approved, and the Audit Committee received the Internal Audit Report of the Company for 2015.

## Major Events and Corporate Governance

4. The fourth meeting of the Audit Committee of the third session of the Board for 2016 was convened by way of teleconference on April 27, 2016, at which the Proposal on the First Quarterly Financial Statements for 2016 of the Company was considered and approved.

The interim financial report for 2016 of the Company as prepared by the International Financial Report Standards has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements.

On August 18, 2016, the Audit Committee has reviewed and confirmed the interim result announcement for the six months ended June 30, 2016, the interim report for 2016 and unaudited interim financial statements for the six months ended June 30, 2016 prepared according to IAS 34 – Interim Financial Reporting.

### DETAILS OF OTHER MAJOR EVENTS

#### 1. Establishment, relocation and cancellation of securities branches and branches during the Reporting Period

(1) The Company did not establish any new branches or securities branches during the Reporting Period.

(2) Relocation of securities branches during the Reporting Period:

No.	Securities Branches	Address	Issue Date of License
1	Guangzhou Huangpu Avenue West Securities Branch	Room 1509, No. 638, Huangpu Avenue West, Tianhe District, Guangzhou	January 4, 2016
2	Jinan Huayuan Road Securities Branch	No. 35, Huayuan Road, Licheng District, Jinan, Shandong Province	February 3, 2016
3	Mudanjiang Xiyitiao Road Securities Branch	No. 236, Xiyitiao Road, Xi'an District, Mudanjiang, Heilongjiang Province	February 24, 2016
4	Shenzhen Longgang Huangge Road North Securities Branch	Unit A102-2, Plant 1, Longgang Tian'an Cyber Entrepreneurship Park, No. 441 Huangge Road, Longcheng Street, Longgang District, Shenzhen	February 24, 2016
5	Xuzhou Jianguo West Road Securities Branch	Room 109, 1/F & Room 205, 2/F, Caifu Square Building 1A, No. 75, Jianguo West Road, Xuzhou, Jiangsu Province	March 14, 2016
6	Hefei Chuangxin Avenue Securities Branch	4/F, Block C, Chuangxin Apartment, No. 2760 Chuangxin Avenue, Gaoxin District, Hefei, Anhui Province	March 22, 2016

## Major Events and Corporate Governance

No.	Securities Branches	Address	Issue Date of License
7	Anlu Zijin Road Securities Branch	No.1 Zijin Road, Anlu, Hubei Province	April 26, 2016
8	Shennongjia Shennong Avenue Securities Branch	No.225 Shennong Avenue, Songbaizhen, Lin District, Shennongjia	May 10, 2016
9	Shanghai Changning District Xianxia Road Securities Branch	No.1398-1 Xianxia Road, Changning District, Shanghai	June 29, 2016
10	Zhangzhou Shuixian Street Securities Branch	Unit 03-04, 4/F, Block B Crowne Plaza, DoubleTree by Hilton Hotel, No.88 Shuixian Street, Longwen District, Zhangzhou, Fujian Province	June 16, 2016

Note:

- ① Upon the approval of Guangdong Securities Regulatory Bureau, Dongfeng West Road Securities Branch, Guangzhou was renamed Guangzhou Huangpu Avenue West Securities Branch of Huatai Securities Co., Ltd., and was relocated to Room 1509, No. 638, Huangpu Avenue West, Tianhe District, Guangzhou.
- ② Upon the approval of Shandong Securities Regulatory Bureau, Yangguang New Road Securities Branch, Jinan was renamed Jinan Huayuan Road Securities Branch of Huatai Securities Co., Ltd., and was relocated to No. 35, Huayuan Road, Licheng District, Jinan, Shandong Province.
- ③ Upon the approval of Heilongjiang Securities Regulatory Bureau, Xinhua Road Securities Branch, Mudanjiang was renamed Mudanjiang Xiyitiao Road Securities Branch of Huatai Securities Co., Ltd., and was relocated to No. 236, Xiyitiao Road, Xi'an District, Mudanjiang, Heilongjiang Province.
- ④ Upon the approval of Shenzhen Securities Regulatory Bureau, Shenzhen Longgang Huangge Road North Securities Branch remained its name unchanged, but it was relocated to Unit A102-2, Plant 1, Longgang Tian'an Cyber Entrepreneurship Park, No. 441 Huangge Road, Longcheng Street, Longgang District, Shenzhen.
- ⑤ Upon the approval of Jiangsu Securities Regulatory Bureau, Securities Branch, Zhongshan South Road, Xuzhou was renamed Xuzhou Jianguo West Road Securities Branch of Huatai Securities Co., Ltd., and was relocated to Room 109, 1/F & Room 205, 2/F Caifu Square, Building 1A, No. 75 Jianguo West Road, Xuzhou, Jiangsu Province.
- ⑥ Upon the approval of Anhui Securities Regulatory Bureau, Securities Branch in Fuyang Road, Hefei was renamed Hefei Chuangxin Avenue Securities Branch of Huatai Securities Co., Ltd., and was relocated to 4/F, Block C, Chuangxin Apartment, No. 2760 Chuangxin Avenue, Gaoxin District, Hefei, Anhui Province.
- ⑦ Upon the approval of Hubei Securities Regulatory Bureau, Securities Branch in Biyun Road, Anlu was renamed Anlu Zijin Road Securities Branch of Huatai Securities Co., Ltd., and was relocated to No.1 Zijin Road, Anlu, Hubei Province.

## Major Events and Corporate Governance

- ⑧ Upon the approval of Hubei Securities Regulatory Bureau, Securities Branch in Changqing Road, Shennongjia was renamed Shennongjia Shennong Avenue Securities Branch of Huatai Securities Co., Ltd., and was relocated to No.225 Shennong Avenue, Songbaizhen, Lin District, Shennongjia.
- ⑨ Upon the approval of Shanghai Securities Regulatory Bureau, Securities Branch in Weining Road, Shanghai was renamed Shanghai Changning District Xianxia Road Securities Branch of Huatai Securities Co., Ltd., and was relocated to No.1398-1 Xianxia Road, Changning District, Shanghai.
- ⑩ Upon the approval of Fujian Securities Regulatory Bureau, Securities Branch in Securities Branch in Jiulong Avenue, Zhangzhou was renamed Zhangzhou Shuixian Street Securities Branch of Huatai Securities Co., Ltd., and was relocated to Unit 03-04, 4/F, Block B, Crowne Plaza, DoubleTree by Hilton Hotel, No.88 Shuixian Street, Longwen District, Zhangzhou, Fujian Province. (According to the regulations imposed by local authorities in Fujian, the Company has to apply for the license first before having a business license. The application of business license is in progress.)

### (3) Cancellation of securities branches of the Company during the Reporting Period:

No.	Securities Branch	Approval Number	Approval Date	Issue Date of	
				Verification Letter	Verification Letter
1	Securities Branch in Chang'an Street, Mudanjiang	Hei Zheng Jian Xu Ke Zi [2015] No. 5	October 30, 2015	April 19, 2016	Hei Zheng Jian Ji Gou Zi [2016] No. 23
2	Securities Branch in Shangqing Temple Road, Chongqing	Yu Zheng Jian Xu ke [2015] No. 6	October 26, 2015	December 18, 2015	Yu Zheng Jian Han [2015] No. 125

Note: The cancellation of the above securities branches has been completed.

### 2. Increase of investment in Huatai Zijin Investment by the Company

During the Reporting Period, the Company has injected additional capital to Huatai Zijin Investment twice. Huatai Zijin Investment completed the industrial and commercial registration of changes on January 18, 2016 and March 30, 2016 respectively, with its registered capital increased from RMB2.35 billion to RMB2.75 billion, then further to RMB4.05 billion.

### 3. Capital increase in Huatai Futures by the Company

During the Reporting Period, Huatai Futures' registered capital increased from RMB809 million to RMB1,009 million, of which the capital increase of RMB120 million was attributed to the Company (percentage of shareholding remained unchanged) and the capital increase of RMB80 million was attributed to Deluxe Family Co., Ltd..

## Major Events and Corporate Governance

### 4. Investment contribution and establishment of subsidiaries by Huatai ZiJin Investment Co., Ltd.

**(1) Yili Huatai Ruida Equity Investment Management Co., Ltd. (伊犁華泰瑞達股權投資管理有限公司), Yili Huatai Ruida Equity Investment Management Partnership Enterprise (Limited Partnership) (伊犁華泰瑞達股權投資管理合夥企業(有限合夥)) and Yili Suxin Investment Fund Partnership Enterprise (Limited Partnership) (伊犁蘇新投資基金合夥企業(有限合夥))**

Huatai Zijin Investment promoted and established Yili Huatai Ruida Equity Investment Management Co., Ltd. on November 24, 2015, with a registered capital of RMB2 million, of which Huatai Zijin Investment subscribed for a contribution of RMB1.02 million, accounting for 51%.

Yili Huatai Ruida Equity Investment Management Co., Ltd. promoted and established Yili Huatai Ruida Equity Investment Management Partnership Enterprise (Limited Partnership) on December 30, 2015. Yili Huatai Ruida Equity Investment Management Co., Ltd. as executive partner and general partner, subscribed for a contribution of RMB20,000, accounting for 1% of the total subscription for contribution, and assumed unlimited liability; Huatai Zijin Investment as limited partner, subscribed for a contribution of RMB1.02 million, accounting for 51% of the total subscription for contribution, and assumed limited liability. As of June 30, 2016, Huatai Zijin Investment made a paid-in contribution of RMB163,200 to Yili Huatai Ruida Equity Investment Management Partnership Enterprise (Limited Partnership).

Yili Huatai Ruida Equity Investment Management Partnership Enterprise (Limited Partnership) promoted and established Yili Suxin Investment Fund Partnership Enterprise (Limited Partnership) on February 19, 2016. Yili Huatai Ruida Equity Investment Management Partnership Enterprise (Limited Partnership) as executive partner, general partner and fund manager, subscribed for a contribution of RMB1 million, accounting for 0.0526% of the total subscription for contribution, and assumed unlimited liability; Huatai Zijin Investment as limited partner, subscribed for a contribution of RMB469 million, accounting for 24.68% of the total subscription for contribution, and assumed limited liability. As of June 30, 2016, Huatai Zijin Investment paid a contribution of RMB140.7 million to Yili Suxin Investment Fund Partnership Enterprise (Limited Partnership).

**(2) Nanjing Huatai Ruilian Merger and Acquisition Fund No. 1 (Limited Partnership)**

Nanjing Huatai Ruilian Equity Investment Fund Management Partnership Enterprise (Limited Partnership) (南京華泰瑞聯股權投資基金管理合夥企業(有限合夥)) promoted and established Nanjing Huatai Ruilian Merger and Acquisition Fund No.1 (Limited Partnership) on November 25, 2015. Nanjing Huatai Ruilian Equity Investment Fund Management Partnership Enterprise (Limited Partnership) as executive partner, general partner and fund manager, subscribed for a contribution of RMB63 million, accounting for 1.16% of the total subscription for contribution, and assumed unlimited liability. Huatai Zijin Investment as limited partner, subscribed for a contribution of RMB2,600 million, accounting for 47.78% of the total subscription for contribution, and assumed limited liability. The scope of business for Nanjing Huatai Ruilian Merger and Acquisition Fund No.1 included non-securities investment and relevant counseling services (those requiring approvals in accordance with laws shall only be carried out after relevant approvals are obtained from relevant authorities). As of June 30, 2016, Huatai Zijin Investment made a paid-in contribution amounting to RMB2,600 million to such fund, among which RMB1,259.66 million was paid by its fund shares of Jiangsu Huatai Ruilian Funds Mergers (Limited Partnership) and RMB1,340.34 million was paid by cash.



## Major Events and Corporate Governance

### **(3) Huatai China Merchants (Jiangsu) Capital Market Investment Fund of Funds (Limited Partnership) (華泰招商(江蘇)資本市場投資母基金(有限合夥))**

Huatai China Merchants (Jiangsu) Capital Market Investment Fund of Funds (Limited Partnership) was established on March 22, 2016, by Huatai Ruilian Fund Management Co., Ltd. and Shanghai China Merchants Equity Investment Fund Management Co., Ltd. (上海招銀股權投資基金管理有限公司). Huatai Ruilian Fund Management Co., Ltd. subscribed for a contribution of RMB10 million as the executive partner and general partner, representing 0.10% of the total subscribed contribution, and it undertook unlimited liability. Shanghai China Merchants Equity Investment Fund Management Co., Ltd. subscribed for a contribution of RMB10 million as general partner, representing 0.10% of the total subscribed contribution, and it undertook unlimited liability. Huatai Zijin Investment subscribed for a contribution of RMB1 billion, representing 9.98% of the total subscribed contribution, and it undertook limited liability. As of June 30, 2016, Huatai Zijin Investment made a paid-in contribution of RMB100 million to Huatai China Merchants (Jiangsu) Capital Market Investment Fund of Funds (Limited Partnership).

### **5. Establishment of a new subsidiary Huatai Financial International Holdings by the Company**

On June 16, 2016, the Company established a new wholly-owned subsidiary Huatai Financial International Holdings in Hong Kong, with a registered capital of HK\$2. The company directors are Zhou Yi, Jiang Jian, Lu Rong and Lu Ting.

### **6. Incorporation of two subsidiaries by Huatai Financial Holdings (Hong Kong)**

During the Reporting Period, Huatai Financial Holdings (Hong Kong) incorporated two subsidiaries, namely Huatai International Investment Holdings Limited (hereinafter referred to as "HIIH") and AssetMark Holdings LLC. HIIH is an investment holding company in Cayman Islands. AssetMark Holdings LLC is a wholly-owned subsidiary of HIIH, registered in State of Delaware, the U.S.. The company engages in investment holding business.

### **7. Investment of RMB10 million for equity participation in Suzhou Equity Exchange Co., Ltd. by Jiangsu Equity Exchange**

In order to facilitate the business development in Suzhou, upon approval of People's Government of Jiangsu Province and Financial Office of Jiangsu Province, Suzhou Equity Exchange Co., Ltd. was founded in Suzhou, jointly by Suzhou Industrial Park Yuanhe Holdings Co., Ltd., Jiangsu Equity Exchange, Suzhou Industrial Park Economic Development Co., Ltd., Dongwu Securities Co., Ltd., Suzhou Trust Co., Ltd., and Suzhou Property Rights Exchange Center. On January 11, 2016, Jiangsu Equity Exchange, after the consideration and approval at the extraordinary meeting of the board of directors, invested RMB10 million for equity participation in Suzhou Equity Exchange Center Co., Ltd., accounting for 20% of the total contribution. Suzhou Equity Exchange Co., Ltd. obtained the business license on March 25, 2016.

### **8. Investment in Huatai Capital Management (Hong Kong) Co., Ltd. (華泰資本管理(香港)有限公司) by Huatai Futures**

On February 2, 2016, Huatai Futures invested HK\$23.31 million (equivalent to RMB19,755,200) in Huatai Capital Management (Hong Kong) Co., Ltd., and held 70% of its shares and voting rights.

## Major Events and Corporate Governance

9. On February 2, 2016, Huatai Futures appointed Mr. Xu Weizhong as general manager of the company and Mr. Wang Junqing, the deputy general manager, ceased to act on behalf of general manager.
10. During the Reporting Period, the Company disclosed other major events on China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily and website of Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)), details of which are as follows:

No.	Events	Date of Publication
1	Announcement by HTSC on Payment of Interest for the First Tranche of Subordinated Bonds under Private Placement in 2015	2016-01-18
2	Announcement by HTSC on Estimated Profit Increase for Annual Results in 2015	2016-01-27
3	Announcement by HTSC on Resolutions at the 27th Meeting of the Third Session of the Board (election of Mr. Chen Chuanming and Mr. Yang Xiongsheng as independent non-executive Directors of the third session of the Board and convening of the first shareholders' extraordinary general meeting of 2016)	2016-01-28
4	Announcement by HTSC on Resolutions of the First Shareholders' Extraordinary General Meeting in 2016 (election of Mr. Chen Chuanming and Mr. Yang Xiongsheng as independent non-executive Directors of the third session of the Board)	2016-03-19
5	Announcement by HTSC on Appointment of Chen Chuanming as Independent Non-executive Director and Other Issues	2016-03-19
6	Announcement by HTSC on Resignation of Mr. Qi Liang as Vice President of the Company	2016-03-23
7	Reminder Announcement by HTSC of Exercise of Redemption Option as Issuer of "15 Huatai 02" Subordinated Bonds	2016-03-25 2016-03-29 2016-04-01
8	Announcement by HTSC on Resignation of Dong Junzheng as Supervisor of the Company	2016-03-26

## Major Events and Corporate Governance

No.	Events	Date of Publication
9	Announcement by HTSC on Resolutions at the 29th Meeting of the Third Session of the Board (profits distribution for 2015, increase of the audit fee for 2015, re-appointment of accounting firm, application of expanding foreign exchange business, issuance of short-term financing bills, changes in accounting estimates for 2015, performance appraisal and remuneration of the Company's Directors in 2015, responsibilities fulfillment, performance appraisal and remuneration of senior management of the Company in 2015, etc.)	2016-03-30
10	Announcement by HTSC on Resolutions at the 12th Meeting of the Third Session of the Board of Supervisors (profits distribution of the Company for 2015, changes in accounting estimates for 2015, performance appraisal and remuneration of Supervisors of the Company in 2015, etc.)	2016-03-30
11	Announcement by HTSC on Anticipation of Ordinary Connected Transactions in 2016	2016-03-30
12	Announcement by HTSC on Appointment of Yang Xiongsheng as Independent Non-executive Director and Other Issues	2016-04-07
13	Announcement by HTSC on Exercise of Redemption of "15 Huatai 02" Subordinated Bonds	2016-04-08
14	Announcement by HTSC on Resolutions at the 30th Meeting of the Third Session of the Board (the acquisition of AssetMark Financial Holdings, Inc. by Huatai International Finance Limited)	2016-04-12
15	Announcement by HTSC on the acquisition of AssetMark Financial Holdings, Inc. by Huatai International Finance Limited	2016-04-12
16	Announcement by HTSC on Settlement and Payment of Interest for the Second Tranche of Subordinated Bonds in 2015	2016-04-14
17	Announcement by HTSC on Principal and Interest Payment in 2016 for the First Tranche of 2-year Subordinated Bonds under Private Placement in 2014	2016-04-14
18	Announcement by HTSC on Resolutions at the 31st Meeting of the Third Session of the Board (election of non-executive Directors of the third session of the Board, addition of items to agenda for 2015 shareholders' annual general meeting)	2016-04-16

## Major Events and Corporate Governance

No.	Events	Date of Publication
19	Announcement by HTSC on Resolutions at the 13th Meeting of the Third Session of the Board of Supervisors (election of Mr. Wang Huiqing as a Supervisor of the third session of the Board of Supervisors)	2016-04-16
20	Announcement by HTSC on Results of Exercise of Redemption of “15 Huatai 02” Subordinated Bonds and Delisting Thereof	2016-04-19
21	Announcement by HTSC on Completion of Settlement for the Second Tranche of 2-year Subordinated Bonds Issued in 2015	2016-04-21
22	Announcement by HTSC on Tracking Rating of Corporate Bonds Issued in 2013 and 2015 as well as Subordinated Bonds Issued in 2014 and 2015	2016-04-30
23	Announcement by HTSC on Resolutions at the 28th Meeting of the Third Session of the Board (proposed acquisition of AssetMark Financial Holdings, Inc. and increase of registered capital in Huatai Financial Holdings (Hong Kong) Limited, a wholly-owned subsidiary of the Company)	2016-05-11
24	Announcement by HTSC on Interest Payment in 2016 for Corporate Bonds Issued in 2013	2016-05-27
25	Announcement by HTSC on Resolutions at 2015 Shareholders' Annual General Meeting	2016-06-09
26	Announcement by HTSC on Appointment of Three Non-executive Directors, namely Gao Xu, Chen Ning and Xu Qing, and Other Issues	2016-06-09
27	Announcement by HTSC on Appointment of Wang Huiqing as Supervisor and Other Issues	2016-06-09
28	Announcement by HTSC on Interest Payment in 2016 for the Third Tranche of Subordinated Bonds Issued in 2015	2016-06-20
29	Announcement by HTSC on Resolutions at the 33rd Meeting of the Third Session of the Board (election of chairman of the third session of the Board, changes of the composition of some special committees, adjustment of internal organisations)	2016-06-21

## Major Events and Corporate Governance

No.	Events	Date of Publication
30	Announcement by HTSC on Interest Payment in 2016 for Corporate Bonds (the First Tranche) Issued in 2015	2016-06-22
31	Announcement by HTSC on Resolutions at the 34th Meeting of the Third Session of the Board (the “13th Five-Year” Development Strategy Plan for HTSC)	2016-06-30

### 11. The Company’s reception of investigations and surveys, communications and interviews during the Reporting Period

The investor relations management is one of the Company’s most important tasks on the normative development and operation in compliance of the Company and is highly valued by the Board of the Company. The Company planned, arranged or organized various investor relations activities with a strong sense of responsibility, including coordinating the reception of visitors, keeping in contact with regulatory authorities, investors, intermediary agencies and news media and so on.

The Company’s reception of investigations and surveys, communications, and interviews during the Reporting Period:

Date of reception	Place of reception	Way of reception	Guests	Major topics discussed and information provided
January 7, 2016	The Company	Telephone interview	Fullgoal Fund (富國基金), China Southern Asset, Pinpoint (保銀投資), Guanzeding Investment (冠澤鼎投資), China Export & Credit Insurance, Hua An Fund, Huaqiang Investement (華強投資), Hengde Investment (恒德投資), Qiyuan Investment (啓元資產), Chijiu Investment (持久投資), Yong Rong Asset Management (涌容資產), Zeyuan Investment (澤遠投資), Yingtai Investment (盈泰投資), Ruimeng Investment (睿盟投資), Anji Investment (安際投資) (Sixteen persons/times)	Business development, innovative business and long-term development strategy of the Company
January 20, 2016	The Company	On-site interview	BOC International Holdings Limited (one person/time)	Business development, innovative business and long-term development strategy of the Company

## Major Events and Corporate Governance

Date of reception	Place of reception	Way of reception	Guests	Major topics discussed and information provided
January 21, 2016	The Company	Telephone interview	CMBC International Holdings Limited (three persons/times)	Business development, innovative business and long-term development strategy of the Company
January 27, 2016	The Company	On-site interview	Dongxing Securities (one person/time)	Business development, innovative business and long-term development strategy of the Company
April 5, 2016	The Company	Telephone interview	King Capital Management, L.L.C. (one person/time)	Business development, innovative business and long-term development strategy of the Company
April 12, 2016	The Company	Telephone interview	HSBC, CICC, Bank of America Merrill Lynch, Goldman Sach, J.P. Morgan (ten persons/ times or more)	Business development, innovative business and long-term development strategy of the Company
April 15, 2016	The Company	Telephone interview	CMB International (one person/time)	Business development, innovative business and long-term development strategy of the Company
April 18, 2016	The Company	On-site interview	Industrial Securities (two persons/times)	Business development, innovative business and long-term development strategy of the Company
April 18, 2016	The Company	On-site interview	China Universal Asset Management, Dongxing Securities, Soochow Securities, China Life AMP Asset Management, Chang Xin Asset Management, Pacific Securities (six persons/times)	Business development, innovative business and long-term development strategy of the Company

## Major Events and Corporate Governance

Date of reception	Place of reception	Way of reception	Guests	Major topics discussed and information provided
April 21, 2016	The Company	Telephone interview	JT Capital Management Limited (嘉泰新興資本管理有限公司) (one person/time)	Business development, innovative business and long-term development strategy of the Company
April 29, 2016	The Company	On-site interview	GF Securities (one person/time)	Business development, innovative business and long-term development strategy of the Company
May 6, 2016	The Company	On-site interview	Guotai Junan Securities, PICC Asset Management Company Limited, Huarong Securities, China International Fund Management, Huafu Securities (seven persons/times)	Business development, innovative business and long-term development strategy of the Company
May 11, 2016	The Company	Telephone interview	HSBC (one person/time)	Business development, innovative business and long-term development strategy of the Company
June 2, 2016	The Company	On-site interview	Goldman Sachs Gao Hua, Capital Group (three persons/times)	Business development, innovative business and long-term development strategy of the Company
June 7, 2016	The Company	On-site interview	BOCI Securities (two persons/times)	Business development, innovative business and long-term development strategy of the Company
June 20, 2016	The Company	On-site interview	Northeast Securities, Pacific Securities (two persons/times)	Business development, innovative business and long-term development strategy of the Company

## Major Events and Corporate Governance

Date of reception	Place of reception	Way of reception	Guests	Major topics discussed and information provided
June 21, 2016	The Company	Telephone interview	JPMorgan (three persons/times)	Business development, innovative business and long-term development strategy of the Company
June 23, 2016	The Company	On-site interview	Industrial Securities (two persons/times)	Business development, innovative business and long-term development strategy of the Company
From January 1, 2016 to June 30, 2016	The Company	Telephone communication	Institutional investors and individual investors	Operation of the Company and industry situation



# Changes in Share Capital and Shareholders

## CHANGES IN SHARE CAPITAL

### (I) Statement of changes in share capital

#### 1. Statement of changes in share capital

During the Reporting Period, there was no change in the total number of shares and share capital structure of the Company.

#### 2. Details of changes in shares

As of the end of the Reporting Period, the Company had a total share capital of 7,162,768,800 Shares, including 5,443,723,120 A Shares (representing 76% of the total share capital) and 1,719,045,680 H Shares (representing 24% of the total share capital). During the Reporting Period, there was no change in shares.

### (II) Changes in shares subject to selling restrictions

During the Reporting Period, there was no change in A shares subject to selling restrictions of the Company.

## INFORMATION OF SHAREHOLDERS

### (I) Total number of shareholders:

Total number of shareholders as at the end of the Reporting Period	134,271
Total number of shareholders of preference shares whose voting rights have been restored as at the end of the Reporting Period	0
Total number of A Shareholders as at the end of the Reporting Period	124,181
Total number of registered H Shareholders as at the end of the Reporting Period	10,090

## Changes in Share Capital and Shareholders

### (II) Shareholding of top ten shareholders and top ten holders of tradable shares (or holders of shares not subject to selling restrictions) as at the end of the Reporting Period

Unit: Shares

Name of shareholder (in full name)	Increase/ decrease during the Reporting Period	Number of shares held as at the end of the Reporting Period	Percentage (%)	Shareholding of top ten shareholders			
				Number of share held subject to selling restrictions	Status of shares	Number of shares	Class of shareholder
HKSCC Nominees Limited	(57,612)	1,715,226,848	23.9464	—	Nil	—	Foreign legal person
Jiangsu Guoxin	—	1,250,928,425	17.4643	—	Nil	—	State-owned legal person
Communications Holding	(3,544,000)	448,471,418	6.2611	—	Nil	—	State-owned legal person
Govtor Capital Group Co., Ltd.	—	342,028,006	4.7751	—	Nil	—	State-owned legal person
Jiangsu SOHO Holdings Group Co., Ltd.	(19,000,253)	237,587,391	3.3170	—	Nil	—	State-owned legal person
Jiangsu High Hope International Group Co., Ltd.	(22,802,260)	220,045,036	3.0721	—	Nil	—	State-owned legal person
China Securities Finance Co., Ltd.	4,633,338	216,789,682	3.0266	—	Nil	—	Unknown
Jiangsu Hiteker Co., Ltd.	—	137,403,149	1.9183	—	Unknown	123,169,146	Domestic non-state-owned legal person
Central Huijin Asset Management Co., Ltd.	—	98,222,400	1.3713	—	Nil	—	Unknown
Jiangsu SOHO International Group Corporation	(4,030,000)	92,650,000	1.2935	—	Nil	—	State-owned legal person

## Changes in Share Capital and Shareholders

Shareholding of top ten holders of shares not subject to selling restrictions			
Name of shareholder	Number of tradable shares not subject to selling restrictions	Class and number of shares	
		Class	Number
HKSCC Nominees Limited	1,715,226,848	Overseas listed foreign shares	1,715,226,848
Jiangsu Guoxin	1,250,928,425	Ordinary shares in RMB	1,250,928,425
Communications Holding	448,471,418	Ordinary shares in RMB	448,471,418
Govtor Capital Group Co., Ltd.	342,028,006	Ordinary shares in RMB	342,028,006
Jiangsu SOHO Holdings Group Co., Ltd.	237,587,391	Ordinary shares in RMB	237,587,391
Jiangsu High Hope International Group Co., Ltd.	220,045,036	Ordinary shares in RMB	220,045,036
China Securities Finance Co., Ltd.	216,789,682	Ordinary shares in RMB	216,789,682
Jiangsu Hiteker Co., Ltd.	137,403,149	Ordinary shares in RMB	137,403,149
Central Huijin Asset Management Co. Ltd.	98,222,400	Ordinary shares in RMB	98,222,400
Jiangsu SOHO International Group Corporation	92,650,000	Ordinary shares in RMB	92,650,000
Description of the related relationships or actions in concert between the above shareholders	Jiangsu Guoxin, Communications Holding, Govtor Capital Group Co., Ltd., Jiangsu SOHO Holdings Group Co., Ltd. and Jiangsu Suhui Assets Management Co., Ltd. (the parent company of Jiangsu High Hope International Group Co., Ltd., with 100% shareholding) are wholly-owned by Jiangsu SASAC. Jiangsu SOHO Holdings Group Co., Ltd. is a controlling shareholder of Jiangsu SOHO International Group Corporation and holds 492,441,768 state-owned legal person shares, representing 71.58% of the total share capital of Jiangsu SOHO International Group Corporation and constituting parent-subsidary relationship. Apart from the above, the Company is not aware of any relationship between other shareholders of the Company or whether such shareholders are parties acting in concert specified in the Regulations on the Takeover of Listed Companies.		
Explanation of holders of preference shares with restored voting rights and number of shares held	Nil		

Notes: 1. Among holders of overseas listed foreign shares (H Shares), shares of non-registered shareholders are held by HKSCC Nominees Limited.

2. The class of shareholders of ordinary shares in RMB (A Shares) represents the class of account held by shareholders with Shanghai branch of China Securities Depository and Clearing Corporation Limited.

## Changes in Share Capital and Shareholders

### (III) Strategic investors or common legal persons who became one of the top ten shareholders as a result of subscription of new shares allotted to them

During the Reporting Period, the Company did not have any strategic investors or common legal persons who became one of the top ten shareholders as a result of subscription of new shares allotted to them.

## CHANGES IN CONTROLLING SHAREHOLDERS OR DE FACTO CONTROLLERS

During the Reporting Period, there was no change in controlling shareholders or de facto controllers of the Company.

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

As of June 30, 2016, as far as the Directors of the Company are aware after having made all reasonable enquiries, 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 shall be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Future Ordinance (the "SFO") and were recorded in the register required to be kept by the Company under Section 336 of the SFO.

No.	Name of substantial shareholder	Class of share	Nature of interest	Number of shares held (share)	Percentage of the total issued shares of the Company (%)	Percentage of the total issued A Shares/ H Shares of the Company (%)	Long position (Note 2)/ short position (Note 3)/ shares available for lending
1	Jiangsu Guoxin	A Shares	Beneficial owner (Note 1)	1,250,928,425	17.46	22.98	Long position
2	Communications Holding	A Shares	Beneficial owner (Note 1)	448,471,418	6.26	8.24	Long position
3	Govtor Capital Group Co., Ltd.	A Shares	Beneficial owner (Note 1)	342,028,006	4.78	6.28	Long position
4	Jiangsu SOHO Holdings Group Co., Ltd.	A Shares	Beneficial owner (Note 1)	237,587,391	3.32	4.36	Long position
		A Shares	Interest held by a controlled corporation (Note 4)	92,650,000	1.29	1.70	Long position
5	NSSF	H Shares	Beneficial owner (Note 1)	142,346,200	1.99	8.28	Long position
6	BlackRock, Inc.	H Shares	Beneficial owner (Note 1)	92,028,298	1.28	5.35	Long position

## Changes in Share Capital and Shareholders

Note 1: According to the information disclosed on the websites of the Hong Kong Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) and China Securities Depository and Clearing Co., Ltd ([www.chinaclear.cn/](http://www.chinaclear.cn/)), as of June 30, 2016, Jiangsu Guoxin held 1,250,928,425 A Shares, Communications Holding held 448,471,418 A Shares, Govtor Capital Group Co., Ltd. held 342,028,006 A Shares, Jiangsu SOHO Holdings Group Co., Ltd. held 237,587,391 A Shares and NSSF held 142,346,200 H Shares. Under Section 336 of the SFO, forms disclosing of interests shall be submitted by shareholders of the Company upon satisfaction of certain conditions. Changes of shareholders' shareholdings in the Company are not required to inform the Company and the Hong Kong Stock Exchange, except for the satisfaction of certain conditions. Therefore, there could be difference between substantial shareholders' latest shareholdings in the Company and the shareholding information as reported to the Hong Kong Stock Exchange;

Note 2: A shareholder has a "long position" if such shareholder has an interest in shares, including interests through holding, writing or issuing financial instruments (including derivatives) under which: (i) such shareholder has a right to take the underlying shares; (ii) such shareholder is under an obligation to take the underlying shares; (iii) such shareholder has a right to receive money if the price of the underlying shares increases; or (iv) such shareholder has a right to avoid or reduce a loss if the price of the underlying shares increases;

Note 3: A shareholder has a "short position" if such shareholder borrows shares under a securities borrowing and lending agreement, or holds, writes or issues financial instruments (including derivatives) under which: (i) such shareholder has a right to require another person to take the underlying shares; (ii) such shareholder is under an obligation to deliver the underlying shares; (iii) such shareholder has a right to receive money if the price of the underlying shares declines; or (iv) such shareholder has a right to avoid or reduce a loss if the price of the underlying shares declines; and

Note 4: Jiangsu SOHO Holdings Group Co., Ltd. holds 71.58% of the equity interest of Jiangsu SOHO International Group Corporation, and therefore is deemed to be interested in 92,650,000 shares in which Jiangsu SOHO International Group Corporation is interested.

Save as disclosed above, the Company is not aware of any other person (other than the Directors, Supervisors and chief executive of the Company) having any interests or short positions in the shares or underlying shares of the Company as at June 30, 2016 required to be recorded in the register pursuant to Section 336 of the SFO.

## Changes in Share Capital and Shareholders

### DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As of June 30, 2016, according to the information obtained by the Company and so far as the Directors are aware, interests and short positions held by Directors, Supervisors or chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO), which shall be notified to the Company and the Hong Kong Stock Exchange pursuant to section 347 of Part XV of the SFO are as follows:

No.	Name	Class of share	Nature of interest	Number of shares held (share)	Percentage of	Percentage of	Long position/ short position/ shares available for lending
					the total issued shares of the Company (%)	the total issued A Shares/ H Shares of the Company (%)	
1	Zhou Yi	H Shares	Interest held by a listed corporation (Note 1)	353,261	0.005	0.02	Long position

Note 1: In July 2015, due to the significant fluctuation in share price of the Company, H Shares of the Company were purchased through the targeted asset management scheme for Qualified Domestic Institutional Investor ("QDII") in compliance with the relevant laws and regulations so as to actively help to maintain the stability of the capital market.

Save as disclosed above, as at June 30, 2016, the Company was not aware of any other Directors, Supervisors and the chief executive of the Company having any interests or short positions (including interests or short positions which had been taken or deemed to have under such provisions of SFO) in the shares or underlying shares or debentures of the Company or its associated corporations, which shall be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or would be required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange.

### REPURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY AND ITS SUBSIDIARIES

During the Reporting Period, neither the Company nor any of its subsidiaries had repurchased, sold or redeemed any listed securities of the Company and its subsidiaries.

# Preferential Shares

During the Reporting Period, the Company did not have any matter relating to preferential shares.

# Directors, Supervisors and Senior Management

## CHANGES IN SHAREHOLDING STRUCTURE

### (I) Changes in shareholding structure of current and retired Directors, Supervisors and senior management during the Reporting Period

There were no changes in the shareholding of current and retired Directors, Supervisors and senior management during the Reporting Period.

### (II) Share incentives granted to Directors, Supervisors and senior management during the Reporting Period

During the Reporting Period, the Company did not implement any share incentives granted to Directors, Supervisors and senior management.

## CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The changes in Directors, Supervisors and senior management during the Reporting Period were as follows:

Name	Position	Nature of the change	Reason of the change
Shen Kunrong	Independent non-executive Director	Resignation	Resigned as independent non-executive Director of the third session of the Board and ceased to be a member of Development Strategy Committee under the Board according to relevant regulations
Chen Zhibin	Independent non-executive Director	Resignation	Resigned as independent non-executive Director of the third session of the Board and ceased to be a member of Audit Committee under the Board according to relevant regulations
Dong Junzheng	Supervisor	Resignation	Resigned as Supervisor of the third session of the Board of Supervisors due to work arrangement
Sun Lu	Non-executive Director	Resignation	Resigned as non-executive Director of the third session of the Board due to work arrangement
Wang Shuhua	Non-executive Director	Resignation	Resigned as non-executive Director of the third session of the Board due to work arrangement



## Directors, Supervisors and Senior Management

Name	Position	Nature of the change	Reason of the change
Xu Min	Non-executive Director	Resignation	Resigned as non-executive Director of the third session of the Board due to work arrangement
Gao Xu	Supervisor	Resignation	Redesignated as non-executive Director of the third session of the Board due to work arrangement
Gao Xu	Non-executive Director	Appointment	
Chen Ning	Non-executive Director	Appointment	
Xu Qing	Non-executive Director	Appointment	
Wang Huiqing	Supervisor	Appointment	
Chen Chuanming	Independent non-executive Director	Appointment	
Yang Xiongsheng	Independent non-executive Director	Appointment	
Zhou Yi	Chairman, president	Election	
Qi Liang	Vice president	Resignation	Resigned as vice president of the Company due to work change

On December 7, 2015, independent non-executive Director Mr. Shen Kunrong submitted his resignation as independent non-executive Director of the third session of the Board and a member of Development Strategy Committee under the Board in accordance with relevant regulations; on December 21, 2015, Independent non-executive Director Mr. Chen Zhibin submitted his resignation as independent non-executive Director of the third session of the Board and a member of Audit Committee under the Board in accordance with relevant regulations. However, since the resignation of Mr. Shen Kunrong and Mr. Chen Zhibin would cause the number of independent non-executive Directors of the Company to be less than one third of the Board members, according to the requirements of relevant laws and regulations and the Articles of Association of the Company, the application of resignation of Mr. Shen Kunrong and Mr. Chen Zhibin shall come into effect after successive independent non-executive Directors fill in their vacancies.

## Directors, Supervisors and Senior Management

On March 18, 2016, the first extraordinary general meeting of the Company in 2016 considered and approved the Resolution regarding the Election of Independent Non-executive Directors of the Third Session of the Board of the Company and elected Mr. Chen Chuanming and Mr. Yang Xiongsheng as independent non-executive Directors of the third session of the Board. As Mr. Chen Chuanming has obtained the qualification to serve as independent Director of the securities company as approved by Jiangsu Securities Regulatory Bureau in advance, according to the Articles of Association of the Company, Mr. Chen Chuanming succeeded Mr. Shen Kunrong to perform the duties as an independent non-executive Director in the third session of the Board as from March 18, 2016 and he shall hold the office till the end of this session of the Board. On April 5, 2016, the Company received from Jiangsu Securities Regulatory Bureau the Approval for the Qualification of Yang Xiongsheng as Independent Director of Securities Company (Su Zheng Jian Ji Gou Zi [2016] No. 73). According to relevant regulations and resolutions of the first extraordinary general meeting of the Company in 2016, Mr. Yang Xiongsheng succeeded Mr. Chen Zhibin to perform the duties as an independent non-executive Director in the third session of the Board with immediate effect and he shall hold the office till the end of this session of the Board.

On March 22, 2016, the Board of the Company received the written resignation notice by Vice President Mr. Qi Liang. Mr. Qi Liang submitted his resignation as vice president of the Company due to personal work changes. The resignation takes effect as from the date of submission.

On March 25, 2016, the Board of Supervisors of the Company received the written resignation notice by Supervisor Ms. Dong Junzheng. Ms. Dong Junzheng submitted her resignation as Supervisor of the third session of the Board of Supervisors due to her personal work assignment. According to relevant laws and regulations and the Articles of Association of the Company, Supervisor Ms. Dong Junzheng's resignation takes effect upon receipt of her resignation notice to the Board of Supervisors of the Company.

On June 7, 2016, Mr. Sun Lu, Mr. Wang Shuhua and Ms. Xu Min submitted resignation as non-executive Directors of the Board and members of various special committees under the Board due to work arrangement, and Mr. Gao Xu submitted resignation as Supervisor of the Company due to work arrangement; the 2015 shareholders' annual general meeting of the Company convened that day considered and approved the Resolution on the Appointment of Non-executive Directors of the Third Session of the Board and the Resolution on Appointment of Mr. Wang Huiqing as a Supervisor of the Third Session of the Board of Supervisors and elected Mr. Gao Xu, Mr. Chen Ning and Mr. Xu Qing as non-executive Directors of the third session of the Board and Mr. Wang Huiqing as Supervisor of the third session of the Board of Supervisors. Whereas Mr. Gao Xu, Mr. Chen Ning, Mr. Xu Qing and Mr. Wang Huiqing have obtained the qualifications to serve as directors or supervisor of the securities company as approved by Jiangsu Securities Regulatory Bureau in advance, according to the Articles of Association of the Company, with immediate effect, Mr. Gao Xu, Mr. Chen Ning and Mr. Xu Qing succeeded Mr. Sun Lu, Mr. Wang Shuhua and Ms. Xu Min to perform the duties as non-executive Directors in the third session of the Board, respectively and they shall hold the office till the end of this session of the Board; Mr. Wang Huiqing succeeded Mr. Gao Xu to perform the duties as Supervisor in the third session of the Board of Supervisors and he shall hold the office till the end of this session of the Board of Supervisors.

On June 20, 2016, at the 33rd meeting of the third session of the Board of the Company, Mr. Zhou Yi was elected as chairman of the third session of the Board and he shall hold the office till the end of this session of the Board.

### OTHER INFORMATION

#### (I) Securities transactions of Directors, Supervisors and relevant employees

The Company has adopted the standards set out in the Model Code as codes of conduct for securities transactions by Directors, Supervisors and relevant employees of the Company. The Company has made enquiries with all Directors, Supervisors and senior management, who confirmed had strictly complied with the relevant requirements under the Model Code during the Reporting Period. During the Reporting Period, current and retired Directors, Supervisors and senior management of the Company did not hold any shares or options of the Company and have not been granted any restricted shares.

#### (II) Material changes in the relevant information of Directors and Supervisors

On June 20, 2016, the Company convened the 33rd meeting of the third session of the Board to consider and approve the Proposal in Relation to the Election of Chairman of the Third Session of the Board and proposed to elect Mr. Zhou Yi as chairman of the third session of the Board. Mr. Zhou Yi shall hold the office till the end of this session of the Board.

#### (III) Service contract of Directors and Supervisors

Pursuant to Rules 19A.54 and 19A.55 of the Hong Kong Listing Rules, we have entered into a contract with each of our Directors and Supervisors in respect of (among other things) compliance of relevant laws and regulations and observance of the Articles of Association and provisions on arbitration. Save as disclosed above, none of the Directors or Supervisors has entered into or is proposed to enter into any service contracts with the Company in their respective capacities as Directors/Supervisors (other than contracts expiring or determinable by the relevant employer within one year without the payment of compensation other than statutory compensation).

#### (IV) Employees and remuneration policy

The Group has 6,956 employees, among which 5,419 are employed by the Company and 1,537 by its subsidiaries. The Company attaches great importance to the cultivation and incentive of talents and insists on market-linked remunerations. Based on the performance and capabilities of respective employees, we offer competitive remunerations. We are devoted to establishing a remuneration incentive mechanism which is based on market condition, the remuneration positioning of the Company and employee capabilities, as well as the performance of the Company and its various departments and employee contributions.

## Directors, Supervisors and Senior Management

In compliance with relevant laws and regulations, the Company pays various social insurances (including pension insurance, medical insurance, unemployment insurance, workplace injury insurance and maternity insurance) and housing provident funds in full for our employees. Apart from mandatory welfares, we also provide our employees with a variety of incentive welfares, such as accident insurance, medical insurance, critical illness insurance, etc.

Focusing on business innovation, new employee orientation and management skills, the Company carries out its training programs through combination of internal and external trainings, on-site and online trainings. It builds a learning model by combining E-learning, WeChat and App platform. The annual training scheme has been orderly implemented with 17 internal trainings and 33 external trainings completed in the first half of the year. Approximately 1,044 employees attended on-site trainings. Regarding mobile learning, since our WeChat official account was opened at the end of December last year, we have published 30 micro-lectures and bulletins and gained 2,000-plus followers. The micro-lectures have been read by 28,616 persons. E-learning networking academy can be accessed simultaneously on the webpage, App terminal and WeChat platform. As of the end of June, learning of 19.62 hours per person has been completed.

# Corporate Bonds

## BASIC INFORMATION ON CORPORATE BONDS

Unit: RMB in 100 million Currency: RMB

Name	Abbreviation	Code	Issue date	Expiration date	Balance	Interest rate	Principal and interest payment method	Place for trading
2013 Corporate Bonds of Huatai Securities (Five-year bonds)	13 Huatai 01	122261.SH	2013.6.5	2018.6.5	40.00	4.68%	Principal to be paid upon expiration and interest to be paid annually	Shanghai Stock Exchange
2013 Corporate Bonds of Huatai Securities (Ten-year bonds)	13 Huatai 02	122262.SH	2013.6.5	2023.6.5	60.00	5.10%	Principal to be paid upon expiration and interest to be paid annually	Shanghai Stock Exchange
2015 Corporate Bonds of Huatai Securities (First tranche) (Variety I)	15 Huatai G1	122388.SH	2015.6.29	2018.6.29	66.00	4.20%	Principal to be paid upon expiration and interest to be paid annually	Shanghai Stock Exchange

### Other information about corporate bonds

Public issuance of corporate bonds of not more than RMB10 billion (inclusive) with a term of not more than 10 years (inclusive) was considered and approved at the 17th meeting of the second session of the Board of the Company and the first extraordinary general meeting of the Company in 2013. On May 15, 2013, application for the said public issuance of corporate bonds was approved upon review by the Issuance Examination and Verification Committee of CSRC. On May 31, 2013, CSRC approved the Company to issue corporate bonds with a total par value of not more than RMB10 billion to the public via the Reply on Approving Huatai Securities Co., Ltd. to Issue Corporate Bonds to the Public (Zheng Jian Xu Ke [2013] No. 707). The Reply was valid within six months after the date of approval for issuance. On June 7, 2013, the Company completed the issuance of “13 Huatai 01” and “13 Huatai 02” corporate bonds. During the Reporting Period, the Company paid the interest for the period from June 5, 2015 to June 4, 2016 for “13 Huatai 01” and “13 Huatai 02” bonds on June 6, 2016 with a total amount of RMB493.2 million (tax inclusive).

Public issuance of corporate bonds of not more than RMB7 billion (inclusive) with a term of not more than 10 years (inclusive) was considered and approved at the 16th meeting of the third session of the Board of the Company and the 2014 shareholders’ annual general meeting of the Company. On June 24, 2015, CSRC approved the Company to issue corporate bonds with a total par value of not more than RMB6.6 billion to the public via the Approval on Public Issuance of Company Bonds to Qualified Investors by Huatai Securities Company Limited (Zheng Jian Xu Ke [2015] No. 1326). The Approval was valid within 24 months after the date of approval for issuance. On July 1, 2015, the Company completed the issuance of “15 Huatai G1” corporate bonds. This tranche of bonds was publicly issued to qualified investors meeting the requirements of Article 14 of Administrative Measures for Issue and Trading of Corporate Bonds, and shall only be traded and exchanged among qualified investors upon completion of issuance. During the Reporting Period, on June 29, 2016 the Company settled the interest of “15 Huatai G1” for the period from June 29, 2015 to June 28, 2016. The total amount of such interest payment was RMB277.2 million (tax inclusive).

## Corporate Bonds

### ENTRUSTED MANAGERS OF CORPORATE BONDS AND THEIR CONTACTS AND CONTACTS OF THE CREDIT RATING AGENCY

Entrusted manager of corporate bonds (13 Huatai 01 and 13 Huatai 02)	Name	GF Securities Co., Ltd.
	Office address	Room 4301-4316, 43rd Floor, Metropolitan Plaza, 183-187 Tianhe North Road, Tianhe District, Guangzhou, Guangdong Province
	Contact persons	Zuo Yaxiu, Chen Guang, Li Qingwei
	Tel. No.	020-8755 5888
Entrusted manager of corporate bonds (15 Huatai G1)	Name	Industrial Securities Co., Ltd.
	Office address	Room 1103, Block B, Xincheng Mansion, 5 Finance Avenue, Xicheng District, Beijing
	Contact person	Meng Xiang
	Tel. No.	010-66553783
Credit rating agency (13 Huatai 01 and 13 Huatai 02)	Name	Shanghai Brilliance Credit Rating & Investors Service Co., Ltd.
	Office address	14th Floor, Huasheng Mansion, 398 Hankou Road, Shanghai
Credit rating agency (15 Huatai G1)	Name	Shanghai Brilliance Credit Rating & Investors Service Co., Ltd.
	Office address	14th Floor, Huasheng Mansion, 398 Hankou Road, Shanghai

### USE OF PROCEEDS FROM CORPORATE BONDS

All the proceeds from 2013 corporate bonds have been used to supplement the Company's working capital and mainly for the purposes of expanding the scale of its margin financing and securities lending, stock repurchase and stock pledged repurchase business. The use of the proceeds is in compliance with the requirements of prospectus. All the proceeds from 2015 corporate bonds have been used to supplement the Company's working capital and for the main purposes of expanding the scale of its margin financing and securities lending, stock repurchase and stock pledged repurchase business and other innovative businesses that meet the regulatory requirements and other purposes in relation to the primary businesses of the Company. The use of the proceeds is in compliance with the covenants of prospectus.

### INFORMATION ON THE CREDIT RATING AGENCY FOR THE CORPORATE BONDS

In compliance with Administrative Measures for Issue and Trading of Corporate Bonds of CSRC and the Listing Rules for Corporate Bonds of Shanghai Stock Exchange, the Company entrusted Shanghai Brilliance Credit Rating & Investors Service Co., Ltd. (“Shanghai Brilliance”) to update the credit ratings of “13 Huatai 01”, “13 Huatai 02” and “15 Huatai G1” corporate bonds.

On April 25, 2016, Shanghai Brilliance issued the Updated Credit Rating Report on the 2013 and 2015 Corporate Bonds of Huatai Securities Co., Ltd., which reaffirmed the AAA credit rating for the Company’s “13 Huatai 01”, “13 Huatai 02” and “15 Huatai G1” bonds, the AAA entity credit rating for the Company and a stable rating outlook. Announcement of the Updated Credit Rating Results of 2013 and 2015 Corporate Bonds and 2014 and 2015 Subordinated Bonds of Huatai Securities Co., Ltd. was published on China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily and the website of Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) on April 30, 2016.

### CREDIT ENHANCEMENT MECHANISM AND SETTLEMENT PLAN FOR AND OTHER RELEVANT INFORMATION ON THE CORPORATE BONDS DURING THE REPORTING PERIOD

The credit enhancement mechanism for the two tranches of corporate bonds of the Company is issued with no security, and the settlement plan is to pay the interest once annually in the duration of the bonds and to pay the principal together with the last instalment of interest. During the Reporting Period, there was no change in the credit enhancement mechanism, settlement plan and other settlement safeguards for the corporate bonds, and the Company strictly performed the covenants set out in the prospectus in relation to the settlement plan, paid interests for the corporate bonds on time, and disclosed relevant information on the Company in a timely manner, to protect the legal interests of the investors.

### MEETINGS OF THE HOLDERS OF CORPORATE BONDS

During the Reporting Period, the Company did not hold any meeting for the holders of corporate bonds.

### PERFORMANCE OF THE DUTIES BY THE ENTRUSTED MANAGERS OF CORPORATE BONDS

During the Reporting Period, GF Securities Co., Ltd., as the entrusted manager of the corporate bonds, issued the Report on the Entrusted Affairs in Relation to the 2013 Corporate Bonds of Huatai Securities Co., Ltd. (Year 2015). Full text of the report was published on the website of Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)).

## Corporate Bonds

During the Reporting Period, Industrial Securities Co., Ltd., as the entrusted manager of the corporate bonds, issued the Report on the Entrusted Affairs in Relation to the 2015 Corporate Bonds (1st tranche) of Huatai Securities Co., Ltd. (Year 2015). Full text of the report was published on the website of Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)).

### ACCOUNTING DATA AND FINANCIAL INDICATORS AS AT THE END OF THE REPORTING PERIOD AND THE END OF THE PREVIOUS YEAR (OR THIS REPORTING PERIOD AND CORRESPONDING PERIOD IN THE PREVIOUS YEAR)

Unit and Currency: RMB

Primary indicators	As at the end of the Reporting Period	As at the end of the previous year	Change (%)	Reason for the change
Current ratio	1.56	1.84	(15.22)	The financial assets at fair value through profit or loss in current assets decreased significantly, while the long-term bonds maturing within one year in current liabilities increased
Quick ratio	1.56	1.84	(15.22)	The financial assets at fair value through profit or loss in current assets decreased significantly, while the long-term bonds maturing within one year in current liabilities increased
Gearing ratio	72.51%	74.85%	(3.13)	Among assets of the Group, the financial assets at fair value through profit or loss and margin accounts receivable decreased significantly, while among liabilities, the accounts payable to brokerage clients, financial assets sold under repurchase agreements and long-term bonds fell even more sharply.
Loan repayment ratio	100%	100%	—	—



	Reporting Period (January to June)	Corresponding period in the previous year	Change (%)	Reason for the change
Time interest earned of EBITDA	2.39	3.44	(30.52)	EBITDA in the Reporting Period decreased significantly
Interest payment ratio	100%	100%	—	—

Note: Customers' funds are not included in the above indicators.

## ASSETS OF THE COMPANY AS AT THE END OF THE REPORTING PERIOD

As of the end of the Reporting Period, the Company raised loans with a maximum amount of RMB500,000,000.00 for its projects from ICBC, Nanjing Xijiekou Sub-branch secured with land use rights, the original value of which was RMB353,732,401.40 with an accumulative amortisation of RMB57,935,179.56 and a carrying value of RMB295,797,221.84.

## INTEREST PAYMENT FOR AND REDEMPTION OF OTHER BONDS AND DEBT FINANCING INSTRUMENTS OF THE COMPANY

### (I) Redemption and interest payment of bonds of the Company

During the Reporting Period, the Company settled the interest of "13 Huatai 01" and "13 Huatai 02" bonds for the period from June 5, 2015 to June 4, 2016, on June 6, 2016. The total amount of such interest payment was RMB493,200,000 (tax inclusive).

During the Reporting Period, the Company settled the interest of "15 Huatai G1" bonds for the period from June 29, 2015 to June 28, 2016, on June 29, 2016. The total amount of such interest payment was RMB277,200,000 (tax inclusive).

## Corporate Bonds

### (II) Redemption and interest payment of subordinated bonds

Details of the redemption and interest payment of subordinated bonds by the Company during the Reporting Period were as follows:

Unit: RMB in 100 million Currency: RMB

Abbreviation of the bonds	Issue size	Closing balance	Coupon rate (%)	Value date	Maturity date	Redemption and interest payment
14 Huatai 02	30.00	—	6.15	2014.4.21	2016.4.21	Principal and interest payment
15 Huatai 01	60.00	60.00	5.90	2015.1.23	2017.1.23	Interest payment
15 Huatai 02	70.00	—	5.60	2015.4.21	2017.4.21	Principal and interest payment
15 Huatai 03	50.00	50.00	5.80	2015.4.21	2020.4.21	Interest payment
15 Huatai 04	180.00	180.00	5.50	2015.6.26	2017.6.26	Interest payment

Note: 1. "15 Huatai 02" bonds rendered the issuer an option for redemption at the end of the first year

2. "15 Huatai 03" bonds rendered the issuer an option for redemption at the end of the third year

During the Reporting Period, the Company settled the principal and interest of 14 Huatai 02 (123381), the first tranche of subordinated bonds privately placed by the Company in 2014. The total amount of such payment was RMB3,184,500,000.00 (tax inclusive). The Company also settled the interest of 15 Huatai 01 (123265), the first tranche of subordinated bonds privately placed by the Company in 2015, for the period from January 23, 2015 to January 22, 2016. The total amount of such interest payment was RMB354,000,000.00 (tax inclusive). The Company settled the principal and interest of 15 Huatai 02 (123099), the second tranche of subordinated bonds privately placed by the Company on April 20, 2015. The total amount of such payment was RMB7,392,000,000.00 (tax inclusive). The Company also settled the interest of 15 Huatai 03 (123100), the subordinated bonds privately placed by the Company in 2015, for the period from April 21, 2015 to April 20, 2016. The total amount of such interest payment was RMB290,000,000.00 (tax inclusive). The Company settled the interest of 15 Huatai 04 (125978), the subordinated bonds privately placed by the Company in 2015, for the period from June 26, 2015 to June 25, 2016. The total amount of such interest payment was RMB990,000,000.00 (tax inclusive). For details, please refer to the announcements published on China Securities Journal, the Shanghai Securities News, Securities Times, Securities Daily and the website of the Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)).

### **BANK CREDIT OF THE COMPANY DURING THE REPORTING PERIOD**

During the Reporting Period, the Company enhanced credit management, and as of the end of June 2016, the total credit line obtained by the Company from commercial banks was RMB330 billion, representing a significant increase as compared with that as at the end of last year, which effectively supported the development of all the businesses of the Company.

The Company enjoys a good reputation, and repaid bank loans on time during the Reporting Period without extension or reduction of any loan.

### **PERFORMANCE OF RELEVANT COVENANTS OR UNDERTAKINGS IN THE PROSPECTUS FOR CORPORATE BONDS BY THE COMPANY DURING THE REPORTING PERIOD**

During the Reporting Period, the Company strictly performed the relevant covenants or undertakings in the prospectus for corporate bonds, and the usage of the proceeds was in line with the covenants in the prospectus. The Company strictly performed its obligations for information disclosure, and paid the interests for the bonds on time to protect the legal interests of the investors. During the Reporting Period, the Company did not default on the redemption and interest payment of issued bonds, and operated stably with satisfactory earnings and no risk of it failing to make payments on time in the future.

### **MAJOR EVENTS OF THE COMPANY AND THEIR IMPACT ON THE OPERATION AND SOLVENCY OF THE COMPANY**

During the Reporting Period, the Company did not experience any major event that could impact the operation and solvency of the Company.

# Report on Review of Interim Financial Information

- I. The Interim Financial Report for 2016 had been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements (see attached below for the auditor's review report).
- II. The auditor's review report on interim financial information (attached below).

# Report on Review of Interim Financial Report



To the board of directors of Huatai Securities Co., Ltd.

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

## INTRODUCTION

We have reviewed the accompanying interim financial report set out on pages 123 to 222, which comprises the consolidated statements of financial position of Huatai Securities Co., Ltd. (the “Company”) and its subsidiaries (collectively the “Group”) as at 30 June 2016 and the related consolidated income statements, consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim Financial Reporting* (“IAS 34”), issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of interim financial report in accordance with IAS 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report 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 Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

# Report on Review of Interim Financial Report

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial report as at 30 June 2016 is not prepared, in all material respects, in accordance with IAS 34.

### **KPMG**

*Certified Public Accountants*

8th Floor,  
Prince's Building  
10 Chater Road  
Central,  
Hong Kong

19 August 2016

# Unaudited Consolidated Income Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June	
		2016	2015
<b>Revenue</b>			
Fee and commission income	5	5,381,541	11,096,770
Interest income	6	4,482,460	6,452,646
Net investment gains	7	1,584,705	3,333,709
<b>Total revenue</b>		<b>11,448,706</b>	20,883,125
Other income and gains	8	132,594	405,458
<b>Total revenue and other income</b>		<b>11,581,300</b>	21,288,583
Fee and commission expenses	9	(1,403,748)	(3,126,773)
Interest expenses	10	(2,934,619)	(3,683,315)
Staff costs	11	(2,367,637)	(4,091,491)
Depreciation and amortisation expenses	12	(187,681)	(153,379)
Business tax and surcharges	13	(343,744)	(921,431)
Other operating expenses	14	(656,758)	(678,187)
Reversal of impairment losses	15	5,265	2,362
<b>Total expenses</b>		<b>(7,888,922)</b>	(12,652,214)
<b>Operating profit</b>		<b>3,692,378</b>	8,636,369
Share of profit of associates and joint venture		185,634	197,504
<b>Profit before income tax</b>		<b>3,878,012</b>	8,833,873
Income tax expense	16	(934,459)	(2,115,301)
<b>Profit for the period</b>		<b>2,943,553</b>	6,718,572
Attributable to:			
Shareholders of the Company		2,841,253	6,674,823
Non-controlling interests		102,300	43,749
		<b>2,943,553</b>	6,718,572
Basic and diluted earnings per share (in Renminbi per share)	17	0.40	1.14

The notes on pages 134 to 222 form part of this interim financial report. Details of dividends payable to equity shareholders of the company are set out in Note 46.

# Unaudited Consolidated Statements of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June	
		2016	2015
<b>Profit for the period</b>		<b>2,943,553</b>	6,718,572
<b>Other comprehensive income for the period</b>			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets			
— Net changes in fair value		<b>(1,650,569)</b>	2,058,358
— Reclassified to profit or loss		<b>(14,537)</b>	(22,357)
Share of other comprehensive income of associates and joint venture		<b>(6,670)</b>	43,189
Exchange differences on translation of financial statements in foreign currencies		<b>20,321</b>	3,217
Income tax impact		<b>409,458</b>	(397,854)
<b>Total other comprehensive income for the period, net of tax</b>		<b>(1,241,997)</b>	1,684,553
<b>Total comprehensive income for the period</b>		<b>1,701,556</b>	8,403,125
Attributable to:			
Shareholders of the Company		<b>1,598,522</b>	8,357,738
Non-controlling interests		<b>103,034</b>	45,387
<b>Total</b>		<b>1,701,556</b>	8,403,125

The notes on pages 134 to 222 form part of this interim financial report.



# Unaudited Consolidated Statements of Financial Position

As at 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	As at 30 June 2016	As at 31 December 2015
<b>Non-current assets</b>			
Property and equipment	18	3,496,920	3,379,018
Investment properties		1,221,646	1,301,531
Goodwill		51,342	51,342
Other intangible assets	19	407,046	424,968
Interest in associates	20	2,657,744	2,673,834
Interest in joint venture	21	100,154	—
Held-to-maturity investments		5,000	5,000
Available-for-sale financial assets	22	27,299,413	25,624,381
Financial assets held under resale agreements		2,911,643	3,843,367
Financial assets at fair value through profit or loss	23	1,216,667	1,200,000
Refundable deposits		7,630,318	6,009,300
Deferred tax assets	24	528,684	212,609
Other non-current assets	25	67,634	78,174
<b>Total non-current assets</b>		<b>47,594,211</b>	<b>44,803,524</b>
<b>Current assets</b>			
Accounts receivable	26	1,996,256	621,554
Other receivables and prepayments	27	5,605,430	3,896,218
Margin accounts receivable	28	51,455,667	67,432,118
Available-for-sale financial assets	22	12,482,438	12,494,340
Financial assets held under resale agreements		24,831,958	21,791,161
Financial assets at fair value through profit or loss	23	91,986,127	130,038,108
Derivative financial assets	29	934,651	334,750
Clearing settlement funds	30	1,487,189	2,551,703
Cash held on behalf of brokerage clients	31	107,580,069	131,944,524
Cash and bank balances	32	56,725,321	36,706,615
<b>Total current assets</b>		<b>355,085,106</b>	<b>407,811,091</b>
<b>Total assets</b>		<b>402,679,317</b>	<b>452,614,615</b>

The notes on pages 134 to 222 form part of this interim financial report.

# Unaudited Consolidated Statements of Financial Position

As at 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	As at 30 June 2016	As at 31 December 2015
<b>Current liabilities</b>			
Short-term bank loans	34	759,936	688,322
Short-term debt instruments issued	35	175,000	1,053,004
Placements from financial institutions	36	1,500,000	3,000,000
Accounts payable to brokerage clients	37	112,581,937	128,367,379
Employee benefits payable		2,079,539	2,807,787
Other payables and accruals	38	98,351,378	99,320,062
Current tax liabilities		492,090	2,193,031
Financial assets sold under repurchase agreements		21,361,435	22,392,019
Financial liabilities at fair value through profit or loss	39	833,393	14,479,838
Derivative financial liabilities	29	698,785	2,460,345
Long-term bank loans due within one year	40	121,448	125,000
Long-term bonds due within one year	41	28,632,798	2,998,178
<b>Total current liabilities</b>		<b>267,587,739</b>	<b>279,884,965</b>
<b>Net current assets</b>		<b>87,497,367</b>	<b>127,926,126</b>
<b>Total assets less current liabilities</b>		<b>135,091,578</b>	<b>172,729,650</b>
<b>Non-current liabilities</b>			
Long-term bonds	42	24,217,766	69,374,000
Long-term bank loans	43	303,677	359,985
Non-current employee benefits payable		3,763,396	3,366,621
Deferred tax liabilities	24	154,838	351,819
Financial assets sold under repurchase agreements		700,000	10,800,000
Financial liabilities at fair value through profit or loss	39	26,214,545	6,948,454
<b>Total non-current liabilities</b>		<b>55,354,222</b>	<b>91,200,879</b>
<b>Net assets</b>		<b>79,737,356</b>	<b>81,528,771</b>

The notes on pages 134 to 222 form part of this interim financial report.

# Unaudited Consolidated Statements of Financial Position

As at 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	As at 30 June 2016	As at 31 December 2015
<b>Equity</b>			
Share capital	44	<b>7,162,769</b>	7,162,769
Reserves	45	<b>57,147,402</b>	58,390,133
Retained profits	46	<b>14,491,892</b>	15,232,023
<hr/>			
Total equity attributable to shareholders of the Company		<b>78,802,063</b>	80,784,925
Non-controlling interests		<b>935,293</b>	743,846
<hr/>			
<b>Total equity</b>		<b>79,737,356</b>	81,528,771

Approved and authorised for issue by the board of directors on 19 August 2016.

**Zhou Yi**

*Chairman of the Board, Director and President*

**Chen Chuanming**

*Director*

The notes on pages 134 to 222 form part of this interim financial report.

# Unaudited Consolidated Statements of Changes in Equity

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to shareholders of the Company									
	Reserves							Total	Non-controlling interests	Total equity
	Share capital (Note 44)	Capital reserve (Note 45)	Surplus reserve (Note 45)	General reserve (Note 45)	Fair value reserve (Note 45)	Translation reserve (Note 45)	Retained profits (Note 46)			
As at 1 January 2016	7,162,769	45,837,763	2,607,376	6,681,123	3,237,861	26,010	15,232,023	80,784,925	743,846	81,528,771
Change in equity for the period										
Profit for the period	—	—	—	—	—	—	2,841,253	2,841,253	102,300	2,943,553
Other comprehensive income	—	—	—	—	(1,263,769)	21,038	—	(1,242,731)	734	(1,241,997)
Total comprehensive income	—	—	—	—	(1,263,769)	21,038	2,841,253	1,598,522	103,034	1,701,556
Capital injection by non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	88,413	88,413
Dividend declared for the period	—	—	—	—	—	—	(3,581,384)	(3,581,384)	—	(3,581,384)
As at 30 June 2016	7,162,769	45,837,763	2,607,376	6,681,123	1,974,092	47,048	14,491,892	78,802,063	935,293	79,737,356
As at 1 January 2015	5,600,000	17,221,261	1,692,854	4,611,610	1,889,206	(35,562)	10,319,187	41,298,556	645,852	41,944,408
Change in equity for the period										
Profit for the period	—	—	—	—	—	—	6,674,823	6,674,823	43,749	6,718,572
Other comprehensive income	—	—	—	—	1,679,655	3,260	—	1,682,915	1,638	1,684,553
Total comprehensive income	—	—	—	—	1,679,655	3,260	6,674,823	8,357,738	45,387	8,403,125
Issuance of H shares	1,562,769	28,603,742	—	—	—	—	—	30,166,511	—	30,166,511
Capital transaction with non-controlling shareholders of subsidiaries	—	30,962	—	—	—	—	—	30,962	5,619	36,581
Dividend declared for the period	—	—	—	—	—	—	(2,800,000)	(2,800,000)	—	(2,800,000)
As at 30 June 2015	7,162,769	45,855,965	1,692,854	4,611,610	3,568,861	(32,302)	14,194,010	77,053,767	696,858	77,750,625

# Unaudited Consolidated Statements of Changes in Equity

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to shareholders of the Company									
	Reserves							Total	Non-controlling interests	Total equity
	Share capital (Note 44)	Capital reserve (Note 45)	Surplus reserve (Note 45)	General reserve (Note 45)	Fair value reserve (Note 45)	Translation reserve (Note 45)	Retained profits (Note 46)			
As at 1 January 2015	5,600,000	17,221,261	1,692,854	4,611,610	1,889,206	(35,562)	10,319,187	41,298,556	645,852	41,944,408
Changes in equity for the year										
Profit for the year	—	—	—	—	—	—	10,696,871	10,696,871	101,037	10,797,908
Other comprehensive income	—	—	—	—	1,348,655	61,572	—	1,410,227	24,839	1,435,066
Total comprehensive income	—	—	—	—	1,348,655	61,572	10,696,871	12,107,098	125,876	12,232,974
Issuance of H shares	1,562,769	28,590,928	—	—	—	—	—	30,153,697	—	30,153,697
Capital injection by non-controlling shareholders of a subsidiary	—	—	—	—	—	—	—	—	171	171
Capital transaction with non-controlling shareholders of subsidiaries	—	25,574	—	—	—	—	—	25,574	(28,053)	(2,479)
Appropriation to surplus reserve	—	—	914,522	—	—	—	(914,522)	—	—	—
Appropriation to general reserve	—	—	—	2,069,513	—	—	(2,069,513)	—	—	—
Dividends declared for the year	—	—	—	—	—	—	(2,800,000)	(2,800,000)	—	(2,800,000)
As at 31 December 2015	7,162,769	45,837,763	2,607,376	6,681,123	3,237,861	26,010	15,232,023	80,784,925	743,846	81,528,771

The notes on pages 134 to 222 form part of this interim financial report.

# Unaudited Consolidated Cash Flow Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended 30 June		
	Note	2016	2015
<b>Cash flows from operating activities:</b>			
Profit before income tax		<b>3,878,012</b>	8,833,873
Adjustments for:			
Interest expenses		<b>2,934,619</b>	3,683,315
Share of profit of associates and joint venture		<b>(185,634)</b>	(197,504)
Depreciation and amortisation expenses		<b>187,681</b>	153,379
Reversal of impairment losses		<b>(5,265)</b>	(2,362)
(Gains)/losses on disposal of property and equipment		<b>(540)</b>	1,495
Foreign exchange losses/(gains)		<b>23,437</b>	(331,388)
Net realised losses/(gains) from available-for-sale financial assets		<b>456,457</b>	(241,160)
Dividend income and interest income from available-for-sale financial assets and held-to-maturity investments		<b>(209,788)</b>	(151,070)
Unrealised fair value changes in financial instruments through profit or loss		<b>2,106,483</b>	(127,362)
Unrealised fair value changes in derivatives		<b>(2,352,732)</b>	814,740
<b>Operating cash flows before movements in working capital</b>		<b>6,832,730</b>	12,435,956
Increase in refundable deposits		<b>(1,621,018)</b>	(2,153,573)
Decrease/(increase) in margin accounts receivable		<b>15,984,609</b>	(50,041,252)
Increase in accounts receivable, other receivables and prepayments		<b>(2,739,209)</b>	(2,721,586)
Increase in financial assets held under resale agreements		<b>(1,666,107)</b>	(2,815,568)
Decrease/(increase) in financial instruments at fair value through profit or loss		<b>36,335,678</b>	(13,190,577)
Increase in restricted bank deposits		<b>(12,711,659)</b>	(1,715,521)
Decrease/(increase) in cash held on behalf of brokerage clients		<b>24,364,455</b>	(136,691,555)
(Decrease)/increase in other payables and accruals		<b>(2,639,068)</b>	49,830,050
(Decrease)/increase in accounts payable to brokerage clients		<b>(15,785,442)</b>	134,910,871
(Decrease)/increase in employee benefits payable		<b>(331,472)</b>	1,305,407
(Decrease)/increase in financial assets sold under repurchase agreements		<b>(11,130,584)</b>	13,286,779
(Decrease)/increase in placements from financial institutions		<b>(1,500,000)</b>	1,900,000
<b>Cash generated from operations</b>		<b>33,392,913</b>	4,339,431
Income taxes paid		<b>(2,738,866)</b>	(868,928)
Interest paid		<b>(1,064,715)</b>	(1,686,244)
<b>Net cash generated from operating activities</b>		<b>29,589,332</b>	1,784,259

The notes on pages 134 to 222 form part of this interim financial report.

# Unaudited Consolidated Cash Flow Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June	
		2016	2015
<b>Cash flows from investing activities:</b>			
Proceeds on disposal of property and equipment		2,180	798
Dividends received from associate		49,000	—
Dividends and interest received from available-for-sale financial assets and held-to-maturity investments		209,788	151,070
Proceeds from other limited partners' interest in private equity funds		5,204,068	718,000
Purchases of property and equipment, investment properties, other intangible assets and other non-current assets		(214,739)	(378,213)
Purchases of associates and joint venture		(116,100)	(193,000)
Purchase or proceeds on disposal of available-for-sale financial assets, net		(3,811,287)	1,239,528
Payment on other investment activities		(155,604)	—
Net cash generated from investing activities		1,167,306	1,538,183
<b>Cash flows from financing activities:</b>			
Capital injection from non-controlling shareholders		88,413	—
Proceeds from transaction with non-controlling shareholders		—	36,581
Proceeds from issuance of short-term debt instruments		274,600	35,030,580
Proceeds from issuance of long-term bonds		—	42,661,136
Proceeds from issuance of H shares		—	30,594,755
Proceeds from bank loans		55,845	228,437
Repayment of debt securities issued		(20,812,463)	(28,543,063)
Short-term debt instruments interest paid		(84,434)	(519,334)
Long-term bonds interest paid		(3,556,207)	(655,977)
Bank loans interest paid		(14,645)	—
Dividends paid		—	(2,800,000)
Payment for other financing activities		(85,925)	(28,683)
Net cash (used in)/generated from financing activities		(24,134,816)	76,004,432
Net increase in cash and cash equivalents		6,621,822	79,326,874
Cash and cash equivalents at the beginning of the period		18,595,759	31,883,884
Effect of foreign exchange rate changes		67,077	334,605
Cash and cash equivalents at the end of the period	33	25,284,658	111,545,363

The notes on pages 134 to 222 form part of this interim financial report.

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

*(Expressed in thousands of Renminbi, unless otherwise stated)*

## 1 GENERAL INFORMATION

Huatai Securities Co., Ltd. (the “Company”), formerly known as Jiangsu Securities Company, was approved by the People’s Bank of China (“PBOC”), and registered with the Administration for Industry and Commerce of Jiangsu Province on 9 April 1991, with a registered capital of RMB10 million. The Company was renamed as Huatai Securities Limited Liability Company on 21 December 1999 and then renamed as Huatai Securities Co., Ltd. on 7 December 2007 as a result of the conversion into a joint stock limited liability company.

The Company publicly issued RMB784,561 thousand ordinary shares (A shares) in February 2010, and was listed on the Shanghai Stock Exchange on 26 February 2010.

In June 2015, the Company issued RMB1,562,769 thousand H shares, which were listed on the main board of The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”).

As at 30 June 2016, the Company’s registered capital was RMB7,162,769 thousand and the Company has a total of 7,162,769 thousand issued shares of RMB1 each.

The Company and its subsidiaries (the “Group”) principally engaged in securities brokerage, securities proprietary trading, securities underwriting and sponsorship, securities investment advisory, asset management, margin financing and securities lending, agency sale of financial products, intermediary introduction business for the futures companies, agency sale and custody of securities investment fund, brokerage of spot contracts for precious metal such as gold, proprietary trading of spot contract for gold, direct investment business, alternative investment business, stock option market making, futures brokerage business, industrial investment, import and export of commodity, entrepot trade, commodity sales service, hotel operation and other business activities as approved by the China Securities Regulatory Commission (“CSRC”).

## 2 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, and compliance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, issued by the International Accounting Standards Board. It was authorised for issue on 19 August 2016.



# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 2 BASIS OF PREPARATION (continued)

The consolidated interim financial report do not include all the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”). However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group’s financial position and performance since the last annual consolidated financial report as at and for the year ended 31 December 2015.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG’s independent review report to the Board of Directors is issued on 19 August 2016.

The financial information relating to the financial year ended 31 December 2015 that is included in the interim financial report as comparative information does not constitute the Group’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. The auditors have expressed an unqualified opinion on those financial statements in their report dated 29 March 2016.

## 3 USE OF JUDGEMENTS AND ESTIMATES

The preparation of the consolidated interim financial report requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results in the future may differ from those reported as a result of the use of estimates and assumptions about future conditions.

The significant judgements made by management in applying the Group’s accounting policies and key sources of uncertainty were the same as those applied in the preparation of the consolidated financial statements for the year ended 31 December 2015.

### (a) Measurement of fair values

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level III fair values, and reports directly to the Chief Financial Officer.

The valuation team regularly reviews significant unobservable inputs and valuation adjustment. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRSs, including the level in the fair value hierarchy in which such valuations should be classified.

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 3 USE OF JUDGEMENTS AND ESTIMATES (continued)

### (a) Measurement of fair values (continued)

Significant valuation issues are reported to the Group Audit Committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level I: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level II: inputs other than quoted prices included in Level I that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level III: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumption made in measuring fair values is included in Note 53 — fair value information.

## 4 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the consolidated interim financial report are consistent with those followed in the preparation of the Group's annual financial statements prepared in accordance with IFRSs (including IASs) for the year ended 31 December 2015, except for the adoption of the following amendments to standards effective on 1 January 2016:

- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Annual Improvements to IFRSs 2012–2014 Cycle
- Amendments to IAS 1: Disclosure Initiative

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 4 SIGNIFICANT ACCOUNTING POLICIES (continued)

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

## 5 FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2016	2015
Income from securities brokerage and advisory business	<b>4,102,493</b>	10,162,021
Income from futures brokerage business	<b>113,938</b>	135,712
Income from underwriting and sponsorship business	<b>624,468</b>	494,168
Income from financial advisory business	<b>251,118</b>	139,762
Income from asset management business	<b>250,684</b>	165,107
Other commission income	<b>38,840</b>	—
Total	<b>5,381,541</b>	11,096,770

## 6 INTEREST INCOME

	Six months ended 30 June	
	2016	2015
Interest income from margin financing and securities lending	<b>2,134,595</b>	4,042,995
Interest income from financial institutions	<b>1,604,001</b>	1,607,264
Interest income from securities-backed lending and stock repurchases	<b>706,322</b>	521,948
Interest income from other financial assets held under resale agreements	<b>37,192</b>	17,750
Others	<b>350</b>	262,689
Total	<b>4,482,460</b>	6,452,646

## Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

### 7 NET INVESTMENT GAINS

	Six months ended 30 June	
	2016	2015
Net realised (losses)/gains from disposal of available-for-sale financial assets	(456,457)	241,160
Dividend income and interest income from available-for-sale financial assets	209,676	150,956
Net realised (losses)/gains from disposal of financial instruments		
at fair value through profit or loss	(1,656,224)	5,244,097
Dividend income and interest income from financial instruments		
at fair value through profit or loss	1,461,719	700,582
Net realised gains/(losses) from disposal of derivative financial instruments	1,778,834	(3,354,672)
Interest income from held-to-maturity investments	112	114
Unrealised fair value changes of financial instruments		
at fair value through profit or loss	(2,106,483)	127,362
Unrealised fair value changes of derivative financial instruments	2,353,528	224,110
<b>Total</b>	<b>1,584,705</b>	<b>3,333,709</b>

### 8 OTHER INCOME AND GAINS

	Six months ended 30 June	
	2016	2015
Rental income	35,167	20,108
Income from hotel operation	27,090	—
Government grants	18,587	3,241
Income from commodity sales	11,328	—
Gains on disposal of property and equipment	969	181
Foreign exchange (losses)/gains	(23,437)	331,388
Others	62,890	50,540
<b>Total</b>	<b>132,594</b>	<b>405,458</b>

The government grants were received unconditionally by the Company and its subsidiaries from the local government where they reside.

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 9 FEE AND COMMISSION EXPENSES

	Six months ended 30 June	
	2016	2015
Expenses for securities brokerage and advisory business	<b>1,225,368</b>	3,090,800
Expenses for futures brokerage business	<b>8,478</b>	11,579
Expenses for underwriting and sponsorship business	<b>25,566</b>	20,080
Expenses for financial advisory business	<b>15,460</b>	1,100
Expenses for asset management business	<b>126,791</b>	3,214
Other commission expenses	<b>2,085</b>	—
Total	<b>1,403,748</b>	3,126,773

## 10 INTEREST EXPENSES

	Six months ended 30 June	
	2016	2015
Interest expenses on financial assets sold under repurchase agreements	<b>610,995</b>	1,609,794
Interest expenses of accounts payable to brokerage clients	<b>225,002</b>	221,158
Interest expenses on placements	<b>25,046</b>	116,171
Interest expenses on short-term debt instruments issued	<b>13,656</b>	784,185
Interest expenses on long-term bonds	<b>1,818,811</b>	784,748
Interest expenses on gold leasing	<b>169,368</b>	153,385
Others	<b>71,741</b>	13,874
Total	<b>2,934,619</b>	3,683,315

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 11 STAFF COSTS

	Six months ended 30 June	
	2016	2015
Salaries, bonuses and allowances	<b>2,122,397</b>	3,907,002
Contribution to pension schemes	<b>86,266</b>	62,513
Other social welfare	<b>158,974</b>	121,976
Total	<b>2,367,637</b>	4,091,491

The domestic employees of the Group in the PRC participate in social plans, including pension, medical, housing, and other welfare benefits, organised and administered by the governmental authorities. The Group also operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. According to the relevant regulations, the premiums and welfare benefits contributions that should be borne by the Group are calculated on regular basis and paid to the labor and social welfare authorities. The contributions to the social security plans are expensed as incurred.

## 12 DEPRECIATION AND AMORTISATION EXPENSES

	Six months ended 30 June	
	2016	2015
Depreciation of property and equipment	<b>96,495</b>	77,494
Depreciation of investment properties	<b>17,498</b>	11,371
Amortisation of other intangible assets	<b>51,963</b>	37,437
Amortisation of leasehold improvements and long-term deferred expenses	<b>21,725</b>	27,077
Total	<b>187,681</b>	153,379

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 13 BUSINESS TAX AND SURCHARGES

	Six months ended 30 June	
	2016	2015
Business tax	<b>289,659</b>	823,000
City maintenance and construction tax	<b>29,515</b>	55,688
Education surcharges	<b>22,559</b>	39,804
Others	<b>2,011</b>	2,939
<b>Total</b>	<b>343,744</b>	921,431

The Company and its major subsidiaries in Mainland China which principally engage in financial services, were subject to business tax at statutory tax rate of 5% before 1 May 2016. Pursuant to “The Ministry of Finance (“MOF”) and the State Administration of Taxation (“SAT”) Issue Notice on Value Added Tax (“VAT”) Reform Implementation” (Circular Caishui [2016] 36) jointly issued by the MOF and SAT which took effect from 1 May 2016, the Company and its subsidiaries in Mainland China are subject to VAT on a net basis at the statutory tax rate of 6%, instead of business tax.

## 14 OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2016	2015
Rental expenses	<b>109,872</b>	110,675
Postal and communication expenses	<b>52,622</b>	48,892
Business travel expenses	<b>44,020</b>	37,862
Business entertainment expenses	<b>39,198</b>	46,607
Securities investor protection funds	<b>36,320</b>	81,329
Marketing, advertising and promotion expenses	<b>35,683</b>	23,307
Consulting fees	<b>26,700</b>	38,032
IT expenses	<b>19,809</b>	22,511
Utilities	<b>11,689</b>	14,555
Cost of commodity sales	<b>9,877</b>	12,287
Auditors’ remuneration	<b>3,186</b>	2,559
Others	<b>267,782</b>	239,571
<b>Total</b>	<b>656,758</b>	678,187

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 15 REVERSAL OF IMPAIRMENT LOSSES

	Six months ended 30 June	
	2016	2015
Provision for impairment losses against accounts receivable	(280)	(821)
Reversal of impairment losses against other receivables	787	3,183
Reversal for impairment losses against margin accounts receivable	8,158	—
Provision for impairment losses against financial assets held under resale agreements	(3,400)	—
<b>Total</b>	<b>5,265</b>	<b>2,362</b>

## 16 INCOME TAX EXPENSE

(a) Taxation in the consolidated income statements represents:

	Six months ended 30 June	
	2016	2015
Current tax		
— PRC income tax	1,049,184	2,095,388
— Hong Kong profits tax	—	—
	<b>1,049,184</b>	<b>2,095,388</b>
Adjustment in respect of prior years		
— PRC income tax	(11,127)	(5,554)
— Hong Kong profits tax	—	—
	<b>(11,127)</b>	<b>(5,554)</b>
Deferred tax		
Origination and reversal of temporary differences	(103,598)	25,467
<b>Total</b>	<b>934,459</b>	<b>2,115,301</b>



# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 16 INCOME TAX EXPENSE (continued)

- (a) Taxation in the consolidated income statements represents: (continued)
- (i) The Company and the Group's PRC subsidiaries are subject to the PRC corporate income tax at the statutory tax rate of 25%.
- (ii) Hong Kong profit tax is provided at the rate of 16.5% on the estimated assessable profits.
- (b) Reconciliation between income tax expense and accounting profit at applicable tax rate:

	Six months ended 30 June	
	2016	2015
Profit before income tax	<b>3,878,012</b>	8,833,873
National tax calculated using the PRC statutory tax rate	<b>969,503</b>	2,208,468
Tax effect of non-deductible expenses	<b>2,812</b>	2,113
Tax effect of non-taxable income	<b>(53,442)</b>	(50,507)
Tax effect of unused tax losses not recognised	<b>38,798</b>	—
Effect of different tax rates of the subsidiary	—	(13,224)
Utilisation of tax losses previously not recognised	—	(4,068)
Adjustment for prior years	<b>(11,127)</b>	(5,554)
Others	<b>(12,085)</b>	(21,927)
Actual income tax expense	<b>934,459</b>	2,115,301

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 17 BASIC AND DILUTED EARNINGS PER SHARE

	Note	Six months ended 30 June	
		2016	2015
Weighted average number of ordinary shares (in thousands)	17(a)	<b>7,162,769</b>	5,829,705
Net profit attributable to equity shareholders of the Company (in RMB thousands)		<b>2,841,253</b>	6,674,823
Basic and diluted earnings per share attributable to equity shareholders of the Company (in RMB per share)		<b>0.40</b>	1.14

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the period.

### (a) Weighted average number of ordinary shares (in thousands)

	Six months ended 30 June	
	2016	2015
Number of ordinary shares as at 1 January	<b>7,162,769</b>	5,600,000
Increase in weighted average number of ordinary shares	—	229,705
Weighted average number of ordinary shares	<b>7,162,769</b>	5,829,705

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 18 PROPERTY AND EQUIPMENT

	Buildings	Motor vehicles	Electric equipment	Furniture and fixtures	Construction in progress	Total
<b>Cost</b>						
As at 1 January 2016	2,572,138	150,655	610,791	78,998	761,146	4,173,728
Additions	63,152	2,914	36,995	5,244	111,625	219,930
Transfer during the period (Note 25)	753,607	—	—	—	(757,500)	(3,893)
Transfer to investment properties	—	—	—	—	—	—
Disposals	(388)	(1,387)	(21,257)	(2,777)	—	(25,809)
As at 30 June 2016	3,388,509	152,182	626,529	81,465	115,271	4,363,956
<b>Accumulated depreciation</b>						
As at 1 January 2016	(260,089)	(106,741)	(365,945)	(61,935)	—	(794,710)
Charge for the period	(47,702)	(5,388)	(38,833)	(4,572)	—	(96,495)
Transfer to investment properties	—	—	—	—	—	—
Disposals	165	1,256	20,357	2,391	—	24,169
As at 30 June 2016	(307,626)	(110,873)	(384,421)	(64,116)	—	(867,036)
<b>Carrying amount</b>						
As at 30 June 2016	3,080,883	41,309	242,108	17,349	115,271	3,496,920
<b>Cost</b>						
As at 1 January 2015	1,310,881	148,607	580,586	87,297	2,045,325	4,172,696
Additions	—	6,355	186,559	4,587	718,031	915,532
Transfer during the year (Note 25)	1,470,969	—	—	—	(1,478,727)	(7,758)
Transfer to investment properties	(209,712)	—	—	—	(523,483)	(733,195)
Disposals	—	(4,307)	(156,354)	(12,886)	—	(173,547)
As at 31 December 2015	2,572,138	150,655	610,791	78,998	761,146	4,173,728
<b>Accumulated depreciation</b>						
As at 1 January 2015	(266,738)	(95,864)	(443,607)	(62,801)	—	(869,010)
Charge for the year	(64,089)	(14,317)	(71,610)	(11,554)	—	(161,570)
Transfer to investment properties	70,738	—	—	—	—	70,738
Disposals	—	3,440	149,272	12,420	—	165,132
As at 31 December 2015	(260,089)	(106,741)	(365,945)	(61,935)	—	(794,710)
<b>Carrying amount</b>						
As at 31 December 2015	2,312,049	43,914	244,846	17,063	761,146	3,379,018

As at 30 June 2016 and 31 December 2015, included in buildings, there is a carrying amount of RMB41,399 thousand and RMB42,698 thousand respectively, for which the Group has yet to obtain the relevant land or building certificates.

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 19 OTHER INTANGIBLE ASSETS

	Land use rights	Software and others	Total
<b>Cost</b>			
As at 1 January 2016	359,161	487,863	847,024
Additions	—	34,041	34,041
Disposals	—	(79)	(79)
As at 30 June 2016	359,161	521,825	880,986
<b>Accumulated amortisation</b>			
As at 1 January 2016	(56,536)	(365,520)	(422,056)
Charge for the period	(3,598)	(48,365)	(51,963)
Disposals	—	79	79
As at 30 June 2016	(60,134)	(413,806)	(473,940)
<b>Carrying amount</b>			
As at 30 June 2016	299,027	108,019	407,046
<b>Cost</b>			
As at 1 January 2015	359,161	383,683	742,844
Additions	—	104,719	104,719
Disposals	—	(539)	(539)
As at 31 December 2015	359,161	487,863	847,024
<b>Accumulated amortisation</b>			
As at 1 January 2015	(49,340)	(292,293)	(341,633)
Charge for the year	(7,196)	(73,663)	(80,859)
Disposals	—	436	436
As at 31 December 2015	(56,536)	(365,520)	(422,056)
<b>Carrying amount</b>			
As at 31 December 2015	302,625	122,343	424,968

As at 30 June 2016 and 31 December 2015, there is a carrying amount of RMB295,797 thousand and RMB299,335 thousand land use rights being mortgaged for the long-term bank loans (Note 43).

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### 20 INTEREST IN ASSOCIATES

	As at 30 June 2016	As at 31 December 2015
Share of net assets	2,657,744	2,673,834

The following list contains only the particulars of material associates, all of which are unlisted corporate entities whose quoted market price is not available:

Name of associate	Registered place	Registered capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
China Southern Asset Management Co., Ltd.	Shenzhen	300,000	45.00%	45.00%	—	Fund management
Huatai-PineBridge Fund Management Co., Ltd.	Shanghai	200,000	49.00%	49.00%	—	Fund management
Huatai Zijin (Jiangsu) Equity Investment Fund (Limited Partnership)	Nanjing	2,000,000	48.25%	—	48.25%	Equity investment

All of the above associates are accounted for using the equity method in the consolidated financial statements.

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### 20 INTEREST IN ASSOCIATES (continued)

Summarised financial information of the Group's material associates, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

#### China Southern Asset Management Co., Ltd.

	Six months ended 30 June	
	2016	2015
Gross amounts of the associate:		
Revenue	<b>1,397,200</b>	1,440,780
Profit for the period	<b>309,690</b>	394,665
Other comprehensive income	<b>(46,250)</b>	79,401
Total comprehensive income	<b>263,440</b>	474,066

	As at	As at
	30 June	31 December
	2016	2015
Gross amounts of the associate:		
Assets	<b>5,609,052</b>	5,391,751
Liabilities	<b>(2,004,954)</b>	(1,636,146)
Net assets	<b>3,604,098</b>	3,755,605
Reconciled to the Group's interest in the associate:		
Net assets of the associate attributable to the parent company	<b>3,436,508</b>	3,549,187
The Group's effective interest	<b>45%</b>	45%
Carrying amount in the consolidated financial statements	<b>1,546,429</b>	1,597,134

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For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

### 20 INTEREST IN ASSOCIATES (continued)

#### Huatai-PineBridge Fund Management Co., Ltd.

	Six months ended 30 June	
	2016	2015
Gross amounts of the associate:		
Revenue	<b>392,155</b>	285,169
Profit for the period	<b>119,877</b>	92,720
Other comprehensive income	<b>(18,047)</b>	17,899
Total comprehensive income	<b>101,830</b>	110,619
Dividend received from the associate	<b>49,000</b>	—

	As at	As at
	30 June	31 December
	2016	2015
Gross amounts of the associate:		
Assets	<b>874,827</b>	973,665
Liabilities	<b>(182,178)</b>	(282,846)
Net assets	<b>692,649</b>	690,819
Reconciled to the Group's interest in the associate:		
Net assets of the associate attributable to the parent company	<b>692,649</b>	690,819
The Group's effective interest	<b>49%</b>	49%
Carrying amount in the consolidated financial statements	<b>339,398</b>	338,501

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For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

### 20 INTEREST IN ASSOCIATES (continued)

#### Huatai Zijin (Jiangsu) Equity Investment Fund (Limited Partnership)

	Six months ended 30 June	
	2016	2015
Gross amounts of the associate:		
Revenue	8,538	13,168
Loss for the period	(11,660)	(7,251)
Other comprehensive income	49,856	—
Total comprehensive income	38,196	(7,251)

	As at	As at
	30 June	31 December
	2016	2015
Gross amounts of the associate:		
Assets	1,105,924	1,047,902
Liabilities	(20,042)	(216)
Net assets	1,085,882	1,047,686
Reconciled to the Group's interest in the associate:		
Net assets of the associate attributable to the parent company	1,085,882	1,047,686
The Group's effective interest	48.25%	48.25%
The Group's share of net assets of the associate	523,938	505,508
Other adjustment	14,694	14,694
Carrying amount in the consolidated financial statements	538,632	520,202

Aggregate information of associates that are not individually material:

	Six months ended 30 June	
	2016	2015
Aggregate amounts of the Group's share of those associates' (losses)/gains	(946)	551
Other comprehensive income	135	—
Total comprehensive income	(811)	551



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For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

### 20 INTEREST IN ASSOCIATES (continued)

#### Huatai Zijin (Jiangsu) Equity Investment Fund (Limited Partnership) (continued)

Aggregate information of associates that are not individually material: (continued)

	As at 30 June 2016	As at 31 December 2015
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	<b>233,285</b>	217,997

### 21 INTEREST IN JOINT VENTURE

	As at 30 June 2016
Share of net assets	<b>100,154</b>

Details of the Group's interest in the joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

Name of joint venture	Registered place	Registered capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
Huatai Merchant (Jiangsu) Capital Market Investment Fund of Funds (Limited Partnership)	Nanjing	10,020,000	10.08%	—	10.08%	Equity investment

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 21 INTEREST IN JOINT VENTURE (continued)

Summarised financial information of Huatai Merchant (Jiangsu) Capital Market Investment Fund of Funds (Limited Partnership), and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

### Huatai Merchant (Jiangsu) Capital Market Investment Fund of Funds (Limited Partnership)

	For the period from 22 March 2016 (business licence issuance date) to 30 June 2016
Gross amounts of the joint venture:	
Revenue	2,214
Profit for the period	1,535
Other comprehensive income	—
Total comprehensive income	1,535
	As at 30 June 2016
Gross amounts of the joint venture:	
Assets	1,002,280
Liabilities	(745)
Net assets	1,001,535
Reconciled to the Group's interest in the joint venture:	
Net assets of the joint venture attributable to the parent company	1,001,535
The Group's effective interest	10.08%
Other adjustment	(801)
Carrying amount in the consolidated financial statements	100,154

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For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

### 22 AVAILABLE-FOR-SALE FINANCIAL ASSETS

#### Non-current

	As at 30 June 2016	As at 31 December 2015
<b>At fair value:</b>		
– Equity securities	12,716,342	10,591,163
– Debt securities	973,486	236,056
– Funds	3,012	3,810
– Wealth management products	13,530,650	14,587,563
<b>At cost:</b>		
– Equity securities	81,639	211,505
Less: Impairment losses	(5,716)	(5,716)
<b>Total</b>	<b>27,299,413</b>	<b>25,624,381</b>
Analysed as:		
Listed outside Hong Kong	1,620,619	1,635,694
Listed inside Hong Kong	636,826	–
Unlisted	25,041,968	23,988,687
<b>Total</b>	<b>27,299,413</b>	<b>25,624,381</b>

## Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

### 22 AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

#### Current

	As at 30 June 2016	As at 31 December 2015
<b>At fair value:</b>		
– Equity securities	<b>10,865,477</b>	10,822,617
– Debt securities	<b>94,027</b>	206,521
– Funds	<b>500,996</b>	253,631
– Wealth management products	<b>1,021,938</b>	1,211,571
Less: Impairment losses	–	–
<b>Total</b>	<b>12,482,438</b>	12,494,340
Analysed as:		
Listed outside Hong Kong	<b>11,296,836</b>	10,969,505
Listed inside Hong Kong	<b>35,832</b>	91,682
Unlisted	<b>1,149,770</b>	1,433,153
<b>Total</b>	<b>12,482,438</b>	12,494,340

The Company has entered into the agreement with China Securities Finance Corporation Limited (CSF), contributed RMB10,000,000 thousand on 6 July 2015 and RMB4,439,640 thousand on 2 September 2015 respectively to the special account established and managed by CSF for unified operation, including investment in blue-chip ETFs. Risk and income arising from the investment shall be shared by all securities firms according to the proportion of their respective contribution. As at 30 June 2016, the investment report provided by CSF is used to estimate the fair value of the investment.

As at 30 June 2016 and 31 December 2015, the fund investments with lock-up periods held by the Group are RMB3,012 thousand and RMB3,810 thousand respectively. The fair values of these funds have taken into account the relevant features including the restrictions.

As at 30 June 2016 and 31 December 2015, the non-current listed equity securities held by the Group included approximately RMB1,415,309 thousand and RMB1,427,227 thousand of restricted shares, respectively. The restricted shares are listed in the PRC with a legally enforceable restriction on these securities that prevents the Group to dispose of within the specified period. The fair values of these securities have taken into account the relevant features including the restrictions.

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

*(Expressed in thousands of Renminbi, unless otherwise stated)*

## 22 AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

The equity interest in unlisted securities held by the Group are issued by private companies. As the reasonable range of fair value estimation is so significant that the directors of the Company are of the opinion that for those of which the fair value cannot be measured reliably, the value of the securities is measured at cost less impairment at the reporting date. And for the fair value of those equity which can be measured reliably, the value of the securities is measured by comparing with comparable companies that are listed and in the same sector.

Non-current available-for-sale investments are expected to be realised or restricted for sale beyond one year from the end of the respective reporting periods. The fair value of the Group's investments in unlisted funds, which mainly invest in publicly traded equities listed in the PRC, are valued based on the net asset values of the funds calculated by the respective fund managers by reference to their underlying assets and liabilities' fair values.

The fair value of the Group's investments in equity securities without restriction, exchange-listed funds and debt securities are determined with reference to their quoted prices as at reporting date.

As at 30 June 2016 and 31 December 2015, the Company has entered into securities lending arrangement with clients that resulted in the transfer of available-for-sale investments with total fair value of RMB53,958 thousand and RMB2,528 thousand to external clients, respectively, which did not result in derecognition of the financial assets. The fair value of collaterals for the securities lending business is analysed in Note 28 (c) together with the fair value of collaterals of margin financing business.

## Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

### 23 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

#### Non-current

(a) Analysed by type:

	As at 30 June 2016	As at 31 December 2015
Financial assets designated at fair value through profit or loss:		
– Wealth management products	1,216,667	1,200,000
Total	1,216,667	1,200,000

(b) Analysed as:

	As at 30 June 2016	As at 31 December 2015
Financial assets designated at fair value through profit or loss:		
– Unlisted	1,216,667	1,200,000
Total	1,216,667	1,200,000

## Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

### 23 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

#### Current

(a) Analysed by type:

	As at 30 June 2016	As at 31 December 2015
Held for trading:		
– Debt securities	63,917,280	55,945,942
– Equity securities	4,329,473	10,284,934
– Funds	20,075,129	49,917,227
– Wealth management products	3,664,245	13,890,005
<b>Total</b>	<b>91,986,127</b>	<b>130,038,108</b>

(b) Analysed as:

	As at 30 June 2016	As at 31 December 2015
Held for trading:		
– Listed outside Hong Kong	34,738,179	33,788,966
– Listed in Hong Kong	1,416,606	1,011,816
– Unlisted	55,831,342	95,237,326
<b>Total</b>	<b>91,986,127</b>	<b>130,038,108</b>

As at 30 June 2016 and 31 December 2015, the Company has entered into securities lending arrangement with clients that resulted in the transfer of financial assets at fair value through profit or loss with total fair value of RMB14,041 thousand and RMB65,609 thousand to external clients, respectively, which did not result in derecognition of the financial assets. The fair value of collaterals for the securities lending business is analysed in Note 28 (c) together with the fair value of collaterals of margin financing business.

## Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

### 24 DEFERRED TAXATION

- (a) The components of deferred tax assets/(liabilities) recognised in the consolidated statements of financial position and the movements are as follows:

Deferred tax arising from:	Provision for impairment losses	Employee benefits payable	Changes in fair value of financial instruments through profit or loss	Changes in fair value of derivative financial instruments	Changes in fair value of available-for-sale financial assets	Others	Total
As at 1 January 2016	121,050	891,803	(652,761)	576,473	(1,031,065)	(44,710)	(139,210)
Recognised in profit or loss	(1,899)	117,545	518,888	(613,212)	—	82,276	103,598
Recognised in reserves	—	—	—	—	415,638	(6,180)	409,458
As at 30 June 2016	119,151	1,009,348	(133,873)	(36,739)	(615,427)	31,386	373,846
As at 1 January 2015	104,440	200,680	(384,347)	222,021	(605,326)	40,236	(422,296)
Recognised in profit or loss	16,610	691,123	(268,414)	354,452	—	(64,793)	728,978
Recognised in reserves	—	—	—	—	(425,739)	(20,153)	(445,892)
As at 31 December 2015	121,050	891,803	(652,761)	576,473	(1,031,065)	(44,710)	(139,210)

- (b) Reconciliation to the statements of financial position

	As at 30 June 2016	As at 31 December 2015
Net deferred tax assets recognised in the statement of financial position	528,684	212,609
Net deferred tax liabilities recognised in the statement of financial position	(154,838)	(351,819)
Total	373,846	(139,210)



# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

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## 24 DEFERRED TAXATION (continued)

### (c) Deferred tax assets not recognised

As at 30 June 2016 and 31 December 2015, the Group has not recognised unused tax losses of RMB354,577 thousand and RMB199,383 thousand respectively as deferred tax assets, as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The related tax losses do not expire under current tax legislation.

## 25 OTHER NON-CURRENT ASSETS

### (a) Analysed by nature:

	As at 30 June 2016	As at 31 December 2015
Leasehold improvements and long-term deferred expenses	67,634	78,174

### (b) The movements of leasehold improvements and long-term deferred expenses are as below:

	As at 30 June 2016	As at 31 December 2015
Balance at beginning of the period	78,174	108,854
Additions	7,292	16,979
Transfer in from property and equipment (Note 18)	3,893	7,758
Amortisation	(21,725)	(55,417)
Balance at end of the period	67,634	78,174

# Notes to the Unaudited Consolidated Financial Statements

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(Expressed in thousands of Renminbi, unless otherwise stated)

## 26 ACCOUNTS RECEIVABLE

(a) Analysed by nature:

	As at 30 June 2016	As at 31 December 2015
Accounts receivable of:		
– Settlement	1,102,077	12,549
– Brokers, dealers and clearing house	359,148	170,460
– Redemption of open-ended fund	233,261	132,808
– Fee and commission	170,785	148,400
– Subscription receivable	88,190	111,142
– Others	44,925	48,045
Less: Provision for impairment losses	(2,130)	(1,850)
Total	1,996,256	621,554

(b) Analysed by aging:

As at the end of the reporting period, the aging analysis of accounts receivable, based on the trade date, is as follows:

	As at 30 June 2016	As at 31 December 2015
Within 1 month	1,905,540	553,304
1 to 3 months	43,698	45,340
Over 3 months	47,018	22,910
Total	1,996,256	621,554

## Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

### 26 ACCOUNTS RECEIVABLE (continued)

(c) Analysis of the movement of provision for impairment losses:

	As at 30 June 2016	As at 31 December 2015
At the beginning of the period	1,850	398
Charge for the period	280	1,452
At the end of the period	2,130	1,850

(d) Accounts receivable that is not impaired

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

### 27 OTHER RECEIVABLES AND PREPAYMENTS

(a) Analysed by nature:

	As at 30 June 2016	As at 31 December 2015
Interest receivable	4,636,725	3,282,484
Other receivables <sup>(1)</sup>	880,191	820,038
Dividend receivable	162,548	—
Prepayments	197,074	44,766
Deferred expenses	17,289	19,451
Others	104,781	125,776
Less: Impairment on other receivables and prepayments	(393,178)	(396,297)
Total	5,605,430	3,896,218

(1) The balance of other receivables mainly represents the amount due from the former non-controlling shareholders of Huatai United Securities Co., Ltd., receivables from securities investor protection fund and sundry receivables arising from normal course of business.

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For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

### 27 OTHER RECEIVABLES AND PREPAYMENTS (continued)

(b) Analysis of the movement of provision for impairment losses:

	As at 30 June 2016	As at 31 December 2015
At the beginning of the period	396,297	404,773
Charge for the period	1,424	11,420
Reversal of impairment	(2,211)	(15,405)
Amounts written-off	(2,332)	(4,491)
At the end of the period	393,178	396,297

### 28 MARGIN ACCOUNTS RECEIVABLE

(a) Analysed by nature:

	As at 30 June 2016	As at 31 December 2015
Individuals	49,080,638	66,261,285
Institutions	2,426,651	1,230,613
Less: Impairment losses	(51,622)	(59,780)
Total	51,455,667	67,432,118

As at 30 June 2016 and 31 December 2015, the amount of margin accounts receivable which the Group transfers to the securitisation vehicle is RMB533,672 thousand and RMB511,833, respectively, which did not result in derecognition of the financial assets. The securitisation vehicle issued asset-backed securities to investors with the purchased assets as the underlying assets.

## Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

### 28 MARGIN ACCOUNTS RECEIVABLE (continued)

(b) Analysis of the movement of provision for impairment losses:

	As at 30 June 2016	As at 31 December 2015
At the beginning of the period	59,780	—
Charge for the period	121	80,279
Reversal of impairment	(8,279)	(20,499)
At the end of the period	51,622	59,780

(c) The fair value of collaterals for margin financing and securities lending business is analysed as the followings:

	As at 30 June 2016	As at 31 December 2015
Fair value of collaterals:		
— Equity securities	164,387,230	206,477,323
— Cash	12,944,433	18,461,809
— Funds	868,044	724,255
— Debt securities	42,369	29,076
Total	178,242,076	225,692,463

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

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### 29 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 30 June 2016		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives	30,867,330	19,761	(106,178)
– Treasury futures	997,330	100	–
– Interest rate swaps	29,870,000	19,661	(106,178)
Currency derivatives	66,312	1,161	–
– Currency swaps	66,312	1,161	–
Equity derivatives	28,173,852	187,761	(642,662)
– Stock index futures	617,200	–	(11,442)
– Equity return swaps	1,094,321	110,654	(597,325)
– Exchange-traded options	1,307,621	6,387	(29,929)
– Over-the-counter options	25,154,710	70,720	(3,966)
Credit derivatives	99,468	648	(470)
– Credit default swaps	99,468	648	(470)
Others	13,537,526	727,636	–
– Forward contracts	13,345,910	725,420	–
– Commodity futures	191,616	2,216	–
Total	<u>72,744,488</u>	936,967	(749,310)
Less: settlement		(2,316)	50,525
Net position		934,651	(698,785)

## Notes to the Unaudited Consolidated Financial Statements

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(Expressed in thousands of Renminbi, unless otherwise stated)

### 29 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	As at 31 December 2015		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives	25,710,000	27,514	(170,496)
– Interest rate swaps	25,710,000	27,514	(170,496)
Currency derivatives	451,539	5,301	(4,418)
– Currency swaps	451,539	5,301	(4,418)
Equity derivatives	22,873,944	298,525	(1,069,260)
– Stock index futures	298,514	–	(6,240)
– Equity return swaps	6,460,570	134,314	(1,023,191)
– Exchange-traded options	679,917	7,626	(39,534)
– Over-the-counter options	15,434,943	156,585	(295)
Credit derivatives	292,198	3,410	(3,250)
– Credit default swaps	292,198	3,410	(3,250)
Others	15,514,408	–	(1,304,602)
– Forward contracts	15,451,525	–	(1,304,415)
– Commodity futures	62,883	–	(187)
<b>Total</b>	<b>64,842,089</b>	<b>334,750</b>	<b>(2,552,026)</b>
Less: settlement		–	91,681
<b>Net position</b>		<b>334,750</b>	<b>(2,460,345)</b>

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in interest rate swap contracts settled in Shanghai Clearing House, stock index futures, treasury futures and certain commodity futures traded through Huatai Futures Co. Ltd. ("Huatai Futures"), were settled daily and the corresponding receipts and payments were included in "clearing settlement funds". Accordingly, the net position of the above contracts was nil as at 30 June 2016 and 31 December 2015.

## Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

### 30 CLEARING SETTLEMENT FUNDS

	As at 30 June 2016	As at 31 December 2015
Deposits with stock exchanges		
– China Securities Depository and Clearing Corporation Limited	1,480,599	2,549,050
– Hong Kong Securities Clearing Company Limited	5,676	2,070
Deposits with other institutions	914	583
Total	1,487,189	2,551,703

### 31 CASH HELD ON BEHALF OF BROKERAGE CLIENTS

The Group maintains segregated deposit accounts with banks and authorised institutions to hold clients' monies arising from its normal course of business. The Group has classified the brokerage clients' monies as cash held on behalf of brokerage clients under the current assets section of the consolidated statements of financial position, and recognised the corresponding accounts payable to the respective brokerage clients on the grounds that they are liable for any loss or misappropriation of their brokerage clients' monies. In the PRC, the use of cash held on behalf of brokerage clients is restricted and governed by the relevant third-party deposit regulations issued by the CSRC. In Hong Kong, the use of cash held on behalf of brokerage clients is restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance.

### 32 CASH AND BANK BALANCES

	As at 30 June 2016	As at 31 December 2015
Cash on hand	362	334
Bank balances	56,724,959	36,706,281
Total	56,725,321	36,706,615

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



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For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

### 33 CASH AND CASH EQUIVALENTS

	As at 30 June 2016	As at 30 June 2015
Cash on hand	362	526
Bank balances	56,724,959	114,771,816
Clearing settlement funds	1,487,189	1,973,018
Financial assets held under resale agreements within 3 months original maturity	2,418,866	4,067,100
Less: restricted bank deposits	(35,346,718)	(9,267,097)
Total	25,284,658	111,545,363

The restricted bank deposits include bank deposits with original maturity of over three months held by the Group, bank loan guarantees and risk reserve deposits.

### 34 SHORT-TERM BANK LOANS

	As at 30 June 2016	As at 30 June 2015
Collateralised loans	759,936	688,322

As at 30 June 2016 and 31 December 2015, the interest rates on the short-term loans were in the range of 2.23% to 2.78% and 2.06% to 2.49%, respectively. As at 30 June 2016 and 31 December 2015, the collateralised loans were pledged by the bank deposits.

## Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

### 35 SHORT-TERM DEBT INSTRUMENTS ISSUED

	Nominal interest rate	Book value as at 1 January 2016	Issuance	Redemption	Book value as at 30 June 2016
Structured notes	1.00%–2.00%	1,053,004	274,600	(1,152,604)	175,000

	Nominal interest rate	Book value as at 1 January 2015	Issuance	Redemption	Book value as at 31 December 2015
Short-term commercial papers	4.15%–5.20%	8,500,000	11,000,000	(19,500,000)	—
Short-term corporate bonds	6.00%	7,000,000	—	(7,000,000)	—
Short-term subordinated bonds	5.10%–5.95%	7,000,000	—	(7,000,000)	—
Structured notes	5.20%–6.03%	2,287,070	14,180,580	(15,414,646)	1,053,004
<b>Total</b>		<b>24,787,070</b>	<b>25,180,580</b>	<b>(48,914,646)</b>	<b>1,053,004</b>

For the six months ended 30 June 2016, the Company issued 3 tranches of structured notes, bearing fixed interest rates ranging from 1% to 2% per annum and the variable interest rate linked to the prices of gold futures, repayable within 1 year.

The notes with variable rate contain non-closely related derivative as their returns are linked to the fluctuation of the prices of gold futures. Such embedded derivatives are disclosed in Note 29 after being bifurcated from their respective host contracts. Structured notes repayable more than 1 year are disclosed in Note 42.

## Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

### 36 PLACEMENTS FROM FINANCIAL INSTITUTIONS

	As at 30 June 2016	As at 31 December 2015
Interbank lending	1,500,000	3,000,000

As at 30 June 2016 and 31 December 2015, the interbank lending is unsecured and bears interest rate of 2.88% and ranging from 2.15% to 2.70% per annum respectively, with original maturities within 7 days.

### 37 ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

	As at 30 June 2016	As at 31 December 2015
Clients' deposits for margin financing and securities lending	13,111,365	18,637,027
Clients' deposits for other brokerage business	99,470,572	109,730,352
Total	112,581,937	128,367,379

Accounts payable to brokerage clients represent the monies received from and repayable to brokerage clients, which are mainly held at banks and at clearing houses by the Group. Accounts payable to brokerage clients are interest bearing at the prevailing interest rate.

The majority of the accounts payable balances are repayable on demand except where certain accounts payable to brokerage clients represent monies received from clients for their margin financing activities under normal course of business, such as margin financing and securities lending. Only the 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 in view of the nature of these businesses.

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 38 OTHER PAYABLES AND ACCRUALS

	As at 30 June 2016	As at 31 December 2015
Payables to interest holders of consolidated structured entities <sup>(1)</sup>	88,708,485	85,761,379
Dividends payable	3,594,481	13,097
Payable for equity return swaps	1,151,088	3,408,998
Payable for office building construction	864,525	881,348
Other tax payable	759,499	507,656
Settlement payables	676,001	132,137
Interest payable	660,114	2,692,345
Payable for asset-backed securities asset management schemes <sup>(2)</sup>	475,000	475,000
Dividend to be converted to the investment capital of consolidated structured entities	306,696	308,238
Futures risk reserve	98,513	92,132
Payable to brokerage agents	92,933	139,936
Payable to open-ended funds	91,935	3,546,983
Fee and commission	86,960	185,990
Payable to the securities investors protection fund	36,834	58,952
Payable for commodity trading	—	140,755
Others <sup>(3)</sup>	748,314	975,116
<b>Total</b>	<b>98,351,378</b>	<b>99,320,062</b>

(1) In the consolidated financial statements, the financial liabilities arising from consolidation of structured entities with the underlying investments related to money market investments and fixed income investments are reflected as other payables and accruals, as the Group has the obligation to pay other investors upon maturity dates of the structured entities based on net book value and related terms of those consolidated asset management schemes.

(2) It represents the fund raised by the securitisation vehicle, which is consolidated by the Group, is recognised as a financial liability.

(3) Others mainly represents payable to custodian banks, IPO cost payable and sundry payables arising from normal course of business.

## Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

### 39 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

#### Non-current

	As at 30 June 2016	As at 31 December 2015
Financial liabilities designated at fair value through profit or loss	26,214,545	6,948,454
Total	26,214,545	6,948,454

#### Current

	As at 30 June 2016	As at 31 December 2015
Financial liabilities held for trading	756,529	14,417,818
Financial liabilities designated at fair value through profit or loss	76,864	62,020
Total	833,393	14,479,838

In the consolidated financial statements, the financial liabilities arising from consolidation of structured entities with the underlying investments related to listed equity investments in active markets and unlisted equities are designated at fair value through profit or loss by the Group, as the Group has the obligation to pay other investors or limited partners upon maturity dates of the structured entities based on net book value and related terms of those consolidated asset management schemes or private equity funds.

## Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 LONG-TERM BANK LOANS DUE WITHIN ONE YEAR

As at 30 June 2016 and 31 December 2015, the long-term bank loans due within one year were secured as follows:

	As at 30 June 2016	As at 31 December 2015
Secured bank loans	121,448	125,000

The long-term bank loans repayable more than one year are disclosed in Note 43.

### 41 LONG-TERM BONDS DUE WITHIN ONE YEAR

As at 30 June 2016

Name	Par value	Issue date	Maturity date	Issue amount	Nominal interest rate
	Original currency			Original currency	
14 HUATAI 02 <sup>(1)</sup>	RMB3,000,000	18/04/2014	21/04/2016	RMB3,000,000	6.15%
14 HUATAI 04 <sup>(2)</sup>	RMB4,000,000	26/09/2014	29/09/2018	RMB4,000,000	5.90%
15 HUATAI 01 <sup>(3)</sup>	RMB6,000,000	22/01/2015	23/01/2017	RMB6,000,000	5.90%
15 HUATAI 04 <sup>(3)</sup>	RMB18,000,000	25/06/2015	26/06/2017	RMB18,000,000	5.50%
15 HUATAIQI <sup>(4)</sup>	RMB600,000	22/07/2015	22/07/2019	RMB600,000	5.80%

Name	Book value as at		Amount of amortisation	Book value as at	
	1 January			30 June	
	2016	Increase		2016	Decrease
	RMB equivalent	RMB equivalent	RMB equivalent	RMB equivalent	RMB equivalent
14 HUATAI 02 <sup>(1)</sup>	2,998,178	—	1,822	(3,000,000)	—
14 HUATAI 04 <sup>(2)</sup>	—	4,000,000	—	—	4,000,000
15 HUATAI 01 <sup>(3)</sup>	—	6,000,000	—	—	6,000,000
15 HUATAI 04 <sup>(3)</sup>	—	18,000,000	—	—	18,000,000
15 HUATAIQI <sup>(4)</sup>	—	632,798	—	—	632,798
Total	2,998,178	28,632,798	1,822	(3,000,000)	28,632,798

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 41 LONG-TERM BONDS DUE WITHIN ONE YEAR (continued)

As at 31 December 2015

Name	Par value Original currency	Issue date	Maturity date	Issue amount Original currency	Nominal interest rate
14 HUATAI 02 <sup>(1)</sup>	RMB3,000,000	18/04/2014	21/04/2016	RMB3,000,000	6.15%

Name	Book value as at 1 January 2015 RMB equivalent	Increase RMB equivalent	Amount of amortisation RMB equivalent	Decrease RMB equivalent	Book value as at 31 December 2015 RMB equivalent
14 HUATAI 02 <sup>(1)</sup>	—	2,995,236	2,942	—	2,998,178

- (1) The Company has issued a 2-year subordinated bond with a nominal amount of RMB3 billion on 18 April 2014. The Company fully redeemed the bond on 21 April 2016.
- (2) The Company has issued a 4-year subordinated bond with a nominal amount of RMB4 billion on 26 September 2014. As at 30 June 2016, the Company has the discretion to redeem the 4-year subordinated bond within one year.
- (3) The Company has issued 2-year subordinated bonds with a nominal amount of RMB6 billion and RMB18 billion on 22 January 2015 and 25 June 2015, respectively.
- (4) Huatai Futures has issued a 4-year subordinated bond with a nominal amount of RMB0.6 billion on 22 July 2015. As at 30 June 2016, Huatai Futures has the discretion to redeem the 4-year subordinated bond within one year.

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

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## 42 LONG-TERM BONDS

As at 30 June 2016

Name	Par value	Issue date	Maturity date	Issue amount	Nominal interest rate
	Original currency			Original currency	
13 HUATAI 01 <sup>(1)</sup>	RMB4,000,000	05/06/2013	05/06/2018	RMB4,000,000	4.68%
13 HUATAI 02 <sup>(1)</sup>	RMB6,000,000	05/06/2013	05/06/2023	RMB6,000,000	5.10%
14 HUATAI 04 <sup>(2)</sup>	RMB4,000,000	26/09/2014	29/09/2018	RMB4,000,000	5.90%
HUATAI B1910 <sup>(3)</sup>	US\$400,000	08/10/2014	08/10/2019	US\$399,665	3.625%
15 HUATAI 01 <sup>(4)</sup>	RMB6,000,000	22/01/2015	23/01/2017	RMB6,000,000	5.90%
15 HUATAI 02 <sup>(5)</sup>	RMB7,000,000	20/04/2015	21/04/2017	RMB7,000,000	5.60%
15 HUATAI 03 <sup>(5)</sup>	RMB5,000,000	20/04/2015	21/04/2020	RMB5,000,000	5.80%
15 HUATAI 04 <sup>(6)</sup>	RMB18,000,000	25/06/2015	26/06/2017	RMB18,000,000	5.50%
15 HUATAI G1 <sup>(7)</sup>	RMB6,600,000	29/06/2015	29/06/2018	RMB6,600,000	4.20%
15 HUATAIQI <sup>(8)</sup>	RMB600,000	22/07/2015	22/07/2019	RMB600,000	5.80%
Structured Notes <sup>(9)</sup>	RMB9,900,000	Note (9)	Note (9)	RMB9,900,000	5.50%–5.60%

Name	Book value as at 1 January 2016		Amount of		Foreign exchange impact	Book value as at 30 June 2016
	RMB equivalent	Increase	amortisation	Decrease		RMB equivalent
	RMB equivalent	RMB equivalent	RMB equivalent	RMB equivalent	RMB equivalent	RMB equivalent
13 HUATAI 01 <sup>(1)</sup>	3,995,676	—	828	—	—	3,996,504
13 HUATAI 02 <sup>(1)</sup>	5,989,982	—	542	—	—	5,990,524
14 HUATAI 04 <sup>(2)</sup>	4,000,000	—	—	(4,000,000)	—	—
HUATAI B1910 <sup>(3)</sup>	2,581,298	—	1,686	—	54,556	2,637,540
15 HUATAI 01 <sup>(4)</sup>	6,000,000	—	—	(6,000,000)	—	—
15 HUATAI 02 <sup>(5)</sup>	7,000,000	—	—	(7,000,000)	—	—
15 HUATAI 03 <sup>(5)</sup>	5,000,000	—	—	—	—	5,000,000
15 HUATAI 04 <sup>(6)</sup>	18,000,000	—	—	(18,000,000)	—	—
15 HUATAI G1 <sup>(7)</sup>	6,591,599	—	1,599	—	—	6,593,198
15 HUATAIQI <sup>(8)</sup>	615,445	—	17,352	(632,797)	—	—
Structured Notes <sup>(9)</sup>	9,600,000	—	—	(9,600,000)	—	—
Total	69,374,000	—	22,007	(45,232,797)	54,556	24,217,766



# Notes to the Unaudited Consolidated Financial Statements

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(Expressed in thousands of Renminbi, unless otherwise stated)

## 42 LONG-TERM BONDS (continued)

As at 31 December 2015

Name	Par value	Issue date	Maturity date	Issue amount	Nominal interest rate
	Original currency			Original currency	
13 HUATAI 01 <sup>(1)</sup>	RMB4,000,000	05/06/2013	05/06/2018	RMB4,000,000	4.68%
13 HUATAI 02 <sup>(1)</sup>	RMB6,000,000	05/06/2013	05/06/2023	RMB6,000,000	5.10%
14 HUATAI 02	RMB3,000,000	18/04/2014	21/04/2016	RMB3,000,000	6.15%
14 HUATAI 03	RMB2,000,000	26/09/2014	29/09/2017	RMB2,000,000	5.70%
14 HUATAI 04 <sup>(2)</sup>	RMB4,000,000	26/09/2014	29/09/2018	RMB4,000,000	5.90%
HUATAI B1910 <sup>(3)</sup>	US\$400,000	08/10/2014	08/10/2019	US\$399,665	3.625%
15 HUATAI 01 <sup>(4)</sup>	RMB6,000,000	22/01/2015	23/01/2017	RMB6,000,000	5.90%
15 HUATAI 02 <sup>(5)</sup>	RMB7,000,000	20/04/2015	21/04/2017	RMB7,000,000	5.60%
15 HUATAI 03 <sup>(5)</sup>	RMB5,000,000	20/04/2015	21/04/2020	RMB5,000,000	5.80%
15 HUATAI 04 <sup>(6)</sup>	RMB18,000,000	25/06/2015	26/06/2017	RMB18,000,000	5.50%
15 HUATAI G1 <sup>(7)</sup>	RMB6,600,000	29/06/2015	29/06/2018	RMB6,600,000	4.20%
15 HUATAIQI <sup>(8)</sup>	RMB600,000	22/07/2015	22/07/2019	RMB600,000	5.80%
Structured Notes <sup>(9)</sup>	RMB9,900,000	Note (9)	Note (9)	RMB9,900,000	5.50%–5.60%

Name	Book value as at 1 January 2015		Amount of amortisation		Foreign exchange impact	Book value as at 31 December 2015
	RMB equivalent	Increase RMB equivalent	RMB equivalent	Decrease RMB equivalent		RMB equivalent
13 HUATAI 01 <sup>(1)</sup>	3,994,117	—	1,559	—	—	3,995,676
13 HUATAI 02 <sup>(1)</sup>	5,988,198	—	1,784	—	—	5,989,982
14 HUATAI 02	2,992,295	—	2,941	(2,995,236)	—	—
14 HUATAI 03	2,000,000	—	—	(2,000,000)	—	—
14 HUATAI 04 <sup>(2)</sup>	4,000,000	—	—	—	—	4,000,000
HUATAI B1910 <sup>(3)</sup>	2,370,714	61,369	1,969	—	147,246	2,581,298
15 HUATAI 01 <sup>(4)</sup>	—	6,000,000	—	—	—	6,000,000
15 HUATAI 02 <sup>(5)</sup>	—	7,000,000	—	—	—	7,000,000
15 HUATAI 03 <sup>(5)</sup>	—	5,000,000	—	—	—	5,000,000
15 HUATAI 04 <sup>(6)</sup>	—	18,000,000	—	—	—	18,000,000
15 HUATAI G1 <sup>(7)</sup>	—	6,590,000	1,599	—	—	6,591,599
15 HUATAIQI <sup>(8)</sup>	—	615,445	—	—	—	615,445
Structured Notes <sup>(9)</sup>	—	9,900,000	—	(300,000)	—	9,600,000
Total	21,345,324	53,166,814	9,852	(5,295,236)	147,246	69,374,000

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For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 42 LONG-TERM BONDS (continued)

- (1) As approved by the CSRC, the Company has issued 5-year corporate bond with a nominal amount of RMB4 billion and a 10-year corporate bond with a nominal amount of RMB6 billion on 5 June 2013. These two tranches of corporate bonds were listed in the Shanghai Stock Exchange on 17 July 2013.
- (2) The Company has issued a 4-year subordinated bond with a nominal amount of RMB4 billion on 26 September 2014. The Company has the option to redeem the 4-year subordinated bond at the end of the second year since its issuance. As at 30 June 2016, the Company has the discretion to redeem the 4-year subordinated bond within one year. The 4-year subordinated bond is therefore classified as Long-term Bonds due within One Year (see Note 41).
- (3) Huatai International Finance I Limited, the Company's Hong Kong subsidiary, has issued a 5-year bond with a nominal amount of USD0.4 billion on 8 October 2014. The bond was guaranteed by Bank of China Limited. The Company has provided counter-guarantee to Bank of China Limited.
- (4) The Company has issued a 2-year subordinated bond with a nominal amount of RMB6 billion on 22 January 2015. As at 30 June 2016, this subordinated bond is due within one year and is therefore classified as Long-term Bonds due within One Year (see Note 41).
- (5) The Company has issued a 2-year subordinated bond with a nominal amount of RMB7 billion and a 5-year subordinated bond with a nominal amount of RMB5 billion on 20 April 2015. The Company has the option to redeem the 2-year subordinated bond at the end of the first year since its issuance and redeem the 5-year subordinated bond at the end of the third year since its issuance. The Company has fully redeemed the 2-year subordinated bond on 21 April 2016.
- (6) The Company has issued a 2-year subordinated bond with a nominal amount of RMB18 billion on 25 June 2015. As at 30 June 2016, the subordinated bond is due within one year and is therefore classified as Long-term Bonds due within One Year (see Note 41).
- (7) As approved by the CSRC, the Company has issued a 3-year corporate bond with a nominal amount of RMB6.6 billion on 29 June 2015.
- (8) Huatai Futures has issued a 4-year subordinated bond with a nominal amount of RMB0.6 billion on 22 July 2015. Huatai Futures has the option to redeem the 4-year subordinated bond at the end of the first year since its issuance. As at 30 June 2016, Huatai Futures has the discretion to redeem the 4-year subordinated bond within one year. The subordinated bond is therefore classified as Long-term Bonds due within One Year (see Note 41).
- (9) In 2015, the Company has issued 11 tranches of structured notes with a nominal amount of RMB9.9 billion, bearing interest rates ranging from 5.50% to 5.60% per annum, repayable more than 1 year. As at 30 June 2016 and 31 December 2015, the Company has redeemed the structured notes with a nominal amount of RMB9.6 billion and RMB0.3 billion, respectively.

## 43 LONG-TERM BANK LOANS

The long-term bank loans were secured as follows:

	As at 30 June 2016	As at 31 December 2015
Secured bank loans	303,677	359,985

As at 30 June 2016, the banking facility of the Company was secured by mortgage over its land use rights. Such banking facilities amounted to RMB500,000 thousand. The facilities were utilised to the extent of RMB425,125 thousand, bearing interest at 4.75% per annum. The amount of long-term borrowings due within one year was RMB121,448 thousand. Long-term bank loans due within one year are disclosed in Note 40.

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 44 SHARE CAPITAL

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

	As at 30 June 2016		As at 31 December 2015	
	Number of shares (Thousand)	Nominal value	Number of shares (Thousand)	Nominal value
Registered, issued and fully paid:				
A shares of RMB1 each	<b>5,443,723</b>	<b>5,443,723</b>	5,443,723	5,443,723
H shares of RMB1 each	<b>1,719,046</b>	<b>1,719,046</b>	1,719,046	1,719,046
<b>Total</b>	<b>7,162,769</b>	<b>7,162,769</b>	7,162,769	7,162,769

On 1 June 2015, the Company completed its initial public offering of 1,400,000,000 H shares on the Main Board of the Hong Kong Stock Exchange. On 19 June 2015, the Company partially exercised the over-allotment option and issued additional 162,768,800 H shares.

According to the relevant PRC requirements, existing shareholders of the state-owned shares of the Company have transferred an aggregate number of 156,276,880 state-owned shares of the Company to the National Social Security Fund of the PRC, and such shares were then converted into H shares on a one-for-one basis.

The H shares rank pari passu in all respects with the existing A shares including the right to receive all dividends and distributions declared or made.

## 45 RESERVES

### (a) Capital reserve

Capital reserve mainly includes share premium arising from the issuance of new shares at prices in excess of face value and the difference between the considerations of acquisition of equity interests from non-controlling shareholders and the carrying amount of the proportionate net assets.

The Company was listed on the Main Board of the Hong Kong Stock Exchange on 1 June 2015. The excess of the proceeds over the face value of the total number of ordinary shares issued which amounted to RMB28,590,928 thousand was credited to the capital reserve, net of offering expenses (of which the inter-group transactions were eliminated on consolidation) of RMB441,058 thousand.

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 45 RESERVES (continued)

### (b) Surplus reserve

Pursuant to the Company Law of the PRC, the Company is required to appropriate 10% of its net profit to the statutory surplus reserve until the balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory reserve may be used to offset accumulated losses, or converted into capital of the company provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before the capitalisation.

### (c) General reserve

General reserve includes general risk reserve and transaction risk reserve.

In accordance with the requirements of the CSRC Circular regarding the Annual Reporting of Securities Companies in 2007 (Zhengjian Jigou Zi [2007] No. 320) issued on 18 December 2007, the Company appropriates 10% of its annual net profit to the general risk reserve.

In accordance with the requirements of the CSRC Circular regarding the Annual Reporting of Securities Companies in 2007 (Zhengjian Jigou Zi [2007] No. 320) issued on 18 December 2007 and in compliance with the Securities Law, for the purpose of covering securities trading losses, the Company appropriates 10% from its annual net profit to the transaction risk reserve.

The Company's subsidiaries appropriate their profits to the general reserve according to the applicable local regulations.

### (d) Fair value reserve

The fair value reserve comprises the cumulative net changes in fair values of available-for-sale financial assets until the assets are derecognised or impaired.

### (e) Translation reserve

The translation reserve mainly comprises foreign currency differences arising from the translation of the financial statements of foreign currencies.

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

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## 46 RETAINED PROFITS

Pursuant to the resolution of the general meeting of shareholders dated 7 June 2016, it was approved that the Company to distribute cash dividends of RMB5.00 (tax inclusive) per 10 shares to our existing holders of A Shares and H Shares, with total cash dividends amounting to RMB3,581,384 thousand.

## 47 COMMITMENTS

### (a) Capital commitments

Capital commitments outstanding as at 30 June 2016 and 31 December 2015 not provided for in the interim financial report were as follows:

	As at 30 June 2016	As at 31 December 2015
Contracted, but not provided for	<b>118,655</b>	685,483

The above-mentioned capital commitments mainly represent the construction of properties of the Group.

### (b) Operating lease commitments

As at 30 June 2016 and 31 December 2015, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 30 June 2016	As at 31 December 2015
Within 1 year (inclusive)	<b>172,257</b>	193,132
1–2 years (inclusive)	<b>121,139</b>	139,112
2–3 years (inclusive)	<b>95,398</b>	87,255
After 3 years	<b>67,208</b>	70,516
Total	<b>456,002</b>	490,015

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 48 INTERESTS IN STRUCTURED ENTITIES

### (a) Interests in structured entities consolidated by the Group

Structured entities consolidated by the Group mainly stand for the asset management schemes where the Group involves as manager or investment consultant and also as investor. The Group assesses whether the combination of investments it holds together with its remuneration creates exposure to variability of returns from the activities of the asset management schemes to a level of such significance that it indicates that the Group is a principal.

As at 30 June 2016 and 31 December 2015, the Group consolidates 34 and 36 structured entities respectively, which are mainly asset management schemes. As at 30 June 2016 and 31 December 2015, the total assets of the consolidated structured entities are RMB96,437,277 thousand and RMB93,767,004 thousand respectively, and the carrying amount of interests held by the Group in the consolidated structured entities are RMB7,248,495 thousand and RMB5,816,381 thousand respectively.

### (b) Interests in structured entities sponsored by the Group but not consolidated

Except for the structured entities that the Group has consolidated as set out in Note 48(a), the Group's exposure to the variable returns in the rest structured entities in which the Group has interest are not significant. The Group therefore did not consolidate these structured entities.

As at 30 June 2016 and 31 December 2015, the total assets of these unconsolidated structured entities managed by the Group amounted to RMB767,771,735 thousand and RMB551,860,637 thousand respectively.

During the six months ended 30 June 2016 and 30 June 2015, income derived from these unconsolidated structured entities held by the Group amounted to RMB173,345 thousand and RMB133,633 thousand respectively.

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 48 INTERESTS IN STRUCTURED ENTITIES (continued)

### (c) Interests in structured entities sponsored by third party institutions

The types of structured entities that the Group does not consolidate but in which it holds interests include funds, asset management schemes, trust schemes, 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 sponsored by third party institutions as at 30 June 2016 and 31 December 2015, which are listed as below:

	As at 30 June 2016		
	Available- for-sale financial assets	Financial assets at fair value through profit or loss	Total
Funds	504,008	20,075,129	20,579,137
Wealth management products	14,263,152	4,398,911	18,662,063
<b>Total</b>	<b>14,767,160</b>	<b>24,474,040</b>	<b>39,241,200</b>

	As at 31 December 2015		
	Available- for-sale financial assets	Financial assets at fair value through profit or loss	Total
Funds	257,441	49,917,227	50,174,668
Wealth management products	15,799,134	15,090,005	30,889,139
<b>Total</b>	<b>16,056,575</b>	<b>65,007,232</b>	<b>81,063,807</b>

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

*(Expressed in thousands of Renminbi, unless otherwise stated)*

## 49 CONTINGENCIES

As at 30 June 2016 and 31 December 2015, the Group was not involved in any material legal, arbitration or administrative proceedings, that if adversely determined, the Group expect would materially adversely affect its financial position or results of operations.

## 50 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

### (a) Relationship of related parties

#### (i) Major shareholders

The detailed information of the transactions and balances with Group's major shareholders is set out in Note 50(b)(i).

#### (ii) Associates of the Group

The detailed information of the Group's associates is set out in Note 20.

#### (iii) Joint venture of the Group

The detailed information of the Group's joint venture is set out in Note 21.

#### (iv) Other related parties

Other related parties can be individuals or enterprises, which include: members of the Board of Directors, the Board of Supervisors and senior management, and close family members of such individuals.



# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 50 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

### (b) Related parties transactions and balances

(i) Transactions between the Group and major shareholders:

	As at 30 June 2016	As at 31 December 2015
Balances at the end of the period:		
Accounts payable to brokerage clients		
— Jiangsu Guoxin Investment Group Limited	50	171
— Jiangsu Communications Holding Company Limited	—	11
Financial assets at fair value through profit or loss		
— Jiangsu Communications Holding Company Limited	502,950	349,863
— Jiangsu Guoxin Investment Group Limited	63,049	63,474
Other receivables and prepayments		
— Jiangsu Communications Holding Company Limited	13,848	3,946
— Jiangsu Guoxin Investment Group Limited	862	2,343
Other payables and accruals		
— Jiangsu Guoxin Investment Group Limited	3,211	3,211

	Six months ended 30 June 2016	2015
Transactions during the period:		
Fee and commission income		
— Jiangsu Guoxin Investment Group Limited	39	1,832
— Jiangsu Communications Holding Company Limited	—	18
Net investment gains		
— Jiangsu Communications Holding Company Limited	8,989	262
— Jiangsu Guoxin Investment Group Limited	1,459	917

## Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

### 50 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

#### (b) Related parties transactions and balances (continued)

(ii) Transactions between the Group and associates:

	As at 30 June 2016	As at 31 December 2015
Balances at the end of the period:		
Available-for-sale financial assets		
– China Southern Asset Management Co., Ltd.	317,180	18,934
Financial assets at fair value through profit or loss		
– China Southern Asset Management Co., Ltd.	1,675,373	1,188,319
– Huatai-PineBridge Fund Management Co., Ltd.	935,472	211,776
Accounts receivable		
– Huatai Zijin (Jiangsu) Equity Investment Fund (Limited Partnership)	20,000	–
– China Southern Asset Management Co., Ltd.	2,912	4,028
– Jiangsu Industry and Information Industry Investment Fund (Limited Partnership)	722	–
– Huatai-PineBridge Fund Management Co., Ltd.	–	5,491
Balances at the end of the period:		
Other receivables and prepayments		
– China Southern Asset Management Co., Ltd.	162,021	–
– Huatai-PineBridge Fund Management Co., Ltd.	11,131	–
Accounts payable to brokerage clients		
– Huatai-PineBridge Fund Management Co., Ltd.	3,803	12,399
– China Southern Asset Management Co., Ltd.	36	19
– Huatai Zijin (Jiangsu) Equity Investment Fund (Limited Partnership)	1	–

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 50 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

### (b) Related parties transactions and balances (continued)

(ii) Transactions between the Group and associates: (continued)

	Six months ended 30 June	
	2016	2015
Transactions during the period:		
Fee and commission income		
– Huatai Zijin (Jiangsu) Equity Investment Fund (Limited Partnership)	19,714	20,000
– China Southern Asset Management Co., Ltd.	10,112	24,082
– Jiangsu Industry and Information Industry Investment Fund (Limited Partnership)	594	–
– Huatai-PineBridge Fund Management Co., Ltd.	6	30,403
Net investment gains		
– Huatai-PineBridge Fund Management Co., Ltd.	17,988	22,353
– China Southern Asset Management Co., Ltd.	12,870	236,784
– Huatai Zijin (Jiangsu) Equity Investment Fund (Limited Partnership)	460	–
Transactions during the period		
Other income and gains		
– China Southern Asset Management Co., Ltd.	552	552
– Huatai-PineBridge Fund Management Co., Ltd.	–	50

For the six months ended 30 June 2016 and 30 June 2015, Huatai Zijin (Jiangsu) Equity Investment Fund (Limited Partnership) has disposed and invested collective asset management schemes managed by the Group amounting to RMB402,972 thousand and RMB301,643 thousand, respectively.

For the six months ended 30 June 2016 and 30 June 2015, the capital injection made by the Group into the associates is RMB16,100 thousand and RMB193,000 thousand, respectively.

For the six months ended 30 June 2016 and 30 June 2015, the dividend received from associate is RMB49,000 thousand and nil, respectively.

## Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

### 50 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

#### (b) Related parties transactions and balances (continued)

(iii) Transactions between the Group and joint venture:

	As at 30 June 2016	As at 31 December 2015
Balances at the end of the period:		
Accounts receivable		
— Huatai Merchant (Jiangsu) Capital Market Investment Fund of Funds (Limited Partnership)	671	—
	Six months ended 30 June 2016	2015
Transactions during the period:		
Fee and commission income		
— Huatai Merchant (Jiangsu) Capital Market Investment Fund of Funds (Limited Partnership)	633	—

For the six months ended 30 June 2016 and 30 June 2015, the capital injection made by the Group into the joint venture is RMB100,000 thousand and nil, respectively.

#### (c) Key management personnel remuneration

Remuneration for key management personnel of the Group, is as follows:

	Six months ended 30 June	
	2016	2015
Short-term employee benefits		
— Fees, salaries, allowances and bonuses	25,326	13,640
Post-employment benefits		
— Contribution to pension scheme	233	253
Total	25,559	13,893

Total remuneration is included in “staff costs” (see Note 11).

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

*(Expressed in thousands of Renminbi, unless otherwise stated)*

## 51 SEGMENT REPORTING

Management manages the business operations by the following segments in accordance with the nature of the operations and the services provided:

- Brokerage and wealth management segment engages in the trading of stocks, funds, bonds and futures on behalf of clients, and also selling securities products and services to institutional investor clients and providing professional research services to facilitate their investment decisions. Moreover, the activities of providing margin financing, securities lending, securities-backed lending, stock repurchases and sell financial products are included in this segment.
- Investment banking segment provides investment banking services to the Group's corporate clients, including financial advisory, equity underwriting and debt underwriting as well as National Equities Exchange and Quotations and regional equity exchange-related services.
- Asset management segment manages the developing of asset management products and services based on the asset scale and clients' needs, provides traditional asset management services, and operates private equity asset management business through subsidiaries.
- Investment and trading segment engages in trading equity securities, fixed-income securities, derivatives, commodities and other financial products for own account for the objective of achieving investment income, developing and issuing Over-the-Counter ("OTC") financial products, and trading with counterparties over the counter.
- Overseas business and others segment includes the overseas business of Hong Kong subsidiaries and other operations of head office, including interest income and interest expense incurred for general working capital purpose.

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 51 SEGMENT REPORTING (continued)

### (a) Business segments

For the six months ended 30 June 2016

	Brokerage and wealth management	Investment banking	Asset management	Investment and trading	Overseas business and others	Segment total
Revenue						
—External	7,995,247	1,005,176	1,434,968	785,196	228,119	11,448,706
—Inter-segment	1,745	—	—	(212)	—	1,533
Other income and gains	55,902	21,014	(9,164)	54,206	17,606	139,564
Segment revenue and other income	8,052,894	1,026,190	1,425,804	839,190	245,725	11,589,803
Segment expenses	(4,869,560)	(597,041)	(559,001)	(418,148)	(1,453,535)	(7,897,285)
Segment operating profit/(loss)	3,183,334	429,149	866,803	421,042	(1,207,810)	3,692,518
Share of (loss)/profit of associates and joint venture	—	—	(6,419)	—	192,053	185,634
Profit/(loss) before income tax	3,183,334	429,149	860,384	421,042	(1,015,757)	3,878,152
Interest income	3,852,562	85,229	336,360	13,740	194,569	4,482,460
Interest expenses	(1,503,748)	—	(69,630)	(228,959)	(1,132,282)	(2,934,619)
Depreciation and amortisation	(51,891)	(5,921)	(1,333)	(4,969)	(123,567)	(187,681)
Provision for/(reversal of) impairment losses	3,338	2,211	(145)	—	(139)	5,265
Additions to non-current segment assets during the period	51,683	2,135	3,865	4,145	136,148	197,976
As at 30 June 2016						
Segment assets	191,299,476	3,847,006	121,815,618	49,910,454	139,685,435	506,557,989
Segment liabilities	(184,824,812)	(1,022,667)	(109,886,750)	(49,375,871)	(81,710,533)	(426,820,633)

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 51 SEGMENT REPORTING (continued)

### (a) Business segments (continued)

For the six months ended 30 June 2015

	Brokerage and wealth management	Investment banking	Asset management	Investment and trading	Overseas business and others	Segment total
Revenue						
—External	15,606,986	739,841	954,967	2,964,977	616,354	20,883,125
—Inter-segment	367	—	—	—	—	367
Other income and gains	47,446	5,362	1,667	589	350,394	405,458
Segment revenue and other income	15,654,799	745,203	956,634	2,965,566	966,748	21,288,950
Segment expenses	(8,657,598)	(459,200)	(254,891)	(1,024,211)	(2,256,681)	(12,652,581)
Segment operating profit/(loss)	6,997,201	286,003	701,743	1,941,355	(1,289,933)	8,636,369
Share of (loss)/profit of associates and joint venture	—	—	(3,498)	—	201,002	197,504
Profit/(loss) before income tax	6,997,201	286,003	698,245	1,941,355	(1,088,931)	8,833,873
Interest income	5,607,936	63,517	555,367	19,725	206,101	6,452,646
Interest expenses	(2,211,813)	—	(65,176)	(333,951)	(1,072,375)	(3,683,315)
Depreciation and amortisation	(62,952)	(6,124)	(749)	(2,339)	(81,215)	(153,379)
(Provision for)/reversal of impairment losses	(12)	4,876	—	(69)	(2,433)	2,362
Additions to non-current segment assets during the period	23,765	1,806	824	1,482	549,919	577,796
As at 31 December 2015						
Segment assets	225,408,327	3,927,545	111,375,630	66,913,968	156,018,416	563,643,886
Segment liabilities	(223,363,304)	(1,309,546)	(102,015,328)	(64,907,119)	(90,519,818)	(482,115,115)

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 51 SEGMENT REPORTING (continued)

### (a) Business segments (continued)

Reconciliations of segment revenues, profit or loss, assets and liabilities:

	For the six months ended 30 June	
	2016	2015
<b>Revenue</b>		
Total revenue and other income for segments	11,589,803	21,288,950
Elimination of inter-segment revenue	(8,503)	(367)
Consolidated revenue and other income	11,581,300	21,288,583
<b>Profit</b>		
Total profit before income tax for segments	3,878,152	8,833,873
Elimination of inter-segment profit	(140)	—
Consolidated profit before income tax	3,878,012	8,833,873
	As at 30 June 2016	As at 31 December 2015
<b>Assets</b>		
Total assets for segments	506,557,989	563,643,886
Elimination of inter-segment assets	(103,878,672)	(111,029,271)
Consolidated total assets	402,679,317	452,614,615
<b>Liabilities</b>		
Total liabilities for segments	(426,820,633)	(482,115,115)
Elimination of inter-segment liabilities	103,878,672	111,029,271
Consolidated total liabilities	(322,941,961)	(371,085,844)

For the six months ended 30 June 2016 and 30 June 2015, the Group's customer base is diversified and no customer had transactions which exceeded 10% of the Group's revenue.



# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 51 SEGMENT REPORTING (continued)

### (b) Geographical segments

The following table sets out information about the geographical location of: (i) the Group's revenue from external customers and (ii) the Group's property and equipment, investment properties, goodwill, other intangible assets, interest in associates and joint venture, and other non-current assets ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property and equipment and other non-current assets the location of the operation to which they are allocated, in the case of goodwill and other intangible assets and the location of operations, in the case of interest in associates and joint venture.

	For the six months ended 30 June 2016			For the six months ended 30 June 2015		
	Mainland		Total	Mainland		Total
	China	Hong Kong		China	Hong Kong	
<b>Segment revenue</b>						
Revenue from external customers	11,366,669	82,037	11,448,706	20,538,006	345,119	20,883,125
Other income and gains	139,327	(6,733)	132,594	400,906	4,552	405,458
Total	11,505,996	75,304	11,581,300	20,938,912	349,671	21,288,583

	As at 30 June 2016			As at 31 December 2015		
	Mainland		Total	Mainland		Total
	China	Hong Kong		China	Hong Kong	
Specified non-current assets	7,989,652	12,834	8,002,486	7,627,752	14,422	7,642,174

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 52 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group monitors and controls key exposures to the credit risk, market risk, liquidity risk and operational risk from its use of financial instruments.

### (a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its obligation or commitment to the Group.

During the reporting period, the Group was mainly exposed to three types of credit risk: (i) default risk of the issuer or counterparty in debt securities trading; (ii) risk of losses arising from default of customers in credit business such as margin financing and securities lending, securities-backed lending and stock repurchases; (iii) counterparty credit risk from a counterparty's default on the OTC derivative transaction, such as swap or forward. The risk exposure is determined by the change in the market prices of the derivatives.

The Group uses its risk management systems to monitor its credit risk on a real time basis, keep track of the credit risk of the Group's business products and its transaction counterparties, provide analyses and pre-warning reports, and adjust its credit limits in a timely manner. The Group will also measure the credit risk of its major operations through stress test and sensitivity analysis.

For credit risk in debt securities trading, the Group monitors the issuer and bonds during the reporting period. The Group established the credit rating framework and conducted research on the debt securities held by the Group. The Group also assessed the creditability of counterparties to mitigate related default risk on regular basis. In respect of margin financing and securities lending, securities-backed lending, stock repurchases business and OTC derivative transaction, the Group evaluate the customers, aiming to have a thorough picture of the customers' credit level and risk tolerance and determine the customers' credit rating. Penalties for defaults were specified in contracts and risk disclosure statements. The Group monitors the collateral of the margin financing and securities lending, securities-backed lending, stock repurchases business and OTC derivative transaction and promptly communicated with customers on any abnormalities identified to avoid defaults. In respect of innovative credit business, preliminary due diligence was performed with a comprehensive project feasibility report and a due diligence report submitted for approval by the Group before a project can be launched.

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 52 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### (a) Credit risk (continued)

#### (i) Maximum exposure to credit risk

Maximum exposure to credit risk of the Group without taking account of any collateral and other credit enhancements:

	As at 30 June 2016	As at 31 December 2015
Held-to-maturity investments	5,000	5,000
Refundable deposits	7,630,318	6,009,300
Accounts receivable	1,996,256	621,554
Other receivables and prepayments	5,149,852	3,734,670
Margin accounts receivable	51,455,667	67,432,118
Available-for-sale financial assets	1,121,471	445,105
Financial assets held under resale agreements	27,743,601	25,634,528
Financial assets at fair value through profit or loss	63,931,321	56,011,551
Derivative financial assets	934,651	334,750
Clearing settlement funds	1,487,189	2,551,703
Cash held on behalf of brokerage clients	107,580,069	131,944,524
Bank balances	56,724,959	36,706,281
<b>Total maximum credit risk exposure</b>	<b>325,760,354</b>	<b>331,431,084</b>

## Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

### 52 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

#### (a) Credit risk (continued)

##### (ii) Risk concentrations

The Group's maximum credit risk exposure without taking account of any collateral and other credit enhancements, as categorised by geographical area:

	By geographical area		Total
	Mainland China	Outside Mainland China	
<b>30 June 2016</b>			
Held-to-maturity investments	5,000	—	5,000
Refundable deposits	7,627,772	2,546	7,630,318
Accounts receivable	1,516,277	479,979	1,996,256
Other receivables and prepayments	4,964,546	185,306	5,149,852
Margin accounts receivable	51,399,717	55,950	51,455,667
Available-for-sale financial assets	447,345	674,126	1,121,471
Financial assets held under resale agreements	27,356,037	387,564	27,743,601
Financial assets at fair value through profit or loss	62,643,528	1,287,793	63,931,321
Derivative financial assets	927,159	7,492	934,651
Clearing settlement funds	1,481,514	5,675	1,487,189
Cash held on behalf of brokerage clients	106,333,363	1,246,706	107,580,069
Bank balances	55,736,410	988,549	56,724,959
<b>Total maximum credit risk exposure</b>	<b>320,438,668</b>	<b>5,321,686</b>	<b>325,760,354</b>

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 52 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### (a) Credit risk (continued)

#### (ii) Risk concentrations (continued)

	By geographical area		
	Mainland	Outside	Total
	China	China	
<b>31 December 2015</b>			
Held-to-maturity investments	5,000	—	5,000
Refundable deposits	6,007,118	2,182	6,009,300
Accounts receivable	393,262	228,292	621,554
Other receivables and prepayments	3,730,707	3,963	3,734,670
Margin accounts receivable	67,352,032	80,086	67,432,118
Available-for-sale financial assets	408,580	36,525	445,105
Financial assets held under resale agreements	25,634,528	—	25,634,528
Financial assets at fair value through profit or loss	55,000,741	1,010,810	56,011,551
Derivative financial assets	325,997	8,753	334,750
Clearing settlement funds	2,549,633	2,070	2,551,703
Cash held on behalf of brokerage clients	131,313,767	630,757	131,944,524
Bank balances	34,127,174	2,579,107	36,706,281
<b>Total maximum credit risk exposure</b>	<b>326,848,539</b>	<b>4,582,545</b>	<b>331,431,084</b>

# Notes to the Unaudited Consolidated Financial Statements

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(Expressed in thousands of Renminbi, unless otherwise stated)

## 52 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### (a) Credit risk (continued)

#### (iii) Credit rating analysis of financial assets

The Group adopts credit rating method to monitor the credit risk of the debt securities portfolio. Rating of debt securities is referred from major rating institutions in which debt issuers located. The carrying amounts of debt securities at the end of the reporting period are categorised by rating distribution as follows:

	As at 30 June 2016	As at 31 December 2015
Rating		
— AAA	9,644,629	5,694,204
— From A to AA+	26,491,476	23,828,562
— A-1	4,469,164	4,309,946
Sub-total	40,605,269	33,832,712
Non-rated <sup>(1)</sup>	24,384,524	22,560,807
Total	64,989,793	56,393,519

(1) Non-rated financial assets mainly represent debts instruments issued by the MOF, the PBOC, and policy banks, which are creditworthy issuers in the market, private bonds and trading securities, which are not rated by independent rating agencies.

### (b) Liquidity risk

Liquidity risk arises in the investment activities, financing activities and capital management of the Group. Liquidity risk includes: (1) market liquidity risk of being unable to make a large size transaction at a reasonable price while trading volume in market is comparatively small; (2) funding liquidity of being unable to meet financial obligations when they come due.

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 52 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### (b) Liquidity risk (continued)

The following tables show the details of the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities. Analysis of non-derivative financial liabilities are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

Financial liabilities	As at 30 June 2016								Total
	Carrying amount	Overdue/repayable on demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Undated	
Short-term bank loans	759,936	—	—	4,828	764,763	—	—	—	769,591
Short-term debt instruments issued	175,000	—	50,245	125,554	—	—	—	—	175,799
Placements from financial institutions	1,500,000	—	1,500,840	—	—	—	—	—	1,500,840
Accounts payable to brokerage clients	112,581,937	112,581,937	—	—	—	—	—	—	112,581,937
Other payables and accruals	93,245,197	91,668,006	173,472	500,215	928,719	—	—	—	93,270,412
Financial assets sold under repurchase agreements	22,061,435	—	14,266,590	2,183,181	5,747,267	838,600	—	—	23,035,638
Derivative financial liabilities	698,785	—	15,627	119,940	346,551	216,667	—	—	698,785
Financial liabilities at fair value through profit or loss	27,047,938	76,864	—	217,538	6,747	15,312,178	12,139,544	31,847	27,784,718
Long-term bonds	52,850,564	—	634,800	4,413,000	26,500,553	21,099,337	6,612,000	—	59,259,690
Long-term bank loans	425,125	—	—	64,818	69,213	325,036	—	—	459,067
<b>Total</b>	<b>311,345,917</b>	<b>204,326,807</b>	<b>16,641,574</b>	<b>7,629,074</b>	<b>34,363,813</b>	<b>37,791,818</b>	<b>18,751,544</b>	<b>31,847</b>	<b>319,536,477</b>

## Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

### 52 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

#### (b) Liquidity risk (continued)

Financial liabilities	As at 31 December 2015								Undated	Total
	Carrying amount	Overdue/repayable on demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	More than 5 years		
Short-term bank loans	688,322	—	—	—	704,008	—	—	—	704,008	
Short-term debt instruments issued	1,053,004	—	—	585,158	529,750	—	—	—	1,114,908	
Placements from financial institutions	3,000,000	—	3,001,489	—	—	—	—	—	3,001,489	
Accounts payable to brokerage clients	128,367,379	128,367,379	—	—	—	—	—	—	128,367,379	
Other payables and accruals	96,019,269	94,451,623	138,600	—	1,452,321	—	—	—	96,042,544	
Financial assets sold under repurchase agreements	33,192,019	—	15,905,050	263,438	7,151,393	10,893,123	—	—	34,213,004	
Derivative financial liabilities	2,460,345	—	132,190	1,193,011	868,367	266,777	—	—	2,460,345	
Financial liabilities at fair value through profit or loss	21,428,292	62,020	45,005	11,216,011	3,693,402	—	6,948,454	113	21,965,005	
Long-term bonds	72,372,178	—	354,000	—	6,344,650	74,477,981	6,612,000	—	87,788,631	
Long-term bank loans	484,985	—	1,957	75,196	76,725	380,269	—	—	534,147	
<b>Total</b>	<b>359,065,793</b>	<b>222,881,022</b>	<b>19,578,291</b>	<b>13,332,814</b>	<b>20,820,616</b>	<b>86,018,150</b>	<b>13,560,454</b>	<b>113</b>	<b>376,191,460</b>	



# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

*(Expressed in thousands of Renminbi, unless otherwise stated)*

## 52 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### (c) Market risk

Market risk is the risk of loss, in respect of the Group's income and value of financial instruments held, arising from the adverse market movements such as changes in interest rates, stock prices, foreign exchange rates and so on. The objective of market risk management is to monitor and control the market risk within the acceptable range and to maximise the risk adjusted return.

#### (i) Interest rate risk

Interest rate risk refers to the likelihood of loss that may arise from adverse movements in the market interest rate. The Group's interest rate risk mainly arises from interest rate policy changes and the mismatch of interest-sensitive assets and liabilities.

The Group mainly manages interest rate risk through structuring and adjusting its asset portfolio. The Group's asset portfolio management aims at mitigating risks and improving profitability by diversification of assets.

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 52 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### (c) Market risk (continued)

#### (i) Interest rate risk (continued)

The following tables indicate the assets and liabilities as at the end of the reporting periods by the expected next repricing dates or by maturity dates, depending on which is earlier:

	As at 30 June 2016						Total
	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest- bearing	
Financial assets							
Held-to-maturity investments	—	—	—	5,000	—	—	5,000
Available-for-sale financial assets	1,241,089	41,511	911,712	72,660	—	37,514,879	39,781,851
Financial assets held under resale agreements	4,019,139	3,541,299	17,271,520	2,911,643	—	—	27,743,601
Refundable deposits	774,922	—	—	—	—	6,855,396	7,630,318
Accounts receivable	—	—	—	—	—	1,996,256	1,996,256
Other receivables and prepayments	—	—	—	—	—	513,126	513,126
Margin accounts receivable	2,333,500	4,223,743	43,499,410	1,399,014	—	—	51,455,667
Financial assets at fair value through profit or loss	22,450,622	12,853,079	17,186,789	25,193,135	8,446,350	7,072,819	93,202,794
Derivative financial assets	1,494	18,167	—	—	—	914,990	934,651
Clearing settlement funds	1,487,189	—	—	—	—	—	1,487,189
Cash held on behalf of brokerage clients	107,474,907	87,824	17,338	—	—	—	107,580,069
Cash and bank balances	15,239,639	15,850,000	25,235,320	400,000	—	362	56,725,321
<b>Total</b>	<b>155,022,501</b>	<b>36,615,623</b>	<b>104,122,089</b>	<b>29,981,452</b>	<b>8,446,350</b>	<b>54,867,828</b>	<b>389,055,843</b>

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 52 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### (c) Market risk (continued)

#### (i) Interest rate risk (continued)

Financial liabilities	As at 30 June 2016						Total
	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest- bearing	
Short-term bank loans	–	–	(759,936)	–	–	–	(759,936)
Short-term debt instruments issued	(50,000)	(125,000)	–	–	–	–	(175,000)
Placements from financial institutions	(1,500,000)	–	–	–	–	–	(1,500,000)
Accounts payable to brokerage clients	(112,581,937)	–	–	–	–	–	(112,581,937)
Other payables and accruals	(1,973,459)	(566,935)	–	–	–	(90,704,803)	(93,245,197)
Financial assets sold under repurchase agreements	(14,261,435)	(2,000,000)	(5,100,000)	(700,000)	–	–	(22,061,435)
Derivative financial liabilities	(5,132)	(61,964)	–	–	–	(631,689)	(698,785)
Financial liabilities at fair value through profit or loss	–	(217,539)	–	–	–	(26,830,399)	(27,047,938)
Long-term bonds	(632,798)	(4,000,000)	(24,000,000)	(18,227,244)	(5,990,522)	–	(52,850,564)
Long-term bank loans	–	(60,724)	(60,724)	(303,677)	–	–	(425,125)
<b>Total</b>	<b>(131,004,761)</b>	<b>(7,032,162)</b>	<b>(29,920,660)</b>	<b>(19,230,921)</b>	<b>(5,990,522)</b>	<b>(118,166,891)</b>	<b>(311,345,917)</b>
<b>Net interest rate risk exposure</b>	<b>24,017,740</b>	<b>29,583,461</b>	<b>74,201,429</b>	<b>10,750,531</b>	<b>2,455,828</b>	<b>(63,299,063)</b>	<b>77,709,926</b>

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 52 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### (c) Market risk (continued)

#### (i) Interest rate risk (continued)

	As at 31 December 2015						Total
	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest- bearing	
<b>Financial assets</b>							
Held-to-maturity investments	—	—	—	5,000	—	—	5,000
Available-for-sale financial assets	814,696	5,612	270,056	236,056	—	36,792,301	38,118,721
Financial assets held under resale agreements	3,989,198	3,147,469	14,654,493	3,843,368	—	—	25,634,528
Refundable deposits	2,148,189	—	—	—	—	3,861,111	6,009,300
Accounts receivable	—	—	—	—	—	621,554	621,554
Other receivables and prepayments	—	—	—	—	—	452,186	452,186
Margin accounts receivable	2,099,878	4,642,393	59,318,039	1,371,808	—	—	67,432,118
Financial assets at fair value through profit or loss	62,971,064	4,767,098	14,371,504	23,268,937	10,415,364	15,444,141	131,238,108
Derivative financial assets	1,832	25,681	555	—	—	306,682	334,750
Clearing settlement funds	2,551,703	—	—	—	—	—	2,551,703
Cash held on behalf of brokerage clients	131,902,039	42,485	—	—	—	—	131,944,524
Cash and bank balances	14,170,603	5,375,000	17,160,678	—	—	334	36,706,615
<b>Total</b>	<b>220,649,202</b>	<b>18,005,738</b>	<b>105,775,325</b>	<b>28,725,169</b>	<b>10,415,364</b>	<b>57,478,309</b>	<b>441,049,107</b>

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 52 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### (c) Market risk (continued)

#### (i) Interest rate risk (continued)

Financial liabilities	As at 31 December 2015						Total
		More than 1 month Less than 1 month	More than 3 months but less than 3 months	More than 1 year but less than 5 years	More than 5 years	Non interest- bearing	
		1 month	3 months	than 1 year	5 years	5 years	
Short-term bank loans	–	–	(688,322)	–	–	–	(688,322)
Short-term debt instruments issued	–	(553,004)	(500,000)	–	–	–	(1,053,004)
Placements from financial institutions	(3,000,000)	–	–	–	–	–	(3,000,000)
Accounts payable to brokerage clients	(128,367,379)	–	–	–	–	–	(128,367,379)
Other payables and accruals	–	–	(475,000)	–	–	(95,544,269)	(96,019,269)
Financial assets sold under repurchase agreements	(15,892,019)	–	(6,500,000)	(10,800,000)	–	–	(33,192,019)
Derivative financial liabilities	(6,283)	(78,959)	–	–	–	(2,375,103)	(2,460,345)
Financial liabilities at fair value through profit or loss	(43,235)	(10,808,710)	(3,565,760)	–	–	(7,010,587)	(21,428,292)
Long-term bonds	–	–	(2,998,178)	(63,384,019)	(5,989,981)	–	(72,372,178)
Long-term bank loans	–	(62,500)	(62,500)	(359,985)	–	–	(484,985)
<b>Total</b>	<b>(147,308,916)</b>	<b>(11,503,173)</b>	<b>(14,789,760)</b>	<b>(74,544,004)</b>	<b>(5,989,981)</b>	<b>(104,929,959)</b>	<b>(359,065,793)</b>
<b>Net interest rate risk exposure</b>	<b>73,340,286</b>	<b>6,502,565</b>	<b>90,985,565</b>	<b>(45,818,835)</b>	<b>4,425,383</b>	<b>(47,451,650)</b>	<b>81,983,314</b>

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 52 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### (c) Market risk (continued)

#### (i) Interest rate risk (continued)

##### *Sensitivity analysis*

For those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period, the Group adopts sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net profit and equity. Assuming all other variables remain constant, interest rate sensitivity analysis is as follows:

	Sensitivity of net profit	
	30 June 2016	31 December 2015
Move in yield curve		
Up 100 basis points	(970,881)	(741,509)
Down 100 basis points	1,019,728	812,227

	Sensitivity of equity	
	30 June 2016	31 December 2015
Move in yield curve		
Up 100 basis points	(972,164)	(744,112)
Down 100 basis points	1,021,042	814,934

The sensitivity analysis above indicates the instantaneous change in the Group's net profit and equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's net profit and equity is estimated as an annualised impact on interest expense or income of such a change in interest rates.

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 52 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### (c) Market risk (continued)

#### (ii) Currency risk

Currency risk is the risk arising from foreign exchange business of the Group, which is attributable to the fluctuation of foreign exchange rates. The Group adopts sensitivity analysis to measure currency risk.

Assuming all other risk variables remained constant and without consideration of risk management measures undertaken by the Group, a 10% strengthening of the RMB against the US dollar ("USD") and HKD at the reporting date would have increased/(decreased) the Group's equity and net profit by the amount shown below, whose effect is in RMB and translated using the spot rate at the reporting date:

Currency	Sensitivity of net profit	
	30 June 2016	31 December 2015
USD	156,832	95,975
HKD	(54,976)	(70,651)

Currency	Sensitivity of equity	
	30 June 2016	31 December 2015
USD	98,139	38,500
HKD	(54,976)	(70,651)

A 10% weakening of the RMB against the USD and HKD at balance date would have had the equal but opposite effect on them to the amounts shown above, on the basis that all other variables remained constant.

Due to the above assumptions, the result of sensitivity analysis on exchange rate changes may be different, compared with the actual changes in the Group's net profit and equity of may arise with this.

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(Expressed in thousands of Renminbi, unless otherwise stated)

## 52 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### (c) Market risk (continued)

#### (iii) Price risk

The group is exposed to equity price changes arising from equity investments concluded in financial instruments at fair value through profit or loss and available-for-sale financial instruments. Price risk the Group facing is mainly the proportionate fluctuation in the Group's net profits due to the price fluctuation of the held for trading financial instruments and the proportionate fluctuation in the Group's equity due to the price fluctuation of the held for trading and available-for-sale financial instruments.

#### *Sensitivity analysis*

The analysis below is performed to show the impact on Group's net profit and equity due to change in the prices of equity securities by 10% with all other variables held constant.

	Sensitivity of net profit	
	30 June 2016	31 December 2015
Increase by 10%	856,869	5,040,112
Decrease by 10%	(856,869)	(5,040,112)

	Sensitivity of equity	
	30 June 2016	31 December 2015
Increase by 10%	3,757,488	7,838,068
Decrease by 10%	(3,757,488)	(7,838,068)

The sensitivity analysis indicates the instantaneous change in the Group's net profit and equity that would arise assuming that the changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, and that all other variables remain constant.



# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 52 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### (d) Capital management

The Group's objectives of capital management are:

- (i) To safeguard the Group's ability to continue as a going concern so that they can continue to provide returns for shareholders and benefits for other stakeholders;
- (ii) To support the Group's stability and growth;
- (iii) To maintain a strong capital base to support the development of their business; and
- (iv) To comply with the capital requirements under the PRC and Hong Kong regulations.

In accordance with Administrative Measures for Risk Control Indicators of Securities Companies (Revision 2008) (the "Administrative Measures") issued by the CSRC, the Company is required to meet the following standards for risk control indicators on a continual basis:

- (i) The ratio of net capital divided by the sum of its various risk capital provisions shall be no less than 100% ("Ratio 1");
- (ii) The ratio of net capital divided by net assets shall be no less than 40% ("Ratio 2");
- (iii) The ratio of net capital divided by liabilities shall be no less than 8% ("Ratio 3");
- (iv) The ratio of net assets divided by liabilities shall be no less than 20% ("Ratio 4");
- (v) The ratio of the value of equity securities and derivatives held divided by net capital shall not exceed 100% ("Ratio 5"); and
- (vi) The ratio of the value of fixed income securities held divided by net capital shall not exceed 500% ("Ratio 6").

Net capital refers to net assets minus risk adjustments on certain types of assets as defined in the Administrative Measures.

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 52 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### (d) Capital management (continued)

As at 30 June 2016 and 31 December 2015, the Company maintained the above ratios as follows:

	As at 30 June 2016	As at 31 December 2015
Net capital	43,755,078	52,362,034
Ratio 1	743.04%	880.74%
Ratio 2	60.97%	70.34%
Ratio 3	46.07%	39.67%
Ratio 4	75.56%	56.41%
Ratio 5	70.09%	79.45%
Ratio 6	53.36%	72.99%

Similar to the Company, certain subsidiaries of the Group are also subject to capital requirements under the PRC or Hong Kong regulatory requirements, imposed by the CSRC and the Hong Kong Securities and Futures Commission, respectively. These subsidiaries comply with the capital requirements during the period ended 30 June 2016 and the year ended 31 December 2015.

### (e) Transfer of financial assets

The Group transferred financial assets to certain counterparties through repurchase agreements, securities lending and asset-backed securities scheme. These financial assets including securities, margin accounts receivable and securities-backed lending are not derecognised from the consolidated statements of financial position because the Group retains substantially all the risks and rewards of these securities, margin accounts receivable and securities-backed lending.

The Group entered into repurchase agreements with certain counterparties to sell debt securities classified as financial assets at fair value through profit or loss, margin accounts receivable and financial assets held under resale agreements. Sales and repurchase agreements are transactions in which the Group sell a security, rights and interests in margin accounts receivable or securities-backed lending and agree to repurchase it at the agreed date and price. The repurchase prices are fixed and the Group is still exposed to substantially all the credit risks, market risks and rewards of those securities and rights and interests sold. These debt securities, margin accounts receivable and financial assets held under resale agreements are not derecognised from the consolidated statements of financial position because the Group retains substantially all the risks and rewards of these financial assets.

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 52 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### (e) Transfer of financial assets (continued)

The Group entered into securities lending agreements with clients to lend out its equity securities and exchange-traded funds classified as fair value through profit or loss and available-for-sale financial assets. As stipulated in the securities lending agreements, the legal ownership of these equity securities and exchange-traded funds is transferred to the clients. Although the clients are allowed to sell these securities during the covered period, they have obligations to return these securities to the Group at specified future dates. The Group retains substantially all the risks and rewards of these equity securities and therefore has not derecognised these securities in the consolidated statements of financial position.

The Group sells interest in margin accounts receivable to the securitisation vehicle, which in turn issue asset-backed securities to investors with the purchased assets as the underlying assets. Such securitisation vehicle is consolidated by the Group, consequently the underlying assets are transferred from the Group to the investors. The Group has the obligation to pass cash flows from the underlying assets to the investors.

The cash flows that the securitisation vehicle collect from the transferred assets has not been passed through to investors without material delay, and the Group has the obligation to repurchase these margin accounts receivable on specified future dates and at agreed-upon prices. Thus the Group has not derecognised these financial assets in the consolidated statements of financial position. The consideration received from the investors is recognised as a financial liability.

The following tables provide a summary of carrying amounts and fair values of the transferred financial assets that are not derecognised in their entirety and the associated liabilities:

#### As at 30 June 2016

	Financial assets at fair value through profit or loss		Available-for-sale financial assets	Margin accounts receivable	Financial assets held under resale agreements	Total
	Sales and repurchase agreements	Securities lending	Securities lending	Margin loans receivable backed repurchase	Asset-backed securities	
Carrying amount of transferred assets	301,237	14,041	53,958	9,632,232	533,672	10,535,140
Carrying amount of associated liabilities	(301,154)	–	–	(7,800,000)	(475,000)	(8,576,154)
Net position	83	14,041	53,958	1,832,232	58,672	1,958,986

## Notes to the Unaudited Consolidated Financial Statements

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(Expressed in thousands of Renminbi, unless otherwise stated)

### 52 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

#### (e) Transfer of financial assets (continued)

As at 31 December 2015

	Financial assets at fair value through profit or loss		Available- for-sale financial assets	Margin accounts receivable	Financial assets held under resale agreements	Total	
	Sales and repurchase agreements	Securities lending	Securities lending	Margin loans receivable backed repurchase	Asset- backed securities		Securities- backed lending
Carrying amount of transferred assets	507,720	65,609	2,528	20,853,545	511,834	1,426,200	23,367,436
Carrying amount of associated liabilities	(511,059)	–	–	(17,700,000)	(475,000)	(1,000,000)	(19,686,059)
Net position	(3,339)	65,609	2,528	3,153,545	36,834	426,200	3,681,377

#### (f) Offsetting financial assets and financial liabilities

The Group offsets the related financial assets and financial liabilities when the Group currently has a legally enforceable right to set off the balances, and intends either to settle on a net basis, or to realise the balances simultaneously.

The Group has entered into master netting arrangements with counterparties for the derivative instruments.

Under the agreement signed between the Group and the customers, money obligations receivable and payable with the same customers on the same settlement date are settled on net basis.

Under the agreement of Continuous Net Settlement made between the Group and clearing house, money obligations receivables and payables with clearing house on the same settlement date are settled on net basis.

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 52 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### (f) Offsetting financial assets and financial liabilities (continued)

As at 30 June 2016

Financial assets	Gross amounts of recognised financial liabilities		Net amounts of financial assets presented in the consolidated statements of financial position	Related amounts not set off in the consolidated statements of financial position		Net amount
	Gross amounts of recognised financial assets	set off in the consolidated statements of financial position		Financial instruments	Cash collateral received	
Derivative financial assets	936,967	(2,316)	934,651	—	—	934,651
Accounts receivable	436,157	(77,009)	359,148	—	—	359,148
<b>Total</b>	<b>1,373,124</b>	<b>(79,325)</b>	<b>1,293,799</b>	<b>—</b>	<b>—</b>	<b>1,293,799</b>

Financial liabilities	Gross amounts of recognised financial assets set off in the consolidated statements of financial position		Net amounts of financial liabilities presented in the consolidated statements of financial position	Related amounts not set off in the consolidated statements of financial position		Net amount
	Gross amounts of recognised financial liabilities	set off in the consolidated statements of financial position		Financial instruments	Cash collateral pledged	
Derivative financial liabilities	(749,310)	50,525	(698,785)	—	—	(698,785)
Other payables and accruals	(1,442,538)	291,450	(1,151,088)	—	—	(1,151,088)
<b>Total</b>	<b>(2,191,848)</b>	<b>341,975</b>	<b>(1,849,873)</b>	<b>—</b>	<b>—</b>	<b>(1,849,873)</b>

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For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 52 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### (f) Offsetting financial assets and financial liabilities (continued)

As at 31 December 2015

Financial assets	Gross	Gross	Net amounts	Related amounts not set off		Net amount
	amounts of recognised financial liabilities	set off in the consolidated statements of financial position	of financial assets presented in the consolidated statements of financial position	in the consolidated statements of financial position	in the consolidated statements of financial position	
	amounts of recognised financial assets	of financial position	of financial position	Financial instruments	Cash collateral received	
Derivative financial assets	334,750	—	334,750	—	—	334,750
Accounts receivable	78,130	(18,177)	59,953	—	—	59,953
<b>Total</b>	<b>412,880</b>	<b>(18,177)</b>	<b>394,703</b>	<b>—</b>	<b>—</b>	<b>394,703</b>

Financial liabilities	Gross	Gross	Net amounts	Related amounts not set off		Net amount
	amounts of recognised financial assets	set off in the consolidated statements of financial position	of financial liabilities presented in the consolidated statements of financial position	in the consolidated statements of financial position	in the consolidated statements of financial position	
	amounts of recognised financial liabilities	of financial position	of financial position	Financial instruments	Cash collateral pledged	
Derivative financial liabilities	(2,552,026)	91,681	(2,460,345)	—	—	(2,460,345)
Other payables and accruals	(3,974,488)	565,490	(3,408,998)	—	—	(3,408,998)
<b>Total</b>	<b>(6,526,514)</b>	<b>657,171</b>	<b>(5,869,343)</b>	<b>—</b>	<b>—</b>	<b>(5,869,343)</b>

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 52 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### (f) Offsetting financial assets and financial liabilities (continued)

Except for the enforceable master netting arrangements and the offset-right of the financial instruments under the similar agreements disclosed above, the collateral of which, such as financial assets held under resale agreements and financial assets sold under repurchase agreements are generally not on the net basis in the consolidated statement of financial position.

However, the risk exposure associated with favorable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. As at 30 June 2016 and 31 December 2015, the fair value of the collaterals related to the above items exceeded the book value of those financial instruments, net exposure is insignificant after setting off the collaterals.

## 53 FAIR VALUE INFORMATION

### (a) Fair value of financial instruments

The Group adopts the following methods and assumptions when evaluating fair values:

- (i) Financial assets including cash and bank balances, cash held for brokerage clients, clearing settlement funds, financial assets held under resale agreements, and financial liabilities including placements from financial institutions, short-term debt instruments issued, short-term bank loans and financial assets sold under repurchase agreements are mainly short-term financing or floating interest rate instruments. Accordingly, the carrying amounts approximate the fair values.
- (ii) Financial instruments at fair value through profit or loss, derivatives and available-for-sale financial assets are stated at fair value unless the fair values cannot be reliably measured. For the financial instruments traded in active open markets, the Group uses market prices or markets rates as the best estimate for their fair values. For the financial instruments without any market price or market rate, the Group determines the fair values of these financial assets and financial liabilities by discounted cash flow or other valuation methods.
- (iii) The fair values of held-to-maturity investments and long-term bonds are determined with reference to the available market prices or quotes from brokers or agents. If there is no quoted market price in an active market, the Group refers to the yield of financial instruments with similar characteristics such as credit risk and maturity, to estimate the fair values using pricing models or discounted cash flow.
- (iv) Accounts receivable, other receivables and prepayments, margin accounts receivable, and accounts payable to brokerage clients are within one year. Accordingly, the carrying amounts approximate the fair values.

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 53 FAIR VALUE INFORMATION (continued)

### (b) Fair value of other financial instruments (carried at other than fair value)

The carrying amount and fair value of held-to-maturity investments, short-term debt instruments issued and long-term bonds which are not presented at fair value are listed as below:

#### Carrying amount

	As at 30 June 2016	As at 31 December 2015
<i>Financial assets</i>		
– Held-to-maturity investments	5,000	5,000
<b>Total</b>	<b>5,000</b>	<b>5,000</b>
<i>Financial liabilities</i>		
– Short-term debt instruments issued	(175,000)	(1,053,004)
– Long-term bonds	(52,850,564)	(72,372,178)
<b>Total</b>	<b>(53,025,564)</b>	<b>(73,425,182)</b>



# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 53 FAIR VALUE INFORMATION (continued)

### (b) Fair value of other financial instruments (carried at other than fair value) (continued)

#### Fair value

	As at 30 June 2016			
	Level I	Level II	Level III	Total
<i>Financial assets</i>				
– Held-to-maturity investments	–	5,091	–	5,091
Total	–	5,091	–	5,091
<i>Financial liabilities</i>				
– Short-term debt instruments issued	–	–	(175,000)	(175,000)
– Long-term bonds	(53,019,502)	–	–	(53,019,502)
Total	(53,019,502)	–	(175,000)	(53,194,502)

	As at 31 December 2015			
	Level I	Level II	Level III	Total
<i>Financial assets</i>				
– Held-to-maturity investments	–	5,132	–	5,132
Total	–	5,132	–	5,132
<i>Financial liabilities</i>				
– Short-term debt instruments issued	–	–	(1,053,004)	(1,053,004)
– Long-term bonds	(62,807,111)	–	(9,600,000)	(72,407,111)
Total	(62,807,111)	–	(10,653,004)	(73,460,115)

The fair values of the financial assets and financial liabilities included in the level II and III categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

Except for the above, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost and available-for-sale financial assets at cost less impairment in the Group's consolidated statements of financial position approximate their fair values.

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 53 FAIR VALUE INFORMATION (continued)

### (c) Fair value hierarchy

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	As at 30 June 2016			
	Level I	Level II	Level III	Total
<b>Assets</b>				
Financial assets at fair value through profit or loss				
– Debt securities	25,334,277	38,329,037	253,966	63,917,280
– Equity securities	3,894,308	1,651,832	–	5,546,140
– Funds	20,075,129	–	–	20,075,129
– Wealth management products	1,829,492	641,093	1,193,660	3,664,245
Available-for-sale financial assets				
– Debt securities	197,172	636,826	233,515	1,067,513
– Equity securities	10,473,210	1,807,576	11,301,033	23,581,819
– Funds	500,996	3,012	–	504,008
– Wealth management products	710,053	13,842,535	–	14,552,588
Derivative financial assets	6,387	857,544	70,720	934,651
<b>Total</b>	<b>63,021,024</b>	<b>57,769,455</b>	<b>13,052,894</b>	<b>133,843,373</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	(756,529)	(21,100,319)	(5,191,090)	(27,047,938)
Derivative financial liabilities	(29,929)	(664,890)	(3,966)	(698,785)
<b>Total</b>	<b>(786,458)</b>	<b>(21,765,209)</b>	<b>(5,195,056)</b>	<b>(27,746,723)</b>

## Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

### 53 FAIR VALUE INFORMATION (continued)

#### (c) Fair value hierarchy (continued)

	As at 31 December 2015			
	Level I	Level II	Level III	Total
<b>Assets</b>				
Financial assets at fair value through profit or loss				
– Debt securities	17,869,565	37,825,466	250,911	55,945,942
– Equity securities	9,661,017	1,823,917	–	11,484,934
– Funds	49,917,227	–	–	49,917,227
– Wealth management products	1,005,523	11,690,822	1,193,660	13,890,005
Available-for-sale financial assets				
– Debt securities	199,531	108,259	134,787	442,577
– Equity securities	10,528,536	1,721,308	9,163,936	21,413,780
– Funds	253,631	3,810	–	257,441
– Wealth management products	459,830	15,339,304	–	15,799,134
Derivative financial assets	7,626	170,539	156,585	334,750
<b>Total</b>	<b>89,902,486</b>	<b>68,683,425</b>	<b>10,899,879</b>	<b>169,485,790</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
	(113)	(21,428,179)	–	(21,428,292)
Derivative financial liabilities	(39,534)	(2,420,516)	(295)	(2,460,345)
<b>Total</b>	<b>(39,647)</b>	<b>(23,848,695)</b>	<b>(295)</b>	<b>(23,888,637)</b>

For the six months ended 30 June 2016 and for the year ended 31 December 2015, there were no significant transfer among Level I, Level II and Level III of the fair value hierarchy.

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 53 FAIR VALUE INFORMATION (continued)

### (c) Fair value hierarchy (continued)

#### (i) Financial instruments in Level I

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the closing price within bid-ask spread. These instruments are included in Level I. Instruments included in Level I comprise primarily securities traded on the Shanghai Stock Exchange and the Shenzhen Stock Exchange classified as trading securities or available for sale.

#### (ii) Financial instruments in Level II

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level II.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level III.

#### (iii) Valuation methods for specific investments

As at 30 June 2016 and 31 December 2015, the Group's valuation methods for specific investments are as follows:

- (1) For exchange-listed equity securities, fair value is determined based on the closing price of the equity securities as at the reporting date within bid-ask spread. For those which has no quoted market price or those with lock-up periods as at the reporting date, valuation techniques are used to determine the fair value.
- (2) For exchange-listed investment funds, fair value is determined based on the closing price within bid-ask spread as at the reporting date or the most recent trading date. For open-end funds and wealth management products, fair value is determined by trading price which is based on the net asset value as at the reporting date.

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 53 FAIR VALUE INFORMATION (continued)

### (c) Fair value hierarchy (continued)

#### (iii) Valuation methods for specific investments (continued)

- (3) For debt securities listed through exchanges, fair value is determined based on the closing price within bid-ask spread of the debt securities at the date of statements of financial position.
- (4) For debt securities traded through the inter-bank bond market and OTC market, fair values are determined using valuation techniques.
- (5) For gold leasing and derivative financial instruments, fair value is determined using valuation techniques.

#### (iv) Financial instruments in Level III

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in Level III of the fair value hierarchy:

	Financial assets at fair value through profit or loss	Available- for-sale financial assets	Derivative financial assets	Financial liabilities at fair value through profit or loss	Derivative financial liabilities	Total
As at 1 January 2016	1,444,571	9,298,723	156,585	–	(295)	10,899,584
Gains or losses for the period	5,522	(1,283)	(85,865)	32,324	2,454	(46,848)
Changes in fair value recognised in other comprehensive income	–	(487,302)	–	–	–	(487,302)
Purchases	–	2,754,555	–	(5,223,414)	–	(2,468,859)
Sales and settlements	(2,467)	(30,145)	–	–	(6,125)	(38,737)
As at 30 June 2016	1,447,626	11,534,548	70,720	(5,191,090)	(3,966)	7,857,838
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	3,055	–	(85,865)	32,324	(3,671)	(54,157)

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 53 FAIR VALUE INFORMATION (continued)

### (c) Fair value hierarchy (continued)

#### (iv) Financial instruments in Level III (continued)

	Financial assets at fair value through profit or loss	Available- for-sale financial assets	Derivative financial assets	Financial liabilities at fair value through profit or loss	Derivative financial liabilities	Total
As at 1 January 2015	186,371	5,793,995	—	—	—	5,980,366
Gains or losses for the year	51,650	167,308	156,585	—	154	375,697
Changes in fair value recognised in other comprehensive income	—	1,172,639	—	—	—	1,172,639
Purchases	1,305,835	3,697,061	—	—	—	5,002,896
Sales and settlements	(99,285)	(1,532,280)	—	—	(449)	(1,632,014)
As at 31 December 2015	1,444,571	9,298,723	156,585	—	(295)	10,899,584
Total gains or losses for the year included in profit or loss for assets held at the end of the reporting period	14,641	—	156,585	—	(295)	170,931

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

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 53 FAIR VALUE INFORMATION (continued)

### (c) Fair value hierarchy (continued)

#### (iv) Financial instruments in Level III (continued)

Financial assets and liabilities	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input(s) to fair value
Wealth management products and private placement bonds	Level III	Discounted cash flow model	Risk adjusted discount rate	The higher the risk adjusted discount rate, the lower the fair value
Private convertible bonds	Level III	Discounted cash flow model Option pricing model	Risk adjusted discount rate Stock price volatility	The higher the risk adjusted discount rate, the lower the fair value The higher the stock price volatility, the higher the fair value
Unlisted equity investment	Level III	Market comparable companies	Discount for lack of marketability	The higher the discount, the lower the fair value
Financial liabilities arising from consolidation of private equity funds	Level III	Market comparable companies of the underlying portfolios	Discount for lack of marketability	The higher the discount, the lower the fair value
Over-the-counter options	Level III	Black-Scholes option pricing model	Price of underlying assets Price volatility of underlying assets	N/A N/A

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

## 54 EVENTS AFTER THE REPORTING DATE

### (a) Acquisition of AssetMark Financial Holdings Inc.

On 5 July 2016, the Company received from the CSRC (i) a letter of no objection relating to the Company's increase of equity interests in Huatai Financial Holdings (Hong Kong) Limited ("Huatai Financial Holdings"), a wholly owned subsidiary of the Company and the direct parent of Huatai International Finance, the direct purchaser for the AssetMark Acquisition; and (ii) the receipt of filing documents for the AssetMark Acquisition (Ji Gou Bu Han [2016] No. 1529). According to the letter, the CSRC has no objection to the Company's HKD7.8 billion capital increase in Huatai Financial Holdings. Pursuant to the letter, the Company has injected the capital amounting to HKD2,947,242 thousand to Huatai Financial Holdings on 8 August 2016.

Necessary approvals from other regulatory authorities remain pending for the AssetMark Acquisition.

### (b) The approval by the CSRC in relation to the qualification to conduct mutual fund management business

On 29 July 2016, Huatai Securities (Shanghai) Asset Management Co., Ltd. ("Huatai Asset Management"), a wholly-owned subsidiary of the Company, received the "Approval in relation to the Qualification of Huatai Asset Management to Conduct Mutual Fund Management Business" (Zheng Jian Xu Ke [2016] No. 1682) from the CSRC. Pursuant to the approval, the CSRC approved the qualification of Huatai Asset Management to carry out fund management business of public offering of mutual funds.



# Index of Documents for Inspection

Documents Available for Inspection	Financial statements of the Company signed and sealed by the legal representative, the person responsible for accounting matters and the chief accountant
Documents Available for Inspection	Original copies of all documents and announcements of the Company as disclosed in the newspapers designated by the CSRC during the Reporting Period
Documents Available for Inspection	Articles of Association

# Disclosures

## MAJOR ADMINISTRATIVE APPROVALS OF THE COMPANY

1. On March 17, 2016, the Company received the Approval for the Qualification of Chen Chuanming as Independent Director of Securities Company (Su Zheng Jian Ji Gou Zi [2016] No. 64) (《關於陳傳明證券公司獨立董事任職資格的批覆》(蘇證監機構字[2016]64號))
2. On March 30, 2016, the Company received the Approval for the Qualification of Yang Xiongsheng as Independent Director of Securities Company (Su Zheng Jian Ji Gou Zi [2016] No. 73) (《關於楊雄勝證券公司獨立董事任職資格的批覆》(蘇證監機構字[2016]73號))
3. On May 24, 2016, the Company received the Approval for the Qualification of Xu Qing as Director of Securities Company (Su Zheng Jian Ji Gou Zi [2016] No. 135) (《關於徐清證券公司董事任職資格的批覆》(蘇證監機構字[2016]135號))
4. On May 24, 2016, the Company received the Approval for the Qualification of Chen Ning as Director of Securities Company (Su Zheng Jian Ji Gou Zi [2016] No. 136) (《關於陳寧證券公司董事任職資格的批覆》(蘇證監機構字[2016]136號))
5. On May 24, 2016, the Company received the Approval for the Qualification of Wang Huiqing as Director of Securities Company (Su Zheng Jian Ji Gou Zi [2016] No. 137) (《關於王會清證券公司監事任職資格的批覆》(蘇證監機構字[2016]137號))

## RESULT OF CLASSIFICATION BY REGULATORY AUTHORITY

According to the Classification of Securities Companies, the Company was rated AA under Category A in 2014 and 2015, and BBB under Category B in 2016.

